

Decoding US' reciprocal tariffs

A Nepali perspective

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1. Background

Following the sweeping tariffs announced by the United States (US) on 2 April 2025, Nepal, along with virtually all other countries in the world¹, is subject to an additional ad valorem duty of 10 percent on almost all goods exported to the US—the second-largest export destination for Nepal. The announcement further hit several countries that ran a sizeable trade surplus with the US with additional tariffs, resulting in country-wise additional ad valorem duties ranging from 10 percent to 50 percent. It appeared that Nepal, at the worst, got off lightly, or emerged as one of the winners. Media discussions in the days following the announcement centered on how Nepal could take advantage of the relative tariff benefit in the US market. However, on April 9, the additional reciprocal tariffs were put on hold for 90 days, meaning Nepal's tariff advantage vanished (at least temporarily) as magically as it had appeared.

The road ahead is full of uncertainties—there are doubts about whether and how the reciprocal tariff scheme will continue. Hence, the current situation for Nepal is that tariffs on Nepali products in the US market have increased by 10 percentage points (as they have for other countries), and there are uncertainties about how the new reciprocal tariff regime will look like for other countries. An important question, thus, is whether Nepal can enhance its exports to the US in the face of emerging challenges—an increase in tariffs in the US market, the unlikely extension of the Nepal Trade Preference Program (set to expire in 2025), the unlikely reinstatement of the Generalized System of Preferences (GSP) that expired in 2020, a potential reduction in tariff preferences if other countries are able to strike deals with the US, and general uncertainty.

Against this background, this brief note provides an overview of the new reciprocal tariff regime and its potential implications for Nepal's exports to quickly alert policymakers, the private sector and other relevant stakeholders to the new dimensions in Nepal-US trade so that appropriate measures can be taken.

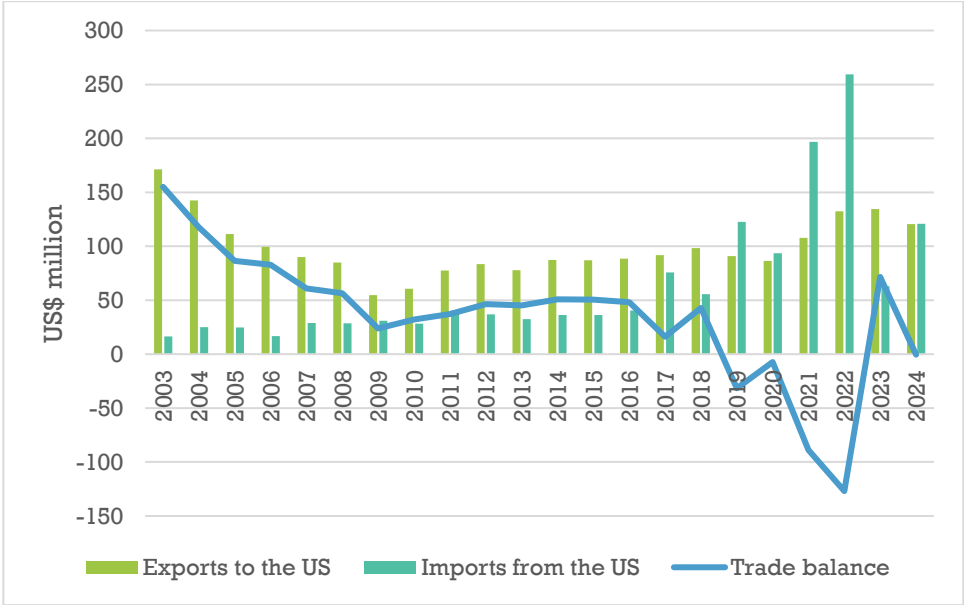
2. Nepal-US trade overview

This section provides a brief overview of merchandise trade between Nepal and the US, focusing on Nepal's exports. Even though Nepal's exports of services to the US exceed merchandise exports, this section focuses only on merchandise trade as services exports are not directly affected by reciprocal tariffs.

¹ Canada and Mexico are not included in the reciprocal tariff list on account of previous tariff hikes (25 percent on goods that are not compliant with the trade agreement among Canada, Mexico and the US (USMCA)). Other countries, including Cuba, North Korea, Russia, and Belarus do not feature in this edition of tariff hikes as the US does not have normal trade relations (NTR) with these countries, and they are already subject to heavy sanctions (for instance, see: Swanson, Anna. 2025. "What to Know About Trump's New Tariffs." *The New York Times*, April 3, 2025.).

The US is Nepal’s second-largest export destination. According to data from Nepal’s Department of Customs, India accounted for 67.7 percent of Nepal’s exports in FY 2023/24, followed by the US, which accounted for 11.4 percent. Nepal’s exports to the US amounted to US\$ 120.5 million in 2024, a decrease from a peak of US\$ 171.4 million in 2003 (Figure 1). Nepal’s exports to the US declined sharply after the expiration of quotas on textile and clothing exports governed by the Multifibre Arrangement, and later by the World Trade Organization (WTO)’s Agreement on Textiles and Clothing (ATC) from 1995 until its expiry in 1 January 2005. However, exports have gradually increased from a low of US\$ 54.7 million in 2009 (Figure 1). Imports from the US have surged in recent years, especially during the period 2019-2024, shifting the overall trade relationship from a surplus to a deficit starting in 2019 (except in 2023) (Figure 1).

Figure 1: Nepal’s annual trade with the United States

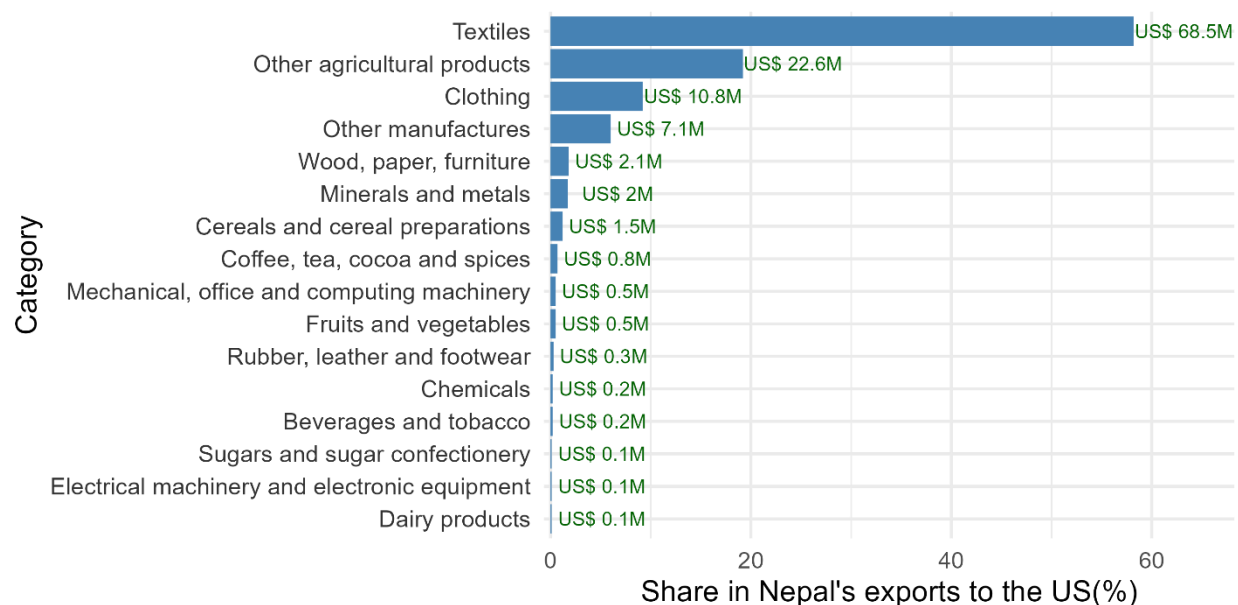


Source: Trade data obtained from the U.S. Census Bureau

Nepal’s exports to the US are dominated by a few product categories (Figure 2). A single product category—Textiles (which includes carpets and felt, among others)—represents the largest export category, making up 58 percent of Nepal’s total exports to the US. Other prominent export categories include ‘Other agricultural products’ (which includes dog chew, animal products, and essential oils, among others) representing 19 percent of Nepal’s total exports to the US, and ‘Clothing’, which represents 9.2 percent of Nepal’s total exports to the US. Further, Nepal’s exports to the US are concentrated in a few products—the top 10 products exported to the US (at 8-digit Harmonized Tariff Schedule or HTS) represent around 67 percent

of Nepal's exports to the US², with the top two exports (carpets and dog chew) representing 42 percent of exports to the US (Table 1).

Figure 2: Nepal's exports to the US in 2024, by product categories



Note: WTO's Multilateral Trade Negotiations (MTN) category (2023 version) is used for classification of exports. MTN categories with Nepal's exports greater than US\$ 0.0 million (small exports rounded to zero or no exports) are included.

