



Regional Workshop on LDC Graduation for LDC in Asia

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Presentation Outline

- ❖ Nepal: Country Profile
- ❖ Socio Economic Status of Nepal
- ❖ LDC Graduation Criterion and Nepal
- ❖ Implications of the LDC Graduation in Trade
- ❖ Opportunities and Challenges
- ❖ Way Forward



Federal Democratic Republic of Nepal





Nepal at a Glance



- Nepal, the landlocked, multiethnic, multilingual, multi-religious country located between India and China.
- Geographically divided into three ecological region (Mountain, Hill and terrain),
- Administrative Division: Seven provinces and 753 local levels
- Capital: Kathmandu
- Area: 1,47,181 sq km
- Population: 28 million (2011)
- Population Growth Rate: 1.35%





Socio-Economic Status



- Population under national poverty line: 18.7% (2018)
- Literacy rate (15-24) :85% (2018)
- Average Life expectancy rate: 69.7% (2018)
- Human Development Index: 0.574, (2018 report)
- Maternal Mortality rate: 239/100000 live births
- Child (<5) Mortality rate: 39/1000, live births
- Infant Mortality rate: 32/1000 live births



Socio-Economic Status



- GDP at basic price (Estimates of 2018): Nrs. 300.07 billion
- GDP Growth rate (at constant price) : 6.94%
- GNI Per Capita (2018): US \$ 1012

Trade:

- Export: 73 billion (annual % Change 2.8)
 - Import: 985.95 billion (annual % Change 26.2)
 - Major Export: Carpet, Pashmina, Textile, Tea, Ginger, Cardamom
 - Major Imports: Fuel, Gold, Apparel, Machinery Equipment
- Major Trading Partner : India, China, USA, EU, Bangladesh, UAE



LDC Graduation



In 2015, Nepal met the LDC Graduation Criteria by achieving the Economic Vulnerability Index (EVI) and Human Assets Index (HAI) respectively.

It is the first LDC to graduate from below the income threshold.

| Graduation Criteria | Minimum requirement | Nepal's Status |
|------------------------|---------------------|----------------|
| Per capita Income | USD 1230 | \$745 |
| Human Assets Index | 66 or above | 71.2 |
| Economic Vulnerability | 32 or below | 28.4 |

Source: 2018 triennial review



Possible Impact of LDC Graduation in Trade



- Nepal's export competitiveness is relatively low, in a time when the export growth rate of major exportable goods has not been consistently positive, the viability and access to market that Nepal enjoys as an LDC may have a negative impact on the exports. In the previous FY, out of 73.13 billion export- 63.5 billion (about 87%) were exported under zero duty facility.
- In comparison to neighboring countries, Nepal has weak competitive export capacity reasons being higher transportation cost, economies of scale, wage & the technology. Despite that, the government is not in the condition of providing subsidies and support making tariff concession facility important. Nepali goods in comparison to its neighboring countries' goods are at least 10% more expensive and LDC graduation entails the major exportable goods will require payment of 2-3 times more customs lessening the export competitiveness further.
- For the optimal utilization of the trade concessions and facilities, it is appropriate to remain as a LDC. For example, Nepal exported goods of only 76 million rupees in the concession provided by America in +77 goods. 8



Possible Impact of LDC Graduation in Trade

Market access – goods.

- Nepal's market access for some of its current exports may be negatively affected. Particularly, carpet export to Canada and EU, and apparel export to EU.
- The possible diversification of current exports into new markets.
- Most of the existing major exports would face higher tariffs in China.
- Vegetable and textile export may be difficult to diversity into new markets, such as Canada, EU, Japan and Turkey.
- Diversification into potential export sectors may also be challenging,
- A significant tariff increase is expected for herb and footwear in many of the major trading partners of Nepal.
- **Market access – service .. Not analyzed**



Possible Impact of LDC Graduation in Trade



WTO obligations.

- Nepal has been a member of WTO since 2004. As acceding country, some of the special and differential treatments are not applicable to Nepal such as TRIPS.
- The main Aid for Trade instrument is Enhanced Integrated Framework (EIF),. Nepal would be eligible for support from the EIF for a period of up to five years after graduation.



Possible Impact of LDC Graduation in Trade

| Category | Channels | Possible change | Possible result | Remedies |
|----------|--|--|--|---|
| Trade | Export of major products to main destinations | No or minor changes for Bangladesh, India, Turkey and USA. Tariff rise in Canada (carpet), EU (carpet and apparel | Demand for carpet and apparel may decrease, especially in EU | Concludes PTA Bilateral Agreement Policies/Plan review Enhance competitiveness |
| | Diversification of major products to new markets | Tariff rise in Canada (vegetables, textile), China (vegetables, coffee, textile, carpet, steel), EU (vegetables, textile), Japan (vegetables, textile), and Turkey (textile). | Difficulties in diversifying into new markets with higher tariffs. | Focus new market And products having low customs and low NTMs |
| | Diversification to other products | No or minor change for Bangladesh, India and USA. Tariff rise in Canada (herb, footwear), China (herb, plastic, leather, footwear), EU (herb, footwear), Japan (herb, leather, footwear), and Turkey (footwear). | Difficulties in diversifying into new sectors with higher tariffs. | Development of Unique product such as Everest Mineral Water |



Possible Impact of LDC Graduation in Trade



| Category | Channels | Possible change | Possible result | Remedies |
|----------|---------------------------------|--|--|--------------------------|
| | Export of service | Service Waiver no longer applied. | | |
| | Trade related capacity building | Losing eligibility for EIF, and not counted in AfT for LDCs. | 5 years of transition for EIF | Use of Domestic resource |
| | WTO obligations | TFA, TRIPS and others | No impact | |
| | Scholarship and research | Not eligible for grants for applications from LDCs | Not significant. Most allow non-LDC applications | |
| | Travel support | No longer eligible for support. | UN GA 3 years transition. Self-financed travel, | |



Some challenges of Graduation



- Earthquake of 2015 and its impact
- Revision of trade related policies (Most of them inherent the tariff preference market regime)
- Enhancing investment environment to achieve high growth rate
- Increase high value low volume products
- Use available avenues and facilities provided by regional and multilateral agreements
- Increase competitiveness.



