

Chapter 6

Bhutan, Myanmar and Nepal

By Indra Nath Mukherji

Introduction

This chapter seeks to analyse the benefits for Bhutan, Myanmar and Nepal,¹ if they decide to accede to APTA, not only in terms of goods, but also in services and investment. The chapter also: (a) examines the other bilateral and multilateral agreements that the Participating States of APTA have with potential members, including duty-free and quota-free schemes; (b) evaluates the benefits to potential Participating States of APTA from the Fourth Round concessions and beyond; and (c) analyses the advantages from liberalization of foreign direct investment (FDI) in manufacturing and services for both potential member countries and current Participating States of APTA under the Framework Agreements.

Due to unavailability of data on the HS-2012 classification for all APTA Participating States, data on HS-2007 was used. Whereas data was not available for the entire period, mirror data was used, as practiced internationally. Since the tariff concessions offered by APTA Participating States are at different levels of classification (8 to 10 digit HS level), and the trade data is available at the HS 6-digit level, the analysis was done at the HS 6-digit level and hence may be slightly on a higher side.

Following decisions at the WTO 2005 Hong Kong Ministerial Conference, the developed economies and several developing economies, including some in the Asia-Pacific region, have introduced duty-free and quota-free (DFQF) market access schemes for the least developed countries (LDCs), which are available to Bhutan, Myanmar and Nepal. China and the Republic of Korea issued notifications in this regard in 2011 and 2000, respectively (WTO, 2000 and 2011). This chapter does not compare the benefits of DFQF with APTA concessions as the criteria of origin and other aspects are different. Usually it is understood that DFQF by its nature is more liberal on tariff concessions (duty free) as against partial reduction of tariffs in APTA, however the rules of origin criteria of DFQF schemes are more restricted than the single criterion of value added. In this chapter, an attempt has been made to examine the Additional Market Access Frontier (AMAF) and Revealed Comparative Advantage (RCA) of potential member States of APTA for all products in which their world exports match the world imports by the Participating States of APTA. This has been done with a view to examining export potential and whether or not any concession has been offered on these products. This has been done keeping in mind that any country acceding to APTA could seek concessions on these products in the forthcoming Fifth Round or thereafter.

¹ Also current developing member countries of ESCAP.

The following procedure was used in analysing the effective market access frontier of potential member States of APTA for products that were offered concessions at the end of the Fourth Round:

- (a) The export capability of the Participating States of APTA was examined in terms of the country's world exports at the 6-digit level of HS-2007 classification;
- (b) Using the concordance tool available under WITS, all data generated under the 6-digit level of HS-2007 classification are transformed to corresponding HS-2012 classification under which the Fourth Round concessions have been exchanged;
- (c) Since the Fourth Round concessions have been offered at different levels of aggregation, they have been formatted uniformly at the 6-digit level for each concession offering APTA Participating States. Hereafter, all preferential market access discussions are related to this level of classification, compatible with the trade level data;
- (d) Next, the study examined the number of these products that matched the concessions offered by Participating States of APTA at the end of the Fourth Round (both general and special for LDCs), after eliminating duplicate products if any, under the two lists;
- (e) The analysis also examined the export value of the products thus identified in order to ascertain the preferential market access possibilities on these products;
- (f) Since the concession-offering country might not be importing some of the products, the analysis determined which products, if any, and deducted them from the market access frontier obtained, in order to arrive at the effective preferential access frontier of the potential member States of APTA;
- (g) In addition, the study examined whether potential member States of APTA are currently already exporting products offered concessions;
- (h) The analysis also worked out the average preferential tariffs on products having preferential access on both the concessions lists and on the effective preferential access list.

Further, an analysis was made of products that are in high demand in the Participating States of APTA, and which the potential member States of APTA also supply to the world, but have limited supply capacity. In such cases, the possibility of the importing Participating States of APTA investing in Myanmar to improve its supply capability for buy-back in the investing country or in other third countries was examined.

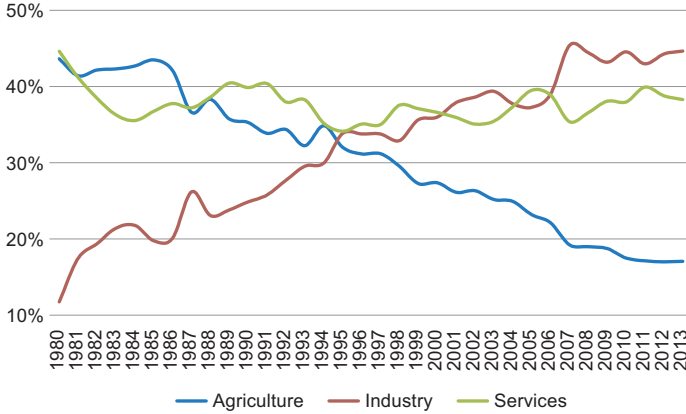
A. Bhutan

1. Domestic economy in Bhutan

Bhutan's growth story has been one of relative success when comparisons are made with the peer group of LDCs. The country's average rate of GDP growth of around 6% from 1993 to 2002 increased to 8.7% during the following 10 years. The higher growth rate was,

however, accompanied by a higher intensity of volatility. The structure of Bhutan's economy shows a steady transition away from agriculture towards manufacturing and services (figure 6.1).

Figure 6.1. Share of agriculture, industry and services in the economy of Bhutan



Source: International Monetary Fund, 2014a.

2. Current engagements with other preferential trading arrangements

Bhutan is currently engaged in two bilateral and three regional trading arrangements. At the bilateral level, the oldest and most important is one with India under the Agreement on Trade, Commerce and Transit between the Government of India and the Royal Government of Bhutan, revised on 28 July 2006 (Government of India, 2006). The Agreement provides for free trade and commerce between the two countries. The Agreement, however, provides that the Governments of the two countries may impose such “non-tariff” restrictions on entry into their respective territories of goods of third country origin as may be necessary.

The Governments of Bhutan (2009) and Bangladesh also signed a bilateral Agreement on Trade on 7 November 2009. Under the Agreement, both countries committed to exploring and undertaking all measures necessary to promote, facilitate, expand and diversify trade between them. With a view to promoting and expanding trade, the Agreement provides a schedule of 90 exportable items from Bangladesh to Bhutan and, likewise, a schedule of 90 exportable items from Bhutan to Bangladesh.

At the regional level, Bhutan's most significant trade agreement is under the South Asian Free Trade Agreement (SAFTA) for trade in goods and the SAARC Agreement on Trade in Services (SATIS), which was signed on 29 April 2010 at the sixteenth SAARC Summit.

All countries, including Bhutan, took action on the Trade Liberalization Programme (TLP) until the end of 2016 (in the case of Afghanistan, until the end of 2021). India has completed

its TLP by reducing its tariff to zero per cent for LDCs under SAFTA with effect from 1 January 2008, one year ahead of the schedule. The other non-LDCs, i.e., Pakistan and Sri Lanka, also completed their TLP for LDCs by bringing their customs tariff down in the range of zero to 5% as per agreed schedule.²

SAFTA Contracting States (SCS) are in the process of reducing their sensitive lists.³ At the end of Phase II, the number of products in the revised sensitive list of Bhutan was 156. India reduced its sensitive list for LDCs to include only 25 products, while Maldives reduced its list to 154 products. The status of the remaining SCS is awaited.⁴

Bhutan, together with other Member States of SAARC is also a member of SATIS. The Agreement has been ratified by all SCS and entered into force from 29 November 2012. It was initially expected that their final offer lists and schedule of specific commitments would be finalized and adopted at the eleventh meeting of the Expert Group held at the SAARC Secretariat on 4-5 June 2014⁵, but it has not been finalised as yet.

Bhutan is also a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) together with Bangladesh, India, Myanmar, Nepal, Sri Lanka and Thailand. A Framework Agreement for BIMSTEC Free Trade Area was signed in Phuket, Thailand in February 2004. The Framework Agreement commits the parties to negotiate Free Trade Agreements in goods, services and investments. Despite many rounds of negotiations, the FTA has not been implemented so far.

3. Trade with the Participating States of APTA

Bhutan's two-way trade with the Participating States of APTA increased from \$543 million in 2005 to \$1,216 million in 2011. Until 2009, Bhutan was having a trade surplus with the Participating States of APTA; however, from 2009, Bhutan began having trade deficit that increased rapidly in 2010 and 2011 as its imports increased sharply while its exports stagnated.

It is also apparent that Bhutan's trade with the Participating States of APTA is dominated by its trade with India. Figure 6.2 shows that Bhutan's trade with the Participating States of APTA, excluding India, was almost negligible, with two-way trade increasing from \$26 million in 2005 to \$113 million in 2011. Figure 6.2 also shows that with imports rising faster than its exports, the trade deficit with these countries has been increasing.

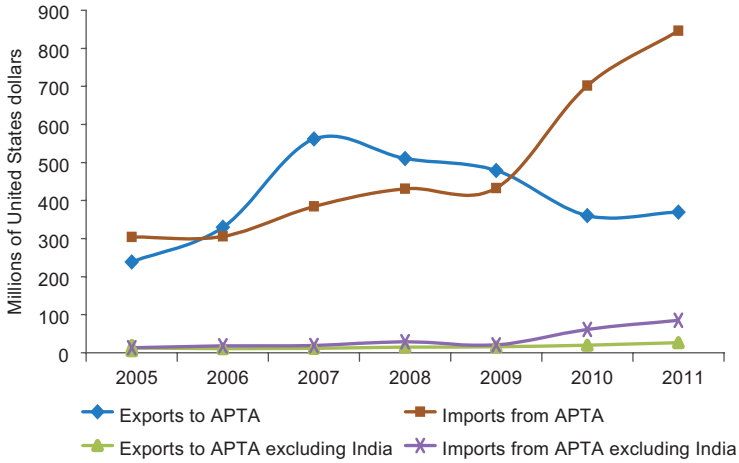
² Status Note by the South Asian Association for Regional Cooperation (SAARC) Secretariat on "Current status of economic and financial cooperation under the framework of SAARC as of 22 January 2015". Available at http://saarc-sec.org/areaofcooperation/detail.php?activity_id=50 (accessed 29 October 2014).

³ Ibid.

⁴ Ibid.

⁵ Ibid.

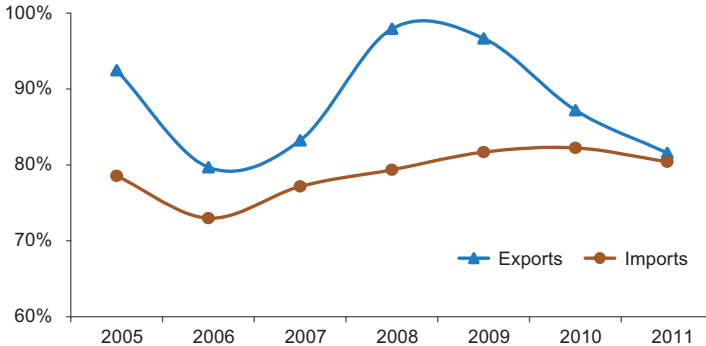
Figure 6.2. Bhutan's trade with all Participating States of APTA, including and excluding India



Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

Figure 6.3 shows that Bhutan's trade is overwhelmingly with the Participating States of APTA. Its export share of world exports declined marginally from 92% in 2005 to 82% in 2011, while its import share remained unchanged at around 80%. Thus, it is clear that there has been little diversification in Bhutan's trade with the Participating States of APTA, most of it being with India.

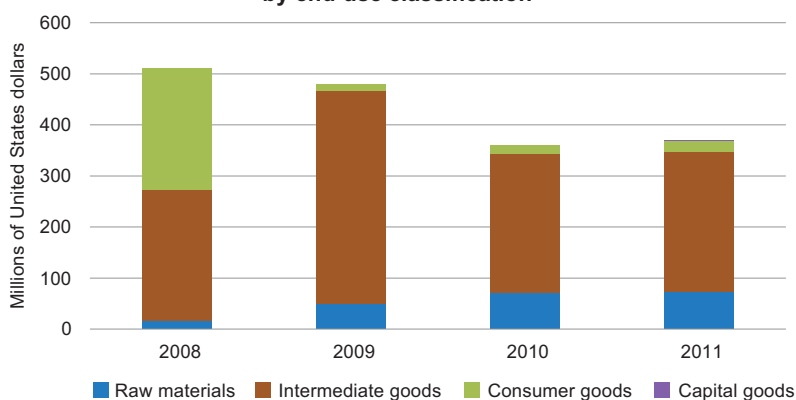
Figure 6.3. Share of APTA Participating States in Bhutan's world trade



Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

In addition to its high geographical concentration, the commodity composition of Bhutan's trade is also highly concentrated. Figure 6.4 shows that Bhutan exports mainly intermediate goods to the Participating States of APTA. Next in importance are raw materials (excluding 2008 when imports of consumer goods held the next in importance ranking). Bhutan exports very few consumer goods and practically no capital goods.

Figure 6.4. Bhutan's exports to Participating States of APTA by end-use classification



Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

To get a macro picture of Bhutan's exports to its two principal markets in the Participating States of APTA, i.e., India and Bangladesh, this section examines the same in terms of aggregated chapters, for 2011. Table 6.1 presents Bhutan's exports to India in order of importance including those with values of \$1 million and above. Table 6.2 presents Bhutan's exports to Bangladesh. Bhutan exported only one product under the HS 2-digit category to China and the Republic of Korea. The most important groups of products exported by Bhutan to India in 2011 were iron and steel (chapter 27), salt, sulphur, etc. (chapter 25), copper and copper articles (chapter 74), and other base metals (chapter 81), etc. Thus intermediate goods dominate Bhutan's exports to India.

