

# Economic Diplomacy & International Trade Facilitation

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परराष्ट्र मामिला अध्ययन प्रतिष्ठान  
Institute of Foreign Affairs (IFA)

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Tripureshwor, Kathmandu, Nepal

Telephone : 00977-4266954, 4266955

Email : info@ifa.org.np

Website : www.ifa.org.np

The government of Nepal has created various trade strategies and policies for trade facilitation. Similarly, the diplomatic missions in foreign are playing an important role in trade facilitation and export promotion. Goods having high export potential are few and highly concentrated. In order to facilitate and promote each of the goods having high export potential, the government has formulated product-specific strategies. In spite of these efforts, however, Nepal's trade gap is widening. Owing to this, the Institute of Foreign Affairs (IFA), as an assistant and supporting body of the Ministry of Foreign Affairs, has considered for its study focus on "Economic Diplomacy and International Trade Facilitation" as natural duty to contribute to meet the need for making available good literature and relevant information on the topic.

**Declaration**

The research and discussion presented in this study are the original work by the author. I confirm that this work has not been submitted at any conferences or the like or any tertiary institute or University for any purpose. Any material presented by any person or institute is duly referenced, and a complete list of all references is presented in the bibliography.

**Lead Researcher: Rabi Shanker Sainju**

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## Foreword

A study on “Economic Diplomacy and International Trade Facilitation” assumes a national significance from the view point of Nepal’s economic development. It is true that there is a nexus between economic diplomacy and foreign trade activities. However, the topic remained under-researched. Hence, an urgency to do something in this respect was felt. To fulfill the void, the Institute of Foreign Affairs has initiated to undertake the study a few months ago, because moving together could be an important strategy to make economic diplomacy more productive and rewarding on one hand and to reduce a huge trade deficit in a pragmatic way on the other. The Institute as an assisting and supporting body of the Ministry of Foreign Affairs has considered its natural duty to contribute to meet the need for making available good literature and relevant information on the topic.

In our search for finding an expert on the stated topic, the Institute has found Mr. Rabi Shanker Sainju, a good expert on the international trade facilitation. He has served the Ministry of Trade and Industry for a pretty long time before he retired as a Joint Secretary.

He reviewed Nepal’s trade linkages and its activities vis-à-vis neighbours India, China, European Union, the United States and others from the national perspective of the country and examined trade treaties and transit facilities. He has also examined the recurring gaps and suggested some enforceable measures to address them as part of promoting Nepal’s external trade and made efforts to make strategic connection between economic diplomacy and trade facilitation for enhancement of Nepal’s external trade in a practical way.

After considering all relevant constituents and conditions, Mr. Sainju has made 16 strategic recommendations to the relevant authorities of the Government of Nepal and other 8 recommendations to Nepal’s diplomatic missions, consulates and honorary consulates based in various capitals and cities around the world.

In the last week of June this year, Mr. Sainju presented his paper in the seminar organized by the Institute, in which prominent persons and experts had made comments and queries, making the event lively and useful.

We would sincerely offer our thanks to Hon. Pradeep Kumar Gyawali (Former Foreign Minister), Hon. Puspa Raj Kadel (Vice Chairperson, National Planning Commission), Mr Bharat Raj Paudyal (Foreign Secretary), Mr Gyan Chandra Acharya, Mr Chandra Ghimire, Dr Min Bahadur Shrestha, Dr Baikuntha Aryal, Dr Pushkar Bajracharya, Dr Ramesh Chandra Paudel, Dr Paras Kharel, Dr Santosh Adhikari and Mr Swastik Aryal for their contributions on the occasion.

Finally, we extend our sincere appreciation to Mr. Rabi Shanker Sainju for his contribution to make the study serviceable for Nepal.

**Rajesh Shrestha**  
Executive Director  
Institute of Foreign Affairs (IFA)



## Executive Summary

The Government of Nepal has created various trade strategies and policies for trade facilitation. Similarly, the diplomatic missions in foreign nations are advised to play an important role in trade facilitation and export promotion. Goods having high export potential are few and highly concentrated. In order to facilitate and promote each of the goods having high export potential, the government has formulated product-specific strategies. In spite of these efforts, however, Nepal's trade gap is widening.

Economic diplomacy has emerged as an important aspect of the trade facilitation mechanism. While diplomacy was heavily centered on political and security agendas, especially during and before the Second World War, the concept of economic diplomacy has undergone significant changes since then and managed to come back to its core roots, that is trade. Realizing the importance of economic diplomacy in international trade, this study tries to identify major trade facilitation gaps and hurdles in Nepal's trade competitiveness.

The study begins by conceptualizing economic and trade diplomacy, and highlights how economic diplomacy in foreign countries is changing due to the changing preference from war and politics to trade and economic development. It also analyzes the causes of the high trade costs due to poor and inefficient trade logistics. The study also analyzes the roles of the Ministry of Foreign Affairs (MOFA) in enhancing trade. To better understand Nepal's trade situation, a brief analysis of the overall trade situation along with bilateral trade between Nepal and its major trading partners has also been carried out. The analysis also includes Nepal's top export goods in the major markets. Nepal's performance in the global indicators, such as the World Bank's Doing Business Index, Logistics Performance Index, and the World Economic Forum's Enabling Trade Index, is also analyzed.

Trade facilitation being a high priority of the government, the current trade facilitation mechanisms, including policies, are also highlighted, analyzed, and gaps in the trade facilitation mechanisms identified. Based on the identified gaps for enhancing Nepal's trade competitiveness, this study highlights the role of embassies, diplomatic missions, consulates, and honorary consulates in trade facilitation, trade and transit negotiations, identification of potential export markets for Nepali products, and facilitation of Nepali producers in accessing foreign markets.

The recommendations of the study should enable trade facilitation and seamless movement of goods while enhancing supply chain management and trade competitiveness of Nepali products. It should also support in creating opportunities and accessing foreign markets for Nepali producers.



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# CHAPTER I

## Introduction

# 1. Introduction

## 1.1 Background

Economic diplomacy as a tool for managing international relations has emerged as one of the most popular agendas in 21st century diplomacy. Economic exchanges and co-operation among different nations have become the international norm. Even when the political relation between two countries is acrimonious, this form of diplomacy plays its part in normalizing bilateral ties. It is believed that economic diplomacy has evolved from trade diplomacy. Traditional trade diplomacy was the domain of government officials/diplomats, and there was not much involvement of the private sector and the civil society except in some developed countries. With ever-expanding economic globalization and associated complexities, economic diplomacy has become an intrinsic part and determinant of the process of formulating and implementing a country's foreign policy. Bilateral, regional, and multilateral economic diplomacy plays a major role in economic relations. It includes bilateral trade and treaties; agreements on investment; employment or avoidance of double taxation; and a range of formal and informal economic issues.

The origin of Nepal's economic diplomacy can be traced back to the earlier days of the Malla dynasty. During that period, Nepal had trade relations with Tibet. Exporting goods became fruitful for Nepal in enhancing its prosperity. After the restoration of multi-party democracy in 1990 and to adjust its foreign policy with the international discourse, Nepal made some crucial attempts to institutionalize economic diplomacy. As a result, under the Ministry of Foreign Affairs (MOFA), Nepal instituted a multi-lateral economic affairs division to look into the issues of economic diplomacy. From the promotion of foreign trade and foreign direct investment (FDI) to enhancing eco-tourism along with religious and cultural events, economic diplomacy is becoming a plausible means to achieve its foreign policy objective of economic advancement. Apart from this, the booming service sector in the country and rising private business entrepreneurship create a realistic opportunity for Nepal to boost its trade through international relations. Having already entered the global trading regime like the WTO and other sub-regional forums, such as SAARC, SAFTA, and BIMSTEC, Nepal has been bestowed with trade-based benefits like duty free, quota free access, among others, as Nepal is still a least developed country (LDC).

## 1.2 Rationale

The government has created various trade strategies and policies to facilitate trade and promote exports. Similarly, the diplomatic missions in foreign nations have been advised to play an important role in these endeavors. In Nepal, goods having high export potential are few and highly concentrated. In order to promote each of these goods, the government has formulated product-specific strategies. The Nepal Trade Integrated Strategy of 2016 along with Products of Nepal: A Handbook of Major Export Potentials of Nepal (2019) have provided specific product-related strategies to promote their export. Similarly, not all products are suitable in all markets and regions. For example, Europe can be a suitable

market for carpets and pashmina goods whereas South Asia is a good market for large cardamoms. Given the varying nature of the products as well as markets, all diplomatic missions might not need to address all the products having high export potential, rather they can focus on a few that are suitable to their market. With the correct product and market identification along with strong trade strategies and policies, diplomatic missions can assist in trade facilitation and export promotion.

Although the trade sector is vital for the growth of an economy, the contribution of trade in the overall gross domestic product (GDP) has been low. According to World Integrated Trade Solutions (WITS), Nepal's merchandise import as a percentage of (GDP) was 46.3% in 2018, whereas export as a percentage of GDP was a mere 8.93% the same year. India's exports as a percentage of GDP was 19.74% in 2018 and that of imports was 23.64%. Bangladesh's imports as a percentage of GDP was merely 24.75% in 2015. Thus, Nepal's import as a percentage of GDP is high and export as a percentage of GDP is low compared to that of neighboring countries. There are many factors affecting Nepal's trade performance, such as policy gaps, failure to implement strategies, absence of coordination among the related departments, and procedural burdens, among others. As diplomatic missions have first-hand knowledge regarding the type of market and demand, they could play a key role in export promotion through economic and trade diplomacy. As export promotion has been slow and inefficient so far, it is necessary to not only identify the gaps but also close them with relevant interventions, policies, and strategies. Although there have been numerous studies regarding export promotion and trade enhancement of Nepal, the role of diplomatic missions seems to be lacking to some extent. Therefore, a study to identify the gaps and outline the roles of diplomatic missions for trade enhancement and export promotion is of utmost importance to reduce the worrisome trade deficit that Nepal has been facing.