Source: Authors, using trade data from the United States International Trade Commission (USITC), and MTN category from the WTO.

Table 1: Nepal's top exports to the United States, 2024

SN	Harmonized Tariff Schedule (HTS) Number-8 digit	Description	Exports (US\$ million)	Share in Nepal's exports to the US (in %)
1	57011040	Carpets and other textile floor coverings, of wool or fine animal hair, hand-hooked (tufts were inserted and knotted by hand or hand tool)	31.01	25.78
2	23091000	Dog or cat food, put up for retail sale	19.53	16.24
3	57019010	Carpet and other textile floor covering, knotted, of text. materials (not wool/hair) nesoi, pile inserted & knotted during weaving or knitting	8.88	7.38

² HTS 99999500 is not included in this computation as it does not represent a specific product.

4	63079098	National flags and other made-up articles of textile materials, nesoi	6.52	5.42
5	57011013	Carpet & other textile floor covering, hand-knotted/hand-inserted, w/ov 50% wt pile of fine animal hair, foregoing cert. hand-loomed & folklore	2.88	2.39
6	62142000	Shawls, scarves, mufflers, mantillas, veils and the like, not knitted or crocheted, of wool or fine animal hair	2.69	2.24
7	57019020	Carpet & other textile floor covering, knotted, of text materials (not wool/hair) nesoi, not w/pile inserted & knotted during weaving/knitting	2.59	2.15
8	95051025	Arts. for Christmas festivities, ornaments, not of glass or wood	2.51	2.09
9	99999500	Estimated imports of low valued transactions	2.39	1.99
10	63049960	Furnishing articles (excluding those of heading 9404 and other than bedspreads) not knitted or crocheted, of textile materials, nesoi	2.33	1.94
11	63012000	Blankets (other than electric blankets) and traveling rugs, of wool or fine animal hair	1.89	1.57

* HTS 99999500 is not a specific product but an aggregation of low-valued transactions.

Source: Trade data obtained from the USITC

3. Overview of reciprocal tariff scheme

Through an executive order issued on 2 April 2025, US President Donald Trump made good on his promise to impose “reciprocal tariffs”, unveiling sharp increases in tariffs across most products originating from all trade partners.³ The reciprocal tariffs were raised on top of preexisting tariffs by at least 10 percentage points for all countries (tariff hikes on Canada and Mexico were as per separate previous orders). In addition, 57 countries were hit with additional ad valorem duties, according to the White House list: the total additional ad valorem duties for these countries ranged from 11 percent to 50 percent, with the median being 30 percent. The tariff increases apply across the board to all products with very limited exceptions. One caveat is that the increased tariffs apply only to the non-US content of a product, provided at least 20 percent of the value of the product originates in the US. This means that for a product whose import price at the US border is US\$10 and embeds US\$2 worth of inputs from the US, the additional tariff will apply to a value of US\$8.

³ <https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>

A baseline additional 10 percent tariff went into effect on 5 April 2025, applicable to all trade partners (except for Canada and Mexico, which were hit with 25 percent tariffs on non-USMCA-compliant goods, and a few countries that do not have normal trade relations with the US). The tariff was to increase further on 9 April 2025 for 57 countries that had a merchandise trade surplus with the US in 2024, but on the day of implementation, it was put on a 90-day pause, which excludes China. In the case of China, the additional reciprocal tariff was increased from 34 percent announced on 2 April to 125 percent by 9 April, making the additional tariffs on Chinese goods 145 percent on almost all Chinese goods⁴ (exemptions were announced for a series of electronic products on 11 April). Thus, as of 16 April 2025, all the countries have been hit with 10 percent additional tariffs, China has been hit with an additional levy of 145 percent, and the additional reciprocal tariffs for 56 countries are set to come into effect on 9 July 2025. However, given that the US administration says it is open to negotiations with trading partners in this interim period, how exactly the reciprocal tariff scheme will come into implementation remains uncertain.

The reciprocal tariffs were instituted to rectify large and persistent US trade deficits, which are viewed by the US administration as an extraordinary threat to the economy of the US as well as national security.⁵ Accordingly, the US president Donald Trump, in his executive order, invoked, among others, the International Emergency Economic Powers Act and the National Emergencies Act to impose the additional tariffs, which run counter to negotiated commitments under the WTO, as well as a cardinal principle underpinning WTO rules, the most-favoured-nation (MFN) principle that requires all members to be treated alike.

The reciprocal tariffs were calculated as tariffs that would balance bilateral trade deficits between the US and each of its trading partners, assuming that tariff and non-tariff barriers imposed by trade partners prevented trade from balancing.⁶ Hence, the computation involved finding a tariff rate for each country with a trade surplus with the US that would result in a decrease in imports needed to balance the trade. Accordingly, the reciprocal tariff that results in a bilateral trade balance of zero was computed as follows⁷:

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}$$

where,

$\Delta\tau_i$ represents the additional tariff (reciprocal tariff) needed to balance trade

x_i represents total annual US exports to the country i

⁴ Chinese goods were already subject to 20 percent additional tariffs before the reciprocal tariff program announced on April 2.

⁵ <https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>

⁶

https://ustr.gov/sites/default/files/files/Issue_Areas/Presidential%20Tariff%20Action/Reciprocal%20Tariff%20Calculations.pdf

⁷ See United States Trade Representative (USTR)'s notes on reciprocal tariff calculations for details: https://ustr.gov/sites/default/files/files/Issue_Areas/Presidential%20Tariff%20Action/Reciprocal%20Tariff%20Calculations.pdf

m_i represents total annual US imports from the country i

$\varepsilon < 0$ represents the price elasticity of imports

$\varphi > 0$ represents pass-through from tariffs to import prices

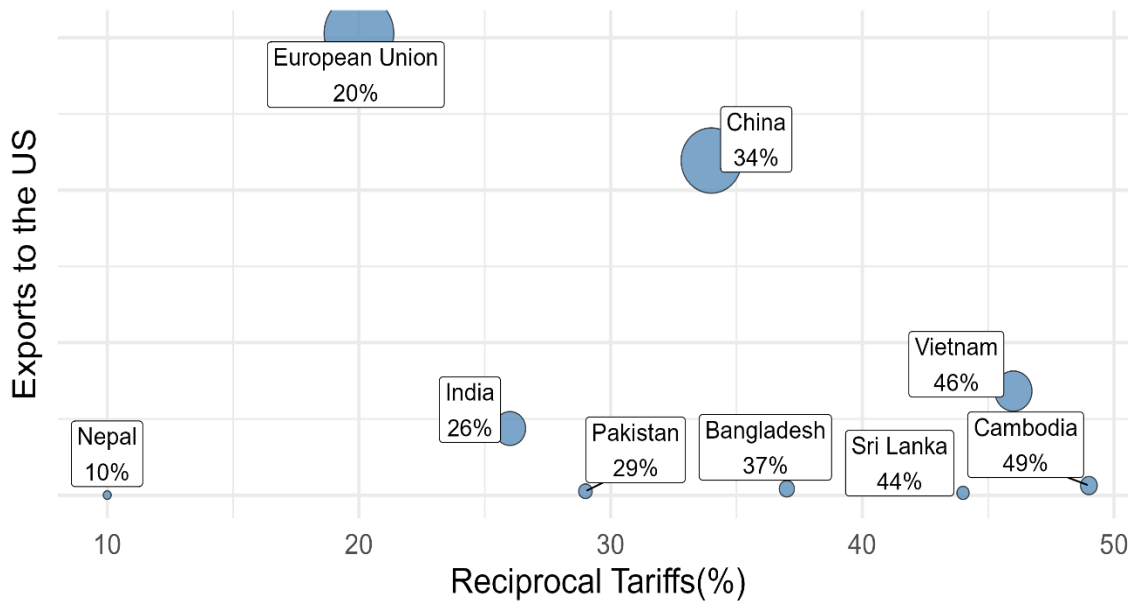
The reciprocal tariff, thus computed, was presented as the ad valorem equivalent of tariff and non-tariff barriers in each country.

However, the values of the parameters ($\varepsilon = 4$ and $\varphi = 0.25$) were selected in a way that the inclusion of these parameters served no purpose as they multiplied to 1. The methodology practically amounted to dividing the absolute value of the US' deficit with a trade partner by US imports from that partner, and further dividing the number by two (a discount factor portrayed as the president's leniency). Thus, a proportionately higher trade surplus with the US—expressed as a percentage of exports to the US—attracts a stiffer tariff penalty. Further, a minimum reciprocal tariff of 10 percent was set for each country. As a result, even countries that had a trade deficit with the US or ran a small surplus with the US would attract an additional ad valorem duty of 10 percent.

