TRADE NEGOTIATION

Strategy for Nepal

actionaid nepal

SAWTEE
SOUTH ASIA WATCH ON TRADE, ECONOMICS & ENVIRONMENT

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Nepal has entered into various multilateral, regional and bilateral trade agreements in order to secure market access in the major markets of the world. However, in spite of these agreements, Nepalese exports still face many tariff and non-tariff barriers in the international markets. In addition, Nepal also faces the risk of losing valuable 'policy space' for implementing domestic policies to address its development challenges due to restrictive provisions of trade agreements. Hence, the potential benefits from such trade agreements depend on Nepal's capacity to negotiate in multilateral, regional and bilateral forums.

South Asia Watch for Trade, Economics & Environment (SAWTEE) and ActionAid Nepal (AAN) with support from United Nations Development Programme (UNDP) Asia Pacific Regional Centre in Colombo undertook a project titled *Addressing the Impact of the Phasing Out of Textiles and Clothing Quotas on Nepal*. The project encompassed four research studies namely, 'Impact of Textiles and Clothing Quota Phase Out on Nepal: A Study from Human Development Perspective', 'Export Diversification Strategy for Nepal', 'Trade and Industrial Policy Environment in Nepal' and 'Trade Negotiation Strategy for Nepal'.

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Contents

Abbreviations

ABS	Access and Benefit Sharing
AoA	Agreement on Agriculture
ASEAN	Association of South East Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CBD	Convention on Biological Diversity
CoE	Committee of Experts
CTG	Council for Trade in Goods
CTH	Changes in Tariff Heading
DDA	Doha Development Agenda
DFQF	Duty Free Quota Free
ENT	Economic Needs Test
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIs	Geographical Indications
ICT	Information and Communication Technology
IGC	Inter-Governmental Committee
IPR	Intellectual Property Right
LDC	Least Developed Countries
LMT	Local Market Test
MFN	Most Favoured Nation

MRAs	Mutual Recognition Arrangements
NAMA	Non-Agricultural Market Access
NTBs	Non-Tariff Barriers
NTFPs	Non-Timber Forest Products
PIC	Prior Informed Consent
RoO	Rules of Origin
RTA	Regional Trade Agreement
S&DT	Special and Differential Treatment
SAARC	South Asian Association for Regional Cooperation
SAFTA	Agreement on South Asian Free Trade Area
SMC	SAFTA Ministerial Council
SPS	Sanitary and Phytosanitary Measures
SSM	Special Safeguard Measure
TBT	Technical Barriers to Trade
TNC	Trade Negotiating Committee
TRIPS	Trade Related Aspects of Intellectual Property Rights
TRQ	Tariff Rate Quota
WTO	World Trade Organization

CHAPTER 1

Introduction

Trade negotiations have become an important element of trade policymaking. As most countries across the world have been undertaking trade liberalisation measures under different modes (e.g., multilateral, regional and bilateral), it is crucial that they pay increased attention in building their capacity for trade negotiations. This is, however, not an easy task for the least developed countries (LDCs) like Nepal.

The scope of most of today's trading arrangements between and among countries has broadened from trade in goods and includes services liberalisation and intellectual property right (IPR) rules. If these poorest countries do not identify their issues of national interests and negotiate accordingly, there is a greater possibility of their further marginalisation in the global economy.

Nepal became the 147th Member of the World Trade Organization (WTO) on 23 April 2004. In addition, Nepal also entered into two regional trade agreements (RTAs) – Agreement on South Asian Free Trade Area (SAFTA) and Bay of Bengal Initiative for Multi-Sectoral Trade and Economic Cooperation Free Trade Area (BIMSTEC FTA) Framework Agreement. Nepal also has bilateral trade agreement with India, its largest trading partner, since 1950.

SAWTEE and AAN conducted a study to develop a negotiation strategy for Nepal for various multilateral, regional and bilateral trade forums. The study has identified and analysed the issues of interest for Nepal in the WTO, SAFTA, BIMSTEC FTA and Indo-Nepal bilateral trade agreement. The study has also identified and analysed the major negotiating issues in select sectors and suggested negotiation positions for Nepal.

The book is divided into five chapters. Chapter 2 presents an analysis of key negotiation issues within the WTO. Similarly, Chapter 3 and 4 analyse the issues concerning SAFTA, BIMSTEC FTA and the bilateral trade treaty with India. Finally, Chapter 5 presents sector-specific negotiation issues for Nepal's five export potential sectors[1] – tea, herbs, leather, tourism and information and communication technology (ICT).

[1] SAWTEE and AAN conducted four research studies under the project *Addressing the Impact of the Phasing Out of Textiles and Clothing Quotas on Nepal*. This book is the outcome of the fourth study *Trade Negotiation Strategy for Nepal*. The second study titled *Export Diversification Strategy for Nepal* has dentified these five sectors as having export potential for Nepal.

C H A P T E R 2

WTO Negotiations: Issues of Interest for Nepal

Introduction

The agenda for the present round of WTO negotiations, the Doha Round, was set in Doha in 2001 during the Fourth WTO Ministerial. This Ministerial adopted the 'Doha Development Agenda (DDA)', which intends to address the interest of developing countries. The Doha Ministerial Declarations provide mandate for negotiations on a range of issues, including the implementation of the present agreements.

The Sixth Ministerial Conference held in Hong Kong in December 2005 reaffirmed the Declarations adopted at Doha, and the Decision made by the General Council on 1 August 2004, known as the *'July Framework'*. In Hong Kong, WTO Members agreed to complete the Doha Work Programme and conclude negotiations launched in Doha by 2006. The necessity to establish working modalities for negotiations was recognised by the delegates, and timelines were fixed to establish modalities. For example, for agriculture and non-agricultural market access (NAMA) negotiations, it was fixed at 30 April 2006 or prior. Similarly, 31 July was fixed as the deadline for the submission of draft schedules based on these modalities.

The DDA negotiations continued, albeit with dismal performance, until 24 July 2006. On that date, after nearly five years of negotiations to revamp the rules of global trade, a decision was made to suspend the Doha Round due to wide gaps that remained between key players in the negotiations. As Members are once again trying to resume the WTO trade negotiations, the government of Nepal should prioritise planning for future negotiations. This chapter explores issues of Nepal's interest in the ongoing WTO negotiations.

WTO Negotiation Issues and Nepal's interest

Agriculture

The agricultural sector in Nepal comprises nearly 40 percent of the country's gross domestic product (GDP) and provides a basis for livelihood for 80 percent of the population. One of the objectives of the current plan (the Tenth Plan) is to increase export opportunities for agro-based industries and enterprises with participation from cooperatives and the private sector. However, trade of agricultural commodities faces market access challenges, mainly because of tariff barriers and non-tariff barriers (NTBs).

At the WTO level, Members, for the liberlisation of agricultural trade, have been negotiating on three main issues – market access, domestic support and export subsidies. Globally, agricultural trade reform is, however, considered to be one of the most contentious subjects. Huge domestic and export subsidies in developed countries have distorted international trade in agriculture. Many issues related to agricultural negotiations are important for developing countries and the LDCs, including Nepal. As an LDC, Nepal is not required to make commitments regarding market access, domestic support and export subsidies in the present Round.

Market Access

As per the provisions of the Agreement on Agriculture (AoA) and Declarations and Decisions made in WTO negotiations, Members have been negotiating for agricultural trade reform. However, little progress has been made in reducing market access barriers, mainly for the products of export interest to developing and least developed countries. Given this, Nepal needs to identify the market access barriers, i.e., tariff barriers and NTBs, it is facing on its agro-exports in the international market under the multilateral trading system. This will not only help Nepal to develop negotiation strategy for enhanced market access but will also contribute to diversify its exports.

Elimination of Export Subsidies

An important issue in agricultural trade is the decision made at Hong Kong for parallel elimination of all forms of export subsidies and disciplines on export measures with equivalent effect, by the end of 2013. The developed world funnels nearly US$ 1 billion a day on trade distorting agriculture subsidies, which encourages overproduction and drives down world prices of agricultural commodities (Bhatt 2005). It is argued that the end of export subsidies is likely to increase world prices of agricultural commodities, which may be an incentive for farmers to grow more. However, this may also result in higher food bill for a net food importing country like Nepal.

Food Aid

Issues such as food aid, preference erosion and special safeguard measures (SSM) bear special significance to Nepal. On food aid, the Hong Kong Declaration reconfirms the commitment of maintaining an adequate level of food aid and to take into account the interest of the recipient countries. The Declaration further states that a "safe box" for food aid will be provided to ensure that there is no unintended impediment during emergency situations. Regarding SSM, it will be in the interest of Nepal to negotiate for simple and automatic price and volume trigger to invoke safeguard measures (Dahal 2006).

Special Products

The WTO provides developing countries the flexibility to self-designate an appropriate number of tariff lines as special products based on the criteria of food security, livelihood security and rural development needs.[2] Since LDCs are not required to make reduction commitments, Nepal, in alliance with the other LDCs, needs to ensure that special and sensitive products do not adversely affect its market access situation in developing countries (Pandey 2005).

Non-Agricultural Market Access

The Hong Kong Ministerial Declaration reaffirms the mandate for negotiations on NAMA as set out in Paragraph 16 of the Doha Ministerial Declaration. The Declaration adopts a Swiss Formula with coefficients at levels which shall *inter alia* reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs and tariff escalation, in particular on products of export interest to developing countries (WTO 2005, Para 14). The importance of special and differential treatment (S&DT) and less than full reciprocity in reduction commitments for developing countries is recognised as an integral part of the modalities. A non-linear mark-up approach to establish base rates for commencing tariff reductions was adopted for the purpose.

