Nepal After LDC graduation
New avenues for exports

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Workshop on “Structural transformation towards a sustainable graduation from least developed country category”
Kathmandu, 19/04/2023
What is ITC?

UNCTAD
The UN body for design of policy recommendations to achieve economic and social development through trade and investment.

WTO OMC
The forum to negotiate multilateral trade rules, monitor their implementation and handle trade disputes

ITC works with local and regional institutions and business people to build trade capacity.

Our mission
To foster inclusive and sustainable growth and development through trade and international business development.
Overview

• Nepal: scheduled for **graduation** in 2026

• **Objective** of this study:
  o estimate graduation-related export losses for Nepal (tariffs)
  o identify approaches to mitigate them

• **Approach**: partial equilibrium model for impact of tariff changes on exports (using projections of trade and tariffs to 2026)

• **Result**: loss of 4% of total exports projected for 2026 ($59 million)

• For specific product-markets with significant losses:
  o use ITC’s Export Potential to identify **trade promotion** and **market diversification** opportunities
  o highlight the relevance of renewed **market access** negotiation (GSP+)
Post-graduation regimes

25 LDC-specific tariff regimes will switch to GSP, bilateral or regional agreements or MFN tariffs

Source: authors’ illustration based on data from the ITC Market Access Map (2021).
Change in tariffs faced

- 22% of 2026 exports will see an increase in tariffs
- the average trade-weighted tariff will increase from 1% to 2%
- differences between sectors:

**Note:** averages by sector weighted by pre-graduation 2026 exports.
**Source:** authors’ calculation based on data from the ITC Market Access Map (2021).
Approach: partial equilibrium model

- Baseline: projected exports and tariffs in 2026

- Simulation: expected tariffs after graduation (assumption: move to next best tariff regime, tariff preferences are fully utilized)

- Results:
  - Projected exports 2026: $1.4 billion with LDC status
  - Loss of 4% of total projected exports ($59 million)
Effects on exports by destination I

- Concentrated in EU, Turkey, China, UK and Canada

Estimated export losses, by destination

- EU, $18mn, 31%
- Turkey, $14mn, 23%
- China, $11mn, 19%
- United Kingdom, $7mn, 11%
- Canada, $3mn, 5%
- Japan, $2mn, 3%
- United States, $1mn, 2%
- Rest of the World, $3mn, 5%
- United States, $1mn, 2%
- Japan, $2mn, 3%
- Canada, $3mn, 5%
- United Kingdom, $7mn, 11%
- China, $11mn, 19%
- Turkey, $14mn, 23%

Note: the figure shows the markets with the largest losses, up to 90% of total losses.
Source: authors’ calculation based on data from the ITC Market Analysis Tools (2021).
Within the EU

Estimated export losses, EU focus

$ million

Germany | France | Italy | Netherlands | Denmark | Spain | Austria | Belgium | Rest of EU

Note: the figure shows the markets with the largest losses, up to 90% of total losses.

Source: authors’ calculation based on data from the ITC Market Analysis Tools (2021).
Effects on exports by destination II

Current exports and estimated export losses, main partners

Note: the figure shows the main export partners, up to 90% of total exports. 
Source: authors’ calculation based on data from the ITC Market Analysis Tools (2021).
Estimated export losses, by sector

Note: the figure shows the sectors with the largest losses, up to 90% of total losses.
Source: authors’ calculation based on data from the ITC Market Analysis Tools (2021).
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Identifying mitigation opportunities

• Contrast estimated losses against untapped export potential in each product and market
Export potential in one slide

By 2026…

Demand x Supply x Ease =

- How much of the product will the importing country demand?
- How much of the product can the exporting country supply?
- How easy is it currently for the exporting and the importing country to trade with each other?