Accordingly, different countries were subject to different rates of additional ad valorem duties—ranging from 10 percent to 50 percent (Figure 3). Nepal has been placed in the lowest bracket for tariff hikes as it is subject to an additional reciprocal tariff of 10 percent.

Nepal faces the lowest tariff hike among major South Asian economies (Figure 3). Sri Lanka faces the sharpest tariff hike in South Asia, at 44 percentage points. It is followed by Bangladesh (37), India (27) and Pakistan (30). The rest of the region faces a tariff rise of 10 percentage points.

Figure 3: Reciprocal tariff rates for select countries as announced on April 2



Source: Authors using trade data and country list from the U.S. Census Bureau, and reciprocal tariffs of more than 10% from the White House website

India has been mentioned seven times, rivalling China's mentions, in a "fact sheet"⁸ published by the White House following the tariff announcement. It not only contrasts preexisting US tariffs with India's tariffs on select products, but also points out non-tariff barriers in the world's fifth-largest economy: "India imposes their own uniquely burdensome and/or duplicative testing and certification requirements in sectors such as chemicals, telecom products, and medical devices that make it difficult or costly for American companies to sell their products in India." Nepal is no stranger to non-tariff measures, often acting as trade barriers, in its largest export market, India, which absorbed two-thirds of Nepali merchandise exports in 2023.⁹

4. Impact of the new reciprocal tariff regime

4.1. Implications for MFN and preferential duties

Nepal has been placed in the lowest bracket for tariff hikes as it is subject to an additional reciprocal tariff of 10 percent. It is to be noted that the 10 percent additional tariff is over and above existing applied tariffs. For example, *chhurpi*, exported as an item in the dog and cat food category, attracts a most-favoured-nation (MFN) tariff (that is, applicable to all countries) of zero.¹⁰ It will now face a 10 percent tariff. Goods attracting zero MFN tariffs make up about two thirds of the value of Nepal's exports to the US (in 2022), which would now be subject to a duty of 10 percent.

Goods exported duty-free under the Nepal Trade Preference Programme (NTPP)—which covers 77 products and expires at the end of 2025—will also face a 10 percent tariff. These goods constitute about 8 percent of Nepal's exports to the US (in 2022). After its expiry in December 2025, the tariff on them will be the 10 percent reciprocal tariff plus the MFN tariff. The median MFN tariff for these products was 7.5 percent in 2021.¹¹

Then there are products whose exports account for about 11 percent of Nepal's total exports to the US and are currently subject to positive MFN tariffs (and do not feature in GSP or NTPP). Tariffs on these products will also increase by 10 percentage points. For example, the median tariffs (in 2022) for the Harmonized System of product classification Chapters 61 (apparel, knitted) and 62 (apparel, not knitted) are 13.6 percent and 12 percent, respectively. These will go up by 10 percentage points.

Figure 4 shows the change in duties applied for Nepal's major exports to the US in 2024 (at HTS 8-digit), which represent around 76 percent of Nepal's exports to the US (also see Annex table A.1). Among the top 20 exports (at HTS 8-digit) in 2024, 18 products were exported on

⁸ <https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security/>

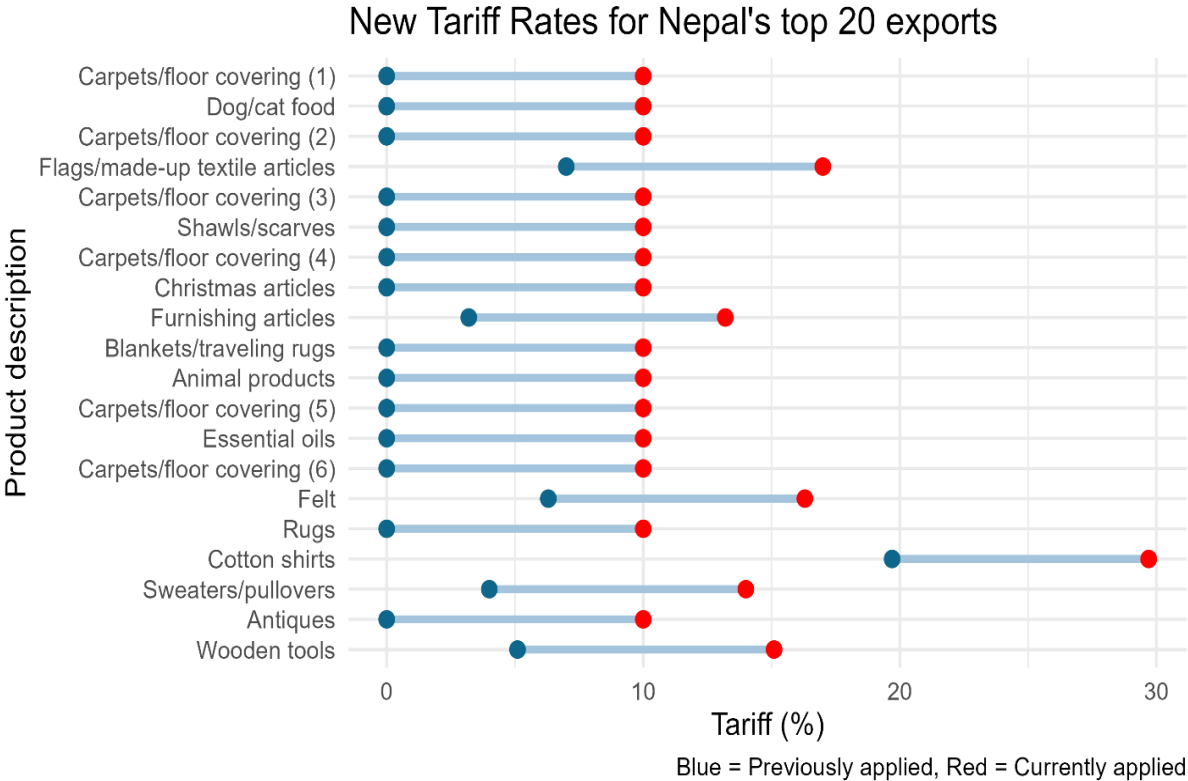
⁹ Trade data from Observatory of Economic Complexity, <https://oec.world/en/profile/country/npl>.

¹⁰ Unless otherwise stated, trade and tariff information predating the reciprocal tariff announcement used in this section are from Kharel, Paras, and Aayush Poudel. 2024. Contours of identifying products for duty-free access to the US. Unpublished study. Kathmandu: SAWTEE.

¹¹ Kharel, Paras. 2023. The 66/77 products inside out: The long and short of the United States' Nepal Trade Preference Programme. SAWTEE Working Paper Series 23/01. Kathmandu: SAWTEE.

an MFN basis—even though two products were on the US Generalized System of Preferences (GSP) list and hence would qualify for duty-free treatment had the GSP scheme been in effect in the US (Annex Table A.1).¹² Eleven out of the eighteen products exported on an MFN-basis have an MFN tariff of zero and hence are now subject to a duty of 10 percent (Annex Table A.1). Two of the top 20 exports enjoyed duty-free treatment because of the Nepal Trade Preference Program (NTTP), which would now be subject to an ad valorem duty of 10 percent (Annex Table A.1). Hence, overall, Nepal’s major exports would be subject to at least a 10 percent ad valorem duty, with a few products seeing the applied duty rise to as much as 30 percent (Figure 4).

Figure 4: Change in applied tariffs for Nepal’s top exports



Note: Products are listed in the order of export size. The lowest tariffs applicable are taken as the applied tariffs, but since GSP is currently on pause in the US market, we do not consider GSP tariff in our computations. In particular, ‘flags/made-up textile articles’ (HTS 63079098) and ‘Wooden tools’ (HTS 44170080) also qualify for duty-free treatment under the GSP scheme but since the GSP is currently suspended in the US market, we do not include GSP tariffs in our computations of old and new tariff rates.

Source: Authors, using tariff data compiled from the USITC

¹² The US GSP program has been on hold after its expiry on 31 December 2020, pending renewal by the Congress.

Implications for preferences for Nepal in the US market

An implication of the new US trade policy regime is that the tariff concessions provided under the Generalized System of Preferences (GSP) by the US, which expired in 2020-end, are highly unlikely to be reinstated in the next four years. About 12.5 percent of Nepal's exports to the US in 2022 was potentially eligible for duty-free access under the GSP. In the hope that GSP would be retroactively reinstated in keeping with past practices, over half of exports from Nepal on the GSP list continued to be exported under the GSP rubric even after its expiry, albeit by paying MFN tariffs. Now they will be subject to 10 percent tariffs in addition to applied MFN tariffs. These products faced a median MFN tariff of about 4 percent, with a maximum of 38 percent, in 2021.¹³

Likewise, the NTTP that provides duty-free treatment for 77 Nepali products is set to expire in December 2025. If reciprocal tariffs are any indication, it is unlikely that the NTTP will be extended, let alone expanded—something that Nepali exporters were hoping for and which the Government of Nepal had been requesting during meetings under the Nepal-US Trade and Investment Framework Agreement.