As stated in Paragraph 18 Annex B of the Declaration, Members expect a substantial increase of the binding commitments from the LDCs to be undertaken with a good faith effort. However, as Nepal has already bound 99.3 percent of its tariff lines at the time of its accession to the WTO, and as the LDCs are not required to make further reduction commitments on market access in this Round, the outcome of this Round is not going to alter Nepal's import tariffs on industrial goods (Dahal 2006). Thus, Nepal's interest lies in market access for its manufactured goods, both in developing and developed countries. Decisions made at the Hong Kong Ministerial indicate that present negotiations are likely to result in tariff reductions and duty free and quota free (DFQF) access for LDC exports in the markets of developed coun-

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2 A developing country member should have the right to designate at least 20 percent of its agricultural tariff lines as Special Product (WT/MIN (05)/DEC, Annex: A, Para 16).

tries. However, the rise in the use of NTBs to protect the domestic market is of great concern for the LDCs and developing countries. Some members even claim that NTBs constitute a greater barrier to exports than tariffs (WTO 2006). Therefore, NTBs are accepted as an equally important part of NAMA negotiations.

Many Nepalese manufactured exports face various forms of NTBs in developed and developing country markets. Therefore, Nepal, in alliance with the other LDC Members, needs to ensure that the issue of NTBs is given priority in WTO negotiations and resolved in favour of the LDCs (Dahal 2006). To do so, the LDCs should first identify and categorise the NTBs they face, and then make a common negotiation position for their removal.

Services

As stipulated in the Preamble, Article IV (Increasing Participation of Developing Countries) and Part IV (Progressive Liberalisation) of the General Agreement on Trade in Services (GATS), the Doha Ministerial reaffirms the Guidelines and Procedures for Negotiations (WTO, S/L/93, 29 March 2001) as the basis for negotiations to achieve the objectives of GATS. The Hong Kong Ministerial reaffirms the Doha mandate and the pre-Doha negotiating guidelines. As stated in Paragraph 26 of the Ministerial Declaration, the LDCs are not required to undertake any new commitments in the services sector. Hence, with regards to services negotiation, Nepal will only have an offensive agenda (Dahal 2006). Since the services sector is emerging as the most dynamic sector of the economy and its contribution in trade is increasing, services negotiations are very important for the LDCs, including Nepal.[3]

Under the WTO framework, services negotiations are taking place on two broad fronts: market access and rule making (emergency safeguard measures, government procurement, subsidies and domestic regulation). Market access issues consist of negotiations on new or improved com-

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[3] Share of services in Nepal's GDP increased from less than 30 percent in 1980 to nearly 40 percent in 2003/04, and service trade accounted nearly 10 percent of GDP, which was less than 3 percent two decades ago.

mitments for inclusion in Members' schedules of specific commitments under GATS, and re-negotiation of current most favoured nation (MFN) exemptions as mandated by the Annex on Article II Exemptions.

Despite the realisation that services trade liberalisation is beneficial for both developed and developing countries,[4] progress on services liberalisation is minimum. A broad range of developing countries have expressed their objectives since the start of services negotiations. Interests among developing countries show considerable variation. Over 40 percent of the 150 proposals that have been tabled since November 2000 involve at least one developing country (this number excludes most proposals on the so-called horizontal issues but covers all proposals on sectors and modes of services supply). In total, more than 30 developing countries have voiced their interest in at least one sector or mode of services supply under negotiation.

Available data on services trade show that Nepal has potential in various services sectors, particularly in tourism related services and Mode 4 services (Bhatt 2005 and SAWTEE 2006). Similarly, computer, information, communications and other commercial services are emerging as dynamic sectors globally and in South Asia. Though the current level of export of ICT services from Nepal is not remarkable, the opportunities are immense. In this context, negotiation on tourism, ICT related services and Mode 4 are important for Nepal.

Liberalisation in Mode 4 services, particularly in the 'low skilled and unskilled' category, is important for Nepal. Since the start of GATS negotiations on 1 January 2000, 20 submissions directly related to Mode 4 have been presented in the Special Session of the Council for Trade in Services. The main issues covered by the submitted proposals include, *inter alia,* common categories for scheduling Mode 4 commitments, main market access restrictions to Mode 4 trade, nationality, residency

[4] The global welfare effect of liberalisation of services is deemed to be roughly of the same magnitude as the welfare associated with liberalisation of trade in merchandise and developing countries stand to gain relatively more than industrial countries from liberalizing their services trade. It is estimated that liberalisation of Mode 4 services (an area of comparative and competitive advantage of developing countries) alone could generate global gains ranging from US$ 150 million to over US$ 300 million per year.

requirements, quantitative restrictions, economic needs tests (ENTs), local market tests (LMTs), de-linking Mode 4 from Mode 3, duration of stay, qualification requirements, recognition, transparency and disciplines on visa and entry procedures.

Annex C of the Hong Kong Ministerial Declaration mentions 'new or improved commitments on the categories of 'Contractual Services Suppliers and Independent Professionals'. However, low skilled and unskilled labour has not been included in this category, which is a major setback for the LDCs, including Nepal (Dahal 2006). To make services trade liberalisation an effective instrument for development, Nepal together with the other LDCs should put forward plurilateral requests on sectors and modes of their interest, including for the liberlisation of tourism sector under Mode 2.

Trade Facilitation

The WTO's definition of trade facilitation focuses on simplification of customs procedures (removal of obstacles to the movement of goods across the border) and technical regulations that can impair or delay trade. This definition relates to a wide range of activities such as import and export procedures, transport formalities and payments, electronic facilities, insurance and other financial requirements. It also covers issues related to customs and border crossing, including documentation requirements, official procedures, automation and use of information technology, transparency, predictability and consistency, and modernisation of border crossing administration.

Under the WTO, trade facilitation is covered by the General Agreement on Tariffs and Trade's (GATT) Articles V (Freedom of Transit), VII (Valuation for Customs Purposes), VIII (Fees and Formalities Connected with Importation and Exportation), IX (Marks of Origin), X (Publication and Administration of Trade Regulations) and the following agreements: Agreements on Customs Valuation, Import Licensing Procedures, Pre-shipment Inspection, Rules of Origin (RoO), Technical Barriers to Trade (TBT) and the Application of Sanitary and Phytosanitary Measures (SPS).

The Hong Kong Ministerial has called upon the Negotiating Group on Trade Facilitation to intensify its negotiations on the basis of Members' proposals. The most important proposals (tabled for negotiation at the WTO) for Nepal's trade facilitation are related to Article V (Freedom of Transit), Article VIII (Fees and Formalities Connected with Importation and Exportation) and Article X (Publication and Administration of Trade Regulations).

Proposals related to Article V include, among others, transit rights for landlocked developing Members with national treatment, introduction of a *'bonded transport regime'* that would allow goods to be transferred to a territory of a Member without requiring a payment of customs, adoption of international standards for transit formalities and documentation, reduction of document and data requirements for goods in transit and use of commercial or transport documents.

Proposals relating to Article VIII include, among others, publication of information regarding all fees and charges on the Internet, periodic review of fees and charges, limitation in import and export formalities and documentation requirements to the least trade restrictiveness level.

Similarly, proposals relating to Article X include publication of all relevant laws, regulations, guidelines, rulings, information on customs processes (as well as relevant forms and documents).

The most important issue for Nepal in trade facilitation is the cost of implementation of the trade facilitation measures. However, recognising these difficulties, S&DT was granted to the developing and the LDC Members. They are provided policy flexibility of not complying with trade facilitation rules in the absence of external support. For successful conclusion of negotiations, it is agreed that developed country Members shall continue to intensify their support in a comprehensive manner and on a long term and sustainable basis, backed by secure funding. Nepal will, thus, have to utilise this provision and seek financial and technical assistance from the WTO Members for implementing trade facilitation measures.

Intellectual Property Rights

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) aims to establish a minimum standard for IPRs. Two IPRs have been identified here in which Nepal needs to develop its negotiation strategy. The first is related to geographical indications (GIs) and the second to the patent and plant variety protections.

Nepal should capitalise on GI to protect its niche products as it allows the country to distinguish its niche products from other related products based on geographical characterists. Similarly, with regard to patent and plant variety protections, the country should implement IPR and access and benefit sharing (ABS) laws so that it protects the rights of local, indigenous and farming communities.

In this respect, ABS law is particularly important as ABS and Prior Informed Consent (PIC) are two important principles of equity recognised and legitimised in the Convention on Biological Diversity (CBD), 1992. However, with its conflicting rules, TRIPS is in conflict with the CBD and puts at threat the interest of biodiversity rich countries like Nepal (Adhikari 2005). It would also be to the advantage of Nepal and other like minded countries to see an explicit recognition of ABS and PIC in TRIPS. It can be argued that the amendment of TRIPS Article 27.3 (b)[5] should require patent applicants to disclose the origin of genetic resources and associated traditional knowledge along with evidence of PIC and benefit sharing in their applications (Adhikari 2005 and Dahal 2006).

Duty Free and Quota Free Market Access

The most important decision of the Hong Kong Ministerial Declaration for the LDCs is the commitment of WTO Members to provide DFQF market access for at least 97 percent of LDC exports starting from 2008 or the beginning of the next round of trade liberalisation.

[5] Article 27.3(b) of TRIPS, which deals with exceptions to patentability, is under negotiations for the review mandated by the Agreement.

However, the flexibility provided to developed countries to exclude 3 percent of tariff lines may exclude virtually all exportable products, given the high export concentration of most LDCs, including Nepal, in few tariff lines.