Export Potential Indicator (EPI)

Actual exports

Unrealized export potential

- How much of the product can the exporting country export to the importing country?
- How much can exports of the product from the exporting country to the importing country grow?

https://exportpotential.intracen.org/en/
Identifying mitigation opportunities

- Contrast *estimated losses* against *untapped export potential* in each product and market

- ITC export potential methodology

- Tailored: export potential in 2026 with post graduation tariffs

- We identify untapped export potential after graduation by product and market
Identifying mitigation opportunities

- *estimated losses* > or < *untapped export potential*

- Cases

- **Case 1**: for product X exported to market A the untapped potential in X (or a “similar” product) and A is larger than the loss
  - “targeted trade promotion”

- **Case 2**: for product X exported to market A the untapped potential in X (or a “similar” product) and A is smaller than the loss, but it is larger in markets B and C
  - “market diversification”

- **Case 3**: for product X exported to market A the untapped potential in X (or a “similar” product) and A, and all other markets is smaller than the loss
  - “market access negotiation”
Examples

- **Case 1**: for product X exported to market A the untapped potential in X (or a “similar” product) and A is larger than the loss

  ➢ “targeted trade promotion”
Examples

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Examples

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  ➢ “market access negotiation”

![Bar chart showing untapped export potential and loss for Home textiles (63.01-.04). The chart indicates that the untapped export potential is negligible compared to the loss, with the majority of the loss attributed to the European Union and some to United States of America, India, and Others.]
Identifying mitigation opportunities

- *estimated losses* > or < *untapped export potential*

- Cases
  - **Case 1**: for product X exported to market A the untapped potential in X (or a “similar” product) and A is larger than the loss
    - “targeted trade promotion” “product diversification”
  - **Case 2**: for product X exported to market A the untapped potential in X (or a “similar” product) and A is smaller than the loss, but it is larger in markets B and C
    - “market diversification” “product diversification”
  - **Case 3**: for product X exported to market A the untapped potential in X (or a “similar” product) and A, and all other markets is smaller than the loss
    - “market access negotiation”
## Policy options

Adaptation strategies for markets and sectors with significant export losses, $ thousand

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Country</th>
<th>Export losses (GSP+)</th>
<th>Untapped export potential</th>
<th>Strategy</th>
<th>Untapped export potential in other markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>European Union</td>
<td>11208 (0)</td>
<td>3522</td>
<td>Market access (GSP+)</td>
<td>United States ($3576), China ($3368), India ($1881), Hong Kong SAR ($917), Switzerland ($611), Turkey ($561), Bangladesh ($419), Russian Federation ($320)</td>
</tr>
<tr>
<td></td>
<td>United Kingdom</td>
<td>5661</td>
<td>141</td>
<td>Market access/diversification</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Canada</td>
<td>1784</td>
<td>256</td>
<td>Market diversification</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>928</td>
<td>2155</td>
<td>Trade promotion</td>
<td></td>
</tr>
<tr>
<td>Beauty products &amp; perfumes</td>
<td>China</td>
<td>661</td>
<td>1633</td>
<td>Trade promotion</td>
<td>India ($4653), United Kingdom ($517), Turkey ($428)</td>
</tr>
<tr>
<td>Carpets</td>
<td>European Union</td>
<td>3403 (0)</td>
<td>4420</td>
<td>Market access (GSP+)/Trade promotion</td>
<td>United States ($5084), Switzerland ($2543), Japan ($2487)</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>1514</td>
<td>10</td>
<td>Market diversification</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Canada</td>
<td>563</td>
<td>611</td>
<td>Trade promotion</td>
<td></td>
</tr>
<tr>
<td>Crops n.e.s.</td>
<td>China</td>
<td>742</td>
<td>526</td>
<td>Market diversification</td>
<td>European Union ($3991), United States ($2598), United Kingdom ($753)</td>
</tr>
<tr>
<td>Food products n.e.s. (processed)</td>
<td>China</td>
<td>753</td>
<td>356</td>
<td>Market diversification</td>
<td>European Union ($757), Canada ($403), United Kingdom ($268)</td>
</tr>
<tr>
<td>Glass articles</td>
<td>United States</td>
<td>713</td>
<td>113</td>
<td>Market diversification</td>
<td>India ($2344), China ($202), European Union ($154)</td>
</tr>
<tr>
<td>Home textiles</td>
<td>European Union</td>
<td>1014 (0)</td>
<td>44</td>
<td>Market access (GSP+)</td>
<td>India ($86), United States ($48), Norway ($21)</td>
</tr>
<tr>
<td>Metal products</td>
<td>China</td>
<td>2549</td>
<td>0</td>
<td>Market diversification</td>
<td>United States ($2096), European Union ($1511), India ($578)</td>
</tr>
<tr>
<td>Misc. manufactured products</td>
<td>China</td>
<td>1361</td>
<td>258</td>
<td>Market diversification</td>
<td>European Union ($1072), United States ($992), United Kingdom ($893)</td>
</tr>
<tr>
<td>Skins, leather &amp; products thereof</td>
<td>China</td>
<td>992</td>
<td>574</td>
<td>Market diversification</td>
<td>India ($2986), European Union ($666), Turkey ($180)</td>
</tr>
<tr>
<td>Synthetic textile fabric</td>
<td>Turkey</td>
<td>13685</td>
<td>359</td>
<td>Market diversification</td>
<td>Bangladesh ($8161), India ($7987), European Union ($2729)</td>
</tr>
<tr>
<td>Textile fabric n.e.s.</td>
<td>European Union</td>
<td>863 (0)</td>
<td>208</td>
<td>Market access (GSP+)/Market diversification</td>
<td>China ($1741), India ($1697), Viet Nam ($116)</td>
</tr>
<tr>
<td>Textile products n.e.s.</td>
<td>European Union</td>
<td>637 (0)</td>
<td>2375</td>
<td>Market access (GSP+)/Market diversification</td>
<td>India ($9430), United States ($861), United Kingdom ($341)</td>
</tr>
</tbody>
</table>