4.2. Possibility of relative price advantage

Relative prices matter in international trade. The tariff increase puts Nepal at an advantage vis-à-vis many economies if the reciprocal tariffs are to be implemented after the 90-day pause. For instance, if we look at the tariff rates faced by other major exporters of Nepal's primary exports to the US, Nepal will have a relative tariff advantage over most of the suppliers of these products (Figure 5 and Annex Figure A.2).

However, the uncertainty around the longevity of these tariff changes serves as a barrier to the durable relocation of production to Nepal from competitors. Still, some diversion of orders to Nepal for products for which production capacity exists or can be expanded relatively quickly is a distinct possibility if the reciprocal tariffs are expected to remain in place for at least the remainder of Trump's term. Apparels are a case in point. Readymade garments (RMGs) are a key item exported by Nepal to the US. Major RMG exporting countries in Asia (apart from those in South Asia) that face a higher tariff hike in the US include China (145 percent), Vietnam (46 percent), and Cambodia (49 percent). The new preference margin in tariffs should be weighed against any preexisting cost disadvantage, though. A Garment Association of Nepal note asserts that a 2019 study found RMG production in Nepal to have a 27.6 percent cost disadvantage vis-à-vis RMG production in Bangladesh.¹⁴ There are also factors other than cost that determine global competitiveness—for example, product quality, reliability of supply and timeliness of delivery.

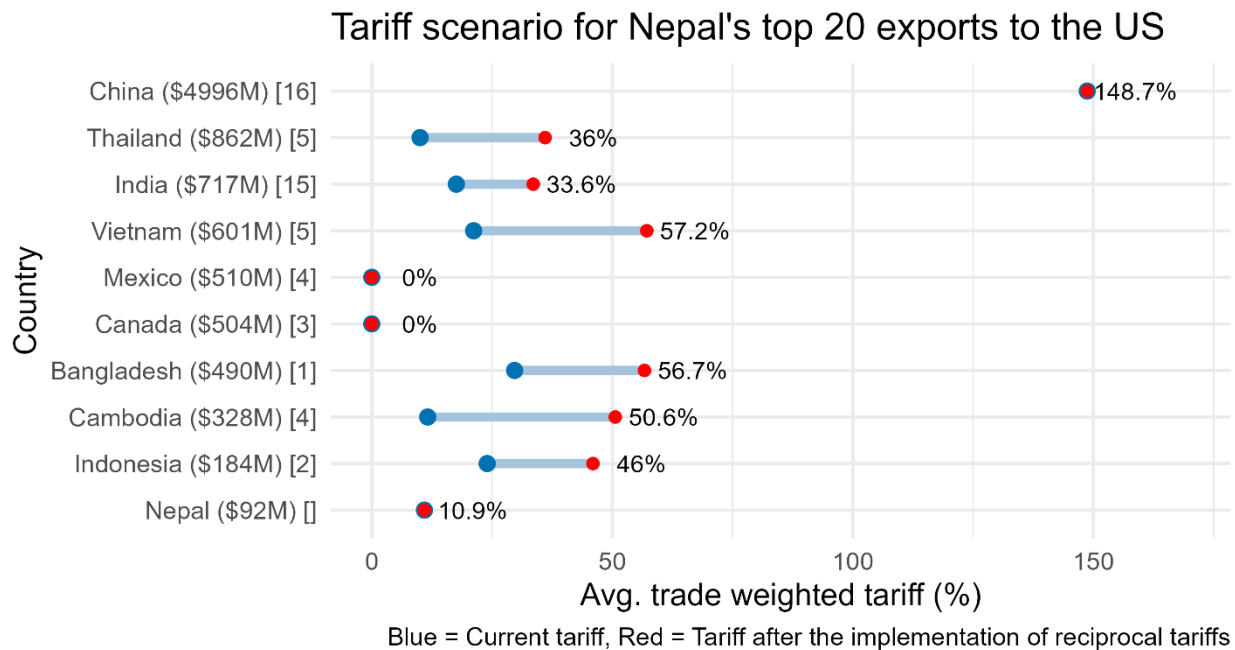
The tariff advantage, however, risks promoting unfair trade practices such as smuggling of goods from other countries into Nepal for re-exportation to the US. As per a note on reciprocal tariff calculations published by the Office of the United States Trade Representative, the reciprocal tariffs were left-censored at zero, meaning reciprocal tariffs would not fall below zero (for instance, for countries that have a trade deficit with the US), but “higher minimum

¹³ *ibid.*

¹⁴ Letter by the Garment Association of Nepal (GAN) to South Asia Watch on Trade, Economics and Environment (SAWTEE) dated 27 February 2022: “Reviving Nepali readymade garments.”

rates might be necessary to limit heterogeneity in rates and reduce transshipment”.¹⁵ A minimum rate of 10 percent was thus set in the White House reciprocal tariff announcement. Yet, the yawning difference in tariffs faced by Nepal and India—at least 17 percentage points—could encourage smuggling of goods from India into Nepal through the open border for re-exportation to the US. This could, however, hurt Nepal, if such practices were penalized by further tariff hikes for Nepal. If India and the US were to strike a trade deal, that differential may be significantly reduced or even eliminated.

Figure 5: Comparison of changes in average tariff for Nepal's top 20 exports to the US, by major exporters of the products



Note: Values in () indicate each country's exports of the products in US\$ millions; values in [] indicate the number of products in which the country is among the top six exporters to the US

Note: The average trade weighted tariff for each country in the chart is computed as follows: (i) the current tariff reflects the applied tariff, calculated by taking the minimum of the MFN tariff and any currently operational preferential tariff (thus, in the case of China, it does not include any additional tariffs that may have been in place); (ii) each of the nine competitor countries identified in the chart is among the top six exporters of at least one product in Nepal's top 20 exports to the US in 2024 (at HTS 8-digit); and (iii) for each competitor country, only the products (at HTS 8-digit) for which it is among the top six exporters to the US are included in the computation.

Source: Authors using trade and tariff data from the USITC and reciprocal tariff list from the White House

¹⁵

https://ustr.gov/sites/default/files/files/Issue_Areas/Presidential%20Tariff%20Action/Reciprocal%20Tariff%20Calculations.pdf

4.3. Indirect effects

To be sure, the prospect of US domestic production increasing on account of tariffs that make imports from all sources more expensive is another factor that will determine the existence and scope of opportunities for Nepal. Products such as dog chew, made from cow milk collected in the highlands, hand-knotted woolen carpets, and pashmina shawls are unlikely to see competition emerging from within the US. On the flip side, the tariff hikes, and possible retaliation—at least by China, which has already imposed an additional 125 percent levy on imports from the US—sending the US economy as well as the global economy into a tailspin could negatively impact the Nepali economy through other channels, trade and non-trade: reduced demand from other export markets, almost all of which are in Trump’s tariff cross-hairs; a decline in tourist arrivals; and a decline in the demand for Nepali labour and hence remittances, which amount to a fifth of Nepal’s gross domestic product.

Tariffs, by definition, are imposed on goods. Therefore, services imports into the US are untouched by reciprocal tariffs directly. Nepal’s exports of services to the US exceed merchandise exports.¹⁶ IT and IT-enabled services exports alone are greater than goods exports. A concern for Nepali exporters of IT and IT-enabled services should be the possibility of a contraction in demand for such services if the tariffs work their inflationary way through the American economy.

Another possible side effect of the new tariff regime concerns import competition in Nepal. If the US government moves ahead with its reciprocal tariffs permanently, goods from many countries will be priced out of the US market. Affected suppliers will seek new markets and, consequently, such imports could pose a stiff competition to domestic producers in the Nepali market. There is also a possibility of goods being dumped into Nepal.

4.4. A rough stab at quantifying the effect on exports

Nepal’s merchandise exports amounted to 2.7 percent of gross domestic product (GDP) in fiscal year (FY) 2023/24.¹⁷ Goods exports to the US would then be equivalent to about 0.31 percent of GDP. Given the high import content of most products exported to the US, thanks to their dependence on imported raw materials—although there are exceptions such as *chhurpi*—even if we assume a domestic value addition of 40 percent, the value-added exports to the US would come to about 0.12 percent of GDP. A reduction in gross exports to the US due to the tariff hike would have to be multiplied by a factor of 0.12 percent (or, 0.0012) when mapping the gross export loss—as a back-of-the-envelope calculation—into a direct dent to GDP. The negligible weight of merchandise exports in the Nepali economy¹⁸, and the still lower importance of exports bound for the US, may explain Nepal’s stock market (NEPSE) bucking the plunge in stock markets across the world in the wake of the Trump tariff shock.