Given this, to make the DFQF market access decision favourable for the LDCs, they need to negotiate to include the following interpretations and explanations(Pandey 2006):

- The flexibility provided to developed countries to exclude from DFQF market access should be interpreted as 3 percent of existing non-zero tariff lines and should also be capped by the volume of imports (e.g., not exceeding 10 percent of imports at tariff lines).
- Developing country should also provide DFQF market access for at least half of the tariff lines, comprising of half of the export value.
- The LDCs should be allowed to designate specific percentage of tariff lines, e.g., 0.5 percent in the case of developed countries and 0.1 percent in the case of developing countries, not to be included in the exclusion lists. Immunity should be provided to these products from the 'impact test' on other developing countries.
- RoO for preferential market access should incorporate the stage of development of the LDCs and be harmonised for all preference-granting countries. Product originating in any of the LDCs or any of the regional trading partners should be considered as a product originating in the exporting LDC.

Trade Related Investment Measures

The Hong Kong Ministerial Declaration allows the LDCs to maintain, on a temporary basis (until the end of a new transition period, lasting seven years),[6] existing measures that deviate from their obligations under the TRIMs Agreement. However, the duration of these new measures will

[6] However, this transition period may be extended by the Council for Trade in Goods (CTG) under the existing procedures set out in the TRIMs Agreement, taking into account the individual financial, trade, and development needs of the Member in question.

not exceed five years, and can be renewed only after a review by the Council for Trade in Goods (CTG). These provisions allow Nepal to implement provisions such as local content requirement on foreign investment. Though Nepal's investment regime is liberalised and such provisions have been done away with, this provision allows policy space for future industrial policy changes (Dahal 2006). However, any measures incompatible with the TRIMs Agreement and adopted under this decision will have to be phased out by the year 2020. Given that the Illustrative List of TRIMs specified by the Agreement is still vague, countries like Nepal should negotiate for further clarification of the list in their favour.

Aid for Trade

The Hong Kong Ministerial Declaration's emphasis on aid to build trading capacity of the LDCs is a major achievement for Nepal. The acceptance that aid for trade needs to cover issues related to supply side capacity building and trade related infrastructure development will help the LDCs to implement WTO agreements and benefit from market access opportunities. To realise the objectives of aid for trade, a Task Force was constituted on 8 February 2006. The Task Force submitted its report on 27 July 2006, which, *inter alia*, underscored the need to ensure additional, predictable, sustainable and effective financing and strengthening coordination, monitoring and evaluation at the global level. While these are positive outcomes for the developing countries in general and the LDCs in particular, details on their contents as well as modalities of disbursement, which are yet to be made public, will determine whether or aid for trade is going to be truly development-friendly. In this context, Nepal together with other LDCs should develop proposals calling for the operationalisation of aid for trade in a manner that helps them improve their trade performance and achieve development goals.

CHAPTER 3

Regional Trade Agreements and Nepal

Background

Following membership in the WTO, Nepal entered into two RTAs – SAFTA[7] which was to enter into force on 1 January 2006 and BIMSTEC,[8] which was scheduled to be effective from 1 July 2006. Currently, negotiations are, however, being held among Members of these RTAs on different issues – liberlisation of the goods sector in the case of SAFTA and liberalisation of goods, services and investment in the case of BIMSTEC.

Regional Trade in South Asia

Intra-regional trade within the South Asia region is very low compared to other regional groups. For example, while intra-European trade was over 60 percent and intra-Association of South East Asian Nations (ASEAN) trade was over 22 percent, trade among the South Asian countries was less than 5 percent of their global trade in 2004 (Table

7 The other Members of SAFTA are Bangladesh, Bhutan, India, the Maldives, Pakistan and Sri Lanka.

8 The other Members of BIMSTEC are Bangladesh, Bhutan, Burma, India, Sri Lanka and Thailand.

3.1). This is despite the fact that trade of some of the South Asian countries such as Bhutan, Nepal and to some extent Bangladesh is highly concentrated with India.

Table 3.1 Intra-regional trade of various RTAs

(as % of total trade by the group)

FTA	1995	2000	2003	2004
ASEAN	21.5	22.5	22.5	22
NAFTA	42.5	48.5	46.5	45.5
EU-25	65	64.5	66.5	65.5
MERCOSUR	19	20	15.5	15
CARICOM	10	11	10	11
SAARC	4	3.5	5	4.5

Source: www.unctad.org

In 2004, India's imports from the region constituted 0.86 percent of its total imports while its exports to the region constituted 6.5 percent of its total exports. The share of intra-regional trade for Bhutan and Nepal, at 71.8 and 53.7 percent respectively, are relatively high in the region. However, as mentioned earlier, the high percentage of trade for these two countries are primarily due to concentration of their trade with India. The share of intra-regional trade for other small South Asian countries, the Maldives, Sri Lanka and Bangladesh, is comparatively higher than that of large economies of the region, India and Pakistan.

Table 3.2 Intra-SAARC import

	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Bangladesh		0.1	0.0	0.3	0.3	0.1
India	15.5		10.2	42.0	2.5	18.1
Maldives	0.0	0.0		0.0	0.0	0.3
Nepal	0.0	0.3	0.0		0.0	0.0
Pakistan	1.1	0.1	0.3	0.2		1.4
Sri Lanka	0.1	0.3	10.6	0.0	0.3	
Total	16.7	0.8	21.1	42.4	3.1	25.9

Source: www.imf.org

Table 3.3 shows that though the share of the South Asian Association for Regional Cooperation (SAARC) region is high in Nepal's imports, it is mainly because of imports from India. The same is true for Bangladesh, Pakistan and Sri Lanka.

A similar trend can be observed in the share of intra-regional exports of the countries. The share of intra-regional exports has the highest share in Nepal's total exports. Though India's share in intra-regional exports is the highest in monetary terms, it still constitutes only about 6.5 percent of India's total exports. India's share in the total intra-regional exports is the highest in the region while the share of the rest of the six countries is negligible. However, while India imports relatively less from the region, imports from the region are high for Bangladesh and Sri Lanka.

Table 3.3 Intra-SAARC export trade

	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Bangladesh	0.0	2.3	0.0	0.3	1.5	0.2
India	1.0	0.0	0.4	39.2	1.2	6.8
Maldives	0.0	0.1	0.0	0.0	0.0	1.1
Nepal	0.1	1.0	0.0	0.0	0.0	0.0
Pakistan	0.6	0.6	0.0	0.5	0.0	0.7
Sri Lanka	0.2	1.9	12.3	0.0	1.0	0.0
Total	1.8	5.8	12.7	40.0	3.7	8.8

Source: www.imf.org

Agreement on South Asian Free Trade Area

Leaders of SAARC Member countries signed SAFTA in 2003 during the twelfth SAARC Summit held in Islamabad. The objectives of SAFTA are to promote and enhance mutual trade and economic cooperation among the contracting states by, *inter alia*, eliminating barriers to trade in goods and facilitating the cross border movement of goods between the territories of the Contracting States.

SAFTA was, however, signed without agreements on key issues such as sensitive list, RoO, mechanism for compensation of revenue losses for the LDCs and technical assistance. The SAFTA Committee of Experts (CoE) carried out strenuous negotiations and held 12 meetings to resolve the issues. The twelfth meeting of the CoE that ended in Kathmandu on 2 December 2005 concluded the final negotiations. The Agreement was to enter into force on 1 January 2006.

Major Provisions

Trade liberalisation programme (Article 7 and 8), S&DT for LDCs (Article 11), balance of payments (Article 15), safeguard measures (Article 16) and RoO (Article 18) are important issues for Nepal in SAFTA.

Trade Liberalisation Programme

Under the programme, tariffs on all products except products under the sensitive list are to be reduced to 0-5 percent within the agreed timeframe. The Agreement provides different schedule for tariff reduction by the LDC Members – Bangladesh, Bhutan, the Maldives and Nepal – and the non-LDC Members – India, Pakistan and Sri Lanka. Moreover, the non-LDCs are required to reduce tariffs on LDC products within a shorter period. The non-LDCs are required to reduce their tariffs among themselves to 20 percent in the first two years and to 0-5 percent in the next five years, i.e., by the end of 2012 (with one extra year for Sri Lanka) (Table 3.5).

Table 3.5 Tariff reduction by non-LDCs for non-LDCs

Tariff	Timeframe			
	1 July 2006	31 December 06	31 December 07	31 December 08 to 31 December 2012*
> 20%	(t-20)/4	(t-20)/4	(t-20)/2	0-5% in 5 equal instalment
< 30%	2.5% of MoP	2.5% of MoP	5% of MoP	

**For Sri Lanka the period is 31 December 2008 to 31 December 2013 and number of installments is 6.*

Notes: t = tariff applicable on 1 January 2006; MoP = Margin of Preference to be applied on tariff of 1 January 2006.

However, for the LDCs, the non-LDCs are required to reduce their tariffs to 0-5 percent in three years, i.e., by 2008 (Table 3.6). As per the Agreement, the LDC Members will reduce their tariffs to 30 percent in 2 years, i.e., by the end of 2007 and to 0-5 percent in the next eight years, i.e., by the end of 2015.

Table 3.6 Tariff reduction by non-LDCs for the LDCs

Timeframe	Rate of tariff reduction
1 July 2006	10% MOP
31 December 2006	30% MOP
31 December 2007	30% MOP
31 December 2008	25-30% MOP

Note: MoP = Margin of Preference to be applied on tariff of 1 January 2006.