### **1.3 Objectives**

The main objective of this study is to review the role of diplomatic missions in enhancing trade facilitation and export promotion of Nepali products. The specific objectives are:

- To analyze Nepal's foreign trade situation and find characteristics of the increasing trade deficit.
- To identify strategies to penetrate potential major foreign markets for Nepali products.
- To identify the role of diplomatic missions in trade facilitation and export promotion of Nepali products in the international market.
- To identify coordination gaps between diplomatic missions and concerned agencies in Nepal in trade facilitation and recommend suggestions to close those gaps.

### **1.4 Methodology**

This research study is based on the following methodology:

- Review of the international trade scenario, trade policies, and trade strategies of Nepal.
- Review of bilateral trade and transit agreements with neighboring countries and various

multilateral and international agreements with different international organizations.

- Review of the role of different government and private organizations in cross-border trade and coordination among them.
- Review of available literatures on international experiences in enhancing the role of diplomatic missions in international trade.
- Consultation with former officials of diplomatic missions, concerned officials of MOFA, MOICS, MOALD, and other related organizations.
- Consultation with private sector organizations, major exporters, and related officials.

### **1.5 Expected Outcome**

The expected outcomes of the study are as follows:

- Identify factors that have been hindering Nepal's exports despite Nepal's comparative advantages.
- Identify major hurdles in international trade expansion for Nepal.
- Identify the role of diplomatic missions in international trade expansion and trade facilitation.
- Suggestions for harmonization of various international trade-related activities of government and private sector organizations with MOFA and diplomatic missions.
- Suggestions for trade enhancement strategies for diplomatic missions.

### **1.6 Limitations**

The study is centered on commercial diplomacy as a tool within economic diplomacy and has, thus, not captured all the aspects of economic diplomacy. As commercial diplomacy is more focused on trade facilitation and export promotion, it is perceived to be more relevant to this study. Further research in the area of economic diplomacy and on its role in trade facilitation is necessary. Additionally, due to the COVID-19 pandemic, this study was carried out during an abnormal period. Thus, this study was carried out with extensive literature review and, unfortunately, low consultations. In order to expand the dimensions of the study, further consultations with diplomats, government officials, and private sector representatives are required.

# CHAPTER II

## Diplomacy

## 2. Diplomacy

### 2.1 Economic Diplomacy

Diplomacy had mostly been about security and political agendas with another country. “Diplomacy is usually described as the main instrument of foreign policy enabling the management of external relations of a state by communication with foreign authorities and publics, as well as through the process of negotiations and networking” (Kotstecki and Naray, 2007). The relations with foreign countries used to be centered on political agendas, and naturally, the major area of diplomacy studies also became politics-centric. The realist and neorealist framework had been the choice and approach of scholars of diplomacy, and thus, analyses had revolved around the political agenda while economic development, globalization, and international trade had been largely ignored. “Much of the literature has tended to undervalue economic matters, failing to reflect on how theories and concepts of diplomacy can explain key international processes such as imperialism, globalization, and development” (Lee and Hocking, 2013). Study of international relations (IR), however, realized and recognized the importance of economic matters, social contexts, security issues, international trade, and political agendas as vital instruments in diplomacy.

The concept of economic diplomacy is not new but had remained dormant in modern history as security or military diplomacy was of higher interest. A survey by Coolsaet in 1998 pointed out that the ministries of foreign affairs all over the world were somewhat suddenly rediscovering the importance of economic diplomacy. It was after the 1990s that economic diplomacy gained momentum, and a series of events in history might have been the reason for economic diplomacy to become more important than military diplomacy. “Key developments, such as the creation of the post-World War II Bretton Woods institutions (mainly the World Bank (WB) and the International Monetary Fund (IMF)), the oil crises of the 1970s, the decline of American hegemony, indebtedness of developing countries from the 1980s onward, the East Asian financial crisis in the 1990s, and the rise of the Chinese and Indian economies in the 2000s, provide evidence of the high stakes of international economic relations, as well as their political and social importance” (Lee and Hocking, 2013). Before the 1990s, the main concern of countries and foreign ministries, in relation to diplomacy, was regarding security and politics, but some of the events pointed out by Lee and Hocking, (2013), show that the world was changing, which presented opportunities, challenges, and threats in the form of economic development and international trade. With the world changing its preference from war and military power to economics and trade, it was both natural and essential for governments and foreign ministries to transform their approach to diplomacy as well.

The change that brought new opportunities was not merely for governments across the world, but also for the entrepreneurs. Coolsaet, (2004), stated that, as the world was getting more competitive in the areas of development, innovation, and intellectual property, firms and entrepreneurs turned to their governments for support. To ensure home firms

benefitted rather than foreign firms, governments had no choice but to facilitate the interest of entrepreneurs and their companies. Economic diplomacy became more vital due to a more competitive environment for firms.

In summary, according to Rana and Chatterjee, (2011), economic diplomacy is a multi-hued activity, easy to describe in broad brushstrokes, but harder to pin down with precision. From the perspective of members of diplomatic and commercial or trade services, and those that are the ‘customers’ or users of these services, economic diplomacy is a plural set of practices, all aimed at advancing the home country’s external economic interests.

In Nepal, economic diplomacy has been regarded as an important tool in bilateral, regional, and multilateral negotiations. While political agendas are still high on the negotiations list, economic development, health, education, and trade have moved up the list and surpassed the military agenda. Although the Ministry of Foreign Affairs (MOFA) oversees diplomacy (including economic) and diplomatic missions, the approach has been uncoordinated to some extent. Coordination between the departments within the government as well as outside the government (private sector organizations, think tanks, and research institutes) has been lacking in most cases, and diplomacy is no different. A coordinated approach to diplomacy involves a multiplicity of actors and individuals built around policy networks drawn from several government departments, including the foreign ministry, as well as the private and civil sector actors placed in national, regional, and international levels (Hocking, 2004). While MOFA is responsible for dealing with diplomacy with neighboring and other countries, there are other ministries that have key interests in subjects related to their respective ministry. For example, to purchase or seek aid for vaccines against the coronavirus disease (COVID-19), MOFA might be the negotiator or contact ministry, but the Ministry of Health and Population (MOHP) also has a certain say in the procurement of vaccines. Similarly, international trade is an area where the commerce ministry has its interests. Diplomatic missions fall under MOFA, but to facilitate trade, diplomatic missions need to be in a constant loop with the Ministry of Industry, Commerce, and Supplies (MOICS) as well.

## 2.2 Trade Diplomacy

A famous cotton trader in the 1850s, Richard Cobden<sup>1</sup>, said, “Free trade is God’s diplomacy. There is no other certain way of uniting people in the bonds of peace.” The study of trade has undergone many transformations since the 1850s, and its importance has been further realized to be extremely vital for the global economy. Trade has always centered around diplomacy and is a concept that has been around since a long time. While diplomacy changed to being more security-centric during and after the world war era, in the 21<sup>st</sup> century, diplomacy has again found its way to be centered on trade and economy. “Trade

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<sup>1</sup> Richard Cobden was also a British politician, manufacturer, and the originator of two major free trade campaigns, the Anti-Corn Law League and the Cobden-Chevalier Treaty.

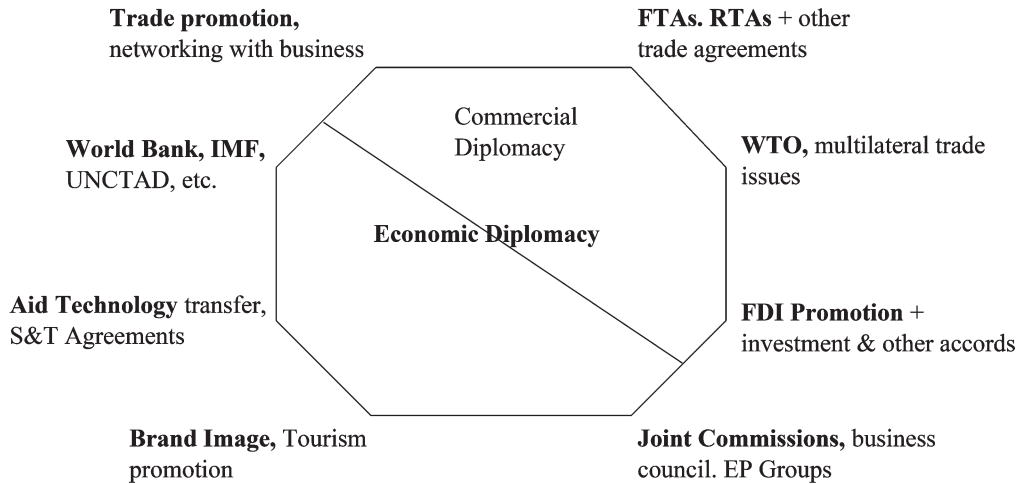
diplomacy is concerned with the management of trade regimes as well as the market factor affected by the regime” (Tussie, 2013). There are many factors that need to be considered for trade diplomacy to be successful and beneficial. Trade and transit treaties are usually the first step toward creating strong diplomatic ties for all – bilateral, regional, and multilateral. While most of the agreements and treaties try to benefit the market and the entrepreneurs, there are still some political tensions between the parties involved. “Market interests will drive diplomacy, but political considerations can also outweigh trade interests” (ibid.). The evolution of trade diplomacy has also prompted the creation of organizations, such as the World Trade Organization (WTO), to facilitate global trade. After the establishment of the WTO in 1995, global trade has been governed by a set of rules and procedures that have to be negotiated and implemented in trade agreements (Lee and Hocking, 2013). With the establishment of the WTO, regional associations and trade agreements have further realized the importance of trade diplomacy. Regional associations such as the South Asian Association for Regional Cooperation (SAARC) and trading agreements such as the North America Free Trade Agreement (NAFTA), and the European Union (EU) all extended their agendas for trade diplomacy (ibid.). The South Asian Free Trade Agreement (SAFTA) even came into effect in 2006 during the 12<sup>th</sup> SAARC Summit in Pakistan.