Table 6.1. Bhutan's exports to India by chapter, 2011

Chapter	Description	Value (US\$ thousand)
72	Iron and steel	159 141
25	Salt, sulphur, earths and stone, plastering materials, lime and cement	49 423
74	Copper and articles thereof	43 406
28	Inorganic chemicals, inorganic or inorganic compounds of precious materials	31 395
81	Other base metals; cement articles thereof	13 419
39	Plastics and articles thereof	6 622
44	Wood and articles of wood; wood charcoal	6 579
07	Edible vegetables and certain roots and tubers	5 821
27	Mineral fuels, mineral oils and products of their distillation	5 419
22	Beverages, spirits and vinegar	4 346
09	Coffee, tea, mate and spices	3 223
20	Preparations of vegetables, fruits, nuts or other parts of plants	2 923
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	2 143
11	Products of milling industry, malt starches, inulin, wheat gluten	2 139
08	Edible fruit and nuts, peel of citrus fruit, melons	1 598
21	Miscellaneous edible preparations	1 061

Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

Bhutan's major exports to Bangladesh in terms of HS chapters are presented in table 6.3, which shows that salts, sulphur etc. (chapter 25), edible fruit etc. (chapter 8), coffee, mate etc. (chapter 9), and iron and steel (chapter 72) were the principal exports from Bhutan to Bangladesh.

Table 6.2 shows that Bhutan's raw material exports to Bangladesh were products contained under chapter 25. Bhutan's exports of consumer goods were under chapters 8 and 9. Bhutan's exports of products under intermediate goods were under chapter 72.

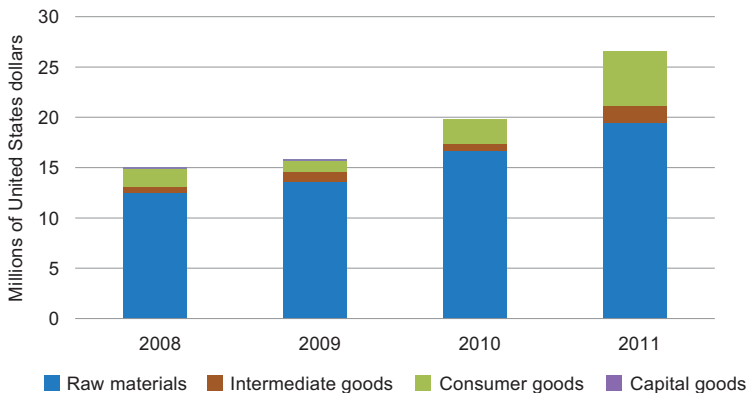
Table 6.2. Bhutan's exports to Bangladesh by chapter, 2011

Chapter	Description	Value (US\$ thousand)
25	Salt, sulphur, earths and stone, plastering materials, lime and cement	10 880
08	Edible fruits and nuts; peel of citreous fruits or melons	8 139
09	Coffee, tea, mate and spices	5 395
72	Iron and steel	1 512

Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

If India is excluded, Bhutan exports very little to the other Participating States of APTA (figure 6.5). The most important product category exported is raw materials. The exports of other product categories were miniscule. The exports were destined mainly for the Bangladesh market, since Bhutan exports to China and the Republic of Korea were of negligible value. Bhutan did not export any products to Sri Lanka.

Figure 6.5. Exports by Bhutan to the Participating States of APTA, excluding India



Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

4. Additional market access frontier with selected Participating States of APTA

This section reviews Bhutan's AMAF with Bangladesh, China and the Republic of Korea in all products at the HS 6-digit level of classification, in which Bhutan's world exports match Participating States of APTA world imports. This is done with a view to examining how Bhutan, in the event of its accession, could benefit from negotiating with the Participating States of APTA in any forthcoming rounds of negotiations.

(a) Bhutan's additional market access frontier with Bangladesh

Table 6.3 shows the top 10 products with the highest AMAF for potential export by Bhutan to Bangladesh. In 2011, Bhutan exported only two of these product groups to Bangladesh; for all the listed products Bhutan has $RCA > 1$.

Table 6.3. Top 10 products of Bhutan having AMAF with Bangladesh, 2011

(US\$ thousand)

HS Code	Description	BHU-X-WD Supply	BGD-M-WD Demand	BHU-EE-BGD existing exports	AMAF	RCA
252010	Gypsum; anhydrite	10 558	19 791	351	10 208	81
441011	Particle board	5 496	3 714	0	3 714	4
720719	Other	3 526	3 221	0	3 221	10
090831	Neither crushed nor ground	8 271	17 701	5 395	2 877	57
252329	Other	21 990	2 051	0	2 051	10
284910	Of calcium	19 863	2 043	0	2 043	144
252020	Plasters	1 544	2 094	0	1 544	9
720410	Waste and scrap of cast iron	1 378	1 676	0	1 378	2
740819	Other	42 940	1 270	0	1 270	37
391740	Fittings	999	1 500	0	999	1
Top 10 products		116 566	55 060	5 746	29 305	
All matched products (183 products at the HS 6-digit level)		250 075	4 104 854	15 319	42 674	

Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

(b) Bhutan's additional market access frontier with China

Table 6.4 presents the top 10 products with the highest AMAF for potential export by Bhutan to China in 2011. Both Bhutan and China export and import these products globally, but at present there is no existing trade between the two countries. It is notable that for all these products Bhutan has $RCA > 1$.

Table 6.4. Top 10 products of Bhutan having AMAF with China, 2011

(US\$ thousand)

HS Code	Description	BTN-X- WLD Supply	CHN-M- WLD Demand	BHU-EE- CHN existing exports	AMAF	RCA
740819	Other	42 940	661 650	0	42 940	37
252329	Other	21 990	37 074	0	21 990	10
720221	Containing by weight more than 55% of silicon	130 921	20 102	0	20 102	106
251810	Dolomite, not calcined or sintered	16 508	17 330	0	16 508	292
284920	Of silicon	11 073	14 497	0	11 073	25
811100	Manganese and articles thereof, including waste and scrap.	13 419	10 391	0	10 391	43
080510	Oranges	7 055	108 743	0	7 055	5
720610	Ingots	6 023	8 342	0	6 023	51
441011	Particle board	5 496	51 128	0	5 496	4
392099	Of other plastics	4 756	1 363 836	0	4 756	3
Top 10 products		260 182	2 293 093	0	146 334	
All matched products (213 products at the HS 6-digit level)		452 957	152 429 891	133	199 717	

Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

(c) Bhutan's additional market access frontier with the Republic of Korea

Table 6.5 shows Bhutan's AMAF for the top 10 products with highest AMAF for its potential exports to the Republic of Korea in 2011. It will be seen both Bhutan and the Republic of Korea export and import these products globally but at present there is no existing trade between them.

Table 6.5. Top 10 products of Bhutan having AMAF with the Republic of Korea, 2011

(US\$ thousand)

HS Code	Description	BTN-X- WLD supply	KOR-M- WLD demand	BHU-EE- KOR existing exports	AMAF	RCA
720221	Containing by weight more than 55% of silicon	130 921	430 799	0	130 921	106
252329	Other	21 990	30 698	0	21 990	10
811100	Manganese and articles thereof, including waste and scrap.	13 419	381 138	0	13 419	43
852380	Other	71 906	12 815	0	12 815	93
284920	Of silicon	11 073	116 392	0	11 073	25
252010	Gypsum; anhydrite	10 558	16 214	0	10 558	81
740819	Other	42 940	8 386	0	8 386	37

Table 6.5. (continued)

(US\$ thousand)

HS Code	Description	BTN-X-WLD supply	KOR-M-WLD demand	BHU-EE-KOR existing exports	AMAF	RCA
080510	Oranges	7 055	170 177	0	7 055	5
252100	Limestone flux; limestone and other calcareous stone, of a kind used for the manufacture of lime or cement.	6 326	44 081	0	6 326	67
720610	Ingots	6 023	62 244	0	6 023	51
	Top 10 products	322 212	1 272 945	0	228 567	
	All matched products (208 products at the HS 6-digit level)	452 855	32 923 425	11	291 354	

Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

5. Implications of concessions for Bhutan in the Fourth Round

(a) Concessions offered by Bangladesh

In 2011, Bhutan though had export capacity on 213 items; there were only 18 products which were exported to Bangladesh and the world. Of these, Bangladesh did not import eight products from the world, thus Bhutan will get preferential market on only 10 products.

(b) Concessions offered by China

China offered concessions on 1,331 products from its general list and on 132 products from its list for LDCs. In 2011, Bhutan exported 53 products to the world valued at \$116 million. Out of which 53 products were granted tariff concessions by China, which can benefit Bhutan's exports.

(c) Concessions offered by the Republic of Korea

Out of a total of 1,390 items at the HS 6-digit level, which the Republic of Korea has offered under concessions, Bhutan exported 39 of these products to the world which the Republic of Korea imported globally but none from Bhutan.

6. Implications of the Framework Agreement on Investment for Bhutan

The Framework Agreement on Promotion, Protection and Liberalization of Investment among the Participating States of APTA was signed on 15 December 2009. With a view to substantially increasing the flow of investments and technology into APSs by progressively reducing/eliminating unnecessary regulatory barriers and harmonizing the investment regime among them, the Framework Agreement urges the Participating States of APTA to

initiate negotiations for the joint implementation of Programmes and Action Plans as specified in Schedules I-V of the Agreement (ESCAP, 2009).

(a) Bhutan’s foreign investment policy (manufacturing sector)

In pursuance of gross national happiness (GNH), the Royal Government of Bhutan’s FDI Policy 2010 was implemented with the aim of achieving the objectives set out in the Economic Development Policy 2010. The FDI policy is focused on areas that contribute to the development of a green and sustainable economy, socially responsible and ecologically sound industries, the promotion of Brand Bhutan and a knowledge society.

(b) Bhutan’s FDI inflows

Table 6.6 presents Bhutan’s FDI inflows since 2006. FDI is not an important source of financing in Bhutan’s development. In 2012, Bhutan’s global FDI was only \$51 million, of which \$33 million were from unspecified sources. India has been the single largest investor in Bhutan since 2010.

**Table 6.6. Foreign direct investment flows into Bhutan
by geographical origin, 2006-2012**

	(US\$ million)						
Region/Economy	2006	2007	2008	2009	2010	2011	2012
World	71	-75	-1	25	26	55	51
Europe				7	8	7	4
Developing economies	71	-75	-1	18	18	47	13
Asia	71	-75	-1	18	18	42	13
South-East Asia	70	-76	-4	14	3	22	-1
Singapore	70	-76	-4	14	-1	21	-2
Thailand					4	1	1
South Asia	1	1	2	3	16	20	14
India	1	1	2	3	16	20	14
Samoa						4	
Unspecified						2	33

Source: UNCTAD, available at www.unctad.org/sections/dite_dir/docs/wui11_fs_bt_en.pdf; and UNCTAD, *World Investment Report 2011*, available at www.unctad.org/wir and www.unctad.org/fdistatistics (accessed 27 November 2014).

Table 6.7 presents Bhutan’s inward direct investment position as of end-2012. Bhutan’s FDI was \$143 million, of which its net inward equity position was \$116 million. The top investors were India, Singapore, United States, United Kingdom and Japan. As the only Participating State of APTA, India was the largest investor.

**Table 6.7. Inward direct investment positions of Bhutan,
as of end-2012**

(US\$ million)

Investment from:	Inward direct investment positions	Inward equity positions (net)		Inward debt instruments positions				Of which total inward direct investment with fellow enterprises abroad			
				Net	Net debt		Gross debt instruments		Net	Total equity and debt	
					Inward debt: Resident financial intermediaries (net)	Inward debt: Resident enterprises that are not financial intermediaries (net)	Inward debt instruments liabilities of DIE to DI (gross)	Inward debt instruments assets of DIE in DI (gross) (reverse investment)		Inward direct investment with fellow enterprises (gross liabilities)	Inward direct investment with fellow enterprises (gross assets)
Total investment	143	116	28			28	0				
India	51	51	0			0	0				
Singapore	21	9	12			12	0				
United States	6	6	0			0	0				
United Kingdom	3	3	0			0	0				
Japan	1	1	0			0	0				
Others	61	56									

Source: IMF Coordinated Direct Investment Survey, available at www.cdis.imf.org (accessed 18 October 2014).

(c) FDI outflows of Participating States of APTA

Bhutan has been keen to attract FDI in recent years. Table 6.8 shows that three of the seven investing Participating States of APTA have been large investors abroad. China, the Republic of Korea and India were the largest exporters of FDI during 2011 and 2012. The number of affiliates and their parents was the largest in the Republic of Korea, followed by India and China.

Table 6.8. Outward investment of APTA Participating States

Country	Foreign direct investment					Affiliates abroad	
	Outward flow		Outward stock			Number of parent company	Number of affiliates
	Year	Value (US\$ million)	Year	Value (US\$ million)	Change p.a. since 2010 (%)		
China	2011	74 654	2011	424 780	33.9	152	305
Republic of Korea	2012	33 129	2013	219 050	15.2	1 064	2 185
India	2013	1 679	2013	119 838	7.3	669	1 288
Sri Lanka	2013	65	2013	569	14.4	9	16
Bangladesh	2013	32	2013	130	9.7	4	4
Lao PDR	2013	-7	2011	12	1.8	0	0

Source: International Trade Centre (ITC), Investment Map (accessed on 25 October 2015).

(d) Trade-investment linkage

Bhutan's intra-industry trade with India

Intra-industry trade (IIT) shows that products exported by one country are also imported by the same country. In such situations it may be preferable for a country that has greater supply capability to attract FDI from a capital surplus country to set up a plant in order to not only meet domestic demand in the investing country but also for buy-back in the host country. Since India is a capital-exporting country, it can invest in Bhutan for buy-back for its home market. Table 6.9 indicates some possibilities in this regard for products with high demand in India.

Table 6.9. Bhutan's intra-industry trade with India, 2011

(US\$ thousand; IIT more than \$1 million; IIT >= 20%)

HS Code	Description	BTN-M-IND	BTN-X-IND	BTN-IND IIT trade	IIT-BTN-IND (%)
210610	Protein concentrates and textured protein substances	265	778	1 042	51
220300	Beer made from malt	6 390	953	7 344	26
252210	Quicklime	2 553	382	2 934	26
252310	Cement clinkers	1 521	934	2 455	76
252329	Other	7 963	21 990	29 953	53
261900	Slag, dross (other than granulated slag), scalings and other waste from the manufacture of iron or steel	2 330	418	2 749	30
270119	Other coal	10 203	1 490	11 692	25
340119	Soap, other	787	241	1 028	47
391729	Of other plastics	1 469	513	1 981	52
391740	Fittings	380	999	1 379	55
701090	Rear view mirror-other	3 089	424	3 513	24
720410	Waste and scrap, of cast iron	11 106	1 378	12 485	22

Source: Estimated from United Nations COMTRADE database on the World Bank WITS platform.