Rules of Origin

Under RoO, products with at least 40 percent domestic value addition can enjoy tariff reduction preferences under SAFTA. Under the Agreement, S&DT is provided for products of the LDCs and Sri Lanka. A minimum of 30 percent and 35 percent value addition is required for products from the LDCs and Sri Lanka respectively to qualify for tariff reductions under SAFTA.

Further, under Rule 9 of RoO, any product having 50 percent regional cumulative value addition with 20 percent value addition in the final manufacturing/exporting country will qualify for tariff reduction. This

Table 3.7 Schedule of tariff reduction for LDCs

Tariff	Timeframe			
	1 July 2006	31 December 06	31 December 07	31 December 08 to 31 Dec. 2015*
> 30%	(t-30)/4	(t-30)/4	(t-30)/2	0-5% in 8 equal instalment
< 30%	2.5% of MOP	2.5% of MOP	5% of MOP	

Note: t is tariff applicable on 1 January 2006, and MOP as above table.

Rule is expected to boost intra-SAARC trade and investment. It will also provide advantage to the LDCs in terms of market access for low domestic value added products. In addition, a Product Specific Rule provides lower tariff advantages to 191 products of export interest to the LDCs.

Sensitive List

In order to protect domestic industries, Members are allowed to maintain Sensitive List, i.e., the list of products, which will not undergo tariff reduction. The Sensitive List is to be reviewed every four years or earlier as may be decided by the SAFTA Ministerial Council (SMC), established under Article 10 to reduce the number of items in the list. Members are allowed to have two lists – one for the non-LDCs and the other, a more permissive one for the LDCs. Although the Agreement maintains that Sensitive List shall be different for the LDCs and the non-LDCs, only three countries, i.e., Bangladesh, India and Nepal maintain different Sensitive Lists. The LDCs are also allowed a longer Sensitive List than the non-LDCs.

Non-Tariff and Para-Tariff Barriers

The Agreement requires that all quantitative restrictions, not compatible with GATT 1994 shall be eliminated. With respect to other non-tariff

Table 3.8 Sensitive lists of members

Country	Products under sensitive list (number)		Coverage of sensitive list (as % of total HS lines)	
	for Non-LDCs	for LDCs	for Non-LDCs	for LDCs
Bangladesh	1254	1249	24.0	23.9
Bhutan	157	157	3.0	3.0
India	865	744	16.6	14.2
Maldives	671	671	12.8	12.8
Nepal	1335	1299	25.6	24.9
Pakistan	1191	1191	22.8	22.8
Sri Lanka	1079	1079	20.7	20.7

and para-tariff measures, the Agreement requires that countries notify the measures to the SAARC Secretariat on an annual basis. The CoE is mandated to review the non-tariff and para-tariff barriers in its regular meeting to make recommendations for their elimination to facilitate intra-SAARC trade and make it non-restrictive.

S&DT for the LDCs

Article 11 of the Agreement maintains that all Contracting States have to provide special and more favourable treatment to the LDCs, particularly in the following areas:

- Application of anti-dumping and/or countervailing measures.
- Greater flexibility in continuation of quantitative or other restrictions.
- Trade measures for enhancing sustainable exports from the LDCs.
- Provision of technical assistance and cooperation arrangements to assist the LDCs in expanding their trade with other Contracting States.
- Compensation for revenue loss the LDCs may face due to the implementation of the Trade Liberalisation Programme (Until alternative domestic arrangements are formulated to address this situation).

Safeguard Measures

In order to protect the domestic industry from cheap imports, the Agreement provides scope for partial or full withdrawal of preference granted under SAFTA for a maximum period of three years. However, all investigation procedures for resorting to safeguard measures have to be consistent with Article XIX of GATT 1994 and WTO Agreement on Safeguards. In addition, safeguard measures cannot be applied against the LDC products if the share of import from an LDC of the product concerned in total import of importing country is less than 5 percent, provided the LDCs with less than 5 percent import share collectively account for not more than 15 percent of total imports of the product concerned.

BIMSTEC Free Trade Area Framework Agreement

The major objective of BIMSTEC FTA is to increase intra-regional trade among the members in the following six areas: trade and investment, technology, transportation and communication, energy, tourism and fisheries. BIMSTEC FTA is also expected to create a partnership for development between the five SAARC countries – Bangladesh, Bhutan, India, Nepal and Sri Lanka – and two ASEAN countries – Myanmar and Thailand.

Trade in the BIMSTEC Region

The share of intra-regional trade among BIMSTEC Members was 14.7 percent in 2003, much higher than the share of intra-regional trade among SARRC members (Bhattacharya 2006). Table 3.9 illustrates that the share of intra-BIMSTEC trade in the total trade of Member countries is quite substantial. Moreover, the share of trade shows an increasing trend. Nepal's intra-regional trade was the highest in the region in 2003. Except Thailand and Myanmar, all other Members of BIMSTEC FTA are also Members of SAFTA. Hence, Nepal's primary interest from BIMSTEC FTA is to enhance export opportunities for its goods to Thailand and Myanmar. Since negotiations are ongoing and the Ministerial Meet has not been able to decide a date for the implementation of the Agreement, the importance of BIMSTEC FTA for Nepal's trade is difficult to assess.

Table 3.9 Share of BIMSTEC in the trade of Members

	(in %)	
Country	**2001**	**2003**
Bangladesh	10.14	15.21
India	4.12	6.61
Myanmar	27.63	33.13
Nepal	43.07	37.6
Sri Lanka	8.33	17.86
Thailand	2.19	21.18

Source: Bhattacharya 2006

Major Provisions

Trade in Goods

Under Article 3 of BIMSTEC FTA, contracting parties agreed to enter into negotiations to eliminate tariff barriers and NTBs, substantially in all traded goods between the parties, except, where necessary, those permitted under Article XXIV(8) (b) of GATT 1994. According to Paragraph 2 of Article 3, products, except those included in the Negative List, will be subject to tariff reduction or elimination on the two tracks basis, viz., 'fast track' and 'normal track'.

Applied MFN tariff rates are to be reduced or eliminated for 'fast track' products in accordance within the specified timeframe mutually agreed by the parties. Current schedule for tariff reduction stands as provided in Table 3.10.

Table 3.10 Tariff reduction on the fast track

Countries	For developing countries	For LDCs
India, Sri Lanka and Thailand	1 July 2006 to 30 June 2009	1 July 2006 to 30 June 2007
Bangladesh and Myanmar	1 July 2006 to 30 June 2011	1 July 2006 to 30 June 2009

Similarly, normal track products shall also be listed by each contracting party on its own accord and shall have their respective applied MFN tariff rates gradually reduced/ eliminated in accordance with specified rates to be mutually agreed by the parties, within the timeframe provided in Table 3.11.

Table 3.11 Tariff reduction on the normal track

Countries	For developing countries	For LDCs
India, Sri Lanka and Thailand	1 July 2007 to 30 June 2012	1 July 2007 to 30 June 2010
Bangladesh and Myanmar	1 July 2007 to 30 June 2017	1 July 2007 to 30 June 2015

The number of products in the Negative List will be subject to a maximum ceiling to be mutually agreed among the parties, with flexibility to the LDCs to seek derogation, in one form or the other, with respect of products of their export interest.

It is agreed that negotiations among the parties to establish the BIMST-EC FTA covering trade in goods shall also include, but not be limited to detailed modalities governing the tariff reduction or elimination programmes as well as any other related matter, including a possibility of establishing a mechanism for compensation of possible revenue losses that may occur to the LDC parties.

Trade in Services

In order to expand the scope of services trade, the contracting parties agreed to enter into negotiations to progressively liberalise trade in services with substantial sectoral coverage through a positive list approach. The objectives of services negotiations are progressive elimination of discrimination between or among the parties and/or prohibition of new or more discriminatory measures with respect to trade in services between the parties, except for measures permitted under Article V(1)(b) of the WTO/GATS. The Agreement aims to expand the depth and scope of liberalisation of trade in services beyond those undertaken by the parties under GATS and to enhance cooperation in services among the parties.

Investment

To facilitate investments and to create a transparent and competitive investment regime, the parties agreed to promote and protect investment, strengthen cooperation in investment, facilitate investment and improve transparency of investment rules and regulations and to enter into negotiations in order to progressively liberalise the investment regime through a positive list approach.

Areas of Economic Cooperation

The parties agreed to strengthen cooperation in the following sectors: technology, transportation and communication, energy, tourism and fisheries. The parties further agreed to enhance trade facilitation in other areas. These new areas include (but are not limited to) Mutual Recognition Arrangements (MRAs), conformity assessment, accreditation procedures, and standards and technical regulations, customs cooperation, trade finance, e-commerce, and business visa and travel facilitation.

Similarly, the parties agreed to implement capacity building programmes and technical assistance, particularly for the LDCs to help them adjust their economic structure and expand trade and investment. The parties further agreed to provide technical support, to the extent possible, to the LDCs in their efforts to comply with SPS and TBT requirements. For this purpose, bilateral negotiations for tracking the process of MRAs, conformity assessment, accreditation procedures or any other necessary arrangements are expected to be carried out in parallel with negotiations for FTA in goods.

Current Status of Negotiation

During the first meeting of the BIMSTEC Trade Negotiating Committee (TNC), held on 7-8 September 2004, the delegates agreed upon the negotiation timetable provided in Table 3.12.