The concept of trade and trade diplomacy has undergone immense transformation. “Not only has trade become more important than ever as a carrier of economic progress, the impact of trade on the power of the state has also increased by nature of its changed character. These changes concern the fact that trade is no longer the exchange of goods between national productive systems, but a flow of goods and services within productive networks operating globally rather than nationally” (Coolsaet, 1998). Now, trade, specifically international trade, is not only the concern of the commerce or trade ministry, but is also a major concern of the Ministry of Foreign Affairs and its diplomatic missions. With the world transforming from trade between neighboring countries to trade with the whole global market, diplomatic ties with multiple countries have become a necessity. The WTO has been able to facilitate all bilateral, regional, and multilateral trade agreements within its member networks. The establishment and facilitation of WTO has been beneficial for many developing and emerging economies to increase their trade with the global market. For example, the drastic increase in garment exports from Bangladesh to multiple countries.

Commercial diplomacy is seen as a subset of the wider compendium of economic diplomacy. For instance, typically, commercial diplomacy would not include the management of economic aid – either as a donor or as a recipient – but that would clearly fall within the rubric of economic diplomacy. The same may apply to managing relations with international financial organizations, such as the World Bank and the International Monetary Fund, or the UN regional commissions, such as the Economic Commission for Asia and the Pacific (ESCAP). A chart showing their characteristics and differentiation is set out in figure 1.



**Figure 1: Economic & Commercial Diplomacy**



*Source: Rana and Chatterjee (2011)*

For business enterprises, industry bodies, consultants, users, and all those directly concerned with overseas economic activities, such distinctions are not of great interest. They are much more concerned with the way official agencies and the business promotional bodies can help them navigate their way in their profit-oriented activities in foreign markets. They are the true customers of economic diplomacy.

Seen this way, the ministries and their subsidiaries, the embassies and consulates, as also the chambers of commerce, industry bodies, export promotion bodies, and the research agencies connected with this work are all service providers to these real-world customers. Their task is to provide information and facilitate these customers in their overseas interactions. When the government agencies set the policy framework by framing rules and laws that govern such activities, or negotiate bilateral, regional, or global agreements, they are still in their basic role of service provider. The customers are the real owners of economic diplomacy. They are also the actors that actually generate trade in commodities and services, execute foreign investment activities at home and abroad, and implement technology partnerships.

### **2.2.1 Trade Diplomacy in Nepal**

After becoming a member of the WTO in 2004, Nepal has signed many trading agreements to facilitate the country’s overall trade. Being Nepal’s largest trading partner, major trade and transit agreements have been signed with India. Similarly, bilateral trade agreements have been signed with the United States of America (US), People’s Republic of China

(PRC), and Bangladesh, among others. As for regional trading agreements, as a member of SAARC, Nepal has signed the SAFTA along with other SAARC countries.

While the trading agreements do outline some benefits for Nepal and can to some extent assist in enhancing trade with multiple countries, the trade situation still remains poor. Diplomacy is largely about negotiating to grab the best possible agreement (trade agreement), but witnessing Nepal's widening trade gap, the best deal does not seem to have been picked up yet. Of course, signing trade agreements is one part, but actually taking advantage of the benefits is another part. For example, given Nepal's status as a (LDC), certain preferences have been provided by the WTO, such as free market entry to certain countries along with special and differential treatments. However, Nepal has been unable to take advantage of such benefits.

In trade agreements there are some non-tariff barriers (NTBs) that actually hinder trade and require heavy negotiations. For example, the trade agreement between Nepal and the European Union (EU) states that Nepal has market free access to all EU countries and can export all types of goods except arms (Everything but Arms (EBA)). As attractive as this seems, there are NTBs in the form of testing and certification, among others, which are hindering the entry of Nepali goods to EU countries.

Similarly, Nepal's trade and transit agreement with India grants both countries free market entry, but India always has an advantage over Nepal due to entry restrictions on goods-carrying vehicles. While Nepal allows Indian trucks to enter Nepal for both export and import purposes, Nepali-owned trucks are not granted entry to India for trading purposes (with the exception of fuel carrying vehicles). Trade diplomacy does not necessarily have to be limited to duty free entry, tariffs, or quotas as there are other factors that affect trade immensely.

In order to facilitate trade agreements and negotiations, the WTO has certain criteria that must be accepted by all the parties, such as their most favored nation (MFN) taxes. This is to ensure that tariff discrimination between countries does not occur. With regard to NTBs, countries themselves have to negotiate to receive the best possible deal. Of course, a reduced tariff rate can have significant impact on the trade performance of a country, but addressing NTBs should not be forgotten as they play an important role in facilitating exports. In Nepal's case, both domestic hurdles as well as NTBs across the border could be a reason for Nepal's slow export growth. In order to facilitate easy trade, MOFA, its diplomatic missions, MOICS, and the Department of Customs (DOC) all have their individual roles.

The MOICS states its key function is creating a conducive atmosphere for industrial development and investment promotion along with regulating and facilitating internal, bilateral, and regional trade as well as protecting and building industrial infrastructure

and intellectual property. (Ministry of Industry, Commerce, and Supplies, 2021). The DOC's vision is: to contribute to the economic and social prosperity of the country by providing professional and quality assured customs services according to global standards (Department of Customs, 2021). MOFA states that its responsibility is to formulate and implement Nepal's foreign policy, strengthening Nepal's bilateral, regional, and multilateral relations, projecting and promoting Nepal's image in the international arena, promoting Nepal's development diplomacy, and protecting the rights and interests of Nepali citizens living abroad. Similarly, the vision of MOFA is to protect and promote the national interest of Nepal within the overall framework of foreign policy through the effective conduct of diplomacy. Additionally, its mission is to strengthen the close, cordial, and friendly relations with the immediate neighbors, South Asian countries, major powers, and other countries (Ministry of Foreign Affairs, 2021). The roles, key functions, vision and mission of MOFA show a significant gap, that is, trade diplomacy. As trade, specifically international trade, is heavily dependent on foreign matters and negotiations, MOFA and its diplomatic missions have an extremely important role to play in facilitating trade. In some countries like New Zealand, foreign affairs and trade come under the jurisdiction of the same ministry as they are deeply interconnected.

Although the vision, key functions, and mission of MOFA do not include trade diplomacy, *Foreign Policy 2077 of Nepal* does discuss some aspects of trade facilitation and export promotion. There are two policies directly related to export promotion and trade facilitation.

Policy 8.12: To contribute to the economic development and prosperity of the nation by mobilizing development assistance and conducting effective economic diplomacy in the areas of foreign investment, export trade, and tourism promotion.

Policy 8.13: To contribute to the development of the national economy by promoting investment and tourism, expanding exports, and managing imports.

The working policies within policy 8.12 are focused on operationalizing economic diplomacy as an important tool of diplomacy for the overall development of the country. The working policies also include mobilizing embassies and consulates for export promotion and trade facilitation. The working policies within policy 8.13 are more heavily focused towards trade facilitation for both import and export. The working policies include utilization of economic diplomacy for market identification of Nepali goods with high export potential, encouraging private sector participation in international trade fairs, taking initiatives to reduce customs duty on Nepali exports, and taking benefits of the DFQF and GSP provisions, and easing the NTBs facing Nepal during exports.