7. Framework Agreement on Services: Implications for Bhutan

Recognizing the growing importance of trade in services, the Framework Agreement on the Promotion and Liberalization of Trade in Services among the Participating States of APTA was signed on 24 August 2011. The principal objectives of the Agreement are to enhance cooperation in services among the Participating States of APTA in order to improve their competitiveness as well as help them diversify their production capacity and supplies among each other. To this end, the Participating States of APTA would need to substantially reduce restrictions on their services trade with each other (ESCAP, 2009).

(a) Bhutan's foreign direct investment policy (services)

Bhutan's FDI also permits employment of expatriates. A business bringing FDI inflows to Bhutan will be entitled to the required number of work permits for professional, managerial and technical expatriates if Bhutanese with requisite qualifications and experience are not available during the initial phase. The business engaged in the provision of R&D services, the operation of head offices, and the provision of health, education and similar services will be entitled to additional permits for professional, managerial and technical expatriates, based on the requirement of the business.

Table 6.10 presents the priority list of services where, in education, hotel resorts, infrastructure facilities, a minimum of Nu 200 million is required to be invested with a 100% share in equity. A 100% investment share is also permitted for research and development, head office services, IT and IT-enabled services (operating under IT parks and SEZs). Investment in health and education is allowed in high-end sectors. The PPP model is provided for infrastructure, waste management, water supply, technical and vocational education, transport and related services. Except for consulting and financial services, in all other sectors a 74% equity share is permitted.

Table 6.10. Schedule II: Services – priority list of services

No.	Sector	Minimum project cost (Nu million)	Maximum foreign investment equity (%)	Conditions/Requirements
1	Education	200	100	High end
2	Health	200	100	High end
3	Hotel resorts (5-star)	200	100	International reputed hotel chain
4	Infrastructure facilities	200	100	PPP model wherein the facility returns to the Government on expiry of term.
5	Research and development	10	100	Established firms employing a minimum of 5 experts.
6	Head office services	5	100	None
7	IT/ITES – under IT parks and SEZs	5	100	None
8	IT/ITES – outside IT parks and SEZs	25	74	None

Table 6.10. (continued)

No.	Sector	Minimum project cost (Nu million)	Maximum foreign investment equity (%)	Conditions/Requirements
9	Construction services	100	74	None
10	Waste management	25	74	PPP model wherein the facility returns to the Government on expiry of term.
11	Water supply	25	74	PPP model wherein the facility returns to the Government on expiry of term.
12	Four-star hotels	25	74	None
13	Technical and vocational education	25	74	PPP model wherein the facility returns to the Government on expiry of term.
14	Transport and related services	25	74	PPP model wherein the facility returns to the Government on expiry of term
15	Consultancy services	25	51	Minimum of five experts to be employed
16	Financial services	25	51	As per Financial Services Act

Source: Royal Government of Bhutan Ministry of Economic Affairs, Foreign Direct Investment Policy, 2010, available at www.gnhc.gov.bt/wp-content/uploads/2012/04/FDI-policy.pdf (accessed 16 October 2014). For details see Annex I, table 2.

(b) Structure of Bhutan's services imports

Table 6.11 lists the services imported by Bhutan from 2009 to 2013. Bhutan's services imports increased from \$99 million in 2009 to \$178 million in 2013. The most important services imports by Bhutan were travel, followed by construction services, transportation, other business services, government and insurance services, etc.

Table 6.11. List of services sector imports by Bhutan

(US\$ thousand)

Code	Service label	2009	2010	2011	2012	2013
'200	Total services	98 595	140 102	176 575	196 613	177 507
'236	Travel	32 874	41 388	56 164	68 339	63 700
'249	Construction services	22 191	22 192	26 680	30 732	50 997
'205	Transportation	26 505	51 573	61 608	59 850	32 141
'268	Other business services	7 764	12 902	17 807	17 929	17 685
'291	Government services not indicated elsewhere	4 071	4 967	5 253	8 793	6 110
'253	Insurance services	2 282	4 615	5 708	5 880	3 588
'245	Communications services	1 609	1 756	2 182	2 652	2 511
'262	Computer and information services	609	477	756	2 059	413
'260	Financial services	321	65	194	313	323
'266	Royalties and license fees	370	168	221	65	39

Source: www.trademap.org/tm_light/Country_SelServiceCountry_TS.aspx (accessed 8 November 2014).

The World Bank estimate for the value and structure of imports of services by Participating States of APTA and the structure and value of Bhutan's imports of the same is shown in Table 6.12. Three Participating States of APTA have considerable export potential for meeting Bhutan's commercial services requirements.

Table 6.12. Structure of services exports from Participating States of APTA to the world and Bhutan's services imports from the world

Participating States of APTA	Commercial service exports (US\$ million)		Transport (% of total)		Travel (% of total)		Insurance and financial services (% of total)		Computer information, communications and other commercial services (% of total)	
	2005	2012	2005	2012	2005	2012	2005	2012	2005	2012
China	88 655	195 312	17	20	33	26	1	3	49	52
Republic of Korea	48 327	109 619	49	37	12	13	4	3	35	46
India	51 851	145 030	13	12	14	12	4	5	69	70
Structure of Bhutan's commercial imports										
	2005	2012	2005	2012	2005	2012	2005	2012	2005	2012
Bhutan	61	129	4	6	37	53	3	2	57	39

Source: World Bank (2015a and 2015b), World Development Indicators, available at www.worldbank.org/table/4.6 and www.worldbank.org/table/4.7 (accessed 11 November 2014).

B. Myanmar

1. Domestic economy in Myanmar

The Government of Myanmar has initiated a wide range of reforms to open its economy to foreign trade and investment. As set out in the Framework for Economic and Social Reform,⁶ the reform programme includes:

“... budgetary and tax reforms; monetary and financial sector reforms; liberalisation of trade and investment; food security and agricultural growth; land issues; and improvements in infrastructure availability and quality. The country stands to benefit from greater global and regional economic integration, with its rich natural resources base, young labour force and strategic geographic location between India and China” (OECD, 2014).

On average, Myanmar's economy grew at 5.1% between 2005/06, and subsequently at an average of 6.5% since the transition. All sectors – manufacturing, construction and services – have registered strong performance since the opening up of the economy. Nevertheless

⁶ Framework for Economic and Social Reforms Policy Priorities for 2012-2015 towards the Long-Term Goals of the National Comprehensive Development Plan, available at www.themimu.info/sites/themimu.info/files/documents/Ref%20Doc_FrameworkForEconomicAndSocialReform2012-15_Govt_2013%20.pdf.

Myanmar's economic structure still resembles that of a lower income economy. In 2012, agriculture, industry and services accounted for 36.4%, 26.3% and 37.3% of the country's GDP, respectively (World Bank, 2014).

Real GDP growth rate is assumed to average about 7.8% over the medium term, driven by commodity exports and higher investment due to the implementation of Myanmar's structural reform plans, supported by the international community and the suspension of sanctions. Over the long term, real GDP growth rate is expected to average 7.4%, supported by prudent macroeconomic policies and robust FDI and related investments. Inflation is projected to average 6.2% per financial year in the medium term and is expected to continue that trend (IMF, 2015).

2. Current engagements with other preferential trading arrangements

(a) ASEAN Free Trade Area

Both Myanmar and the Lao People's Democratic Republic are original signatories of the ASEAN Free Trade Area. The other signatories include Brunei Darussalam, Cambodia, Singapore, Thailand and Viet Nam (WTO, undated). The ASEAN Free Trade Area (AFTA) has now virtually been established. ASEAN members have made significant progress in the lowering of intraregional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme for AFTA. More than 99% of the products in the CEPT Inclusion List of ASEAN-6, comprising Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand, have been brought down to the zero-5% tariff range.

ASEAN's least developed country members, i.e., Cambodia, the Lao People's Democratic Republic and Myanmar, are not far behind in the implementation of their CEPT commitments with almost 80% of their products having been moved into their respective CEPT Inclusion List.

(b) ASEAN-Plus Agreements

The ASEAN-China FTA entered into force on 1 January 2005 for goods and in July 2007 for services. The FTA has been targeted to come into force in 2010 for the six original ASEAN members (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and in 2015 for the other four (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam). The Government of the Republic of Korea and nine members of ASEAN (Brunei Darussalam, Cambodia, Indonesia, the Lao People's Republic, Malaysia, Myanmar, the Philippines, Singapore and Viet Nam) signed an FTA in May 2006, which took effect in July 2006 and the Trade in Goods chapter of the ASEAN-Korea Free Trade Agreement (AKFTA) entered into force in June 2007. It was agreed that the ASEAN-6 and the Republic of Korea would eliminate tariffs on 90% of all products by 2010. Thailand signed the Accession Protocols to the Trade in Goods and the Trade in Services Agreements under AKFTA on 27 February 2009.⁷

⁷ See www.fta.gov.sg/fta_akfta.asp?hl=3on (accessed 2 February 2015).

The ASEAN India Free Trade Agreement on Trade in Goods (AIFTA-TIG) was signed on 13 August 2009 by the ASEAN Economic Ministers and India's Minister of Commerce and Industry in Bangkok. AIFTA-TIG entered into force on 1 January 2010 for goods. As of August 2011, Brunei Darussalam, India, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam had implemented the Agreement.⁸

(c) Global System of Trade Preferences among developing countries

The Global System of Trade Preferences (GSTP) is a preferential trading arrangement for developing countries at the global level. It has been in operation since 19 April 1989, notified under the enabling clause of WTO. Myanmar is one of the original signatories to GSTP; the other current signatories include: Algeria; Argentina; Bangladesh; Benin; Bolivia; Brazil; Cameroon; Chile; Colombia; Cuba; Ecuador; Egypt; Ghana; Guinea; Guyana; India; Indonesia; Islamic Republic of Iran; Iraq; Democratic People's Republic of Korea; Republic of Korea; Libya; Malaysia; Mexico; Morocco; Mozambique; Nicaragua; Nigeria; Pakistan; Peru; the Philippines; Singapore; Sri Lanka; Sudan; Tanzania; Thailand; the former Yugoslav Republic of Macedonia; Trinidad and Tobago; Tunisia; Venezuela, Bolivarian Republic of Venezuela; Viet Nam; and Zimbabwe. Thus, under GSTP, Myanmar can exchange trade preferences with all members excluding China and the Lao People's Democratic Republic.⁹

Most of Myanmar's linkages with the Participating States of APTA are through multilateral trading arrangements such as ASEAN or GSTP. The activities of the latter arrangement have, however, remained dormant for quite some time.

(d) Myanmar in BIMSTEC

Myanmar is also a member of BIMSTEC, together with Bangladesh, India, Nepal, Sri Lanka and Thailand.

(e) Duty-free and quota-free schemes

Recognizing that unilateral and preferential market access is a crucial factor in enabling LDCs to participate in regional and global trade, the Generalized System of Preferences (GSP) was formulated by the developed countries for exports from developing and least developed countries. Most developed countries have already met the 97% target. Some Participating States of APTA, i.e., China, India and the Republic of Korea, have introduced duty-free and quota-free schemes.

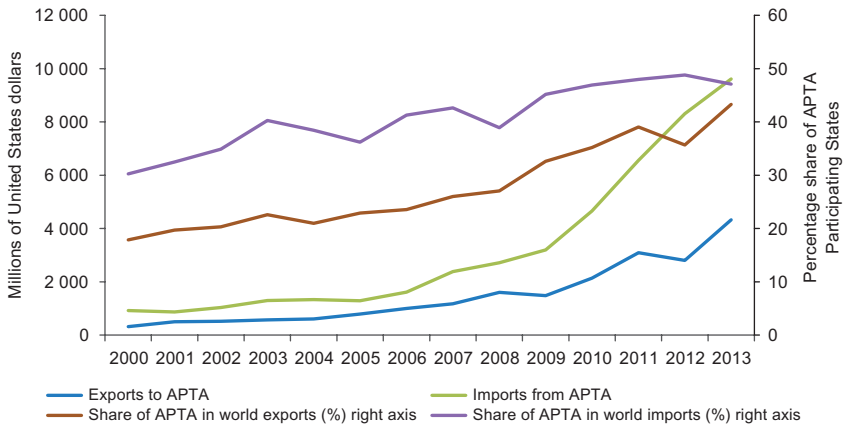
⁸ See www.fta.gov.sg/fta_C_aifta.asp?hl=46 (accessed 2 February 2015).

⁹ See <http://rtais.wto.org/UI/PublicShowRTAIDCard.aspx?rtaid=146&lang=1&redirect=1> on (accessed 2 February 2015).

3. Trade with Participating States of APTA

Figure 6.6 presents Myanmar's exports and imports to the Participating States of APTA in relation to the country's world trade. Myanmar's exports to the Participating States of APTA increased from \$318 million in 2000 to \$4,324 million in 2013. During that period, Myanmar's imports from Participating States of APTA increased from \$918 million to \$9,614 million. The pace of increase in Myanmar's trade with the Participating States of APTA was more rapid than its trade with the world. Consequently, during 2000-2013, the share of the Participating States of APTA in Myanmar's exports increased from 18% to 43% while the share of imports increased from 30% to 47%. Throughout that period, Myanmar had a trade deficit with the Participating States of APTA that increased from \$600 million in 2000 to \$5,290 million in 2013.

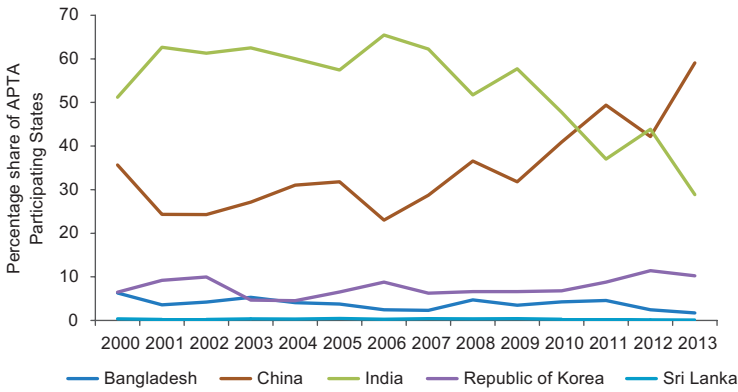
Figure 6.6. Myanmar's exports to, and imports from Participating States of APTA, and share of world trade



Source: Estimated from International Monetary Fund Direction of Trade Statistics, available at <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85> (accessed 21 February 2013).