Table 3.12 Negotiation timeframe

Negotiation issues	Commencement date	Conclusion date
trade in goods, RoO and other matters under Article 3	July 2004	December 2005
Trade in srvices and investment under Articles 4 and 5	2005	2007
Areas of economic cooperation under Article 6	In a manner and at a pace acceptable to all the parties concerned	not fixed

The Ninth BIMSTEC Ministerial Meeting was held in New Delhi, India on 9 August 2006. At the Meeting, the Heads of Delegation agreed to enhance cooperation in various areas, including trade and investment, tourism and energy cooperation. Under trade and investment, negotiations are to be concluded before the next Summit (which was to be held on 7 February 2007 but was postponed). Under tourism, delegates agreed to work for the establishment of BIMSTEC Tourism Information Centre and BIMSTEC Tourism Fund. Similarly, delegates agreed to establish the BIMSTEC Energy Centre in India that would act as a focal point for strengthening cooperation in the energy sector. The importance of sharing experiences and strengthening cooperation in the fields of grid connectivity, gas pipelines, hydro power and renewable sources of energy was also emphasised.

Negotiation Issues for Nepal under SAFTA and BIMSTEC FTA

Given the fact that most of the highly traded items and items with trade potential are in the Sensitive List of the Members, SAFTA is unlikely to play a significant role for the expansion of trade for Nepal. The negotiating position of Nepal should, thus, be to reduce the number of goods in the Sensitive List of Members while being prepared to reduce its own Sensitive List, if required.

To be of any relevance for Nepal, regional economic integration efforts within SAFTA framework will also have to include measures to liberalise trade in services, remove barriers to intra-regional investment, improve trade facilitation and enhance cooperation in infrastructure, such as energy and telecommunications. Nepal should, thus, negotiate to include these in SAFTA.

Services are important for Nepal. Its share in GDP is likely to increase as economic development advances. It is also believed that liberalisation in investment is a prerequisite for increased intra-regional trade in South Asia. RTAs that liberalised investment regimes have seen growth in investment portfolios of their Members. Thus, liberaliation of services coupled with liberalisation in investment is likely to attract intra-regional investment to Nepal. Tourism, health, education and business services are potential areas for such investment. Therefore, Nepal should negotiate to include services and investment liberalisation in SAFTA.

With the gradual reduction in tariffs, trade facilitation has become increasingly relevant for reducing costs of international trade. Poor transportation facilities, differing custom procedures and requirements, and inability to use more economical transit routes hinder regional trade. The contiguous nature of the Indian sub-continent calls for joint efforts for improving surface and sea transport facilities. Nepal will also have to negotiate to include trade facilitation measures in SAFTA.

South Asia has been identified as an energy deficit region. Huge gas reserves in Bangladesh and an untapped hydropower potential exists in Nepal while a rapidly growing Indian economy demands more energy. Development of regional electricity grid and gas and oil pipelines is also going to benefit countries in South Asia. The geographical proximity also makes cross-country supply of telecommunications services feasible. It will be in the interest of Nepal to negotiate for regional cooperation in areas of energy and telecommunications.

Under BIMSTEC, negotiations have currently been stalled. The implementation of the Agreement was delayed as the Ministerial Meet of August 2006 failed to announce the date of implementation. In addition to negotiating for enhanced market access for products of its export interest through tariff reduction, Nepal should focus its efforts in identifying and prioritising its position with respect to liberalisation of the services sector, investment and energy sector.

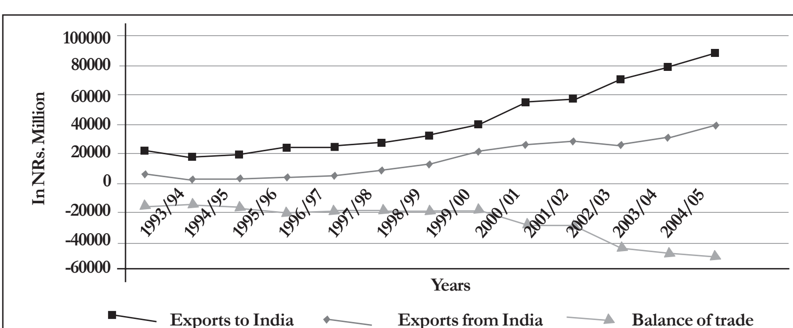
C H A P T E R 4

Indo-Nepal Trade Agreement

Nepal's Trade with India

Exports to India accounted for over 66 percent of Nepal's total exports and imports from India accounted for over 59 percent of Nepal's total imports in 2004/05. Nepal has a persistent trade deficit with India (Figure 4.1). The trade deficit from 1985 to 2000 shows an imbalance ranging from NRs. 14 billion to NRs. 20 billion. After 2000/01, the trade deficit has been on a constant increase from about approximately NRs. 28 billion to NRs. 50 billion in 2005/06.

Figure 4.1: Nepal's trade with India



Source: NRB, Quarterly Economic Bulletin (various issues). + first eleven months only

Nepal-India Treaty of Trade, 2007

This treaty is a continuation of the Treaty of Trade, 2002. A major provision of the treaty is exemption from basic customs duties and quantitative restrictions on imports of primary products on a reciprocal basis. Nepalese manufacturing exports have been given access to the Indian market free of basic customs duties and quantitative restrictions on the basis of non-reciprocity.[9] Preferential access for Nepalese manufacturing exports to the Indian market is subject to RoO conditions that have changed over time. The 90 percent value added condition[10] of the 1960 Trade Treaty was reduced to 50 percent in the 1992 Treaty. Under the 1996 treaty, the value addition requirement was further reduced to 40 percent of ex-factory prices.[11] The 1996 Treaty also substantially reduced the negative list to include only items such as alcoholic liquors/ beverages[12] and their concentrates except industrial spirits, perfumes and cosmetics with non-Nepalese/non-Indian brand names, cigarettes and tobacco.

The Nepal-India Treaty of Trade, 2002 introduced several new restrictions. Firstly, the RoO was made more stringent. The RoO provisions included domestic content value addition requirement of 30 percent of ex-factory prices and changes in tariff heading (CTH) at four digit level of the harmonised system code.[13] Secondly, the treaty emphasised clear specification of safeguard clauses. The treaty denoted "safeguards" against significant damages to the domestic producers, from an "export surge". Due to this reason, on the one hand, Nepalese exports to Indian markets are subject to Indian countervailing duty, on the other, such duty is also charged to make the price of Nepalese products comparable with Indian products. Thirdly, a provision was made for submission of in-

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9 Except for those on the negative list, i.e., goods excluded from preferential treatment.

10 For materials originating in India or Nepal.

11 'Ex-factory price' means the price of the product at the time of clearing from the factory gate.

12 Nepalese beer can be imported by India on payment of the applicable liquor excise duty equal to the effective excise duty as levied in India on Indian beers under the relevant rules and regulations of India.

13 For Nepalese manufacturing exports, which cannot fulfill CTH criteria, the new RoO provision requires that these products have undergone a "sufficient manufacturing process within Nepal," determined on a case by case basis.

Table 4.1 Nepal's trade with India

Value in NRs. million	Exports			Imports		
Year	India	Third country	Total value	India	Third country	Total value
1993/94	2408.9(12.5)	16884.5(87.5)	19293.4(100.0)	17035.4(33.03)	34535.4(66.97)	51570.8(100.0)
1994/95	3124.3(17.7)	14514.9(82.3)	17639.2(100.0)	19615.9(30.80)	44063.6(67.23)	63679.5(100.0)
1995/96	3682.6(18.5)	16198.5(81.5)	19881.1(100.0)	24398.6(32.77)	50055.9(67.23)	74454.5(100.0)
1996/97	5226.2(23.1)	17410.3(76.9)	22636.5(100.0)	24853.3(26.57)	68700.1(73.43)	93553.4(100.0)
1997/98	8794.4(32)	18719.1(68)	27513.5(100.0)	27331(30.71)	61671.0(69.29)	89002(100.0)
1998/99	12530.7(35.1)	23145.6(64.9)	35676.3(100.0)	32119.7(36.70)	55405.6(63.30)	87525.3(100.0)
1999/00	21220.7(42.6)	28602(57.4)	49822.7(100.0)	39660.1(36.55)	68844.8(63.45)	108504.9(100.0)
2000/01	26030.20(46.8)	29623.9(53.2)	55654.1(100.0)	54700.9(47.28)	60986.3(52.72)	115687.2(100.0)
2001/02	27956.20(59.6)	18988.6(40.4)	46944.8(100.0)	56622.1(52.73)	50766.9(47.27)	107389(100.0)
2002/03	26430.00(52.9)	23500.6(47.1)	53910.7(100.0)	70924.2(57.03)	53427.9(42.97)	124352.1(100.0)
2003/04	30777.10(57.1)	23133.6(42.9)	53910.7(100.0)	78739.5(57.78)	57537.6(42.22)	136277.1(100.0)
2004/05	38916.9(66.3)	19788.8(33.7)	58705.7(100.0)	88675.5(59.33)	60798.1(40.67)	149473.6(100.0)

Source: NRB, *Quarterly Economic Bulletin (various issues).*

Figures in parenthesis are the shares of India in Nepal's total exports/imports formation regarding the basis of calculating RoO by the Nepalese government on an annual basis. Finally, Tariff Rate Quotas (TRQ) was imposed on Nepal's exports. Table 4.2 highlights these restrictions on Nepal's exports. The Indo-Nepal Trade Treaty was renewed in March 2007 without any revision on the restrictions imposed by the 2002 Treaty.

Nepal's export to India for 1985/86-1989/90 was much less than its exports to third countries. However, after 1996/97, exports to India have rapidly increased. This increase in exports to India can be ascribed to the 1996 Trade Treaty. The provisions of this treaty permitted Nepal to export goods to India free of customs duty and quantitative restrictions. The number of items subjected to protection fell from more than 100 in the 1980s to 5 in 1996 (Shrestha 2003). Trade procedures were made simpler, which, in turn, increased exports from Nepal to India. Thus, this treaty is seen as a landmark in bilateral trade relations between Nepal and India.