# CHAPTER III

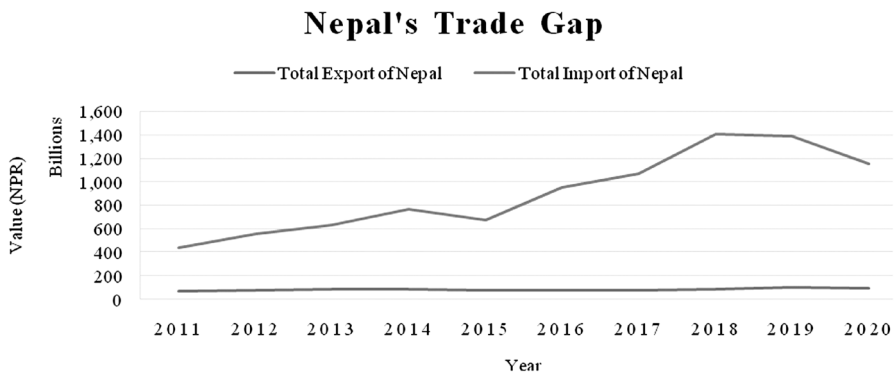
## Nepal's Trade & Other Indicators

### 3. Nepal's Trade and other Indicators

#### 3.1 Overall Trade Situation

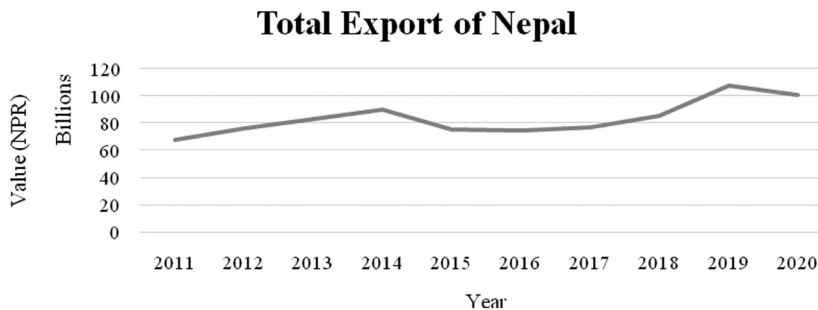
The government has always given priority to strengthening trade through various mechanisms, such as policy implementation and strategy enactment. While there have been significant changes to Nepal's trade situation, it still has a long way to go. Joining the WTO as the first LDC, formulating new policies and strategies for trade enhancement, and signing trade and transit treaties with major trading partners such as India, China, and the US have been some of the mechanisms at strengthening Nepal's trade. However, even with these steps, Nepal's trade gap still remains large.

*Figure 2: Nepal's Trade Gap*



*Source: Illustrated by author(s), data from TEPC*

*Figure 3: Nepal's Export Value*



*Source: Illustrated by author(s), data from TEPC*

The illustration in figure 2 depicts the growing import of Nepal and somewhat stagnant export. As a result, the figure shows increasing gap between import and export. There was a sharp decline in imports in 2015 AD, but again a sharp increase can be seen in 2016. This can be explained by the different stages of economic shocks the country went through in 2015. The earthquake devastated the economy, which was followed by trade disruptions at the southern border. “The Nepali economy suffered adversely from the devastating earthquakes in 2015 and their aftershocks as well as subsequent serious disruption of supplies (including fuel and other essentials) at the southern border” (Government of Nepal, 2018). As the supply disruptions at the southern border naturally restricted Nepal’s imports from India (Nepal’s largest trading partner), total imports of Nepal had decreased in 2015. Even though that decline was short-term and uncontrollable, exports have not seen major changes over the years. Figure 3 shows that the total export value in 2014 was around 90 billion Nepali Rupees (NPR) and saw a decreasing trend in the following few years (NPR 75 billion in 2015 and NPR 74 billion in 2016). The export value did begin to increase after 2017, with the highest export value of NPR 108 billion in 2019. The recent economic shock caused by the COVID-19 pandemic has also resulted in declining imports in 2020. As the movement of goods as well as people was heavily restricted in 2020, imports saw a sharp decline. Similarly, the increasing trend of exports has also decreased in 2020 due to the pandemic as shown in figure 3.

A major reason for Nepal’s wide trade gap is also partly due to the nature of goods that are imported against the nature of goods that are exported. Imported goods consist of essentials such as fuel, telephones for cellular networking, and raw materials for industrial purposes, such as billet and coal. Exports on the other hand consist of a few agricultural products, such as tea and large cardamom, and non-agricultural goods, such as carpets, felt, and jute bags and sacks.

**Table 1: Top Trading Goods of Nepal in 2020**

Top 10 Export Goods	Top 10 Import Goods
Soybean oil	High Speed Diesel
Carpet, knotted of wool or fine animal hair	M.S Billets
Palm oil	Crude soybean oil
Large cardamom, neither crushed nor ground	Telephones used for cellular or cordless networking
Black tea fermented	Motor Spirit (Petrol)
Woven fabric of jute or bast fibers	Coal
Woven fabric obtained from strip or the like	Flat rolled product of iron of a thickness less than 3mm
Felt	Gold, semi-manufactured forms
Mixture of juices	Semi-milled or wholly milled rice, whether or not polished or glazed
Jute bags and sacks	Liquefied Petroleum Gas (LPG)

*Source: Illustrated by author(s), data from TEPC*

The top 10 export and import goods presented in Table 1 shows that imported goods are of high value and essential whereas export goods are of lower value and of less necessity. Soybean oil and palm oil are the outliers in the export goods as Nepal merely refines (value addition) the imported crude soybean and palm oil and exports it to third countries, mostly to India. The high value of both soybean and palm oil is one of the explanations for Nepal's increased export value after 2017.

Having a shared border in the east, west, and south with easy access, India is the largest trading partner of Nepal. Although Nepal shares the northern border with China, export to China is extremely low. Export to countries in Europe and the US is higher than that to China.

**Table 2: Nepal's Major Trading Partners**

Major Trading Partners	Exported value in 2020 (in million NPR)	Share of Total Export (Percent)	Imported Value in 2020 (in million NPR)	Share of Total Import (Percent)	Trade Gap
Total	101,333.1	100	1,154,445.8	100	-1,053,112.6
India	73,910.1	72.97	741,223.5	64.21	-667,313.3
USA	10,287.6	10.15	20,320.1	1.76	-10,032.5
Germany	2,800.4	2.76	4,891.2	0.42	-2,090.8
UK	2,031.2	2.00	2,267.6	0.20	-236.3
Turkey	1,456.4	1.44	5,212.6	0.45	-3,756.1
France	1,143.8	1.13	8,557.7	0.74	-7,413.9
Japan	931.2	0.92	7,067.1	0.61	-6,135.9
Canada	755.9	0.75	18,381.9	1.59	-17,626.0
Australia	735.5	0.73	5,502.4	0.48	-4,766.9
China	681.0	0.67	158,723.6	13.75	-158,042.6
Italy	662.8	0.65	1,872.5	0.16	-1,209.7
Bangladesh	478.1	0.47	5,863.7	0.51	-5,385.6

*Source: Illustrated by author(s), data from TEPC*

The major trading partners of Nepal in terms of export value in 2020 are depicted in Table 2. More than 70 percent of the export value comes from exports to India followed by 10 percent to the US and 2.76 percent to Germany. Even in imports, most of the import value comes from importing from India (64 percent). The trade gap column shows that Nepal



does not have a trade surplus with any of its major export destination countries. Both Figure 1 and Table 2 clearly indicate that Nepal is highly dependent on India for both exports and imports even though there are other potential markets.

### 3.2 Global Indicators for Trade

The trade scenario shows that Nepal has a large gap that needs to be closed or minimized. Some global indicators try to explain the few reasons for Nepal’s trade gap. The World Bank Group’s (WBG) doing business (DB) index measures a country’s performance in 10 different indicators that are crucial for doing business. To keep the analysis focused on trade, the indicators of Nepal’s DB that are heavily connected to trade only are presented in Table 3. The performance is evaluated based on score and rank among the countries, but as per the suggestion of the WBG, the score is analyzed as opposed to the rank.

*Table 3: Doing Business in Nepal*

Doing Business Index of Nepal			
Indicators		2020	2019
Ease of Doing Business	Score	63.2	59.6
	Rank	94	110
Starting a Business	Score	81.7	85.38
	Rank	135	107
Trading Across Borders	Score	85.1	77.1
	Rank	60	82

*Source: Illustrated by author(s), data from WBG*

The data presented in Table 3 show that Nepal’s performance has improved in trading across borders, while starting a business in Nepal has become more cumbersome. The WBG explains that the reason for the improved trading across borders score is due to the operation of the integrated check post (ICP) at Biratnagar. The ICP has facilitated trade across the border with less hassles. Trade data from the TEPC show that Nepal’s export value increased in 2019 (NPR 108 billion) from 2018 (NPR 85 billion) (Figure 3), which can be partly explained by the operation of the ICP at Biratnagar from the end of the second month of 2019.

Some of the reasons for the difficulty in starting a business are high number of procedures, longer time to register and open a business, and cumbersome procedures. As enterprises are essential for trade to happen, it is important to ensure that starting a business is seamless without any bottlenecks. New entrepreneurs wishing to enter the market might be demotivated due to the cumbersome bureaucratic procedures to start a business. Data from

the Department of Industries (DOI) clearly indicate that the number of industries registered has been decreasing since the past few years. According to the DOI, fiscal year (FY) 2073/74 BS saw the highest number of industries registered at 508. The trend, however, has been declining, with a mere 277 industries registered in FY 2076/77 BS. The DB index has been able to explain the declining trend of industries registered in Nepal to some extent.