**Note:** The table displays the market-sector combinations that are expected to experience losses over $500,000. They represent 83% of total projected losses. **Source:** Authors’ calculation based on data from the ITC Market Analysis Tools (2021).
Conclusions

• Partial equilibrium: 4% ($59 million) of projected exports in 2026 foregone with graduation tariff changes
• Losses in specific markets and sectors can be significant
• Possible adaptation strategies:
  o *Targeted trade promotion*: 
    Apparel to Japan, Beauty products and perfumes to China, and Carpets to Canada
  o *Market diversification*: 
    For other affected sector-markets, alternative markets with sufficient untapped export potential are available.
  o *Improved market access*
    For how long will Nepal meet the economic criteria?
    What would be the process to ratify pending conventions?
    How can the monitoring process be facilitated?
    What are the possible changes in the GSP+ scheme upon its revision?
    What additional support measures are necessary for stricter RoOs?
Discussion

- **Short-term**
  - mapping of losses and untapped potential for mitigation strategies

- **Long-term**
  - untapped potential to guide diversification efforts
Thank you!

https://intracen.org/resources/publications/Nepal-LDC-graduation

For more information

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Bonus slides
Utilization rate of preferences

- preference utilization rates vary significantly between partners
- high for some of Nepal’s main export destinations (EU and USA)

Note: data for China is only available in 2016 and 2018.
Source: authors’ calculations based on data from WTO IDB.
Special cases under the India-Nepal FTA

- India-Nepal agreement: quotas for acrylic yarn, copper products, and vegetable fats, a relevant part of Nepal’s current exports.
- It is not expected that these quotas will lead to trade losses

**Acrylic yarn**
- Quota: 10,000 tonnes, 5% duty out-of-quota
- Projected exports for 2026: 9,000 tonnes
- If the quota is exceeded: 11-12% export losses beyond the quota

**Copper products**
- Quota: 10,000 tonnes, 5% duty out-of-quota
- Projected exports for 2026: 3,300 tonnes

**Vegetable fats**
- Quota: 100,000 tonnes, 35% - 54% duty out-of-quota
- Large exports of refined palm oil and soybean oil, refined from crude imports
- Mid-2020: India suspended import licenses of refined palm oil from Nepal
- Refined soybean oil exports face similar concerns
- **Will the quota be binding?**
- If it is, and it is used for palm oil, $42 million losses for palm oil and for soybean oil.
  - total losses $101 million, or 13% of projected exports for 2026.