The share of exports to India in 1993/94 to 1995/96 was, on an average, 16 percent of the total exports. In the next period (1996/97 to 2001/02), the share rose to about 40 percent of the total exports. Also, the composition of top 10 exports to India changed from only agricultural goods to low value added manufactured articles like plastic utensils, toothpaste, copper wire rod, polyester yarn, thread and ghee (vegetable).

The 2002 Treaty imposed TRQs on Nepal's exports of vegetable ghee, acrylic yarn, copper and zinc oxide. Even though TRQs have been imposed on these items, they are still on the top 10 list of goods being exported to India. Nepal's imports from India are concentrated in the following categories: agricultural goods, cement, chemicals, electrical

Table 4.2 TRQ on Nepal's exports

S.No	Nepalese article	Quantity in MT per year
1	Vegetable fats (vanaspati)	100,000
2	Acrylic yarn	10,000
3	Copper products	10,000
4	Zinc Oxide	2,500

Source: Treaty of Trade, 2002

equipment, medicine, other machinery and parts, vehicles and spare parts, textiles and petroleum products.

Informal Trade

India and Nepal's long and porous boarder promotes a sizable amount of informal trade[14] (Table 4.5). Studies show that informal export from India to Nepal was US$ 180 million, while that from Nepal to India was US$ 157 million in 2000/01. The informal trade ranges between US$ 368 million and US$ 408 million. An Indian study estimates that Nepal's exports to India through informal channels consists of: electronics, bags/ suitcases, spices, electrical goods, footwear, betel nut, medicinal powder, glass crockery items, cosmetics, beverages, processed food, toys, lighter, and locks (Taneja 2004). Nepal's imports from India through informal channels include; textiles, processed and unprocessed food, cement, hardware, automobiles and parts, electrical goods, uten sils, plastic, live animals, fuel, sanitary items, medicines, fertilizers, machinery and parts, spices and tobacco. The items that are traded informally between the two countries are very similar to the items that are

Table 4.5 Formal and informal trade balance

(2000-2001 current prices, US $ Million)

	India			**Trade balance**
	Exports (X)	Imports (M)	X+M	X-M
Formal	141	255	396	-114
Informal	180	228	408	-48
Informal/formal*100	128	89	103	54
	Nepal			
	Exports (X)	Imports (M)	X+M	X-M
Formal	359	614	973	-255
Informal	157	211	368	-54
Informal/formal*100	44	34	38	21

Source: Karmacharya, 2002[20]

[14] Informal trade is broadly defined to include all trading activities between any two countries which should be included in the national income according to national income conventions but are presently not captured by official national statistics (Taneja 2006).

traded formally. The Nepalese study shows that most of the items traded informally from Nepal to India are of third country origin.

Informal trade exists between the two countries due to the requirements of ROO, tariff and non-tariff barriers in the form of quantitative and other restrictions. Another cause for informal trade is that the institutional arrangement under informal trading is more efficient than that supporting formal trade. Although Nepal and India have a long history of bilateral trade agreements, these agreements have focused only on unauthorized trade in third country goods, as India's main concern in trade with Nepal is the possibility of trade deflection. Trade negotiations between the two countries should consider mechanisms to bring the informal trade into formal trading environment for the benefit of both economies.

Conclusion

Nepal-India trade treaty was renewed in March 2007 without revising the restrictions imposed by the 2002 trade treaty. The treaty also did not bring into discussion the widening trade deficit and the informal trade between the countries. For Nepal to benefit from the Indo-Nepal trade treaty, it is crucial to address these issues. In addition, for both the countries to benefit from trade, new opportunities in the field of energy and services including; information technology, tourism, education, and healthcare should be explored. India's steady and high level of GDP growth is already creating huge demand for energy. Since Nepal has vast amount of untapped hydroelectricity, trade in energy is likely to benefit both the countries. Also, India has already made a lot of progress in trade in services, especially in ICT and tourism. Nepal has a lot to gain from increased cooperation on these sectors as well. During the meeting of India-Nepal Inter-Governmental Committee (IGC) on Trade, Transit and Cooperation in 2006, it has been reported that the Indian delegation proposed to negotiate a Comprehensive Economic Partnership Agreement to enhance bilateral economic ties with Nepal. To enhance bilateral ties between the two countries, Nepal should negotiate to include these new areas of opportunities (energy and services) opportunities in such partnership agreement.

CHAPTER 5

Trade Barriers and Issues for Negotiation in Select Sectors

Background

Tea, herbs, leather, tourism and ICT are export potential sectors for Nepal. However, these products face tariff and non-tariff barriers in the international market. Identification and removal of such tariff and non-tariff barriers are necessary to realise their export potential. Bilateral, regional and multilateral trade negotiations can be utilised to address these barriers. However, this is not possible without a well coordinated negotiation strategy.

Tariff and Non-Tariff Barriers

Barriers to trade in goods can be broadly divided into tariffs and non-tariff barriers. Tariffs are taxes (customs duties) on imports of commodities into a country. Realising the trade distorting nature of tariffs, contracting parties of the GATT 1947 held several rounds of negotiations to reduce them. During the last (eighth) round (also known as the Uruguay Round) of negotiation under the GATT, countries committed to cut tariffs and to "bind" (or fix) their customs duty rates. Through binding tariffs, a country commits itself not to increase tariff above the bound rate except after negotiation with affected trading partner(s). During the Uruguay Round of negotiations, Members increased the percentage of bindings.

Similarly, NTBs are restrictions to imports (set of trade distorting measures and policies) that are not in the usual form of a tariff (Annex 1). The use of NTBs has risen sharply after WTO rules led to a very significant reduction in tariff use. Two major types of NTBs that deserve special attention are national regulations on health, safety and environment, and safeguard measures.

Under national regulations on health, safety and environment, all countries require that domestically produced and imported goods satisfy certain minimum level of quality, health and safety standards. These standards are particularly prominent with respect to agriculture, and food and health products. Many of these standards fall under the category of SPS measures. Safeguard measures are trade measures that are temporarily taken by a Member to provide relief to its domestic industry, if the domestic industry is being hurt from a surge in imports.

Barriers to Trade for Select Goods

Tea

Table 5.1 shows Nepal's total tea export in 2004. India and Pakistan are the largest importers of Nepalese tea. Other importers of Nepalese tea

Table 5.1 Major importers of Nepalese tea

Country	Export (tons)	Unit value (in US$/tons)	Total export (US$)
India	2869 tons	$1,290	3701010
Pakistan	631 tons	$1,154	728174
Germany	77 tons	$8,777	675829
Holland	13 tons	$5,538	71994
Japan	3 tons	$15,252	45756
Belgium	2 tons	$5,000	10000
US	1 ton	$12,000	12000

Source: www.p-aps.org/pmaps/

are the EU (Germany, Holland and Belgium), Japan and the US.

However, per unit value (tons) of tea exported to India and Pakistan is much lower (US$ 1,290 and US$ 1,154 respectively) compared to the tea exported to Germany (US$ 8,777), the US (US$ 12,000), and Japan (US$ 15,252). The top importers of Nepalese green tea are India, Germany and the US. In this case also, Nepalese green tea received much lower unit value in India (only US$ 1,180), compared to Germany (US$ 12,222) and US (US$ 12,000).

Table 5.2 Major importers of Nepalese green tea

Importers (package not exceeding 3 kg)	Export value (in US$ 1000)	Unit value (US$/tons)
India	118	1,180
Germany	110	12,222
USA	12	12,000
Total	240	2,182

Source: www.p-aps.org/pmaps/

Table 5.3 Major importers of Nepalese black tea

Importers (package exceeding 3 kg)	Export (US$ 1000)	Export quantity (tons)	Unit value (US$/tons)
India	1,556	1000	1,556
Pakistan	728	631	1,154
Germany	163	23	7,087
Netherlands	72	13	5,538
Japan	19	1	19,000
Total	2,548	1,668	1,527

Source: www.p-aps.org/pmaps/

Major importers of Nepalese black tea are India and Pakistan. Germany, the Netherlands and Japan are other important black tea importers. In 2004, Nepalese black tea received high unit price in Japan and the European market and low unit price in India and Pakistan (Table 5.3).

Market Access Barriers in Potential Market Destinations

Tariff Barriers

MFN applied and bound tariffs on tea in major export and potential markets are given in Table 5.4. The table shows that except in the EU, Canada, the US and Australia, Nepalese tea faces high tariffs in all other markets. The tariff rates range from around 17 percent (Japan) to 200 percent (Bangladesh).

Table 5.4 Applied and bound tariffs on tea

Destination	Green tea (HS Code 090210)		Green tea (HS Code 090220)		Black tea (HS Code 090230)		Black tea (HS Code 090240)	
	Applied rate	Bound rate	Applied rate	Bound rate	Applied rate	Bound rate	Applied rate	Bound rate
India (2001-2002)	76.80%	150%	76.80%	150%	76.80%	150%	76.80%	150%
Pakistan (2001)	30%	150%	30%	150%	30%	150%	30%	150%
Bangladesh (2003)	32.50%	50%	32.50%	200%	32.50%	50%	32.50%	200%
China (2003)	18%	15%	18%	15%	18%	15%	18%	15%
Japan (2003)	17%	17%	0-17%	0-17%	12-17%	12-17%	0-17%	0-17%
Republic of Korea (2004)	40%	513.6%	40%	513.6%	40%	60.7%	40%	60.7%
Egypt	50%	40%	40%	30%	50%	30%	40%	30%
EU (2004)	3.2%	3.2%	0%	0%	0%	0%	0%	0%
Canada		0%		0%		0%		0%
USA	0-10%	0-6.4%	0-10%	0-6.4%	0%	0%	0%	0%
Australia	0%	0%	0%	0%	0%	0%	0%	0%

Source: Adhikari and Adhikari, 2005.