**Table 4: Nepal's Logistics Performance Index**

<b>Logistics Performance Index of Nepal</b>			
<b>Indicators</b>		<b>2018</b>	<b>2016</b>
Overall LPI Score and Rank	Score	2.51	2.38
	Rank	114	124
Customs	Score	2.29	1.93
	Rank	122	149
Infrastructure	Score	2.19	2.27
	Rank	123	112
International shipments	Score	2.36	2.50
	Rank	129	109
Logistics quality and competence	Score	2.46	2.13
	Rank	105	140
Tracking and tracing	Score	2.65	2.47
	Rank	98	109
Timeliness	Score	3.10	2.93
	Rank	89	104

*Source: Illustrated by author(s), data from WBG*

*Note: Score is measured from 1 to 5 (5 being the best)*

While only a few indicators of the DB index are directly related to trade, the WBG's logistics performance index (LPI) is more focused on trade. Unlike the DB, which is scored from 1 to 100, the LPI is scored from 1 to 5. As the most recent LPI calculated by the WBG is of 2018, a comparison of Nepal's performance of the years 2016 and 2018 are presented in Table 4. The overall LPI score has improved in 2018, and all the parameters see a positive score growth from 2016 except for international shipments and infrastructure. The infrastructure parameter is holistically focused on trade and logistics infrastructure, namely, ICP, inland clearing depot (ICD), transportation, warehousing, and cold storage facilities,

among others. The score for infrastructure has decreased, indicating that the current trade infrastructure is inadequate to ease trade. As for international shipments, Nepal has to depend on India for trade with any other country, i.e., India is the transit for Nepal's trade with other countries, thus international shipments face some bottlenecks. Access to limited number of ports for trade, role of customs handling agents (CHAs), and availability of containers are major determinants of international shipments.

Similarly, the World Economic Forum's enabling trade index (ETI) also measures Nepal's trade using various pillars as shown in Table 5.

**Table 5: Nepal's Enabling Trade Index**

Enabling Trade Index of Nepal		
	Score	Rank
Enabling Trade Index (2016)	3.8	108
Sub-index A: Market Access	4.7	63
Pillar 1: Domestic Market Access	2.9	134
Pillar 2: Foreign Market Access	6.5	1
Sub-index B: Border Administration	4.1	96
Pillar 3: Efficiency and Transparency of Border Administration		
Sub-index C: Infrastructure	2.8	124
Pillar 4: Availability and Quality of Transport Infrastructure	2.1	135
Pillar 5: Availability and Quality of Transport Services	3.2	119
Pillar 6: Availability and Use of ICTs	3.0	113
Sub-index D: Operating Environment	3.8	106
Pillar 7: Operating Environment		

*Source: Illustrated by author(s), data from World Economic Forum*

*Note: Score is measured from 1 to 7 (7 being the best)*

Although the latest ETI published by the World Economic Forum was in 2016, the index does provide some noteworthy figures. Similar to Nepal's LPI score, the ETI also highlights that Nepal's trade infrastructure is poor. An interesting parameter of the ETI is the foreign market access pillar, in which Nepal's score is 6.5 out of 7, and ranks first among 136 countries. The score from ETI highlights that despite having easy access to foreign markets, Nepal has not been able to take advantage of such access for trade purposes. Of course, there are NTBs that need to be dealt with for each of the markets, but access to markets has not been exploited as trade statistics show that more than 70% of exports are to India.

Both DB and LPI indicate that facilitation to enhance trade is highly necessary. ETI stresses that proper tools have not been utilized to take advantage of market access, and all three indicators highlight the need to improve trade infrastructure. On the other hand, all three indicators fail to measure the role or some measure of diplomacy for trade.

One study conducted by UNESCAP in 2018 showed that Nepal could not use its trade potentials. Nepal's export to South Asia is less than one fourth of its potential, as estimated by the UNESCAP South Asia Gravity Model of intraregional trade (Table 6). The UNESCAP Model demonstrates that the potential of Nepal's exports in the SAARC countries in 2014 was USD 2.39 billion. However, only USD 78.17 million was realized that year, leaving more than 76.17% of the trade potential unexploited. Furthermore, the model estimations indicate that the export potential could more than double by 2020 to an estimated USD 6,386.69 million, where, as in 2019, Nepal's total exports reached only USD 867 million.

**Table 6: Actual Export and Potential Export in South Asian Countries in 2014**  
(Millions US\$)

Country	Actual Export	Potential Export	Unexploited Potential	Unexploited Potential (%)	Potential Export 2020
Afghanistan	398.13	2397.44	1999.30	83.39	4609.35
Bangladesh	532.70	7735.21	7202.51	93.11	24651.03
Bhutan	521.70	573.36	51.67	9.01	732.11
India	20486.20	41151.71	20647.34	50.17	81908.46
Maldives	13.61	110.16	96.56	87.65	332.07
Nepal	569.65	2390.08	1820.42	76.17	6386.69
Pakistan	3403.73	24479.83	21157.31	86.43	47466.82
Sri Lanka	880.96	2326.64	1445.68	62.14	6476.40
South Asia	26806.68	81164.43	54420.79	67.05	172562.93

*Source: Illustrated by author(s), data from UNESCAP-World Bank Trade Cost Database*

The gap in the actual and potential exports trade can be explained by the prevalence of significant discriminatory barriers, such as high tariffs and para-tariffs, complicated and non-transparent non-tariff measures (NTMs), constraints on trade in services, and high costs of trading due to poor transportation, logistics infrastructure, and inefficient trade facilitation. There are tariffs, non-tariffs, and trade facilitation-related barriers that have hindered the exploitation of the trade potentials. A number of studies suggest that trade and transport facilitation measures, such as efficiency of customs, quality of transport service, and cost of transport and border procedures, are one of the major barriers to trade promotion.

Reducing the trade cost is critical in determining whether an economy can effectively participate in the GVCs (global value chains) and tap the potential for trade as an engine of growth. According to the latest data from ESCAP-World Bank International Trade Cost Database, there is substantial room for improving the efficiency of trade procedures in order to reduce the trade cost. Costs of trading for Nepal within South Asia, compared to prominent European countries and the USA, remain high (Table 3). Nepal's cost of trading with neighboring nations is more expensive compared to their trading cost with other neighboring countries. The cost of trading for Nepal with Bangladesh is 272.9%, Bhutan 191.8%, and China 192.0% whereas the cost of trading for India with Bangladesh is 121.03%, Bhutan 99.6%, and China 100.3%. In the same way, the cost of trading for Nepal with Germany is 194.4%, UK 232.2%, and the USA 251.4% whereas the cost for India with Germany is 104.3%, UK 97.6%, and the USA 98.3%. This discourages the formation of regional value chains, despite the geographic contiguity (ESCAP, 2018). Poorly developed land transportation infrastructure is a key reason behind the high trade costs, and regional and bilateral cooperation to facilitate transit would both dismantle this barrier and allow costs to be shared among benefiting nations.

**Table 7: Bilateral Comprehensive Trade Cost with Select Countries  
(excluding tariff cost), 2011-2018  
(Percentage)**

Country	Bangladesh	Bhutan 2012	India	China 2013	Germany	Pakistan	UK	USA 2014
Bangladesh	..							
Bhutan	316.1	..						
India	121.03	99.6	..					
China	138.5	400.2	100.3	..				
Germany	117.6	304.3	104.3	72.8	..			
Pakistan	164.7	NA	156.6	120.3	138.9	..		
UK	127.1	534.7	97.6	83.8	41.5	130.8	..	
USA	NA	406.4	98.3	70.4	72.3	146.5	70.4	..
Nepal	272.9	191.8	98.3	192.0	194.4	409.8	232.2	251.4

*Source: Illustrated by author(s), data from ESCAP-World Bank Trade Cost Database*

*Notes: The trade cost may be interpreted as tariff equivalent. The trade costs shown are average trade costs during 2010-2018 and may be interpreted as tariff equivalents.*

Improvement in trade facilitation would substantially reduce the trade costs. Modernizing the inland ports, upgrading the logistics systems, simplifying the customs procedure,

and introducing automated clearance would significantly cut down the trade costs, while also managing the effective level of government control. Implementing a system of cross-border paperless trade offers immense potential for enhancing trade facilitation and further reducing the trade cost. Digitizing trade processes towards paperless trade would not only improve transparency, streamline formalities, and institutionalize cooperation and coordination among the different domestic government agencies, but would also build the foundation for effecting cross-border paperless trade within the region and beyond (ESCAP 2018). The experiences of piloting of ECTS in containerized cargo from the gateway port in India to the border of Nepal would be valuable for Nepal to move ahead in paperless trade. The Government of Nepal needs to develop a legal and technical framework to support paperless trade as well as enable electronic exchanges and legal recognition of trade data and documents between the public and private actors along with international supply chains.

Transport facilitation has been recognized as a key issue for connectivity and economic integration. It is well known that poor transport connectivity is one of the major impediments to smooth and efficient cross-border movement of cargo and vehicles, which adversely affects the growth of trade and investment potentials. Numerous studies on trade and transport facilitation in this region argue that ineffective transport facilitation coupled with other factors like excessive use of documentation, lack of regulatory and institutional reforms, inefficient customs clearance procedures, frequent failure of the Internet, inadequate soft and hard infrastructure, and lack of testing and standards-related institutions are responsible for the low use of export potential.