¹⁶ Some 80 percent of Nepal’s exports of IT and IT-enabled services worth at least US\$500 million are destined for the US. See IIDS. 2023. Unleashing IT: Advancing Nepal’s digital economy: Expanding jobs and exports. Kathmandu: Institute for Integrated Development Studies.

¹⁷ Nepal Rastra Bank, Current macroeconomic and financial situation (annual), 2023/24.

¹⁸ Even after accounting for services exports, Nepal’s total exports amount to barely 6 percent of GDP.

World Bank (2025)¹⁹, using firm-level data, estimates that a 1 percentage point increase in tariffs applied by partner countries to Nepal reduces Nepali exports by 0.8 percent on average. In the absence of destination-specific estimates, we make do with this estimate. This yields an estimated 8 percent decline in Nepal's goods exports to the US due to a tariff hike of 10 percentage points. An estimated direct hit to GDP would thus be 0.0096 percent.

The reciprocal tariff scheme, if implemented as announced on 2 April, in addition to increasing tariffs on Nepali products, also increases tariffs on the products supplied by other countries. World Bank (2025) finds that besides the tariffs applied to Nepal by a partner country, the latter's weighted average tariffs applied to the world also affect exports from Nepal (positively), and this relationship is amplified by preference margins for Nepal. The reciprocal tariffs, if implemented as announced after the 90-day pause, will jack up the average tariff imposed by the US on the world as well as the preference margin for Nepal. Let's use the coefficients in World Bank (2025) to get a sense of the possible effect of the increased preference margin for Nepal.²⁰ The coefficients imply that a preference margin of at least 6.3 percentage points is needed for an increase in average tariffs levied by an export destination on the world to boost Nepali exports. As Nepal's preference margin in the US is set to widen by at least 17 percentage points vis-à-vis many competitor countries in the case of the implementation of reciprocal tariffs after the 90-day pause, a positive impact on exports that partly attenuates the direct negative impact on exports due to the tariff hike on Nepal cannot be ruled out, *ceteris paribus*.

4.4. A state of uncertainty: surplus could trigger higher tariffs

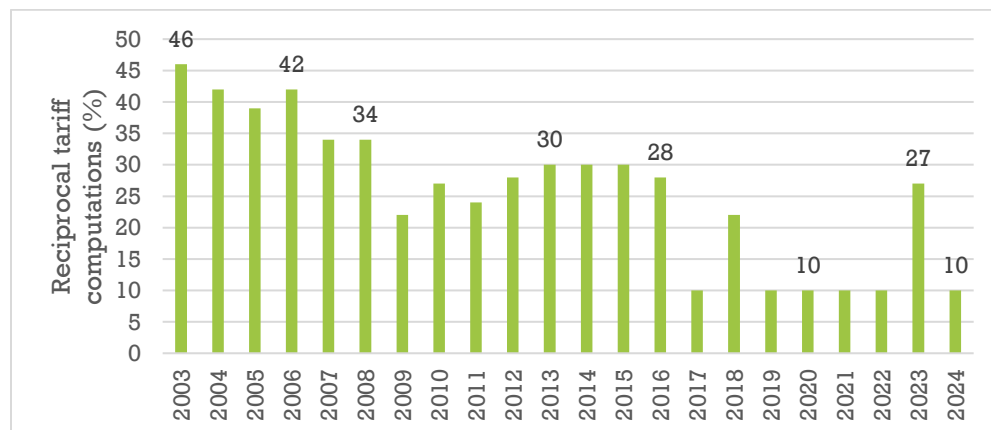
Reciprocal tariffs depend on the magnitude of deficits, and hence, if adjusted periodically, may lead to different reciprocal tariff rates over time. For instance, if data from 2023 were used to compute reciprocal tariffs, Nepal would have faced a reciprocal tariff of 27 percent instead of the currently applied 10 percent (Figure 6). As per that dataset, Nepal ran a small deficit with the US in 2024, and hence the baseline tariff hike of 10 percent was applied. In 2023, Nepal ran a surplus, which, as per the Trump reciprocal tariff formula, would warrant a 27 percent additional tariff. Therefore, in a hypothetical situation where Nepal takes advantage of the relatively low reciprocal tariffs to generate a significant surplus in a certain year, it may face a higher tariff in the future if adjustments are made periodically, which could negatively affect its future exports. This means that should Nepal's exports to the US increase on account of the relative trade cost advantage accruing from the tariff differentials between Nepal and its competitors in certain products—for example, Bangladesh, China, Cambodia, India and Vietnam in readymade garments—the resulting trade surplus could trigger a reciprocal, higher tariff that dilutes the initial tariff advantage. The uncertainties—whether the reciprocal tariff scheme will remain in place over a long time-horizon, and whether it will be updated periodically to automatically penalize a trade surplus with the US—may pose challenges for small economies like Nepal, whose trade balance with the US tends to be

¹⁹ World Bank. 2025. Unlocking Nepal's growth potential: Nepal country economic memorandum 2025. Washington, D.C.: The World Bank.

²⁰ Coefficients from regression results in Column 1 of Table A12 of World Bank (2025).

volatile. These uncertainties may also deter investments (domestic as well as foreign) in sectors that could benefit from relatively low tariffs in the US market.

Figure 6: Computation of reciprocal tariff for Nepal, 2003-2024



Source: Authors, using trade data obtained from the U.S. Census Bureau

5. Conclusion

The baseline tariff hike of 10 percent for virtually all countries implies a potential reduction in Nepal’s exports. However, given that other countries, some of which export similar products to the US as Nepal, were hit even harder (with tariff hikes exceeding 10 percent), it seemed that Nepal could benefit from the relative tariff advantage. Further, this scenario also raised the possibility of industrial relocation to Nepal to benefit from this relative tariff advantage.

However, uncertainties cast doubt on whether the changed tariff regime of the US is beneficial to Nepal. First, the full implementation of the reciprocal tariff programme was put on a 90-day pause on the very day it was scheduled to take effect. It is uncertain how the reciprocal tariff scheme will unfold after this pause or whether it will be implemented at all.

Even if the programme does go ahead after the 90-day pause, uncertainties persist that do not bode well for Nepal. For instance, as we mentioned before, if Nepal benefits and generates a substantial trade surplus, future tariff adjustments could eliminate the current tariff advantage. Since the tariff hikes are blanket hikes rather than product-specific, even products not contributing to the surplus will be affected, potentially bringing Nepal’s exports to a halt. Further, these uncertainties may discourage both domestic and foreign investors from establishing factories or expanding their operations in Nepal to exploit the tariff advantage. Additionally, there are indications from the US administration that the US may remove or reduce additional tariffs upon negotiations with trading partners. This creates a risk that countries with greater influence in Washington (owing to the size of their economies, size of exports, or diplomatic relationships) could secure better terms, leaving countries like Nepal—whose trade preferences were previously automatically guaranteed under unilateral trade concessions and the WTO’s differential and special treatment—at a disadvantage. The policy implication is that the changing global trade order resulting from the US’ new approach to international trade requires rigorous strategizing by policymakers.

Annex

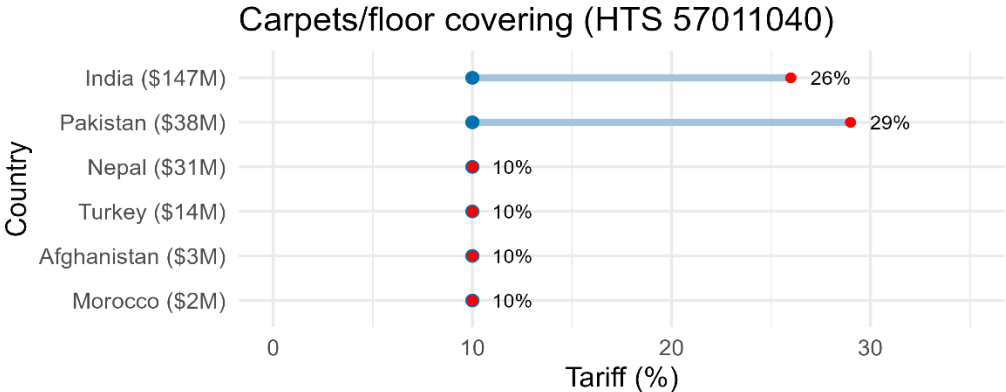
Table A. 1: Change in tariffs for Nepal's top 20 exports (representing 76 percent of Nepal's total exports to the US) after introduction of reciprocal tariff regime