Non-Tariff Barriers

Green Tea**:** Table 5.5 provides the incidence of NTBs imposed by select countries. There is a 100 percent incidence of NTBs in exports of all types of green tea to India, Pakistan, Canada, Australia and Korea.

Table 5.5 Incidence of NTBs on green tea

Countries	Green tea (HS Code 090210)		Green tea (HS Code 090220)	
	NTM incidence (%)	# of tariff lines	NTM incidence (%)	# of tariff lines
India	100	1	100	1
Bangladesh	0	1	0	1
Pakistan	100	1	100	1
Sri Lanka	0	4	0	1
China	0	2	0	2
Canada	100	2	100	1
Japan	0	1	0	2
EU	0	1	0	1
US	0	2	0	2
Australia	100	1	100	1
Hong Kong	0	1	0	1
Republic of Korea	100	1	100	1

Source: Adhikari and Adhikari, 2005.

Table 5.6 Incidence of NTBs on black tea

Countries	Black tea (HS Code 090230)		Black tea (HS Code 090240)	
	NTM incidence (%)	# of tariff lines	NTM incidence (%)	# of tariff lines
India	100	1	100	1
Bangladesh	0	1	0	1
Pakistan	100	1	100	2
Sri Lanka	0	4	0	4
China	0	3	0	3
Canada	100	2	100	1
Japan	0	2	0	3
EU	0	1	0	1
US	0	1	0	1
Australia	100	1	100	1
Hong Kong	0	1	0	1
Republic of Korea	0	1	0	1

Source: Adhikari and Adhikari, 2005.

For other countries the incidence is zero. Black Tea: Similarly, there is 100 percent incidence of NTBs in exports of black tea to India, Pakistan, Canada and Australia. (Table 5.6)

Herbs

Export of herbs (especially medicinal herbs) has been increasing over the years. It is estimated that every year between 10,000 and 15,000 tonnes of non-timber forest products (NTFPs) are harvested in Nepal and exported to India and overseas countries.

Market Access Barriers in Potential Market Destinations

Tariff Barriers

Nepalese medicinal plants face high tariff in the South Asian markets such as India and Bangladesh and low tariffs in the EU market, Canada, Australia and the US etc. (Table5.7)

Table 5.7 Applied and bound tarrifs on medicinal plants

Destination	Medicinal plants (HS Code 1211)	
	Applied rate	**Bound rate**
India (2001-2002)	40.40%	100%
Bangladesh (2003)	22.5% (except for 12119021 and 12119022)	200%
Sri Lanka (2003)	5%	50%
Pakistan (2001)	10%	100%
China (2003)	6.2% - 10.7%	6%-20%
Japan (2003)	0-4.3%	2.5-12%
US (2004)	0-4.8% (except 12119060)	0-4.8% (except 12119060)
EU (2004)	0-3%	0% (except for 1219030)
Canada (2004)	0%	0%
Australia (2004)	0%	0-2%
Hong Kong (2001)	0%	0%
France	2-8%	0-3%
Germany	2-8%	0-3%

Source: Adhikari and Adhikari, 2005.

To identify incidence of NTBs, 3 categories of medicinal plants based on HS Code classification have been chosen; Liquorice roots (HS Code 121110), Ginseng Roots (HS ode 121120) and Other (HS Code 121190). There is 100 percent incidence of NTBs in the exports of Liquorice roots to Pakistan, Canada and Australia. The incidence is zero for other countries in Table 4.8. Similarly, there is 100 percent incidence of NTBs in exports of Ginseng roots to Pakistan, Canada and Australia. The incidence is 25 percent for China and zero for the rest of the countries in the table. For other medicinal plants, the incidence is 100 percent for India, Pakistan, Japan and Australia. For Canada and the US, the incidence is 21 percent and 20 percent respectively, and zero for rest of the countries given in Table 5.8.

Table 5.8 Incidence of NTBs on Select Medicinal Plants

Countries	Liquorice roots (Hs Code 121110)		Ginseng roots (HS Code 121120)		Other (HS Code 121190)	
	NTM incidence (%)	# of tariff lines	NTM incidence (%)	# of tariff lines	NTM incidence (%)	# of tariff lines
India	0	1	0	1	100	1
Bangladesh	0	2	0	2	0	6
Pakistan	100	1	100	1	100	1
Sri Lanka	0	1	0	1	0	2
China	0	2	25	4	0	27
Japan	0	1	100	2	100	2
Canada	100	2	0	1	21	7
EU	0	1	0	1	0	4
US	0	1	0	1	20	4
Australia	100	1	100	1	100	1
Hong Kong	0	1	0	1	0	1
Republic of Korea	0	1	0	16	0	14

Source: Adhikari and Adhikari, 2005.

Leather

It was estimated that a minimum of 10 million square feet of tanned leathers would be exported from Nepal in 2005/06 worth approximately NRs 600 million. The export market for tanned leather has gradually shifted away from Europe to Asia. India is one of the leading importers of wet blue leather.

Market Access Barriers in Potential Market Destinations

Tariff Barriers

Limited information is available on the tariff applied on raw or processed leather. Available data shows that applied tariff rates on major leather products (raw) ranges between 0 to 30 percent in major market destinations. Importing countries either do not bind their tariff rates in leather products or bound tariff rates are higher than applied rates in most cases (Table 5.9), which shows limited commitment for tariff reduction in leather.

Table 5.9 Applied and bound tariff on raw leather

Destination	Hides and skin bovine animals (HS Code 4101.29)		Raw hides and skin (crushed or salted, dried etc (HS Code 4103.10)		Raw hides and skins, whether or not dehaired (HS Code 4103.9)		Whole bovine skin leather (HS Code 4104.10)	
	Applied tate	Bound rate	Applied rate	Bound rate	Applied rate	Bound rate	Applied rate	Bound rate
India	0%	25%	0%	25%	0%	25%	0%	25%
Bangladesh	NA	unbound	NA	unbound	NA	unbound	NA	unbound
China P.R	NA	5%	NA	9%	NA	9%	NA	unbound
Hong Kong	NA	unbound	NA	unbound	NA	unbound	NA	unbound
Thailand	30%	27%	30%	27%	30%	15%	NA	unbound

Source: http://www.wto.org/english/tratop_e/schedules_e/goods_schedules_e.htm

Table 5.10 Applied and bound tariff on leather products								
Destination	**Handbags (HS Code 4202.29)**		**Articles of a kind normaly carried in the pocket (HS Code 4202.39)**		**Articles (HS Code 4202.99)**		**Leather apparels (HS Code 4203.10)**	
	Applied rate	**Bound rate**	**Applied rate**	**Bound rate**	**Applied rate**	**Bound rate**	**Applied rate**	**Bound rate**
Japan	10%	8%	5.1%	4.1%	4-5.8%	2.7-4.6%	12.5-20%	10-16%
Canada	16.7%	10.8%	15%	9.7%	11.3%	7.4%	22.5%	13%
UK	5.1%	3.7%	5.1%	3.7%	6%	3.7%	7%	4%
Italy	5.1%	3.7%	5.1%	3.7%	6%	3.7%	7%	4%
France	5.1%	3.7%	5.1%	3.7%	6%	3.7%	7%	4%
Spain	5.1%	3.7%	5.1%	3.7%	6%	3.7%	7%	4%
US	5.1-20%	3.3-20%	5.1-20%	3.3-20%	2.9-20%	0-20%	4.7-6%	4.7-6%

Source: http://www.wto.org/english/tratop_e/schedules_e/goods_schedules_e.htm

Table 5.10 shows that processed leather items face tariff rates in the range of 5 to 20 percent in major export destinations. Bound tariff rates are, however, less than applied rates in most categories and destinations.

Table 5.11 NTBs in leather and leather products				
Type of NTBs[31]	Leather products	Footwear, headgear related articles	Other products	Total
Government participation in trade	1	2	22	25
Customs and administrative procedures	5	19	352	376
Quantitative restrictions and similar specific	1	0	48	49
Technical barriers to trade	3	41	487	531
Sanitary and phytosanitary measures	1	0	134	135
Charges on imports	0	1	12	13
Trade remedies	0	5	30	35
Other barriers	0	0	32	32
Total	11	68	1117	1196

Source: www.oecd.org

Non-Tariff Barriers

Trade in leather products is relatively unhindered by NTBs (only 11 notifications out of the total 1196 notifications were reported in leather products). Product groups that are most frequently hindered by NTBs are live animals and products (309 notifications). Similarly, there were 68 notifications of NTBs on footwear, headgear and related articles (some of which uses leather as an input).

Table 5.11 shows that two types of NTBs, namely, customs and administrative procedures and technical barriers to trade are the most frequent non-tariff barriers faced by leather products (there are 8 notifications for these two categories among total 11 notifications for leather products). The same NTBs also hinder trade of footwear, headgear and related articles (there are 60 notifications for these two categories among the total 68 notifications for this product group).

Market Access Barriers to Trade in Services

Services trade is comparatively new in the area of multilateral, regional and bilateral trade negotiations. Although discussions to include services trade in international agreements date back to the late 1970s, when the US aimed to expand GATT rules to facilitate the expansion of the global operations of transnational corporations within a predictable contractual framework. It was included only in 1995 with the establishment of the WTO. SAFTA does not include services, while Nepal-India Trade Treaty also does not cover services.