Poor infrastructure is one of the biggest impediments to export growth for Nepal. Due to inadequate infrastructure in the country, Nepal's export potential remains unexploited. Over the past decade, it has been argued that due to the difficult geographical location of Nepal (being landlocked), trade (especially export) has not been able to grow. However, there are other countries with similar geographical conditions that have created a successful trade route due to strong and sufficient infrastructure. Nepal's infrastructure is lacking in most aspects when it comes to trade; the roads lack connectivity and standard, there is significant need for warehouse storage, and check points are minimal at the border. Due to the poor road condition, Nepal is not able to use large transport vehicles to move goods, thus economies of scale are also not enjoyed. "Transport is the single most expensive component of trade logistics, and adequate infrastructure is required to facilitate transportation." (Korinek and Sourdin 2011.) Nepal's poor infrastructure quality has affected the logistics and ultimately trade to a large extent. Quality transport infrastructure is rarely seen in Nepal, whether it be roads, rails, air, or sea. As already mentioned, the geographical difficulty of Nepal, trade via sea is also largely challenging. Similarly, due to a small international airport, economies of scale cannot be enjoyed for trade via air. The inadequate infrastructure of Tribhuvan International Airport does not allow large aircraft to land and take off, resulting

in higher transportation cost. Moreover, trade via rail has been limited to India, and road transportation is poor throughout the country, resulting in delays and additional costs. While the quality of infrastructure is a must, relationship between different modes of transportation is equally important, especially for a landlocked country like Nepal. Goods that arrive via air or sea have to be efficiently transferred to another mode of transportation, roads. For example, goods that arrive via sea arrive at Visakhapatnam, India, which might operate efficiently, but in order to bring the goods to the market in Nepal, they need to be transferred to a different mode of transportation, which is mostly roads in the case of Nepal. If the transfer is not swift and efficient, it can lead to unwanted delays, which ultimately affects the cost.

*Table 8: Third Country Transit Trade in Nepal in 2019  
(in NPR 000)*

Description	Import	%	Export	%	Total	%
Overseas	500,613,132	35.29	34,377,681	35.40	534,990,813	35.30
TI Airport (except India)	142,908,264	10.07	23,671,498	24.38	166,579,762	10.99
China (Via Rasuwa/ Tatopani)	40,899,652	2.88	1,209,615	1.25	42,109,267	2.78
Bangladesh (via Kakarbhitta- )	3,746,517	0.26	1,291,059	1.33	5,037,576	0.33
Bhutan (via Kakarbhitta Phuentsholing)	1,559,611	0.11	125,261	0.13	1,684,872	0.11
Kolkata/Haldia/ Visaz Transit	311,499,088	21.96	8,080,248	8.32	319,579,335	21.09

*Source: Illustrated by author (s), data from Department of Customs Data 2019*

In 2019, 64.6 percent of Nepal's export was with India and 35.4 percent with third country, including China. Of the 35.4 percent third country export, 24.38 percent was exported via Tribhuvan International Airport, 8.32 percent through the Indian gateway port of India, 1.25 percent through the Rasuwa and Tatopani land route, 1.33 percent to Bangladesh via the Banglabandha land route, and 0.11 percent to Bhutan by land. Substantial export to third country takes place through Tribhuvan International Airport, but logistics, infrastructure, and facilitation are very poor.





# CHAPTER IV

## Trade and Transit Agreements

## 4. Trade and Transit Agreements

### 4.1 Bilateral Agreements

#### 4.1.1 Trade with India

India is Nepal's largest trading partner. The bilateral trading relation between Nepal and India has been beneficial for both parties. Being immediate neighbors, Nepal and India have engaged in formal trade since the 1950s. Since that period, various trade agreements have been signed between the two governments. The most recent treaty of trade between the two countries was signed in October 2009, which will be effective until October 2027, according to article XII (b) of the Treaty of Trade between the Government of Nepal and the Government of India. The treaty outlines preferential goods that Nepal can export, trade routes, transit protocols, and prohibited goods for export from Nepal. The treaty provides preferential treatment for the export of certain goods from each country and also provides Nepal with preferential access to the Indian market provided certain criteria are met. However, even with such agreements in place, Nepal has not been able to expand its exportable goods as they still remain concentrated to a few agricultural and manufactured goods. Nepal and India agreed to initiate a comprehensive review of the Treaty of Trade between India and Nepal in 2018. Three rounds of meetings have already been completed in this respect and various issues discussed to reduce the galloping trade deficit between the two countries. These comprehensive review meetings need to be completed as early as possible. In this respect, the MOICS, MOFA, and the Nepali Embassy in Delhi should proactively do their homework.

Nepal and India also started consolidation of the Letter of Exchanges (LoE) on Transit Treaty between the Governments of India and Nepal (1999). Several rounds of meetings have convened, and consolidation of all LoEs have been completed, but this consolidation of LoEs could not be signed till now due to the COVID-19 pandemic and other minor reasons. The signing of this amendment would allow Nepal to use inland waterways from Kolkata to Shahebgunj, Kalughat, and Banarasi, enabling bulk cargo movement to Biratnagar and Bhairahawa.

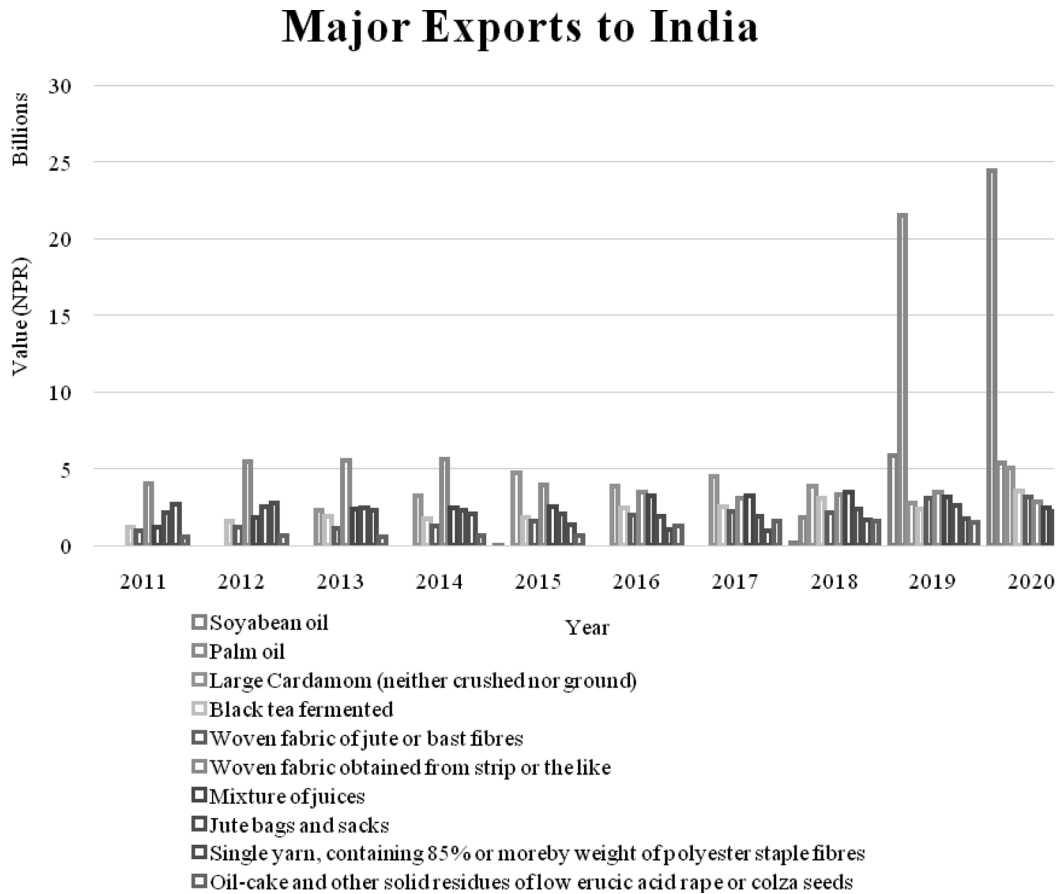
Recently, Nepal and India signed an amendment in the Railway Service Agreement, considered a milestone. This amendment has allowed all authorized railway operators to provide service to Nepal-bound cargo, opened up the process to open a railway route to other points of Nepal, besides Birgunj, allowed Nepal Railway Corporation to run its train up to Kolkata port to carry Nepali consignments, and also facilitated in the payment modality. The Government of Nepal must be proactive to take proper benefit from it while also orienting the private sector stakeholders on it.

Nepal has also requested the Indian Government for the use of two additional ports for Nepali transit cargo on the east and west coasts, Dhamra and Mudra. Besides, Nepal has also shared the Letter of Exchange on use of Electronic Cargo Tracking System (ECTS) and Letter of Exchange for allowing the import of three categories of third country goods from India. These LoEs will help to reduce the cost of trade of Nepal and cost of imported raw materials and machinery. The role of the MOICS in coordination with MOFA and diplomatic mission in finalizing these negotiations is critical.

Figure 3 data show that the major export goods from Nepal to India are limited. As already mentioned, palm oil has become the top export item of Nepal, and goods with actual competitive advantages have not seen much development. As India is an easy market for Nepali goods, almost all the goods are exported to India despite better market options. For example, Nepal is the largest producer of large cardamom in the world, and majority of the produce is exported to India whereas the largest consumer of large cardamoms happens to be Pakistan and the Middle Eastern countries. Due to low processing (value addition) and inadequate packaging, large cardamom that is exported to India goes through a second tier of processing and packaging before it is re-exported to the right markets, i.e., Pakistan and the Middle East.

Even though there are policies and trade agreements that support trade between Nepal and India, it is important to analyze which products are right for the Indian market and shift exports of certain goods to different markets that have a higher demand. While the GON does aim to promote the export of competitive goods to the right market, in the actual scenario, majority of the goods are being exported to India although it is not their final destination. As already mentioned, two new export items, palm oil and soybean oil, have been the largest exports of Nepal despite low to zero production of either item. Imported crude palm and soybean oil undergoes processing with a value addition of more than 30 percent, which is then exported to India, in line with the SAFTA agreement.

