



## Asia-Pacific Trade Briefs

## Nepal

**Merchandise trade:** Nepal's merchandise exports grew sluggishly, by just 1.2% in 2014 – in line with a period of already low growth, averaging 1.0% a year between 2010-2014. Nepal has a somewhat under-diversified export base and its exports just 1496 products – lower than the Asia-Pacific average of 2107 products – to 101 partners – which is only slightly larger than the Asia-Pacific average of 95 partners. Its top export products are water and beverages; carpets; and yarn, which make up 10.3%, 8.5%, and 7.2% of exports respectively. Nepal is highly dependent on trade with India, which accounts for over half of its exports (62.1%) and imports (57.3%). In contrast to merchandise exports, merchandise imports grew rapidly in 2014, by 15.1% – from an already rapid average annual growth in the period 2010-2014, of 10.2%. Nepal is highly reliant on India for vital fuel supplies. Petroleum oils and gas account for around 16.6% of imports. Political unrest and successive changes in government have led to trade blockades that have had widespread consequences for the Nepalese economy. The earthquake in April 2015 has also had damaging effects on infrastructure and trade, such that the near-term prospects for trade are bleak.

**Services trade:** Nepal's services exports grew by 5.0% in 2014 – marginally higher than the Asia-Pacific total growth of 4.8%. This was led by stellar growth in exports of telecoms, computer and information technology services. Services imports grew markedly faster, by 17.4% in 2014 – more than twice the Asia-Pacific total of 6.1% – led by greater imports of transport and travel services. However the 2015 earthquake has caused important setbacks to the development of the industry.

**Global value chains (GVCs):** The share of intermediate goods in trade – a proxy for participation in GVCs – is equal in Nepal (22%) to the Asia-Pacific average (22%) for imports, and slightly higher in Nepal (28%) than the Asia-Pacific (18%) for exports. This suggests greater participation in GVCs on the export side, as Nepal's top export products prominently feature intermediate goods (i.e. yarn; plastics; flat rolled iron; and pipes).

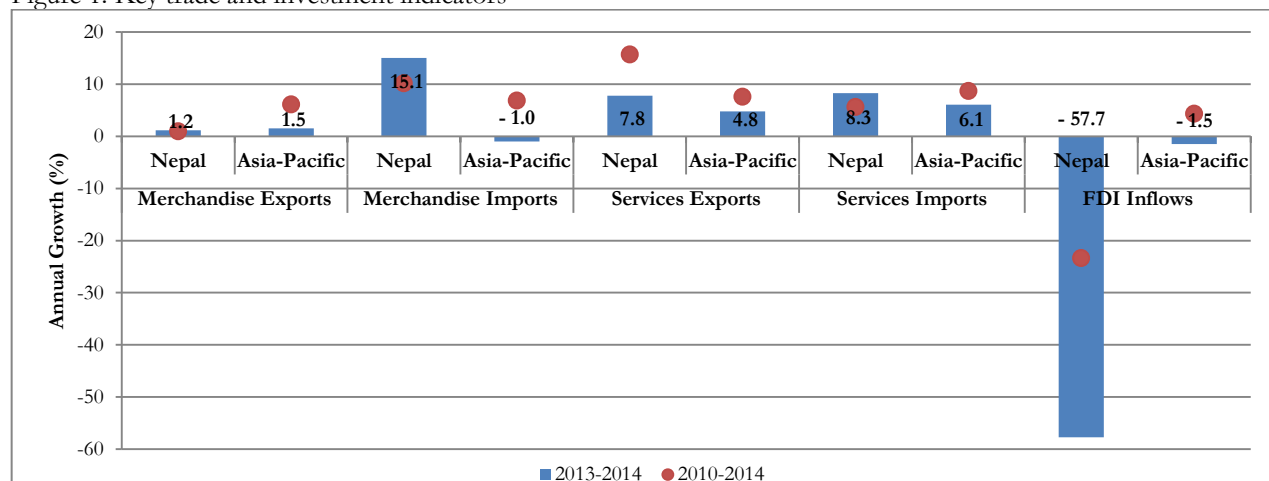
**Foreign direct investment (FDI):** Nepal's FDI inflows contracted sharply, by -57.7% in 2014 – following a sustained period of contraction averaging -23.4% a year between 2010-2014. Nepal is burdened with corruption; political instability; frequent changes in government; weak infrastructure; and an unskilled workforce, hindering its prospects for attracting investment. Yet Nepal has the potential to develop a strong tourism and hydroelectric power industry. In April 2015, India and Nepal successfully signed a \$1 billion USD deal to build a hydropower plant on the Arun River, to address energy shortages and to supply India with electricity.

**Tariffs:** Average MFN applied and effective tariffs at 12.1% and 12.3% are slightly higher than Asia-Pacific averages of 7.4% and 7.4%. Average WTO bound duty, at 26.2%, is slightly higher than the Asia-Pacific average of 21.7%.