Services under WTO

General Agreement on Trade in Services (GATS) is the final result of negotiations on services liberalisation under the Uruguay Round. The GATS entered into force with the establishment of WTO on 1 January 1995. GATS intended to establish a framework within which liberalisation in the area of services were to be implemented.

Despite the realisation of the fact that trade liberalisation in services is beneficial to both developed and developing countries,[27] progress on negotiations for services liberalisation in the WTO Doha Round has been minimal. Many proposals, intended to liberalise services were submitted by the member countries- individually or in a group. In this context, meaningful participation of Nepal in these negotiations is crucial to advance her interests.

The GATS Agreement applies to measures by WTO members, which affect trade in services. It sets out a comprehensive definition of trade in services in terms of four different Modes of supply: cross-border, consumption abroad, commercial presence in country where consumption takes place, and presence of natural persons.

Services supplied from the territory of one Member into the territory of another are known as cross border supply (Mode 1). An example is software services supplied by a supplier in one country through mail or electronic means to consumers in another country. Services supplied in the territory of one Member to the consumers of another are defined as consumption abroad (Mode 2). Examples are where the consumer moves, (e.g. to consume tourism or education services in another country). Services supplied through any type of business or professional establishment of one Member in the territory of another are defined as commercial presence (Mode 3). International franchises are an example. Finally, services supplied by nationals of one Member in the territory of another are defined as movement of natural person (Mode 4). Examples include; a doctor of one country supplying through his physical presence services in another country, or foreign employees of a foreign bank.

Part II sets out "general obligations and disciplines". These are basic rules that apply to all members and, for the most part, to all services. Obligations and commitments can be broadly classified as the general and the specific.

General obligations apply automatically to all members and include Most Favoured Nation (MFN) treatment and conditions to ensure transparency. Specific commitments are applicable to the specific sectors to which they relate.

Barriers to Services Trade

Many policy-related, infrastructural, and market access constraints affect international trade in services. Nepal's export potential in services trade is adversely affected by many domestic constraints such as weak infrastructure, poor quality and standards, and policy-related disincentives. External constraints that adversely affect international trade in services exist mainly in the forms of immigration and labour market regulations, recognition and licensing provisions, limits on foreign equity participation, and discriminatory treatment with respect to taxes, subsidies, and other policies (Chanda 2002). To explore Nepal's potential in services trade, identification of sector specific and mode-wise constraints is essential.[28] In the following section we discuss the barriers in tourism and ICT sectors.

Negotiation Strategy for Select Services Sectors

Tourism

When GATS was negotiated, the most liberal commitments were made in tourism services. The primary mode of supply, consumption abroad (Mode 2), is fully bound in most of the commitments and there are few limitations in other important Modes such as commercial presence (Mode 3) than for most services (Chanda 1999). Nepal's position in this sector should be in two areas: opening of domestic market and negotiation in WTO and regional trade negotiations.

Opening of Domestic Market: Nepal must consider increasing the coverage of its commitments in tourism services. The sub-sectors currently covered by Nepal's schedule are hotels, lodging (starred hotels only) and graded restaurants, travel agency and tour operators. Associated recreational, cultural services are also included in Nepal's schedule. However, commitments for food and beverage services and other non-conventional services are not included in the schedule. Opening of these related services are likely to help the growth of the tourism industry. Therefore, Nepal's commitments should be expanded, and sub-sectors such as tourist management services and health accommodation services should also be included.

Active Participation in WTO and Regional Trade Negotiation: Nepal should first identify issues of interest in tourism related services. Commitments under consumption abroad (Mode 2) is important for Nepal, therefore, Nepal should support proposals that intend to liberalise Mode 2 related tourism services. Similarly, it is important to accommodate cross-cutting, multi-industry nature of tourism services.

Information and Communication Technology

In the past round of GATS negotiation, most countries have made liberal commitments in ICT related services. However, commitments in this sector are largely concentrated in Mode 1 and Mode 3 (Chanda 2002). In the case of Mode 4, sectoral commitments are unbound and subject to many horizontal limitations. Immigration regulations such as barriers related to visa and work permit procedures are one of the major restrictions under Mode 4. No distinction is made between temporary and permanent movement of workers, and the process is complicated, obscure and costly. In addition, the lack of uniformity in training and a uniform process for the evaluation of quality and skills of workers in developing countries hampers the exports of professional human resources.

From LDCs perspective, improved commitments in Mode 1 and Mode 4 are necessary. Therefore, Nepal should advocate for more liberal commitments under Mode 1 and Mode 4. Greater transparency in the administration and criteria governing immigration and labour market policies in potential market destinations are also in the interest of Nepal.

Action Matrix: Negotiation Issues and Strategy for Nepal	
Trading regime	**Issues for and strategy of Nepal**
WTO	
Agriculture	Ensure that the modalities for tariff reduction enhance market access to the LDCs and eliminate tariff peaks and tariff escalations in export markets. Retain 'privilege' enjoyed by the LDCs.
Non-Agricultural Market Access	Lobby for effective DFQF initiative by developing and developed countries and call for the removal of NTBs.
Trade Facilitation	Use provisions made during past negotiations to seek financial and technical assistance for implementing trade facilitation measures.
Services	Nepal together with other LDCs should put forward plurilateral requests on sectors and modes of their interest, especially in Mode 4.
IPR	Lobby for the incorporation of ABS, PIC and disclosure requirement within TRIPS during negotiations for the review of Article 27.3 (b) of the Agreement.

Trading regime	Issues for and strategy of Nepal
Regional FTAs	
Sensitive List (SAFTA)	Reduce the number of goods in the Sensitive Lists of Members.
Trade Facilitation (SAFTA)	Call for joint efforts to improve surface and sea transport facilities and customs harmonisation.
Services and Investment (BIMSTEC)	Work to make the liberalisation of services and investment effective.
Bilateral Treaty with India	
Quota Restrictions and ROO	Work for the revision of restrictions such as stringent RoOs, quotas, unclear specification of safeguard clauses.
Informal Trade	Implement mechanisms to bring informal trade into the formal trading environment.
Trade Balance	Identify ways to address Nepal's trade imbalance.
Trade in Services and Energy	Devise means to cooperate on energy and services for mutual advantage.

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ANNEX 1

Types of NTBs

Type	Sub-categories
1. Government Participation	- export and other subsidies - state trading and monopolistic practices-public procurement - customs valuation
2. Customs and Administrative Procedures	- customs classification - customs clearance - documentation and formalities - import licensing - ROO - pre-shipment inspection
3. Quantitative Restrictions	- prohibitions - quotas - TRQs - embargoes
4. Technical Barriers to Trade	- technical regulations and standards - testing and certification - labeling and packaging
5. Sanitary and Phytosanitary Measures	- testing and certification - quarantine procedures
6. Charges and Fees	- various charges

Type	Sub-categories
7. Trade Remedies	- antidumping duties - countervailing duties cafeguardes
8. Other Barriers	- import restrictions - unilateral sanctions - registration - IPRs - environmental measures - minimum pricing and price control measures - finance measures - access to final users - extraterritorial application of the law - legal differences - lack of information on foreign markets - competition from other countries - transportation costs and/or regulation - corruption and theft - political, social and economic Instability - inadequate infrastructure - low demand in export markets - cultural differences - linguistic barriers

Source: www.oecd.org

ANNEX 2

Barriers to Trade in Tourism and ICT Services

	Mode 1	Mode 2	Mode 3	Mode 4
Horizontal	- recognition of Mode 1 services exports for payments.	- limit on foreign exchange availability for Mode 2 services consump-tion.	- cumbersome approval procedure for establishment. - conditions of ownership, operation and juridical form and scope of activity. - approval necessary to establish a joint venture corporation (delays and hurdles).	- entry and stay of natural persons (Visa problems) - limit on entry of natural person (only a limited number of employees can be foreign nationals). - restriction on entry of less skilled labour force. - linking Mode 4 with Mode 3 (movement of natural person only allowed with commercial presence).
Tourism	- infrastructural inadequacies (information and communi-cation technologies etc.)	- limit on foreign exchange availability for tourist (convert-ible	- limits on foreign equity participa-tion. - restriction on other related sectors.	- restriction on movements of natural person. - discriminatory VISA procedures.

	Mode 1	Mode 2	Mode 3	Mode 4
		currency limit on personal travel). - ban/ restriction on movement of tourist in some destinations. - declaration/ grouping of places as favourable and unfavourable destinations to visit.		
Software	- infrastructural inadequacies (telecommu-nication, internet etc.) - recognition of digital signature.	- limit on foreign exchange availability for Mode 2 services consumption.	- limits on foreign equity participation.	- restriction on movements of natural person. - cumbersome VISA procedures.

SAWTEE

Launched in December 1994 at Nagarkot, Nepal by a consortium of South Asian non-governmental organisations, South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secreatariat in Kathmandu and 11 member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. Registered in Kathmandu in 1999, the overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalisation and globalisation.

ActionAid Nepal

ActionAid is an international anti-poverty agency working in over 40 countries. It has been working in Nepal since 1982. Its mission here is to empower poor and excluded people to eradicate poverty and injustice through rights-based approach. AAN's rights holders are the poorest and the most excluded people particularly women, children, victims of conflict and disasters, poor landless and tenants, people living with HIV and AIDS, Dalits, indigenous peoples, former Kamaiya, people with disabilities, and urban poor. Women's Rights, Education, Food Security, HIV and AIDS and Peace Building are its priority themes.