Figure 6.7 presents the shares of individual Participating States of APTA in Myanmar's total exports to the regional grouping. The share of India in Myanmar's total exports to the region declined steadily from 51.2% in 2000 to 28.8% in 2013. China's share, which was 35.6% in 2000, increased to 59.1% in 2013. In 2010, China overtook India as Myanmar's most important market in the region. In 2013, while China's market share was 59.1%, India's market share was 28.8%. During 2000-2013 the share of Bangladesh in Myanmar's total exports to other Participating States of APTA increased from 6.5% to 10.3%. Throughout that period the share of Sri Lanka was negligible.

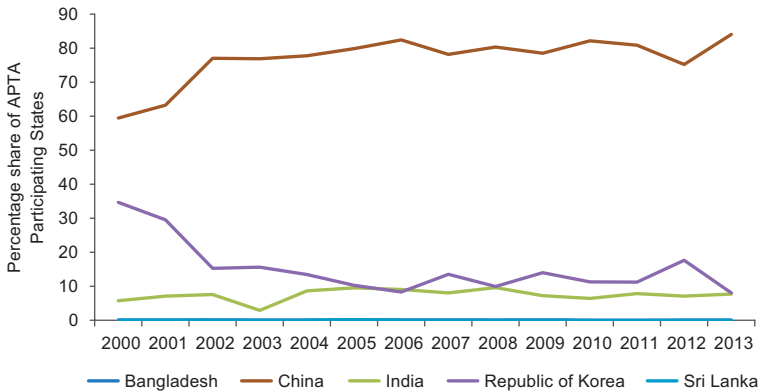
Figure 6.7. Share of Participating States of APTA in Myanmar's total APTA exports



Source: Estimated from IMF Direction of Trade Statistics, available at <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85> (accessed 21 February 2013).

Figure 6.8 presents the share of individual Participating States of APTA in Myanmar's total imports from the group. Myanmar's principle source of imports was from China, the share having gone up steadily from 59% in 2000 to 84% in 2013. The share of India remained steady to around 7%-9% during that period. The share of the Republic of Korea declined from 34% to 8% during the same period.

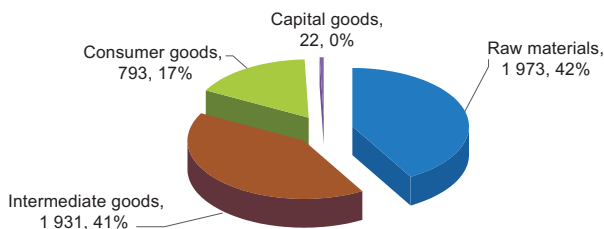
Figure 6.8. Share of Participating States of APTA in Myanmar's total APTA imports



Source: Estimated from IMF Direction of Trade Statistics, available at <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85> (accessed 21 February 2013).

Figure 6.9 shows that raw materials and intermediate goods formed the bulk of Myanmar's exports to the Participating States of APTA in 2013, accounting for 42% and 41%, respectively, of the country's total exports to the group, while consumer goods accounted for 17%. Myanmar's exports of capital goods were negligible.

Figure 6.9. Exports from Myanmar to Participating States of APTA by broad categories



Note: Based on United Nations COMTRADE partner countries' data using WITS platform. Data for the Lao People's Democratic Republic and Bangladesh are not available.

To get a macro picture of Myanmar's exports to its three principal markets in the Participating States of APTA, i.e., China, India and the Republic of Korea, this subsection examines the same in terms of aggregated Chapters for 2013. Table 6.13 presents Myanmar's exports with values of \$1 million and above in order of importance.

Marine products (chapter 3) and products of animal origin (chapter 5) were the most important product categories exported by Myanmar to India in 2013.

Products of animal origin (chapter 5), live trees and other plants (chapter 6), edible vegetables and roots (chapter 7), and edible fruit and nuts (chapter 8) were the most important product groups exported by Myanmar to China in 2013.

Fish and crustaceans (chapter 3), products of animal origin (chapter 5), and live trees and other plants (chapter 6) were the most important product groups exported by Myanmar to the Republic of Korea in 2013.

In all cases, products contained under live animals and animal products (section 1, chapters 1-5) as well as those contained under vegetable products (section 2, chapters 6-14) were the most important ones exported by Myanmar to its most important markets in the Participating States of APTA.

Table 6.13. Exports by Myanmar to major APTA markets, 2013

		(US\$ million)
Chapter	Product description	Value
India		
03	Fish and crustaceans, molluscs	735
05	Products of animal origin, not elsewhere specified	611
07	Edible vegetables and certain roots	7
08	Edible fruit and nuts; peel of citrus	4
09	Coffee, tea, mate and spices	3
12	Oil seeds and oleaginous fruit	2
13	Lac; gums, resins and other vegetables	1
14	Vegetable plaiting materials; vegetables	1

Table 6.13. (continued)

(US\$ million)

Chapter	Product description	Value
China		
05	Products of animal origin, not else where	621
06	Live trees and other plants; bulbs	434
07	Edible vegetables and certain roots	202
08	Edible fruit and nuts; peel of citrus fruit	123
09	Coffee, tea, mate and spices	66
10	Cereals	55
11	Products of the milling industry	36
12	Oil seeds and oleaginous fruit	36
14	Vegetable plaiting materials; vegetable	21
15	Animal or vegetable fats and oils	21
17	Sugars and sugar confectionery	17
19	Preparations of cereals, flour	13
22	Beverages, spirits and vinegar	12
23	Residues and waste from the food	10
Republic of Korea		
03	Fish and crustaceans, molluscs	336
05	Products of animal origin, not else	55
06	Live trees and other plants; bulbs	51
07	Edible vegetables and certain roots	9
08	Edible fruit and nuts; peel of citrus fruit	8
09	Coffee, tea, mate and spices	7
10	Cereals	5
12	Oil seeds and oleaginous fruit	4
13	Lac; gums, resins and other vegetables	3
14	Vegetable plaiting materials; vegetable	2
15	Animal or vegetable fats and oils	2
	Preparations of meat, of fish	1
17	Sugars and sugar confectionery	1
18	Cocoa and cocoa preparations	1
20	Preparations of vegetables, fruit	1

Source: Estimated from United Nations COMTRADE partner country data on the World Bank WITS platform.

4. Additional market access frontier with selected Participating States of APTA

Prior to examining the possible benefit to Myanmar with regard to the Fourth Round concessions exchanged by the Participating States of APTA, this subsection examines Myanmar's AMAF with Bangladesh, China, India, Sri Lanka and the Republic of Korea in all products at the HS 6-digit level of classification in which Myanmar's world exports match the Participating States of APTA world imports. This is done with a view to examining how Myanmar, in the event of its accession to APTA, could benefit from negotiating with the Participating States of APTA in any forthcoming rounds of negotiations. The procedure for analysing the effective market access frontier of Myanmar for products offered under concessions at the end of the Fourth Round is described in the methodology section of this report.

(a) Myanmar's additional market access frontier with Bangladesh

Table 6.14 shows that Myanmar's world exports matched Bangladesh's world imports in 1,549 products, the AMAF of which was \$416 million in 2011. Of the top 10 products with an AMAF value of \$237 million, four products were being exported to Bangladesh.

Table 6.14. Top 10 products of Myanmar having AMAF with Bangladesh, 2011

(US\$ thousand)

HS Code	Description	MMR-X-WD	BGD-M-WD	MMR-EE-BGD	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	179 073	794 010	83 954	95 119	5
071320	Chickpeas (garbanzos)	49 996	73 627	1 850	48 146	18
740311	Cathodes and sections of cathodes	37 601	68 852		37 601	2
440349	Other	520 743	60 186	49 040	11 146	2 057
100590	Other	46 905	11 112		11 112	0
440399	Other	452 321	24 320	14 355	9 966	530
900211	For cameras, projectors or photographic enlargers or reducers	8 192	7 745		7 745	1
620342	Of cotton	43 822	6 787		6 787	5
071310	Peas (<i>Pisum sativum</i>)	4 660	113 724		4 660	2
110814	Manioc (cassava) starch	5 277	4 569		4 569	2
	Top 10 products	1 348 591	1 164 933	149 199	236 850	
	All matched products (1,549 products at the HS 6-digit level)	4 873 967	16 446 105	153 835	416 511	

Source: Estimated from United Nations COMTRADE partner country data on the World Bank WITS platform.

(b) Myanmar's additional market access frontier with India

Table 6.15 shows that Myanmar's world exports matched India's world imports in 1,578 products with an AMAF of \$1,727 million. Of the top 10 products having an AMAF of \$827 million, six products were being exported to India.

Table 6.15. Top 10 products of Myanmar having AMAF with India, 2013

(US\$ thousand)

HS Code	Description	MMR-X-WD	IND-M-WD	MMR-EE-IND	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
440349	Other	520 743	750 992	363 528	157 215	2 057
400121	Smoked sheets	136 100	338 423	162	135 938	61
440399	Other	452 321	1 181 926	353 676	98 645	530
400122	Technically specified natural rubber (TSNR)	72 506	519 428		72 506	8
071331	Beans of the species <i>Vigna mungo</i> (L.) Hepper or <i>Vigna radiata</i> (L.) Wilczek	429 610	469 768	360 467	69 143	2 318
260111	Non-agglomerated	102 211	67 756		67 756	1
440729	Other	67 364	60 329	14	60 315	220
710399	Other	724 458	56 068		56 068	190
710310	Unworked or simply sawn or roughly shaped	55 365	106 307		55 365	1 073
071360	Pigeon peas (<i>Cajanus cajan</i>)	219 343	295 665	165 258	54 086	1 735
	Top 10 products	2 780 022	3 846 662	1 243 105	827 037	
	All matched products (1, 578 products at the HS 6-digit level)	5 119 555	155 469 491	1 357 402	1 727 628	

Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

(c) Myanmar's additional market access frontier with China

Table 6.16 Table that Myanmar's world exports matched China's world imports in 1,582 products, the AMAF value of which was \$4,779 million in 2013. Of the top 10 products with an AMAF value of \$4,612 million, all but one product were being exported to China.

Table 6.16. Top 10 products of Myanmar having AMAF with China, 2013

(US\$ thousand)

HS Code	Description	MMR-X-WD	CHN-M-WD	MMR-EE-CHN	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
271121	Natural gas	3 074 830	9 915 334	141 243	2 933 587	30
710399	Other	724 458	2 760 616	246 845	477 612	190
440349	Other	520 743	767 461	149 530	371 214	2 057
071360	Pigeon peas (<i>Cajanus cajan</i>)	219 343	214 485	1 292	213 194	1 735
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	179 073	848 707		179 073	5
620193	Of man-made fibres	141 353	256 320	4 479	136 874	44
400121	Smoked sheets	136 100	932 516	56 828	79 273	61
620293	Of man-made fibres	86 025	168 622	8 609	77 416	24
030616	Cold-water shrimps and prawns (<i>Pandalus spp.</i> , <i>Crangon crangon</i>)	85 759	343 583	10 975	74 784	12
440399	Other	452 321	3 162 036	382 712	69 609	530
	Top 10 products	5 620 006	19 369 679	1 002 511	4 612 637	
	All matched products (1,582 products at the HS 6-digit level)	8 388 377	1 283 924 526	2 837 181	4 778 913	

Source: Estimated from United Nations COMTRADE data on the World Bank WITS platform.

(d) Myanmar's additional market access frontier with the Republic of Korea

Table 6.17 shows that Myanmar's world exports matched the Republic of Korea's world imports in 1,583 products, the AMAF on which was \$1,933 million in 2013. Of the top 10 products with an AMAF value of \$786 million, five products were being exported to the Republic of Korea.

Table 6.17. Top 10 products of Myanmar having AMAF with the Republic of Korea, 2013

(US\$ thousand)

HS Code	Description	MMR-X-WD	Rep. of Korea-M-WD	MMR-EE-Rep. of Korea	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	179 073	175 938	0	175 938	5
260111	Non-agglomerated	102 211	7 818 283		102 211	1
030616	Cold-water shrimps and prawns (<i>Pandalus spp.</i> , <i>Crangon crangon</i>)	85 759	310 818	702	85 057	12
400121	Smoked sheets	136 100	83 635	12	83 623	61
400122	Technically specified natural rubber (TSNR)	72 506	936 947	8 228	64 277	8
640399	Other	66 030	446 553	2 544	63 486	5
030323	Tilapias (<i>Oreochromis spp.</i>)	63 114	770 140	667	62 447	17
900190	Other	52 812	431 305		52 812	7
260200	Manganese ores and concentrates, including ferruginous manganese ores and concentrates with a manganese content of 20% or more, calculated on the dry weight.	49 818	364 891		49 818	14
100590	Other	46 905	2 673 497	0	46 905	0
	Top 10 products	854 328	14 012 008	12 154	786 574	
	All matched products (1,583 products at the HS 6-digit level)	8 265 259	215 151 308	377 318	1 933 197	

Source: Estimated from United Nations COMTRADE partner country data on the World Bank WITS platform.

(e) Myanmar's additional market access frontier with Sri Lanka

Table 6.18 shows that Myanmar's world exports matched Sri Lanka's world imports in 1,571 products, the AMAF of which was \$364 million in 2013. Of the top 10 products with an AMAF value of \$153 million, only two products were being exported to Sri Lanka.