SN	HTS-8	Description	Nepal's exports to the US (US\$ million)	Tariffs (Ad valorem, % of value)					
				MFN and preferential rates				Applied rates	
				MFN	GSP-LDC	GSP	NTTP	Previously applied tariff	Currently applied tariff
1	57011040	Carpets and other textile floor coverings, of wool or fine animal hair, hand-hooked (tufts were inserted and knotted by hand or hand tool)	31.01	0				0	10
2	23091000	Dog or cat food, put up for retail sale	19.53	0				0	10
3	57019010	Carpet and other textile floor covering, knotted, of text. materials (not wool/hair) nesoi, pile inserted & knotted during weaving or knitting	8.88	0				0	10
4	63079098	National flags and other made-up articles of textile materials, nesoi	6.52	7		0		7	17
5	57011013	Carpet & other textile floor covering, hand-knotted/hand-inserted, w/ov 50% wt pile of fine animal hair, foregoing cert. hand-loomed & folklore	2.88	0				0	10
6	62142000	Shawls, scarves, mufflers, mantillas, veils and the like, not knitted or crocheted, of wool or fine animal hair	2.69	6.7			0	0	10
7	57019020	Carpet & other textile floor covering, knotted, of text materials (not wool/hair) nesoi, not w/pile inserted & knotted during weaving/knitting	2.59	0				0	10
8	95051025	Arts. for Christmas festivities, ornaments, not of glass or wood	2.51	0				0	10
9	63049960	Furnishing articles (excluding those of heading 9404 and other than bedspreads) not knitted or crocheted, of textile materials, nesoi	2.33	3.2				3.2	13.2
10	63012000	Blankets (other than electric blankets) and traveling rugs, of wool or fine animal hair	1.89	0				0	10
11	05119930	Animal products chiefly used as food for animals or as ingredients in such food, nesoi	1.53	0				0	10
12	57011016	Carpets & other textile floor coverings, hand-knotted or hand-inserted, w/ov 50% by weight of the pile of fine animal hair, nesoi	1.31	0				0	10

13	33012951	Essential oils other than those of citrus fruit, other, nesoi	1.23	0			0	10
14	57011090	Carpets and other textile floor coverings, of wool or fine animal hair, not hand-hooked, not hand knotted during weaving	1.12	4.5			0	10
15	56029060	Felt, impregnated, coated or covered, of man-made fibers, nesoi	1.08	6.3			6.3	16.3
16	57021090	Kelem, Schumacks, Karamanie and similar hand-woven rugs, other than certified hand-loomed and folklore products	1.03	0			0	10
17	62052020	Men's or boys' shirts, not knitted or crocheted, of cotton, nesoi	0.99	19.7			19.7	29.7
18	61101210	Sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, knitted or crocheted, of Kashmir goats, wholly of cashmere	0.93	4			4	14
19	97061000	Antiques of an age exceeding 250 years	0.93	0			0	10
20	44170080	Wooden tools, tool bodies, tool handles, broom or brush bodies and handles nesoi; wooden boot or shoe lasts and trees	0.88	5.1		0	5.1	15.1

Source: Authors, using trade and tariff data compiled from the USITC

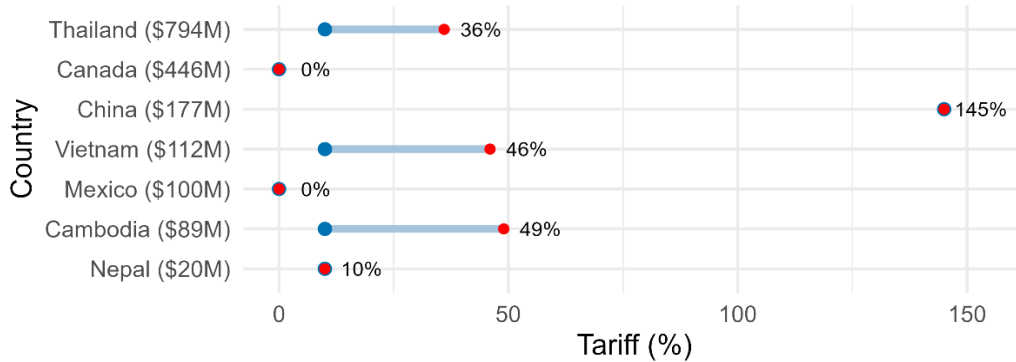
Figure A. 1: Change in tariffs for Nepal's top 20 exports, by products (HTS8) and by top exporters



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

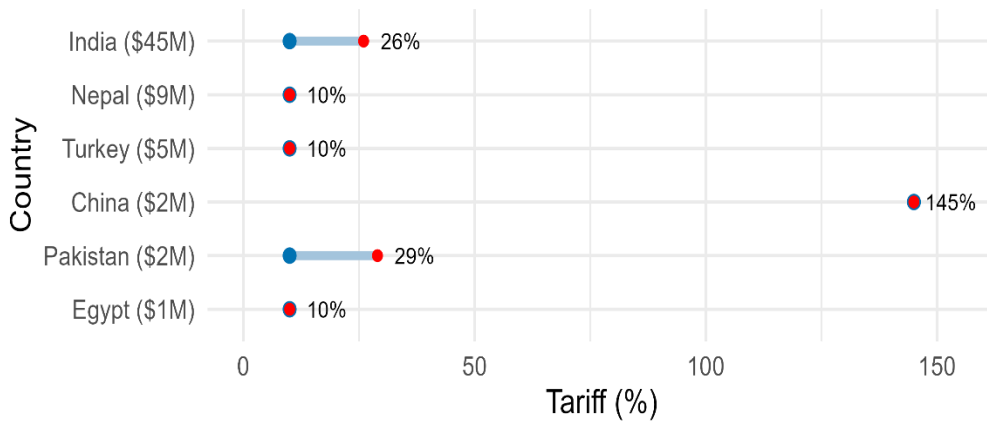
Dog/cat food (HTS 23091000)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

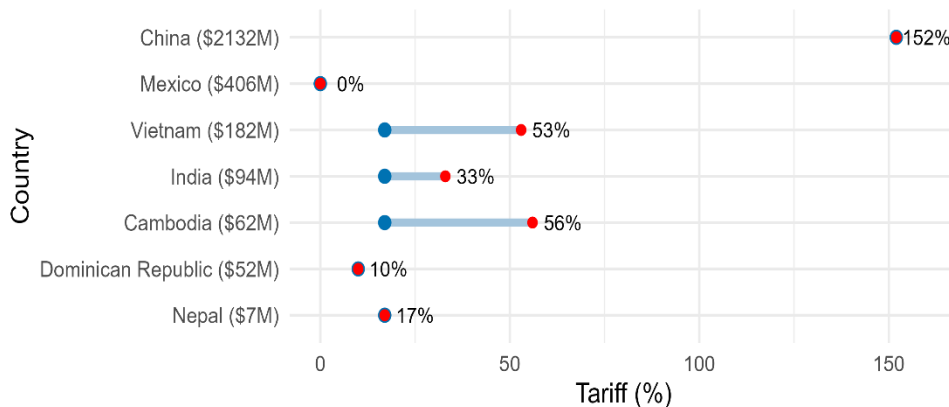
Carpets/floor covering (HTS 57019010)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

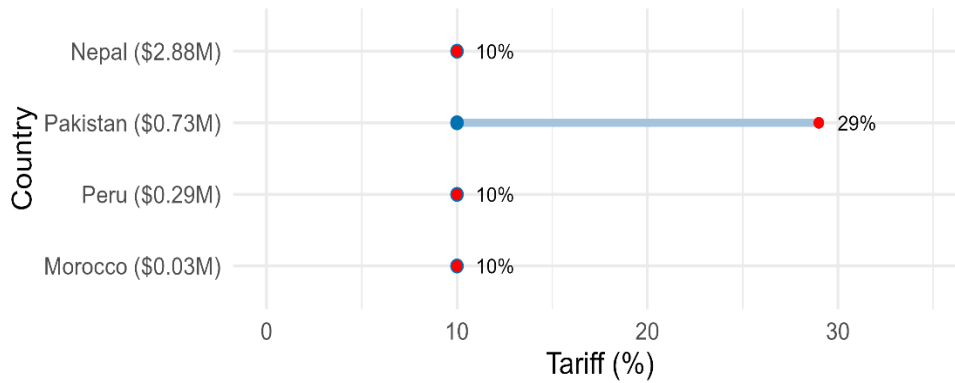
Flags/made-up textile articles (HTS 63079098)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