Figure 3: Major Exports from Nepal to India



Source: Illustrated by author(s), data from TEPC

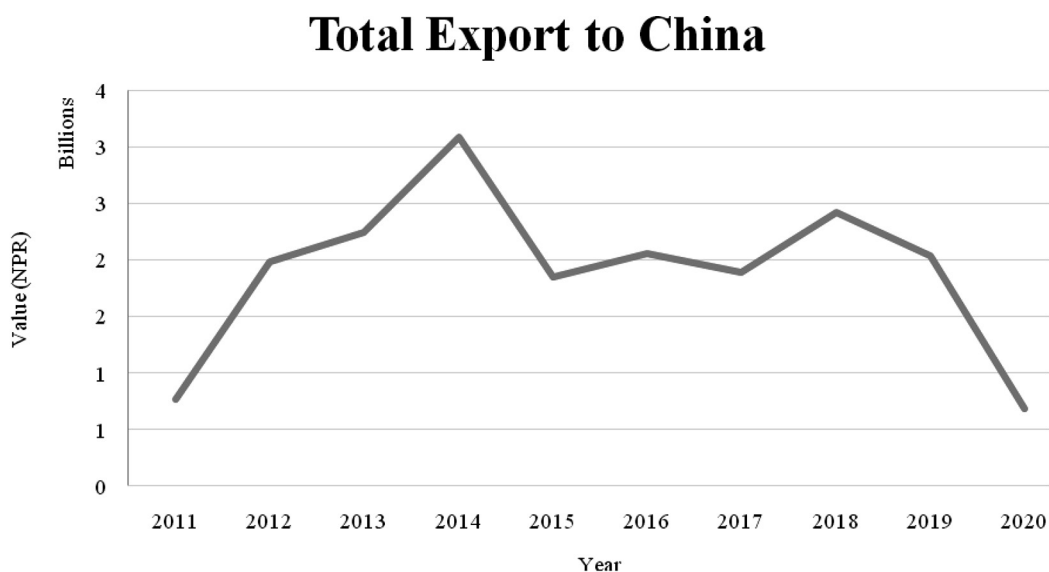
As Nepal has met the United Nations (UN) criteria to graduate from a LDC to a developing country, it is also important to look at the benefits Nepal might lose after graduation, i.e., 2026. The current Trade and Transit Treaty that allows Nepali goods duty free access to the Indian market, however, does not change after graduation as the bilateral treaty comes into play. Under the SAFTA rules, however, local value addition requirements will increase from more than 30 percent to more than 40 percent. Graduation might affect the export of certain items, such as palm oil and soybean oil, as value addition needs to be greater. However, given that neither are sustainable exports of Nepal, it might be more pertinent to focus on goods that are of Nepali origin, such as tea, large cardamom, and carpets.

### 4.1.2 Trade with China

Nepal's neighbor to the north, China, is also a major trading partner of Nepal, with a long history. Two major agreements have been signed with China – the Trade and Payment Agreement (1981) and Transit Transport Agreement (2016). The Protocol to Transit Transport Agreement (2019) opened up four sea ports and three land ports in China for transit cargo of Nepal. The facilities provided by this protocol have not come into operation due to absence of an operating procedure and rigidity of Nepali importers and exporter sin using this route. Even now, 90 percent of the bilateral cargo from China is imported via the gateway port of India instead of by land. So the Government of Nepal needs to develop a simplified operating procedure to use this route while also encouraging and orienting Nepali exporters and importers to use this route.

The current trend of exports to China, however, is worrisome as total exports are on a decreasing trend as shown in Figure 12. The highest export value to China was witnessed in 2014, and the subsequent years have seen a downward trend.

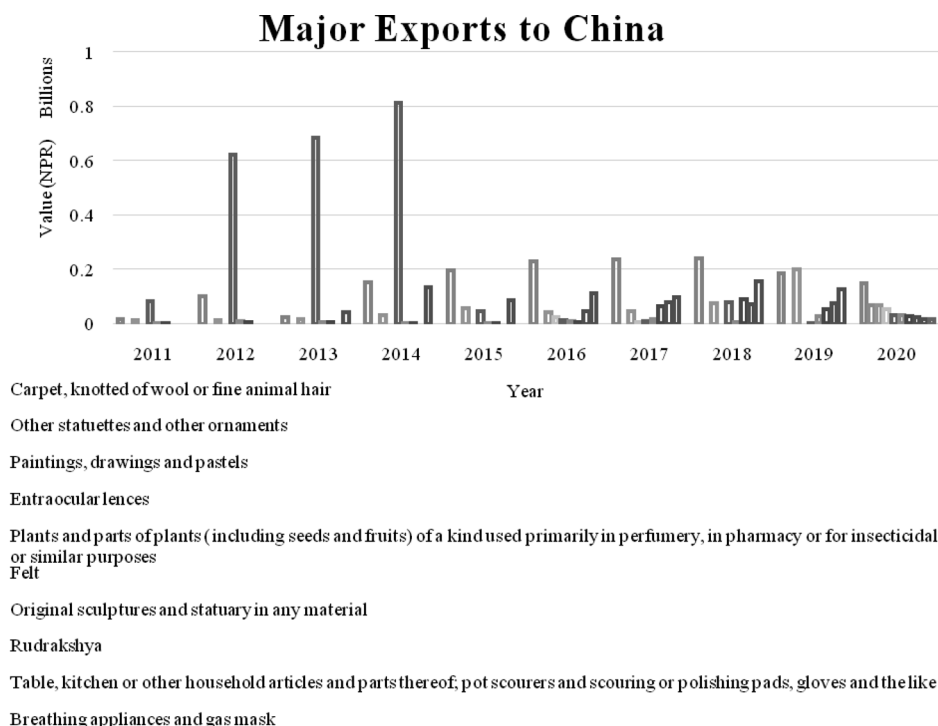
*Figure 4: Total Exports from Nepal to China*



*Source: Illustrated by author(s), data from TEPC*

The major reasons for the declining trade between Nepal and China could be geographical difficulties, inadequate infrastructure at the border (both ICD and road connectivity), and closure of border points.

*Figure 5: Major Exports from Nepal to China*



*Source: Illustrated by author(s), data from TEPC*

Nepal and China have also gone through various trade agreements over the years. The treaties between Nepal and China have agreed on the use of various routes for trade between the two countries and even established facilities for trade between Nepal and the Tibet Autonomous Region (TAR) of China. Similarly, given that Nepal is a landlocked country and, therefore, has rights to access nearby seaports, China and Nepal have signed agreements that state that Nepal has permanent rights to use Chinese sea ports. Trade between Nepal and China has transformed significantly over the years. Although there are nine border entry points between Nepal and China, only one is functional. At normal times, trade occurs through two border points – Tatopani and Rasuwa. Even with just one border point being functional– Tatopani (in limited capacity) – China has become one of Nepal’s top export destinations for its goods. In terms of export of services, Nepal has become a popular tourist destination for the Chinese people given the religious connection to Lumbini as well as the world’s highest peak, Mt. Everest. Likewise import of Chinese goods has also increased in Nepal.

Goods exported from Nepal to China are a bit more diverse, and exports have increased significantly over the years. The chart in Figure 5 shows that the top export of Nepal to

China is handicrafts (paintings and statues). Similarly, carpets, rudrakshya and MAPs have found a good market in China. Unlike exports from Nepal to India, the exported goods from Nepal to China have been able to find the right market. Rudrakshya and MAPs are in high demand in China due to their faith. Goods with competitive advantage have reached the proper market.

Currently, Nepal receives DFQF facilities in almost 95 percent Chinese tariff lines, but after graduation, Nepal will move to MFN criteria, where tariff rates will be between 7 and 30 percent. Local value addition requirement will also increase from at least 40 percent to at least 60 percent.

Nepal's exports to Japan mostly consist of felt, garments, leather, pashmina, and in recent times, sauces and preparations have been added. Export of felt saw an increasing trend from 2011 to 2014 but has been decreasing after 2015. Export of pashmina has been somewhat constant with some fluctuations, and the export of leather has been increasing as shown in Figure 14. Garments also are on an increasing trend, and a new addition to the export list are sauces and preparations since 2020.

#### **4.1.3 Trade with United States of America**

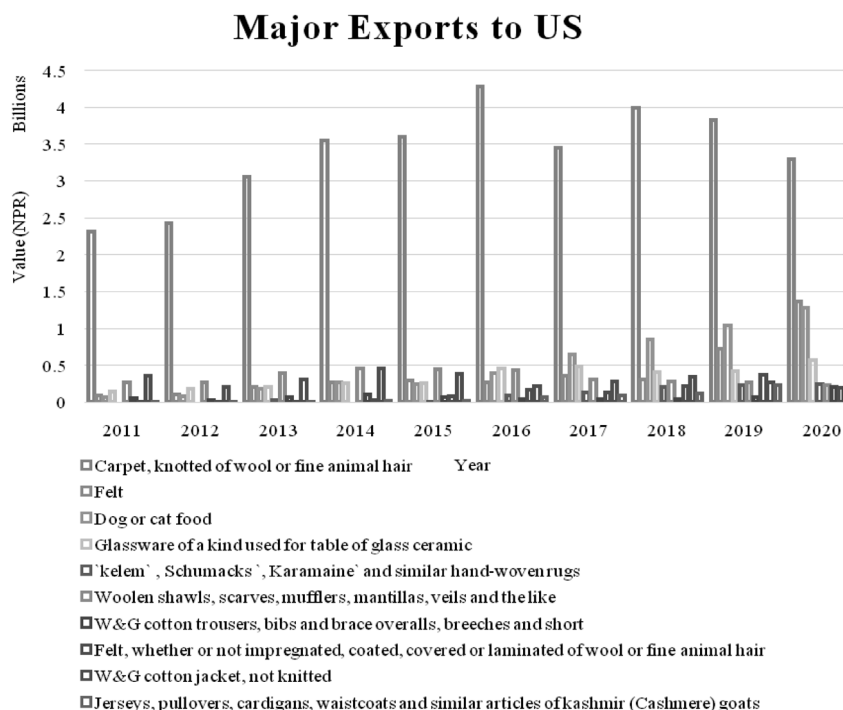
The United States of America is also one of the largest trading partners of Nepal. The Trade and Investment Framework Agreement (TIFA) between the two governments was signed in 2011. This is the basic agreement between the two countries to facilitate the export of Nepali goods. This is a framework agreement, and its protocol has not been developed till now. During the fourth TIFA Council meeting held in Washington DC in 2018, it was agreed to develop a protocol for this agreement to further facilitate trade and investment between Nepal and the USA.