Table 6.18. Top 10 products of Myanmar having AMAF with Sri Lanka, 2013

(US\$ thousand)

HS Code	Description	MMR-X-WD	LKA-M-WD	MMR-EE-LKA	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
440729	Other	67 364	31 152	137	31 016	220
400121	Smoked sheets	136 100	21 463		21 463	61
071320	Chickpeas (garbanzos)	49 996	20 391	486	19 905	18
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	179 073	17 528		17 528	5
620342	Of cotton	43 822	16 038		16 038	5
740311	Cathodes and sections of cathodes	37 601	11 726		11 726	2
710391	Rubies, sapphires and emeralds	10 008	10 318		10 008	22
230120	Flour, meal and pellets, of fish or of crustaceans, molluscs or other aquatic invertebrates	9 339	9 751		9 339	4
030323	Tilapias (<i>Oreochromis spp.</i>)	63 114	9 208		9 208	17
440290	Other	32 951	6 687		6 687	82
	Top 10 products	629 367	154 262	623	152 917	
	All matched products (1,571 products at the HS 6-digit level)	8 214 782	8 374 220	8 840	363 953	

Source: Estimated from United Nations COMTRADE partner country data on the World Bank WITS platform.

(f) Summary of Myanmar's additional market access frontier possibilities

The above analysis reveals that around 1,500-1,600 products were imported by the Participating States of APTA from the world. In 2013, the AMAF on all products for Myanmar was highest for China followed by the Republic of Korea and India. It is also notable that Myanmar has a favourable RCA for most products it exports to the world. Hence, in the event of accession to APTA, Myanmar may offer a request list for concessions on all matched products with high AMAF for which it not a beneficiary of concessions conceded under the Fourth Round.

5. Implications of concessions for Myanmar in the Fourth Round

(a) Concessions offered by Bangladesh

Myanmar had exported globally 1,649 products valued at \$8,396 million as per 2011 data. The preferential market access by Myanmar on the General List of Bangladesh covered 110 products and two products in the LDC list. Of those 112 products, Bangladesh did not

import 16 products thus Myanmar's effective preferential access to Bangladesh's market will be on 96 products.

(b) Concessions offered by China

Myanmar had exported globally 1,621 products valued at \$10,808 million in 2013, of which 563 products are in China's General List and 76 products in the LDC list, having average MoP of 35% and 76.3%, respectively. Removing duplicate products from both the lists, a list of 589 products were obtained, of which China did not import 6 products. Hence, Myanmar's preferential access to the Chinese market will be on 583 products. Myanmar is currently exporting 148 products to China.

(c) Concessions offered by India

Myanmar had exported globally 1,621 products valued at \$10,808 million in 2013, of which there are 269 products on India's General Concession List and 10 products on its LDC list. After eliminating duplicate products from both lists, Myanmar is likely to get preferential market access on 271 products. Since India did not import 39 products thus, preferential access to Myanmar will be on 240 products only. Myanmar did not export any of these items to India in 2013, thus the preferences can provide opportunities for market access.

(d) Concessions offered by the Republic of Korea

In 2013, Myanmar exported globally 1,621 products valued at \$10,808 million. As per their exports and imports, Myanmar can get preferential access on 509 products including 109 products which Myanmar is already exporting to the Republic of Korea. With its membership to APTA, getting market access on these additional items would be possible.

(e) Concessions offered by Sri Lanka

Myanmar exported globally 1,621 products to the world in 2013. There are 230 products which are exported by Myanmar to world and Sri Lanka has given tariff concessions. Sri Lanka does not import five products thus Myanmar's effective preferential market access will be on 225 products.

(f) Benefits of cumulation and simplified rules of origin

Myanmar will benefit from rules of cumulation by importing intermediate goods/raw materials from other Participating States of APTA and processing the same for export to the other Participating States given its geographical location. With regard to the share of Myanmar's imports of intermediate goods, 37% were from Participating States of APTA (excluding Bangladesh and the Lao People's Democratic Republic). China accounted for 84% of intermediate goods sourced by Myanmar from the APTA region. Of the total imports by Myanmar from China, India and the Republic of Korea, intermediate goods accounted for 37%, 39% and 41%, respectively.

A large share of intermediate goods imported by Myanmar, when processed for export to the Participating States of APTA markets, would benefit from cumulation as provided under RoO. Affiliates of multinational corporations could be induced to develop regional value chains to meet the market requirements of the Participating States of APTA.

Under the ASEAN+3 agreements with China, India and the Republic of Korea, Myanmar has to conform to different sets of RoO for each of these countries to be eligible for preferential access to their markets. Upon accession to APTA, Myanmar will need to follow a uniform set of rules for preferential access to the markets of the Participating States of APTA.

Further, the RoO under APTA are more favourable and simpler than those provided under APTA plus One arrangement. Being an LDC, Myanmar will need to meet only 35% local value content requirement compared with 45% under APTA plus one arrangement with China and the Republic of Korea. Only India has a 35% local value content requirement under the ASEAN-India Free Trade Agreement.

6. Implications of the Framework Agreement on Investment for Myanmar

Other than China, Myanmar does not have any investment protection agreement with any other Participating States of APTA. Therefore, its accession to APTA could encourage further FDI inflows from other Participating States of APTA.

(a) FDI indicators

In terms of FDI indicators, table 6.19 shows that the average FDI flow during 2005-2007 as a percentage was 20.2% of gross capital formation in Myanmar. It declined to 13% in 2011 and remained at 13.4% in 2013. FDI stocks as a percentage of GDP were 15.6% in 1995 but increased to 25.1% in 2013.

Table 6.19. FDI indicators in Myanmar

FDI flows as % gross fixed capital formation				FDI stocks as % of gross domestic product			
2005-07	2011	2012	2013	1995	2011	2012	2013
20.2	13	10.9	13.4	15.6	17.5	20	25.1

Source: UNCTAD, *World Investment Report 2014*, available at http://unctad.org/sections/dite_dir/docs/wir2014/wir14_fs_mm_en.pdf (accessed 21 February 2015).

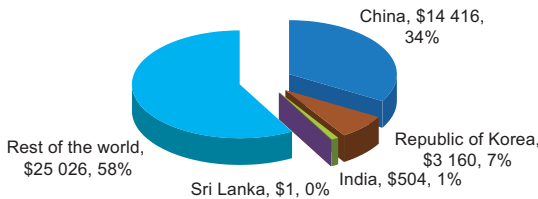
According to the Directorate of Investment and Companies Administration (DICA), Myanmar attracted approximately \$4.1 billion in FDI in the 12 months ending 31 March 2014. Total foreign investment in Myanmar now stands at approximately \$46 billion. Increased foreign investment has led to the creation of 50,571 additional jobs since the end of December 2013. Foreign investment projects include energy, petroleum and natural gas, commodities, minerals extraction, hotel and tourism, property development, livestock, fisheries and agriculture. China is the largest source of FDI, having invested approximately \$14 billion,

followed by Thailand and Hong Kong, China at approximately \$10 billion and \$6 billion, respectively.¹⁰

(b) FDI by source

Figure 6.10 presents Myanmar’s approved FDI in existing enterprises by source country. Of a total investment of \$ 42.4 billion, the Participating States of APTA accounted for 42%. Among the APTA Participating States, China accounted for the 34%, the Republic of Korea 7%, and India 1%.

Figure 6.10. Share of approved foreign investment of Myanmar in existing enterprises of Participating States of APTA, as of 31 January 2015



Source: <http://dica.gov.mm.x-aas.net/> (accessed 15 February 2015).

The data presented by ITC on FDI inflows by sector in 2010 and the inward stock position in 2013 are presented in Table 6.20. In 2010, of the inflow of \$450 million of FDI in 2010, \$448 million (99%) was in mining and quarrying. The unspecified secondary sector attracted \$1.4 million while the wholesale and retail trade attracted \$0.4 million and \$0.2 million, respectively. It is clear that the ITC data are outdated as well as inadequate.

Table 6.20. Inward direct investment positions of Myanmar

Industry	Inflow 2010	Per capita	(US\$ million)	
			Inward stock 2013	Change p.a. since 2010
Mining and quarrying	448.2	9		
Unspecified secondary	1.4	0		
Wholesale and retail trade	0.4	0		
Agriculture and hunting	0.2	0		
Total (merchandise and services)	450.2	9	14 171.00	17.40%

Source: ITC Investment Map, available at www.investmentmap.org/prioritySector.aspx?selCtry=MMR&selInds=&selOpt=inward&selYe.

(c) FDI outflows from Participating States of APTA

As Myanmar has been keen to attract FDI in recent years, an important point is whether the Participating States of APTA supply capacity to make investments abroad has been

¹⁰ *Eleven Myanmar*, 21 April 2014, see www.charltonsmyanmar.com/dica-release-revised-fdi-figures/.

substantial. **Error! Reference source not found.** 6.8 earlier has already discussed the FDI outflows of APTA Participating States. The number of investing affiliates and their parent businesses was largest in the Republic of Korea, followed by India and China.

(d) Preferred sectors for outward investment by China, India and the Republic of Korea

China's preferred areas of outward investment include business activities, mining and quarrying, transport, storage and communications, electricity, gas and water, construction, hotels and restaurants. In the case of India, the preferred sectors for investment abroad are power, oil and gas, and manufacturing. The other sectors in which India has been investing are transport and communication, mining, hotels and tourism, real estate. The Republic of Korea's preferred sectors for outward investment are mining and quarrying and business activities. Thus, there appears to be a good deal of convergence between the preferred areas of investment by the Participating States of PTA and the preferred areas of such investment in Myanmar.

(e) Trade-investment linkage

Intra-industry trade (IIT) data show that products exported by one country are also imported by the same country. In such situations, it may be preferable for one country having a greater supply capability to attract FDI from a capital surplus country for setting up a plant not only to meet the domestic demand in the home country but also for buy-back in the investing country. Myanmar has no IIT with Bangladesh or Sri Lanka, just three low-value products IIT with India and only one mineral product (copper) with the Republic of Korea. Thus, Myanmar's IIT with only China is examined in table 6.21.

Table 6.21. Myanmar's IIT products with China that have bilateral trade value >= \$1 million and IIT >= 20%

HS Code	Description	MMR-M-CHN	MMR-X-CHN	MMR-Trade-CHN	IIT-MMR-CHN (%)
710310	Precious stones unworked or simply sawn or roughly shaped	507 475	786 828	1 294 302	78
852990	Radio communication equipment and parts thereof	10 811	4 537	15 348	59
900190	Optical calcite crystal – other	2 110	10 011	12 121	35
382490	Ammoniacal gas – other	2 845	2 487	5 332	93
581092	Of man-made fibres	2 787	1 942	4 729	82
670420	Of human hair	2 450	440	2 890	30
670300	Human hair, dressed, thinned, bleached or otherwise worked; wool or other animal hair or other textile materials, prepared for use in making wigs or the like	1 527	867	2 394	72

Table 6.21. (continued)

HS Code	Description	MMR-M-CHN	MMR-X-CHN	MMR-Trade-CHN	IIT-MMR-CHN (%)
030749	Other	626	1 036	1 662	75
621210	Brassieres	542	1 041	1 583	68
620432	Of cotton	403	1 046	1 449	56
610342	Of cotton	1 281	156	1 437	22
620520	Of cotton	138	1 120	1 259	22

Source: Estimated from United Nations COMTRADE database on the World Bank WITS platform.

Table 6.21 shows the industries/sectors for investment by China in Myanmar with possible buy-back or exports to third countries. In cases where Myanmar provides favourable and cost-effective investment opportunities, China could consider investing in production of Myanmar's precious stones (unworked), manufacturing of radio communication equipment and parts hereof, and ammoniacal gas/chemical manufacturing.

7. Framework Agreement on Trade in Services: Implications for Myanmar

Table 6.22 shows that Myanmar imported commercial services to the value of \$1,067 million in 2011, of which transportation accounted for \$751 million, followed by other business services (\$192 million) and travel (\$123 million). In 2013, China was the largest supplier of these services to the world followed by India and the Republic of Korea.

**Table 6.22. Services imported by Myanmar and exported
by Participating States of APTA**

		(US\$ million)			
Code	Service label	Exported value, India 2013	Exported value, China 2013	Exported value, Rep. of Korea 2011	Imported value, Myanmar 2011
'200	Total services	151 386	205 921	112 993	1 090
2CS	Commercial services	150 926	204 718	111 783	1 067
'205	Transportation	16 894	37 626	36 552	751
'268	Other business services	50 909	79 472	30 063	192
'236	Travel	18 396	51 637	14 407	123
'291	Government services, n.i.e.	460	10 626	1 210	24
'287	Personal, cultural and recreational services	1 232	156	1 473	0

Source: www.trademap.org/tm_light/Country_SelServiceCountry_TS.aspx (accessed on 27 February 2015).

An estimate by the World Bank of the distribution of commercial services by four major sectors in world exports Participating States of APTA as well as global imports by Myanmar in 2005 and 2012 is given in table 6.23. Myanmar's world commercial services imports increased from \$481 million in 2005 to \$1,067 million in 2012. During this period the share of transport services was the highest, increasing from 41% of the total in 2005 to 70% in 2012, while the share of travel services also doubled from 6% to 12%. However, the share

of other business services (computer information, communications etc.) declined from 53% to 18% in the same period. All the Participating States of APTA, particularly the Republic of Korea, are exporters of transport and other business services. Similarly, all the Participating States of APTA, particularly China, are major exporters of travel services.

Table 6.23. Structure of services exports by the Participating States of APTA to the world and Myanmar's services imports from the world

Participating State of APTA	Commercial services exports (US\$ million)		Transport (% of total)		Travel (% of total)		Insurance and financial services (% of total)		Computer information, communications and other commercial services (% of total)	
	2005	2012	2005	2012	2005	2012	2005	2012	2005	2012
China	88 655	195 312	17	20	33	26	1	3	49	52
Republic of Korea	48 327	109 619	49	37	12	13	4	3	35	46
India	51 851	145 030	13	12	14	12	4	5	69	70
Structure of Myanmar's commercial services imports										
	2005	2012	2005	2012	2005	2012	2005	2012	2005	2012
Myanmar	481	1 067	41	70	6	12	–	–	53	18

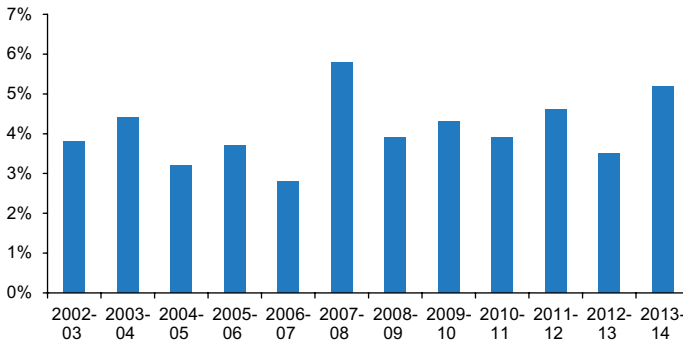
Source: World Bank (2015a and 2015b), World Development Indicators, available at www.worldbank.org/table/4.6 (accessed 11 February 2015) and www.worldbank.org/table/4.7 (accessed 20 February 2015).