**Trade costs:** Intraregional trade costs in Nepal have fallen slightly since 2009. It is costlier for Asia-Pacific economies to trade with Nepal than with East Asia-3 (China, Japan and Republic of Korea) – the intraregional benchmark – and with EU-3 (France, Germany and United Kingdom) – the extraregional benchmark. Based on the UNRC Survey 2015\*, Nepal's trade facilitation and paperless trade implementation score is at 31.2%, compared to 46.5% for the Asia-Pacific.

**Trade Agreements:** Nepal has 2 trade agreements in force, which is lower than the Asia-Pacific average of 7.1 agreements. Fifty six per cent of total exports are to PTA partners, compared to 35% for the Asia-Pacific. Fifty four per cent of total imports are from PTA partners, compared to 45% for Asia-Pacific.

Figure 1. Key trade and investment indicators



\*Country notes summarising results of the UNRC Survey 2015 are available at: <http://unnex.unescap.org/UNTRFSurvey2015.asp>

Figure 2. Top merchandise markets

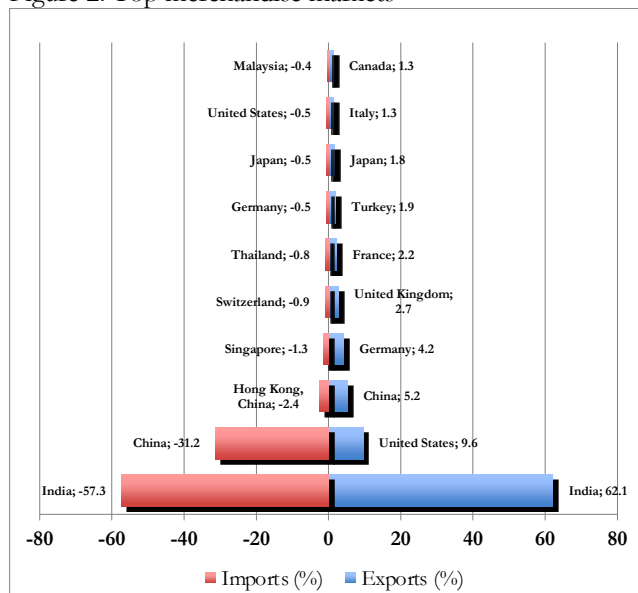


Figure 3. Top merchandise products

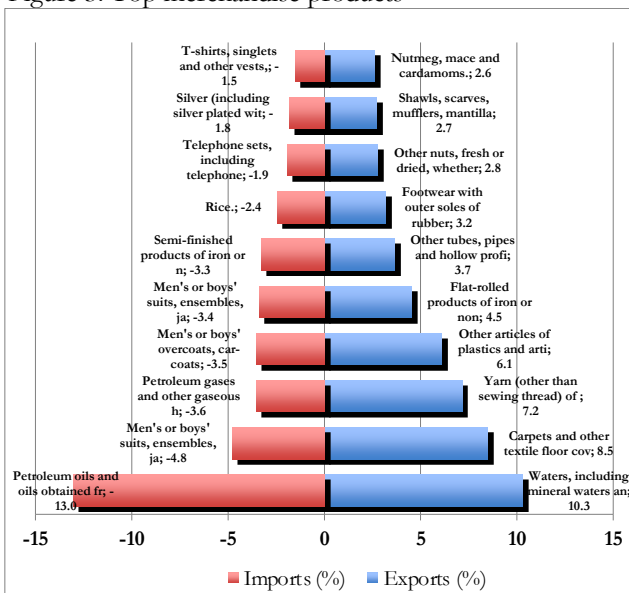