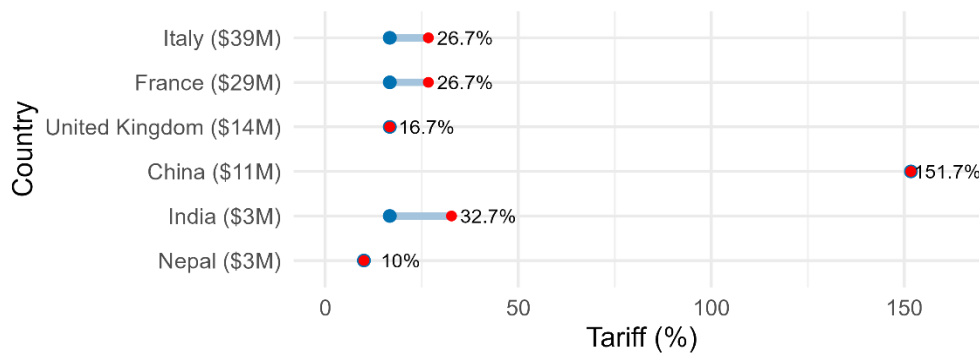
Carpets/floor covering (HTS 57011013)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

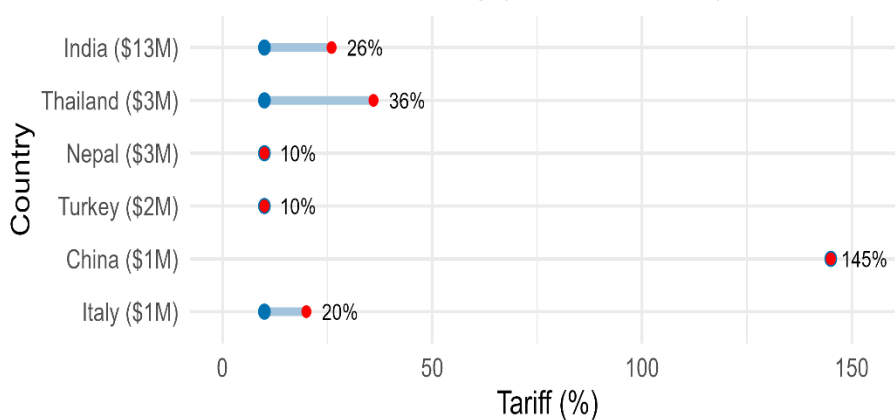
Shawls/scarves (HTS 62142000)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

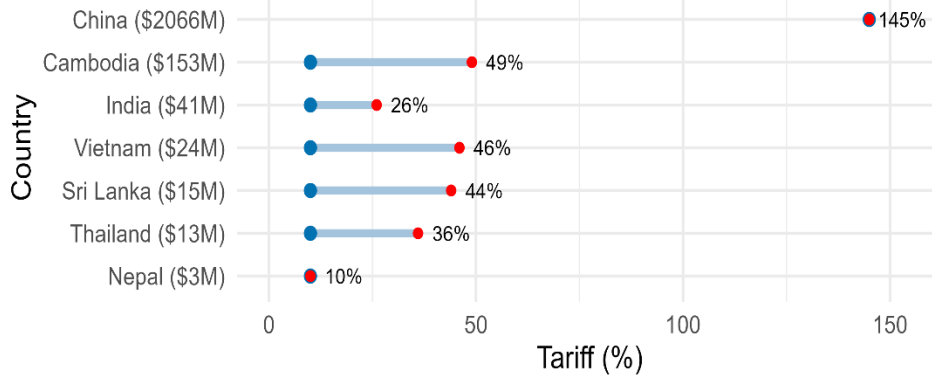
Carpets/floor covering (HTS 57019020)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

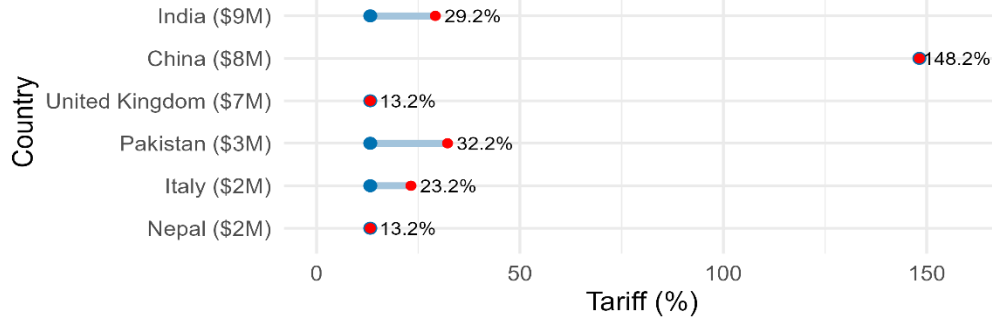
Christmas articles (HTS 95051025)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

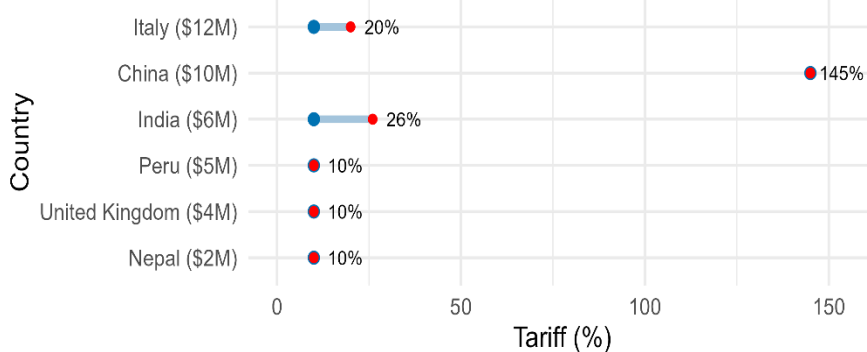
Furnishing articles (HTS 63049960)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

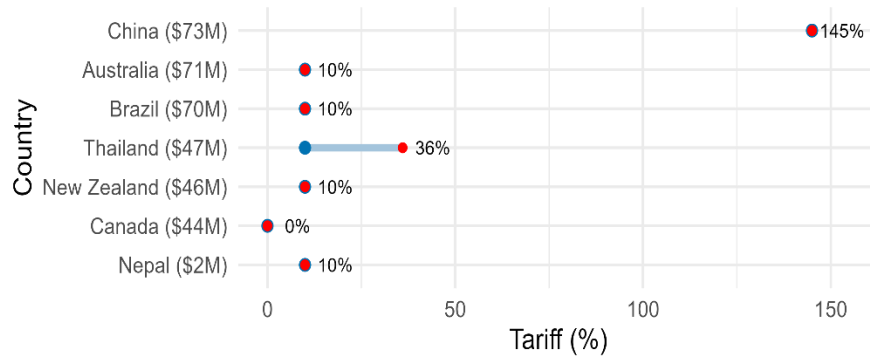
Blankets/traveling rugs (HTS 63012000)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

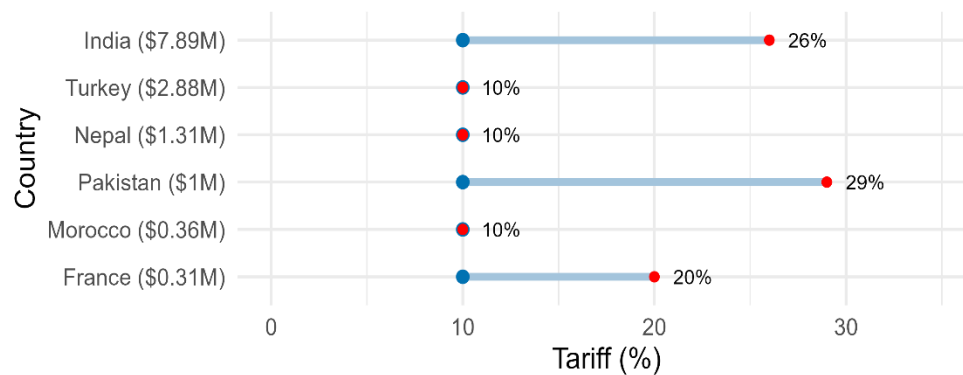
Animal products (HTS 05119930)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

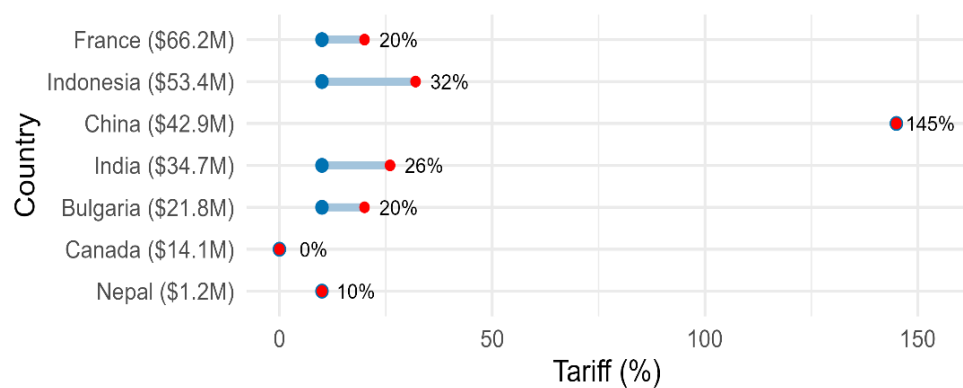
Carpets/floor covering (HTS 57011016)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