C. Nepal

1. Nepal's economy

Figure 6.11 presents Nepal's annual real GDP growth rate from 2002/03 to 2013/14. In general, Nepal's growth rate during that period was around 4%, except during 2007/08 and 2013/14 when the economy grew by more than 5%.

Figure 6.11. Real GDP growth rate of Nepal (fiscal year 2002/03-2013/14)

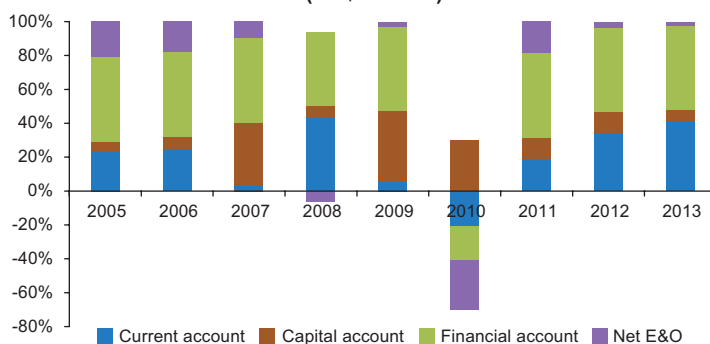


Source: Ministry of Finance (2014), Nepal Economic Survey 2013/14.

2. Nepal's external sector

On the domestic front Nepal has a budget surplus, while on the external front it has considerable financial, current and capital account surpluses. On the trade front, although Nepal has growing trade deficits, the steady flow of remittances has ensured a comfortable current account surplus for the country. The only year it had current and capital account deficits was in 2010 (figure 6.12).

**Figure 6.12. Nepal's balance of payments
(US\$ million)**



Source: International Monetary Fund, 2014b.

Note: E&O denotes "Errors and omissions".

Nepal suffered a severe setback to its economy due to the earthquake in April 2015, leading to several losses to its economy (apart from its social and human losses). According to Parussini (2015), there were fears that the earthquake may have wrought damage to hydro-electric power projects in the Himalayas. Tourism, which accounts for about 8% of the economy and employs about 7% of the workforce, is expected to take a near-term hit as high-end hikers cancel vacations. A recent report from the London-based multinational insurance giant Aon warned that preliminary economic losses from the Nepal earthquake were likely to reach and possibly exceed \$5 billion equalling around 25% of Nepal's GDP.

3. Nepal's current engagements with other preferential trading arrangements

Nepal is currently engaged in three FTAs, of which one is bilateral and two are regional. The Indo-Nepal Treaty of Trade (INTT) is in the nature of a partial FTA under which India offers Nepal duty-free access to the Indian market while receiving only preferential access to the Nepalese market.

At the regional level, Nepal's most significant trade agreement is under the South Asian Free Trade Agreement (SAFTA) for trade in goods and the SAARC Agreement on Trade in Services (SATIS).

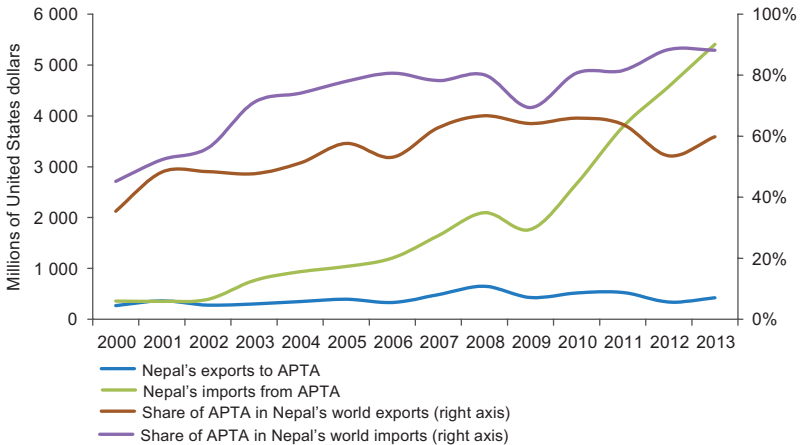
Nepal, together with other SAARC member States, is also a member of the SAARC Agreement on Trade in Services (SATIS), which was signed on 29 April 2010 at the sixteenth SAARC Summit. The Agreement has been ratified by all members, entered into force on 29 November 2012. However the final offer lists and schedule of specific commitments are yet to be finalised and implemented.

Nepal is also a member of BIMSTEC, together with Bangladesh, India, Myanmar, Bhutan, Sri Lanka and Thailand.

4. Nepal's trade with Participating States of APTA

Figure 6.13 shows Nepal's exports and imports from the Participating States of APTA and their shares in world imports. Nepal's exports to the Participating States of APTA increased from \$357 million in 2000 to \$422 million in 2013. Nepal's imports from the APTA participating States increased much faster, from \$354 million to \$5,409 million during the same period. During the period 2000-2013, the share of the Participating States of APTA in Nepal's world exports increased from 35% to 60%. During the same period, the share of the Participating States of APTA in Nepal's world imports increased even more, rising from 45% to 88%.

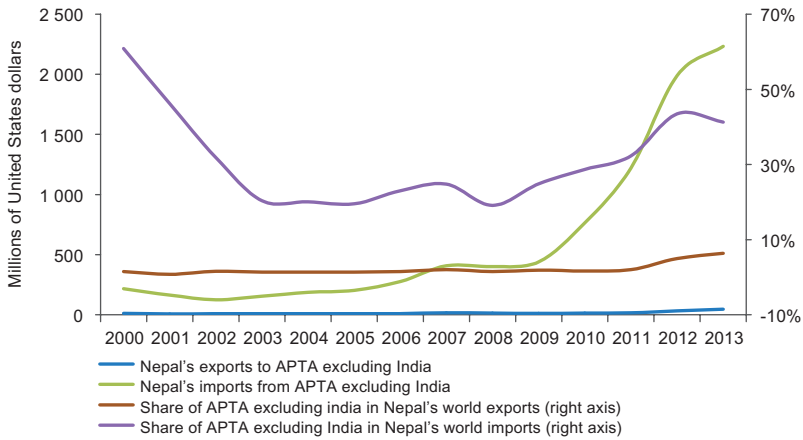
Figure 6.13. Nepal's exports to, and imports from Participating States of APTA, and their share in world trade, 2000-2013



Source: United Nations COMTRADE mirror data (HS 1996 classification) using WITS platform.

Since Nepal and India already have an FTA, it is important to examine Nepal's trade with the Participating States of APTA, excluding India (figure 6.14).

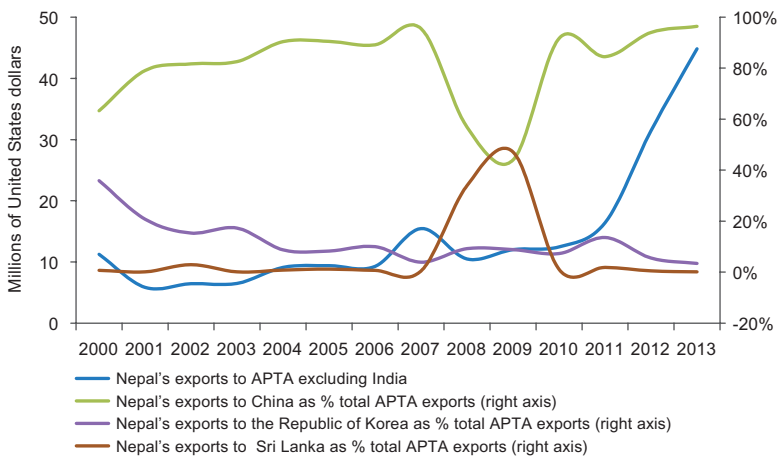
Figure 6.14. Nepal's export/import trade with Participating States of APTA, excluding India, and the share in world trade, 2000-2013



Source: United Nations COMTRADE mirror data (HS 1996 classification) using WITS platform.

During 2000-2013, Nepal's exports to the Participating States of APTA (excluding India) increased from \$11 million to \$45 million, while its imports increased from \$217 million to \$2,233 million (figure 6.15).

Figure 6.15. Nepal's exports to the Participating States of APTA, excluding India, and percentage share of each Participating State, 2000-2013



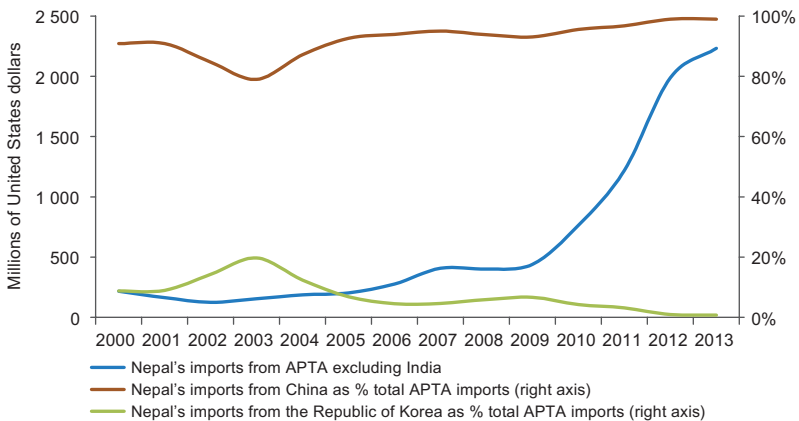
Source: United Nations COMTRADE mirror data (HS 1996 classification) using WITS platform.

In terms of share of world trade, during 2000-2013 the share of the Participating States of APTA, excluding India, in Nepal's world exports increased marginally from 1% to 6%, while the share in imports declined from 61% to 41%. However, since 2008, the share of the Participating States of APTA, excluding India, in Nepal's world imports has been increasing.

The percentage share of each APTA Participating State in Nepal's total exports to the Participating States of APTA, excluding India, is shown in figure 6.15. China accounted for the largest share, which increased from 63% in 2000 to 96% in 2013. Nepal's exports to the Republic of Korea declined from 36% to 3%, while the share of Sri Lanka was generally marginal in the same period, except for 2008 and 2009, when it was 4% and 47%, respectively.

Figure 6.16 shows the export share of individual Participating States, excluding India, in Nepal's total imports from the Participating States of APTA, excluding India. Here again, the overwhelming dominance of China is clear. From 2000 to 2013, China's share increased from 91% to 99% while the share of the Republic of Korea was marginal. The shares of Sri Lanka and Bangladesh were negligible.

Figure 6.16. Nepal's total imports from the Participating States of APTA, excluding India, and percentage share of China and the Republic of Korea, 2000-2013



Source: United Nations COMTRADE mirror data (HS 1996 classification) using WITS platform.

To get a macro picture of Nepal's exports in 2013 to its two principal markets in the Participating States of APTA, China and the Republic of Korea, it is necessary to examine them in terms of aggregated chapters. Table 6.24 lists Nepal's top 10 exports to China in order of importance. The most important group of products comprised oil seeds and oleaginous fruits. Miscellaneous articles of base metal were next in importance.

Table 6.24. Nepal's exports to China by major chapters, 2013

(US\$ million)

Chapter	Description	Value
12	Oil seeds and oleaginous fruits	17 530
83	Miscellaneous articles of base metals	8 801
41	Raw hides and skins (other than furs)	4 782
57	Carpets and other textile floor coverings	2 600
62	Articles of apparel and clothing	1 243
44	Wood and articles of wood	1 170
55	Man-made staple fibres	1 072
74	Copper and articles thereof	913
56	Wadding, felt and nonwovens	911
71	Natural or cultured pearls, precious	734

Source: United Nations COMTRADE mirror data using the WITS platform.

Table 6.25 presents Nepal's top 10 exports to the Republic of Korea during 2013 in order of importance. Articles of apparel and clothing were the most important group of products, followed by carpets and other textile floor coverings. Beverages constituted the third most important group of products.

Table 6.25. Nepal's exports to the Republic of Korea by major chapters, 2013

(US\$ million)

Chapter	Description	Value
62	Articles of apparel and clothing	477
57	Carpets and other textile floor covering	202
09	Coffee, tea, maté and spices	189
85	Electrical machinery and equipment	166
63	Other made-up textile articles	121
61	Articles of apparel and clothing	64
07	Edible vegetables and certain roots	37
42	Articles of leather, saddlery	32
65	Headgear and parts thereof	30
84	Nuclear reactors, boilers, machinery	27

Source: United Nations COMTRADE data using the WITS platform.

5. Additional market access frontier with selected Participating States of APTA

Prior to examining the possible benefit to Nepal under the Fourth Round concessions exchanged by the Participating States of APTA, it is necessary to examine Nepal's AMAF with China and the Republic of Korea for all products at the HS 6-digit level of classification. India has been excluded as it has more favourable agreement with Nepal and thus there is no economic logic in trading goods under APTA.

(a) Nepal's additional market access frontier with Bangladesh

Table 6.26 shows Nepal's AMAF with Bangladesh in 2011. A total of 1,496 products at the HS 6-digit level of classification matched Nepal's world exports with Bangladesh's world imports. The AMAF on these products with Bangladesh was \$264 million. The top 10 products with the highest AMAF in order of importance are listed in the table. It is notable that Bangladesh had a favourable RCA on all these products. Nepal's current exports to Bangladesh of these matched products are almost negligible.