Opportunities



- **Sound Preconditions:** stable economy, resilient to disasters, a functioning federal system
- **Transition Strategy:** Economic recovery and political revival
- **Improving Connectivity:** upgrading of infrastructures including railways, ICDs, ICPs, CFS
- Attracting Investment and Technology: Regulatory reforms (FITA, IP)
- **Consultative Process:** PMO, MoICS, MoFA, MoF, NPC



Way Forward



- Nepal has deferred Graduation on 2018 despite qualifying EVI and HAI criterion.
- Policy and plans are directed to enhance domestic capacity in trade infrastructure and other socio economic development.
- Integral part of Nepal's **long-term development strategy to become a vibrant middle-income country by 2030**. Not an isolated international milestone.
- Need for investment
- Enhancing quality of education and health services
- Broad stakeholder engagement to accelerate the pace of growth and development
- Utilize existing ISM fully,

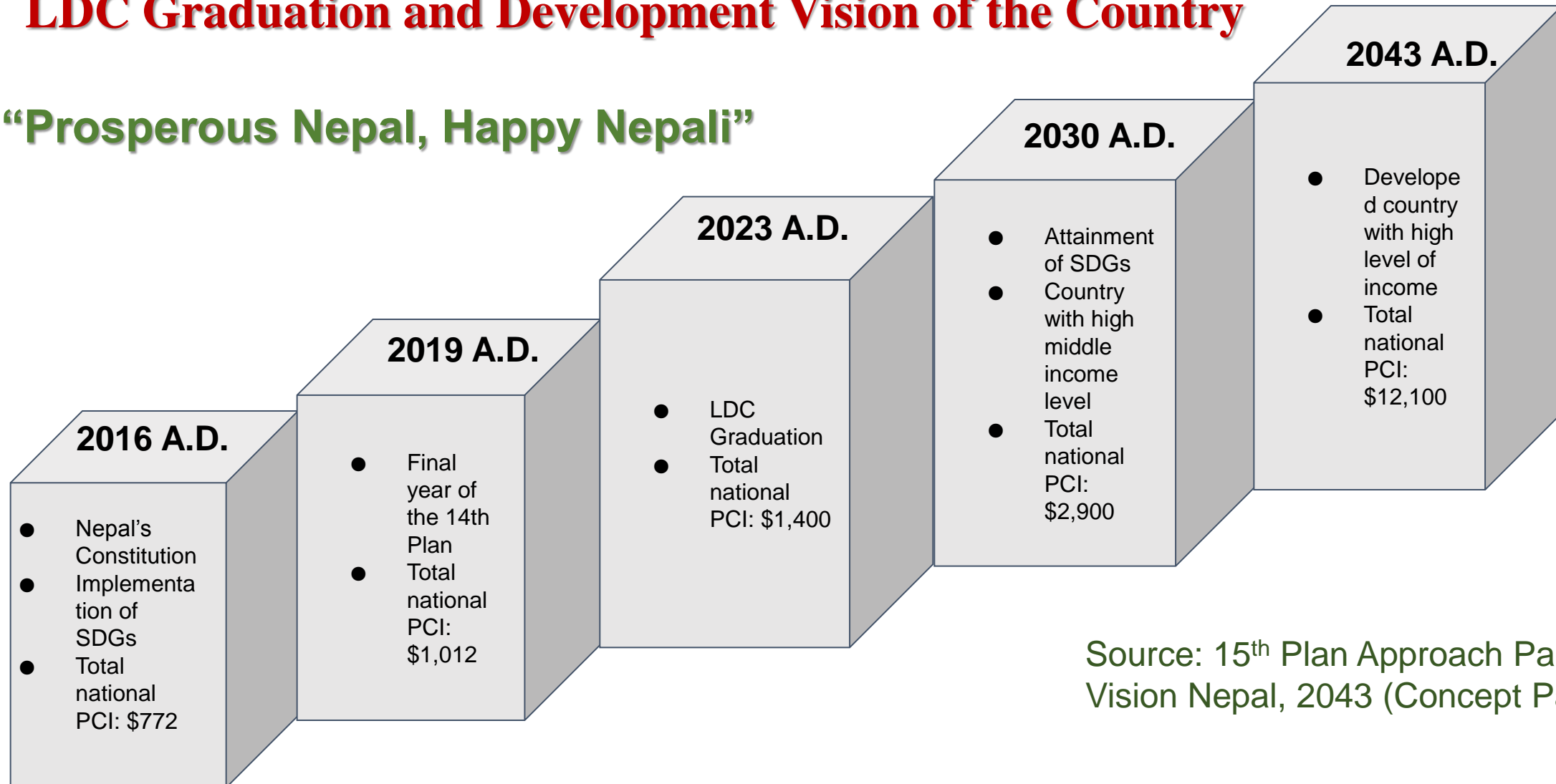


Way Forward



LDC Graduation and Development Vision of the Country

“Prosperous Nepal, Happy Nepali”



Source: 15th Plan Approach Paper (draft)
Vision Nepal, 2043 (Concept Paper)



Thank you!