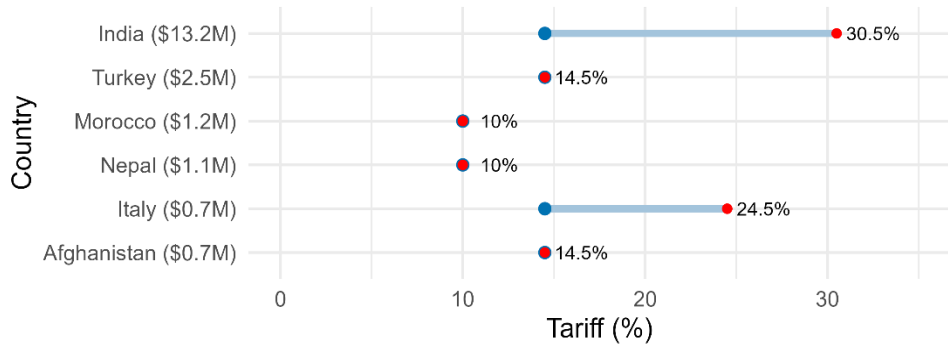
Essential oils (HTS 33012951)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

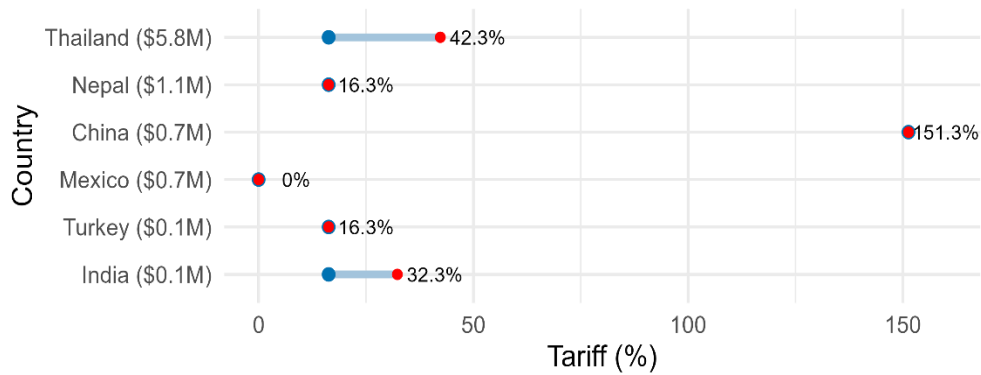
Carpets/floor covering (HTS 57011090)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

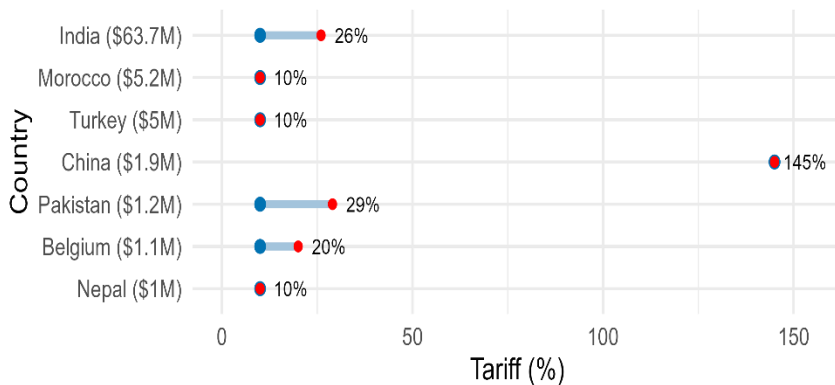
Felt (HTS 56029060)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

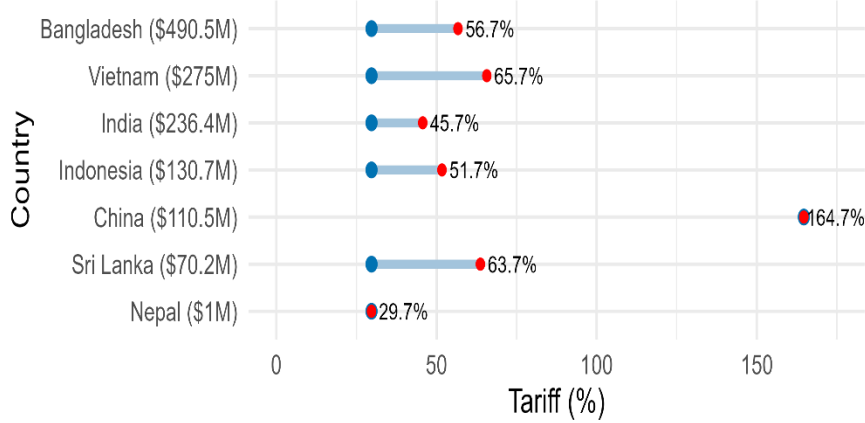
Rugs (HTS 57021090)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

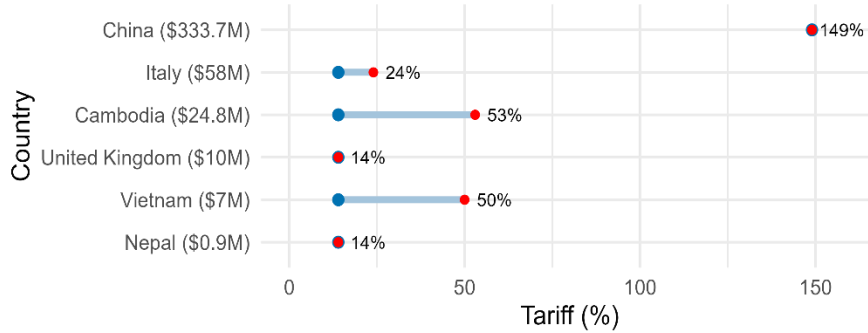
Cotton shirts (HTS 62052020)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

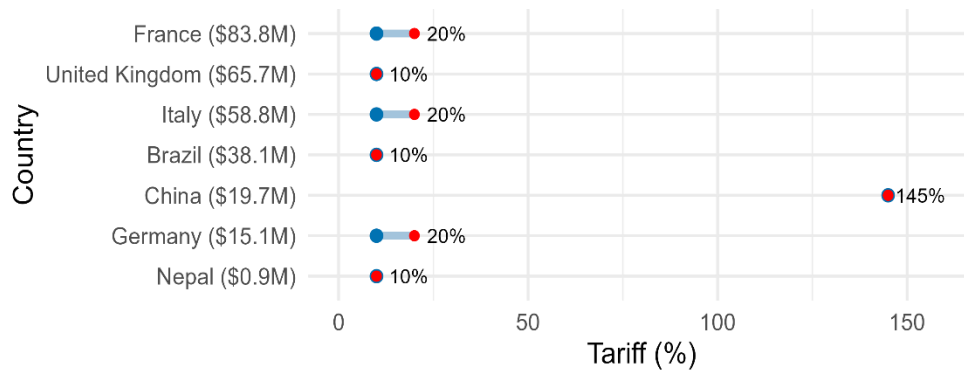
Sweaters/pullovers (HTS 61101210)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

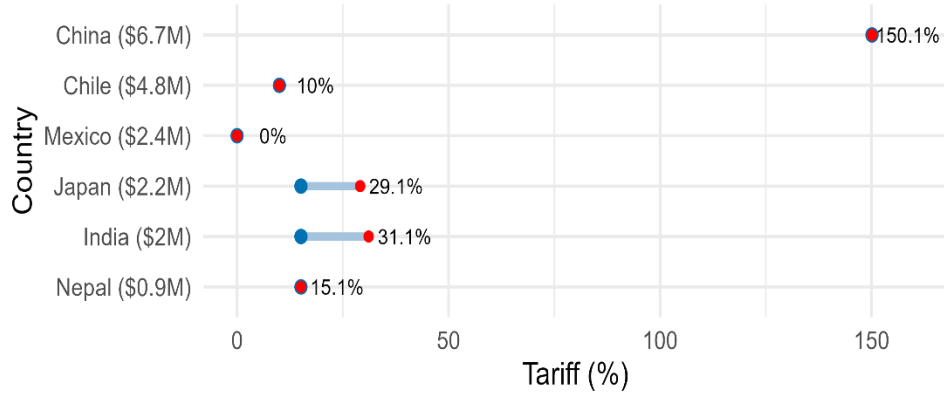
Antiques (HTS 97061000)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

Wooden tools (HTS 44170080)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

Source: Authors using trade and tariff data from the USITC and reciprocal tariff list from the White House