Table 6.26. Top 10 products of Nepal having AMAF with Bangladesh, 2011

(US\$ thousand)

HS Code	Description	NPL-X-WD	BGD-M-WD	NPL-EE-BGD	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
090831	Neither crushed nor ground	21 603	17 701	0	17 701	718
392690	Other	39 833	12 765	0	12 765	18
540233	Polyesters	10 055	91 841	0	10 055	2
721049	Other	41 618	9 871	0	9 871	4
080270	Kola nuts (Cola spp.)	9 588	21 768	0	9 588	212
550931	Single yarn	9 405	69 956	0	9 405	334
090240	Other black tea (fermented) and other partly fermented tea	12 949	8 530	1	8 529	106
740921	In coils	9 182	7 620	0	7 620	49
392020	Of polymers of propylene	6 641	37 402	0	6 641	9
550951	Mixed mainly or solely with artificial staple fibres	6 887	6 521	0	6 521	620
Top 10 products		167 761	283 975	1	98 695	
All matched products (1,496 products at the HS 6-digit level)		795 069	14 458 278	110	264 372	

Source: United Nations COMTRADE data using the WITS platform.

(b) Nepal's additional market access frontier with China

Table 6.27 presents Nepal's AMAF with China in 2013. A total of 1,527 products at the HS 6-digit level of classification matched Nepal's world exports with China's world imports. The AMAF on these products with China was \$514 million. The top 10 products with the highest AMAF in order of importance are presented in the table. Nepal had a favourable RCA on all these products. However, Nepal exported only four products among the top 10 valued at \$0.8 million, while its exports on all matched products was \$43 million.

Table 6.27. Top 10 products of Nepal having AMAF with China, 2013

(US\$ thousand)

HS Code	Description	NPL-X-WD	CHN-M-WD	NPL-EE-CHN	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
220290	Other	65 837	141 616	0	65 837	164
392690	Other	37 411	2 774 770	7	37 404	18
640419	Other	23 030	270 397	2	23 028	39
621420	Of wool or fine animal hair	18 199	49 502	816	17 383	544
090240	Other black tea (fermented) and other partly fermented tea	16 146	38 938	32	16 114	106
730690	Other	17 494	15 609	0	15 609	302
550921	Single yarn	16 462	13 855	0	13 855	373
330610	Dentifrices	13 196	33 666	0	13 196	87
080270	Kola nuts (Cola spp.)	11 693	62 761	0	11 693	212
730630	Other welded, of circular cross-section, of iron or non-alloy steel	11 567	207 496	0	11 567	40
Top 10 products		231 033	3 608 610	857	225 685	
All matched products (1,527 products at the HS 6-digit level)		693 996	883 126 768	43 250	514 101	

Source: United Nations COMTRADE data using the WITS platform.

(c) Nepal's additional market access frontier with the Republic of Korea

Table 6.28 details Nepal's AMAF with the Republic of Korea in 2013. A total of 1,540 products at the HS 6-digit level matched Nepal's world exports with the Republic of Korea's world imports. The AMAF on these products with the Republic of Korea in 2013 was \$495 million. The top 10 products with the highest AMAF in order of importance are presented in the table. Nepal, which had a favourable RCA on all these products, exported three products among the top 10, valued at \$0.3 million, while its exports of all matched products amounted to \$1.5 million.

Table 6.28. Top 10 products of Nepal having AMAF with the Republic of Korea, 2013

(US\$ thousand)

HS Code	Description	NPL-X-WD	ROK-M-WD	NPL-EE-ROK	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
392690	Other	37 411	780 237	1	37 410	18
220290	Other	65 837	36 632	0	36 632	164
640419	Other	23 030	325 205	0	23 030	39
121190	Other	22 854	92 840	1	22 854	215
621420	Of wool or fine animal hair	18 199	31 735	328	17 871	544
730690	Other	17 494	31 534	0	17 494	302
550921	Single yarn	16 462	68 940	0	16 462	373
550951	Mixed mainly or solely with artificial staple fibres	14 833	89 443	0	14 833	620
330610	Dentifrices	13 196	23 080	0	13 196	87
730630	Other, welded, of circular cross-section, of iron or non-alloy steel	11 567	27 704	0	11 567	40
Top 10 products		240 882	1 507 349	330	211 348	
All matched products (1,540 products at the HS 6-digit level)		704 464	162 497 751	1 537	495 556	

Source: United Nations COMTRADE data using the WITS platform.

(d) Nepal's additional market access frontier with Sri Lanka

Table 6.29 presents Nepal's AMAF with Sri Lanka in 2013. A total of 1,486 products at the HS 6-digit level matched Nepal's world exports with Sri Lanka's world imports. The AMAF on these products was \$211 million. The top 10 products with the highest AMAF in order of importance are listed in the table. Nepal, which had a favourable RCA on all these products, did not export any of the top 10 products, and its exports on all the matched products were only amounted to \$63,000.

Table 6.29. Top 10 products of Nepal having AMAF with Sri Lanka, 2013

(US\$ thousand)

HS Code	Description	NPL-X-WD	LKA-M-WD	NPL-EE-LKA	AMAF	RCA
		Supply	Demand	Existing exports	Min (supply, demand) – existing exports	
392690	Other	37 411	31 883	0	31 883	18
730630	Other, welded, of circular cross-section, of iron or non-alloy steel	11 567	25 319	0	11 567	40
090240	Other black tea (fermented) and other partly fermented tea	16 146	6 358	0	6 358	106
121190	Other	22 854	6 290	0	6 290	215
550921	Single yarn	16 462	5 882	0	5 882	373
721720	Plated or coated with zinc	5 797	11 936	0	5 797	60
392020	Of polymers of propylene	3 500	21 979	0	3 500	9
220290	Other	65 837	3 426	0	3 426	164
721049	Other	3 407	17 847	0	3 407	4
620462	Of cotton	2 957	2 906	0	2 906	4
Top 10 products		185 937	133 826	0	81 016	
All matched products (1,486 products at the HS 6-digit level)		690 654	7 845 574	63	211 029	

Source: United Nations COMTRADE data using the WITS Platform.

6. Implications of concessions for Nepal in the Fourth Round

The procedure used for analysing the effective market access frontier of Nepal for products offered concessions at the end of the Fourth Round was same as done in earlier cases.

(a) Concessions offered by Bangladesh

In 2011, Nepal exported globally 1,576 products worth \$817 million. Analysis of Nepal's global exports and Bangladesh's global imports indicated that there are 77 products on which Nepal can enjoy preferential market access to Bangladesh.

(b) Concessions offered by China

In 2013, Nepal exported globally 1,546 products. Analysis of Nepal's global exports and China's global imports indicated that there are 548 products on which Nepal can enjoy preferential market access and Nepal is already exporting 124 items to China.

(c) Concessions offered by the Republic of Korea

In 2013, Nepal exported globally 1,546 products. Analysis of Nepal's global exports and Republic of Korea's global imports indicated that there are 475 products on which Nepal can enjoy preferential market access and Nepal is already exporting 58 items to Republic of Korea.

(d) Concessions offered by Sri Lanka

Analysis of Nepal's global exports and Sri Lanka's global imports indicated that there are 240 products on which Nepal can enjoy preferential market access in Sri Lanka.

(e) Benefits of cumulation in rules of origin

While benefitting from preferential access to the Participating States of APTA markets for the products identified above, Nepal can gain further from cumulation of RoO available under APTA.

7. Implications of the Framework Agreement on Investment for Nepal

Nepal has Bilateral Investment Treaties with Finland (28 January 2011), France (13 November 1985), Germany (7 July 1988) and the United Kingdom (2 March 1993).¹¹ Nepal and India signed an Agreement for Promotion and Protection of Investment on 21 October 2011 and an Agreement on Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income on 27 November 2011. Apart from India, Nepal does not have any Bilateral Investment Promotion Agreement with any other Participating States of APTA.

(a) Nepal's foreign investment policy

The Government of Nepal (2012a and 2012b) has adopted an open and liberal policy to pave the way for the accelerated economic and social development of the country. In particular, in the field of industry and trade, government policy is aimed at giving the private sector a dominant role. Private initiatives and enterprises are expected to increase efficiency and productivity. The Government's role will be that of a facilitator, providing infrastructure and an environment that is conducive to investment.

Although there were a few cases of foreign investment and technology transfer prior to 1981, the industrial policy and the Foreign Investment and Technology Act, 1981, paved the way for a regular inflow of foreign investment as well as technology transfers into the country. FDI is excluded from some 20 industries that are defined as prohibited (as specified in Schedule I). In the case of other industries, permission for foreign investment has to be obtained. Foreign investment is permitted up to 100% in large- and medium-sized industries.

¹¹ UNCTAD, available at investmentpolicyhub.umctad.org/IIA/CountryBits/147 (accessed 22 May 2015).

Nepal's temperate climate is also ideal for cultivating medicinal herbs, the market for which has seen phenomenal expansion in recent years. These advantages can make investment packages very attractive. However, Nepal has attracted modest FDI in niche sectors such as tourism, light manufacturing (apparel) and mineral deposits (limestone). The investment is mainly in low-technology, labour-intensive production. The impact of FDI has also been modest, primarily with regard to job creation. Foreign affiliates have imparted skills to local employees, and in a few instances have introduced new export products and upgraded technology (UNCTAD, 2013).

(b) FDI inflows in Nepal

Table 6.30 shows that at the end of 2013 Nepal's FDI inflows totalled \$553 million, most of it in the form of equity. India was the largest source country, accounting for \$178 million (32% of total FDI inflows). Among other Participating States of APTA, the share of the Republic of Korea was 19%, 8% for Bangladesh, and 4% for China. Most of the FDI inflows were in terms of equity.

Table 6.30. Nepal's FDI inflows, end-2013

(US\$ million)

Investment from	Inward direct investment positions	Inward equity positions (nett)	Nett inward debt instrument positions
World	553	542	10
India	178	176	2
Ireland	34	34	
Singapore	29	29	
Australia	23	23	
Korea, Democratic People's Rep. of	19	19	
Norway	15	15	
United Kingdom	13	13	0
Pakistan	11	11	
Bermuda	9	6	3
Bangladesh	8	8	
United Arab Emirates	8	8	
Japan	6	1	4
Denmark	5	5	
Hong Kong, China	5	5	
China	4	3	1
United States	3	3	0
Malaysia	3	3	
Virgin Islands, British	1	1	
Italy	1	1	

Source: IMF Coordinated Direct Investment Survey, available at www.cdis.imf.org on (accessed 24 April 2015).

China is reported to have overtaken India in the first six months of financial year 2013 to become the largest source of FDI to Nepal, contributing \$174 million FDI that marked a six-fold increase from \$55 million in financial year 2012 (Krishnan, 2014).

In terms of FDI indicators, table 6.31 shows that in 2011 FDI inflows as a percentage of gross capital formation was only 2.4% in Nepal, and FDI stocks as a percentage of GDP was only 1.9% in the same year. In 2013, the former indicator declined to 1.9% while the latter increased to 2.7%.

Table 6.31. FDI indicators for Nepal

FDI flows as % gross domestic capital formation				FDI stocks as % gross domestic product		
2011	2012	2013	1995	2011	2012	2013
2.4	2.5	1.9	0.3	1.9	2.4	2.7

Source: http://unctad.org/sections/dite_dir/docs/wir2014/wir14_fs_np_en.pdf (accessed 18 May 2015).

(c) FDI outflows from Participating States of APTA

Nepal has been keen to attract FDI in recent years, so it is important to see if the capacity of the Participating States of APTA to make investments abroad has been substantial. Table 6.8 earlier has already discussed the FDI outflows of APTA Participating States.

(d) Sectors with the greatest investment potential

Nepal has a huge hydropower potential that comes to about 83,000 MW, of which 43,000 MW is economically viable. Until now, Nepal has not been able to exploit much of this potential and the people in Nepal still face severe power shortages. In order to harness and develop hydropower, the private sector has been involved in carrying out small and medium-sized hydro power projects. Similarly, the Government is encouraging private foreign investment in this sector. A number of projects have been accepted for feasibility studies and development. Tourism also offers extensive scope for foreign investment opportunities. Although the liberal policies of the Government of Nepal show that it is open to FDI, sometimes the implementation policies appear to be unclear due, in part, to bureaucratic delays and inefficiency; however, this should not be considered as an obstacle to foreign investment in Nepal.¹²

8. Trade-investment linkage

(a) Nepal's intra-industry trade with Bangladesh

Nepal has IIT with Bangladesh in only three products (table 6.32). The volume of IIT between the two countries is too low to attract FDI inflows to these sectors in either country.

¹² *Nepal and Foreign Investment*. Available at www.visitnepal.com/nepal_information/nepal_foreign_investment.php (Accessed on 17 May 2015).

Table 6.32. Nepal's IIT with Bangladesh

(US\$ thousand)

HS Code	Description	NPL-M-BGD	NPL-X-BGD	NPL-Trade-BGD	IIT-NPL-BGD (%)
482110	Printed material	0.02	0.10	0.13	38
491110	Trade advertising material, commercial catalogues and the like	0.09	0.21	0.30	60
902290	Other, including parts and accessories	7.81	0.25	8.05	6
Total		7.92	0.56	8.48	

Source: Estimated from United Nations COMTRADE database on the World Bank WITS platform.

(b) Nepal's intra-industry trade with China

This study identified 184 products in which Nepal has IIT with China. However, when considered with a threshold of \$1 million in two-way trade and an IIT ratio of 20 and above, only two products could be identified that would offer some potential for Chinese investment in Nepal for buy-back in the former country (table 6.33).

**Table 6.33. Nepal's IIT with China:
Bilateral trade value \geq US\$1 million and IIT \geq 20%**

(US\$ thousand)

HS Code	Description	NPL-M-CHN	NPL-X-CHN	NPL-Trade-CHN	IIT-CHN-BGD (%)
621420	Products of wool or fine animal hair	366	816	1 182	62
711790	Imitation jewellery of base metal, other	4 815	720	5 535	26

Source: Estimated from United Nations COMTRADE database on the World Bank WITS platform.

(c) Nepal's intra-industry trade with Sri Lanka

Nepal has IIT with Sri Lanka in only two products (table 6.34). As in the case of Bangladesh, the volume of IIT between the two countries is too low to attract FDI inflows to these sectors in either country.

Table 6.34. Nepal's IIT with Sri Lanka

(US\$ thousand)

HS Code	Description	NPL-M-LKA	NPL-X-LKA	NPL-Trade-LKA	IIT-NPL-LKA (%)
490199	Other	0.19	0.60	0.79	47
630900	Worn clothing and other worn articles	21.07	0.23	21.31	2
Total		21.26	0.84	22.10	

Source: Estimated from United Nations COMTRADE database on the World Bank WITS platform.