Figure 4. Trade in goods by their use

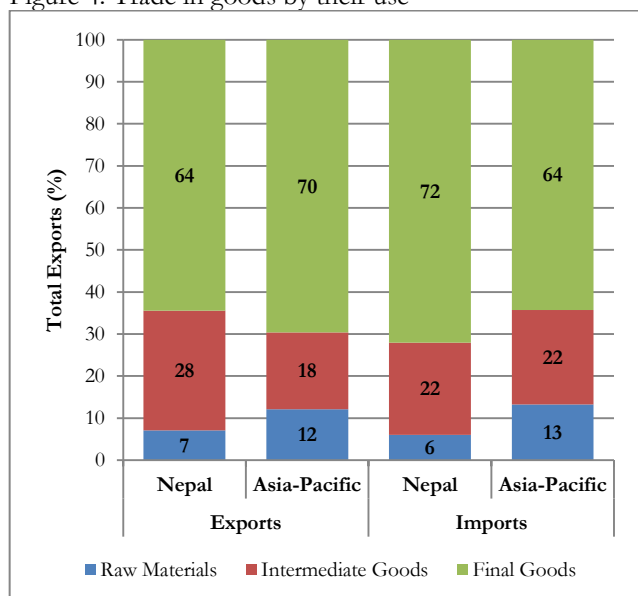


Figure 5. Foreign direct investment

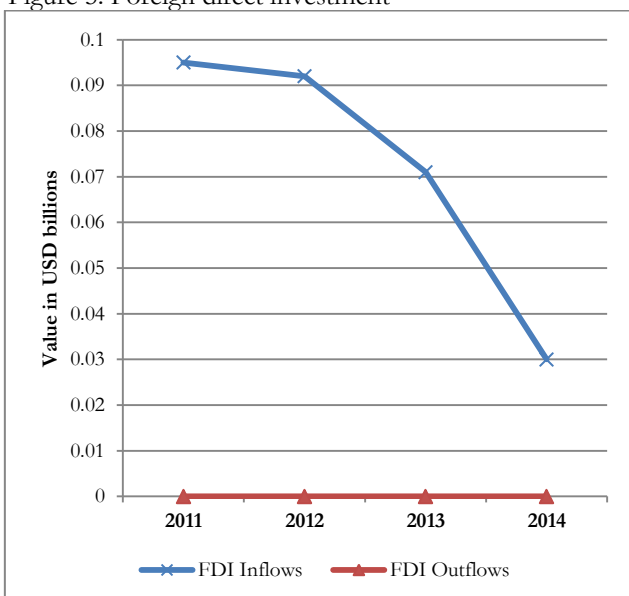


Figure 6. Tariffs

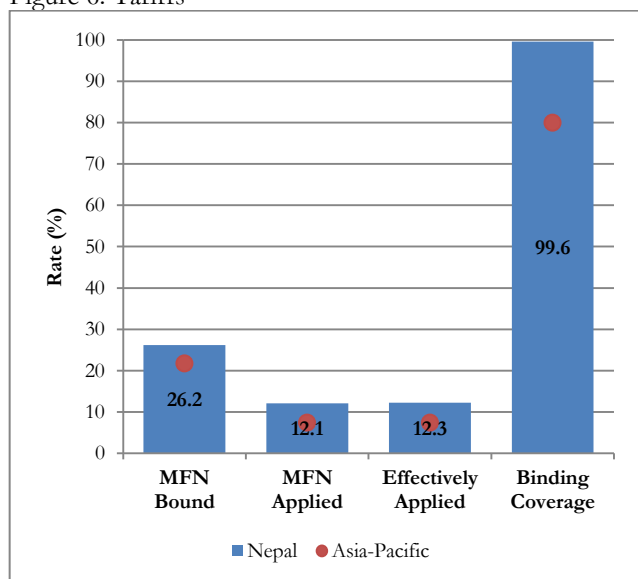
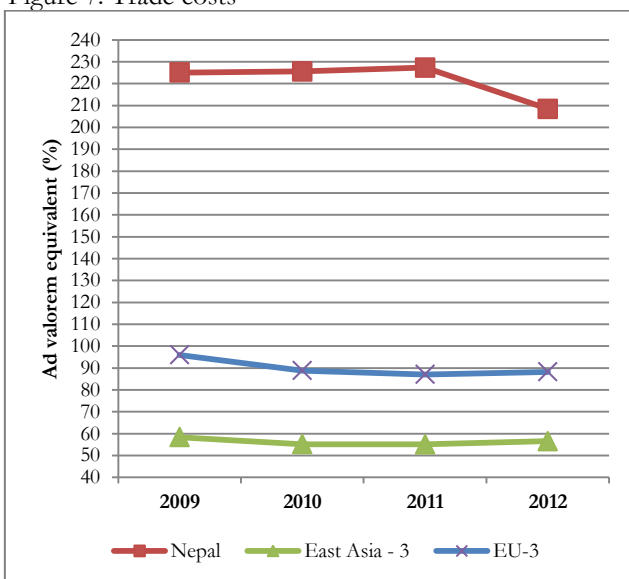


Figure 7. Trade costs



Sources: Trade and tariff data were accessed through WITS. FDI data was accessed through UNCTADstat.

Notes: Trade data follows the HS2007 classification. Mirror data is used. Products are defined at the 6-digit level.

Definitions: Primary, intermediate, consumer, and capital goods are defined using UNCTAD System of Accounts. Final goods are defined as the sum of consumer and capital goods. Bound tariff is the maximum most favoured nation (MFN) tariff permitted under WTO obligations. MFN applied tariff is the tariff applied on imports among WTO members. Effectively applied rate is the lowest tariff available, i.e. preferential rates where available.

Authors: Aman Saggi and Luca Parisotto; comments from Mia Mikic, Witada Anukoonwattaka, Rajan Ratna, and Adam Heal; contact: [escap-tid@un.org](mailto:escap-tid@un.org).