Nepal's possibilities for linking trade with investment through IIT linkages with regard to Bangladesh and Sri Lanka is limited, given the low volume of IIT between these two countries. However, some such possibility exists with China with regard to two products in which bilateral trade exceeds \$1 million and the IIT index exceeds 20%.

9. Framework Agreement on Services: Implications for Nepal

The APTA Framework Agreement on the Promotion and Liberalization of Trade in Services could be a good tool for Nepal to promote its trade in services with Participating States, since it gives flexibility to the LDC Participating States of APTA.

Structure of Nepal's services imports

Table 6.35 lists the services imported by Nepal during 2009-2013. Nepal's services imports increased from \$842 million in 2009 to \$977 million in 2013. The most important services imports were travel, followed by transportation and other services.

Table 6.35. Services sector imports by Nepal

(US\$ thousand)

Code	Service label	Imported value in 2009	Imported value in 2010	Imported value in 2011	Imported value in 2012	Imported value in 2013
S	Services	842 200	870 975	782 159	896 266	977 994
SOX	Memo item: Commercial services	828 017	846 458	761 405	881 783	964 223
SD	Travel	433 873	402 292	320 102	413 183	419 177
SC	Transport	271 381	281 382	278 915	340 519	380 104
SPX1	Other services	136 946	187 301	183 142	142 564	178 713

Sources: ITC, UNCTAD, WTO joint dataset, available at www.trademap.org/tradestat/Service_SelCountry_TS.aspx (accessed 18 May 2015).

The World Bank estimate for the value and structure of services exports by the Participating States of APTA and the structure and value of Nepal's imports of the same is shown in Table 6.36. Three Participating States – China, India and the Republic of Korea – have considerable export potential for meeting Nepal's commercial service requirements.

Table 6.36. Structure of services exports by Participating States of APTA to the world and Nepal's services imports from the world

(US\$ million)

Participating State of APTA	Commercial services exports (US\$ million)		Transport (% of total)		Travel (% of total)		Insurance and financial services (% of total)		Computer information, communications and other commercial services (% of total)	
	2005	2013	2005	2013	2005	2013	2005	2013	2005	2013
China	88 655	213 879	17	18	33	24	1	3	49	55
Republic of Korea	49 312	100 316	49	37	12	14	2	2	37	47
India	51 851	145 030	13	12	14	12	4	5	69	70
Structure of Nepal's commercial imports										
	2005	2013	2005	2013	2005	2013	2005	2013	2005	2013
Nepal	424	964	38	39	39	43	6	3	17	14

Source: World Bank (2015a and 2015b), World Development Indicators, available at www.worldbank.org/table/4.6 and www.worldbank.org/table/4.7 (accessed 18 May 2015).

D. Conclusion

As has been stated earlier APTA involves three major economies of Asia, China, India and Republic of Korea, which collectively provide a large market to many countries in the world. In this study which examined the benefits of accession of three LDCs, Bhutan, Myanmar and Nepal to APTA, finds that these LDCs would benefit from their accession.

While India has bilateral and regional agreements (SAFTA and ASEAN-India FTA) with these three countries, China and Republic of Korea have FTA with Myanmar only under their ASEAN+1 agreement. At the same time China, India and Republic of Korea have granted DFQF to the LDCs which cover these intending countries. Therefore, if one would like to only examine the benefits in terms of goods, perhaps joining APTA may not enhance their trade with APTA Participating States too much. However, other Participating States of APTA which do not have FTA with Bhutan and Nepal (Lao People's Democratic Republic) and Myanmar (Sri Lanka) may lead to enhanced trade after they accede to APTA. Another aspect that may enhance trade for all of these countries relate to the fact that the local value added content criteria and cumulation provisions of APTA rules of origin is much more flexible than other FTAs and hence countries may benefit from their supply chain linkages. Since APTA has a very strong special and differential component, the entry price given by these three LDCs would be much lesser than the tariff concessions that they will enjoy from the Fourth Round concessions and hence they will benefit from their accession.

Another aspect of the benefit will be in terms of getting market access in services and ability to attract FDI inflows from APTA Participating States. Since the Framework Agreements for services, investment and trade facilitation have been ratified by APTA Participating States, the negotiations on liberalisation, technical assistance, cooperation etc. are likely to start soon. Bhutan, Myanmar and Nepal do not have effective services and investment agreements and hence APTA, with strong special and differential treatment can be beneficial for them.

References

- ESCAP (2009). "Framework Agreement on the Promotion, Protection and Liberalization of Investment in APTA Participating States". Bangkok. Available at <http://investmentpolicyhub.unctad.org/Download/TreatyFile/2591> (accessed 30 October 2014).
- Government of Bhutan (2010). Foreign Direct Investment Policy, Ministry of Economic Affairs. Available at www.gnhc.gov.bt/wp-content/uploads/2012/04/FDI-policy.pdf (accessed 16 October 2014).
- _____ (2009). Agreement on Trade between the Royal Government of Bhutan and the Government of the People's Republic of Bangladesh. Available at <http://ipajournal.com/uploads/2011/05/Agreement-on-Trade-Between-Bhutan-Bangladesh1.pdf> (accessed 5 November 2014).
- Government of India (2006). Agreement on Trade, Commerce and Transit between the Government of the Republic of India and the Royal Government of Bhutan, 28 July 2006. Available at <http://commerce.nic.in/trade/bhutan.pdf> (accessed 29 October 2014).
- Government of Nepal (2012a). *Foreign investment in Nepal*, Department of Industry. Available at www.doind.gov.np/documents/pdf/doi_brochure.pdf (accessed 13 April 2015).
- _____ (2012b). *Procedural Manual for Foreign Investment in Nepal*, Department of Industry. Available at http://doind.gov.np/documents/pdf/procedural_manual_2012.pdf (accessed 26 April 2015).
- IMF (2015). "Myanmar second review under the staff-monitored program – debt sustainability analysis". Washington, D.C. Available at www.imf.org/external/pubs/ft/scr/2014/cr1491.pdf (accessed 18 February 2015).
- _____ (2014a). "Bhutan: Selected issues", *IMF Country Report*, No. 14 (July 2014). Washington, D.C. Available at www.imf.org/external/pubs/ft/scr/2014/cr14179.pdf (accessed 26 October 2014).
- _____ (2014b). "IMF Country Report No. 14/214: Nepal". Washington, D.C. Available at www.imf.org/external/pubs/ft/scr/2014/cr14214.pdf On 0104015 (accessed 30 March 2015).
- Krishnan, A. (2014). "China is the largest FDI source for Nepal, overtakes India", *The Hindu*, 26 January 2014. Chennai. Available at www.thehindu.com/news/international/world/china-is-largest-fdi-source-for-nepal-overtakes-india/article5618081 (accessed 23 May 2015).
- Ministry of Finance (2014). Nepal Economic Survey 2013/14. Kathmandu. Available at www.mof.gov.np/en/archive-documents/economic-survey-21.html (accessed 31 April 2015).
- OECD (2014). "OECD Investment Policy Reviews: Myanmar". Paris. Available at www.oecd.org/daf/inv/investment-policy/Myanmar-IPR-2014.pdf (accessed 9 February 2015).

- Parussini, G. (2015). "Nepal earthquake's economic toll expected to be massive", *The Wall Street Journal*, 27 April 2015. Available at www.wsj.com/articles/nepal-earthquakes-economic-toll-expected-to-be-massive-1430133298 (accessed 26 April 2015).
- UNCTAD (2014). *World Investment Report 2014*, available at http://unctad.org/sections/dite_dir/docs/wir2014/wir14_fs_mm_en.pdf (accessed 21 February 2015).
- _____ (2013). *Investment policy review: Nepal*. Geneva. Available at http://unctad.org/en/Docs/iteipcmisc20031_en.pdf (accessed 22 May 2015).
- _____ (2011). *World Investment Report 2011*, available at www.unctad.org/wir and www.unctad.org/fdistatistics (accessed 27 November 2014).
- World Bank (2015a). *World Development Indicators: Structure of service imports*. Washington, D.C. Available at <http://wdi.worldbank.org/table/4.7#> (accessed 13 April 2015).
- _____ (2015b). *World Development Indicators: Structure of service exports*. Washington, D.C. Available at <http://wdi.worldbank.org/table/4.6#> (accessed 13 Apr. 2015).
- _____ (2014). *Myanmar: Ending Poverty and Boosting Shared Prosperity in a Time of Transition*, Report No. 93050-MM, Washington, D.C. Available at www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/12/15/000350881_20141215093840/Rendered/PDF/930500CSD0P150070Box385388B00OUO90.pdf (accessed 9 February 2015).
- WTO (2011). "China's duty-free quota-free programme for LDC products", Communication from China, G/C/W/656/Rev.1WT/COMTD/N/39/Add.1/Rev.1, 1 December 2011. Geneva.
- _____ (2000). "Preferential tariff treatment for least-developed countries: Notification from the Republic of Korea", WT/COMTD/N/12/Rev.1, 28 April 2000. Geneva.
- _____ (undated). "Participation in Regional Trading Arrangements". Geneva. Available at www.wto.org/english/tratop_e/region_e/rta_participation_map_e.htm (accessed 9 February 2015).

Online databases

- IMF, Coordinated Direct Investment Survey. Available at www.cdis.imf.org (accessed 18 October 2014).
- IMF, Direction of Trade Statistics database (DOTS). Available at <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85> (accessed 21 February 2013).
- International Trade Centre (ITC), Investment Map database. Available at www.investmentmap.org/prioritySector.aspx?selCtry=MMR&selInds=&selOpt=inward&selYe (accessed 25 October 2015).
- World Bank, World Development Indicators (WDI) database. Available at <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>.
- World Bank, World Integrated Trade Solution (WITS) database. Available at <http://wits.worldbank.org/>.

Annex I

Annex I table 1. Schedule I: Production and manufacturing – priority list of activities in Bhutan (Schedule I)

SI	Sector	Minimum Project Cost (Nu m)	Maximum Foreign Investor's Equity (%)	Conditions/ Requirements
1	Agro based Production: i. Organic farming ii. Agro processing iii. Bio-technology iv. Poultry v. Fisheries vi. Floriculture vii. Health Food viii. Animal Feed ix. Agriculture x. Horticulture xi. Dairy	20	74	None
2	Forest based Production	50	74	None
3	Energy i. Hydro Power ii. Solar and wind energy iii. Other renewable energy	Based on sustainable Hydro Power Policy		
		20	Based on Renewable Energy Policy	
4	Water based products	50	74	None
5	Other manufacturing i. Electronics ii. Electricals iii. Computer hardware iv. Building materials	50	74	None

Source: Bhutan Ministry of Economic Affairs, 2010, "Foreign Direct Investment Policy, 2010", available at www.gnhc.gov.bt/wp-content/uploads/2012/04/FDI-policy.pdf.

Annex I table 2. Schedule II: Services – priority list of services in Bhutan

SI	Sector	Minimum Project Cost (Nu m)	Maximum Foreign Investor's Equity (%)	Conditions/ Requirements
1	Education i. Primary Education ii. General Secondary Education iii. Higher Education	200	100	High end
2	Health i. Specialized Medical Services ii. Specialized Dental Services iii. Specialized Medical Laboratory Services iv. Specialized Diagnostic-imaging Services v. Specialized Traditional Medical Services	200	100	High end
3	Hotels/Resorts – Five star and above	200	100	International reputed hotel chains
4	Infrastructure Facilities i. Multi-dwelling residential buildings ii. Non-residential buildings iii. Outdoor sports and recreating facilities such as golf courses, botanical garden and others iv. Highways, bridges, tunnels and roads v. Airfield runways/airports vi. Industrial estates, Industrial Parks vii. SEZ, AEZ viii. IT Parks ix. Economic Cities x. Knowledge cities ix. Sport cities xii. Health/Wellness centres xiii. Dryport xiv. Land reclamation xv. Other similar activities	200	100	PPP Model wherein the facility returns to the Government on expiry of the term.
5	Research and Development	10	10	Established firms employing a minimum of 5 experts
6	Head Office Services	5	100	None
7	IT/ITES i. IT/ITES inside IT Parks and SEZs ii. IT/ITES outside IT Parks and SEZs	5 25	100 74	None None
8	Constructing Services	100	74	None

Source: Bhutan Ministry of Economic Affairs, 2010, "Foreign Direct Investment Policy, 2010", available at www.gnhc.gov.bt/wp-content/uploads/2012/04/FDI-policy.pdf.

Annex II

Additional market access frontier for all matched products

The Grubel-Lloyd Index

This index measures intra-industry trading of a particular product. It was introduced by Herb Grubel and Peter Lloyd in 1971.

$$AMAF = \sum_{i=0}^n \min (SE_i, M_i) - ET_i$$

where SE_i = Supplier's (Bhutan's) Global Exports; M_i = market's (Participating State's) global imports; and ET_i = supplier's (Bhutan's) existing exports to Participating States.

The concept is used to give the upper limit of additional market access frontier of product i under most favourable competitive conditions after netting the existing exports of the supplier country, the supplies being set by the country's world exports.

$$GL_i = \frac{(X_i + M_i) - |X_i - M_i|}{X_i + M_i} = 1 - \frac{|X_i - M_i|}{X_i + M_i}; 0 \leq GL_i \leq 1$$

where X_i denotes the export and M_i denotes the import of good i .

If $GL_i = 1$, there is only intra-industry trade, and no inter-industry trade. This means, for example, the country under consideration exports the same quantity of good i as it imports. Conversely, if $GL_i = 0$, there is no intra-industry trade, only inter-industry trade. This would mean that the country under consideration only exports or only imports good i .

Revealed Comparative Advantage

$$RCA_{ki} = (X_{ki} / X_{ti}) / (X_{kw} / X_{tw})$$

where X_{ki} represents the value of country i 's exports of commodity k ; X_{ti} represents the value of country i 's total exports; X_{kw} represents the value of world's exports of commodity k ; and X_{tw} represents the value of the world's total exports (of all commodities).