In view of Nepal's great economic losses caused by the devastating earthquakes of April 25 and May 12, 2015, the U.S. government extended GSP facilities and duty free market access to some 77 additional items being exported to the US from Nepal. Trade Preference for Nepal, under section 915 of the Trade Facilitation and Enforcement Act, 2015, is a first tangible outcome under the broader framework of TIFA. The preference extended by the U.S. government was a commendable initiative taken in favor of Nepal to give a drive to its dwindling export and enhance the sluggish economy.

Most of these 77 products were travel goods, and production of these products has been a major challenge to benefit from this scheme. These products are manufactured by rural producers and SMEs in Nepal, whose capacity is limited. Therefore, enhancing their capacity was a big challenge towards harvesting benefits from this provision. Besides, creating awareness about duty free facilities among the importers in the US and exporters in Nepal also created constraints in utilizing this scheme fully and substantially. Hence,

Nepal needs to strengthen its production base of these items through up-scaling investment.

*Figure 6: Major Exports from Nepal to US*



*Source: Illustrated by author(s), data from TEPC*

The chart in Figure 6 shows the top export products from Nepal to the US. Carpets are the largest export item followed by dog or cat food. Nepali carpets are considered to have high export potential, but given that dog or cat food has a large market in the US, its facilitation can be beneficial to the economy of Nepal. Although the 77 products under the trade preferential products mostly include garments, the actual exported items do not receive any form of preferential treatment or duty free market access. The top 10 export goods shown in Figure 6 include trousers, jackets, and jerseys, whose HS codes are 62046200, 62043200, and 61101200 respectively. Unfortunately, these products are not included in the list of the 77 products under the Nepal Trade Preference Program.

Although both carpets and garments are high potential export goods of Nepal and do receive facilitation from the government, data show a decreasing trend, which is worrisome. Again, the concern of losing trade benefits after graduation persists in trade with the US as well. However, there might not be significant changes in the benefits as the preferential trade agreement that grants duty free, quota free (DFQF) entry of 77 goods from Nepal to the American market is in effect till 2025. Currently 18 goods are being exported under the



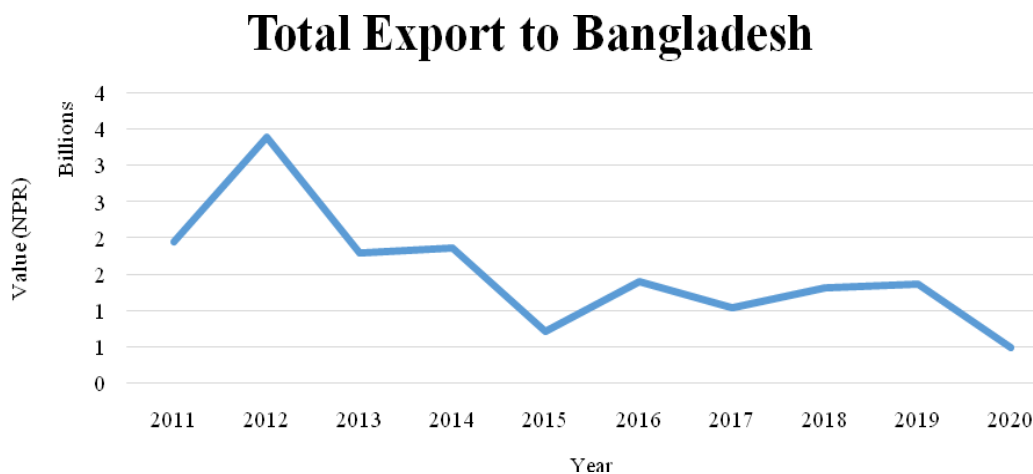
generalized system of preferences (GSP), and after graduation Nepal will be eligible for the GSP as well. The only change will be that local value addition will have to be greater than 35 percent. The analysis of the impact of preference erosion on individual products, carried out by the National Planning Commission in Nepal Human Development Report 2020, shows that there will not be substantial loss in exports to the US after graduation as most of the exportable products do not enjoy preferential tariffs.

#### 4.1.4 Trade with Bangladesh

Nepal and Bangladesh do not share a border, but trade between the two countries has taken place since a long time. The Trade and Payment Agreement and Transit Agreement between the two governments was signed in 1976. These agreements facilitated the export of each other’s goods. The negotiation to give preferential treatment in both countries is still in process. It needs to be completed as early as possible for enhancing trade between the two countries. Goods that are exported from Nepal to Bangladesh are rice, wheat, pulses, medicinal and aromatic plants (MAPs), etc. Looking at the export data from the TEPC, Nepal’s top exports to Bangladesh include wheat, red lentils, and MAPs. Bangladesh could also be the biggest market for Nepali yarn. Bangladesh has not opened up the Banglabandha route for Nepali yarn, only the sea route is open for it. Nepal has been negotiating with Bangladesh to open up the land route since the last decade. Besides, the non-tariff barriers (NTBs) posed by Bangladesh has discouraged Nepali producers from exporting goods to Bangladesh.

Even though the goods exported from Nepal have preference in the Bangladeshi market, the total export value has decreased over the years as shown in Figure 4. The sharp decline in exports in 2015 is due to the supply disruptions at the southern border as exports to Bangladesh must pass through India. The recovery after that year has not been great.

*Figure 7: Total Exports from Nepal to Bangladesh*



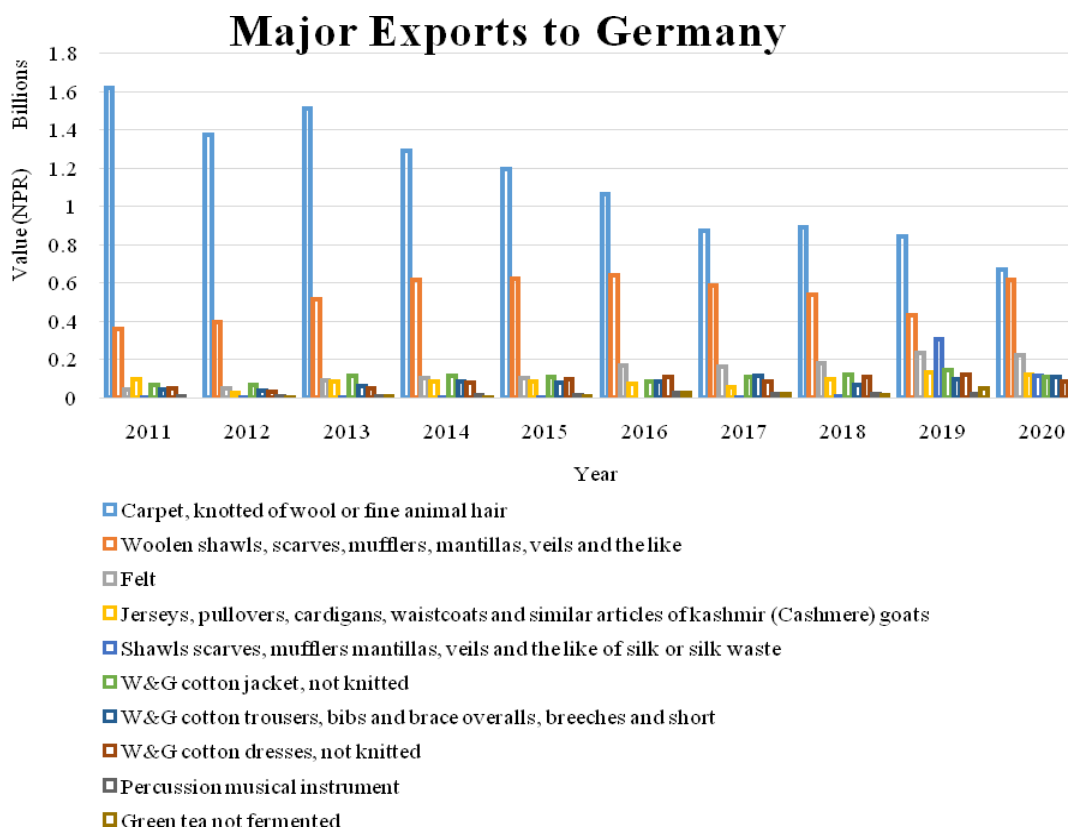
*Source: Illustrated by author(s), data from TEPC*

Nepal currently receives preferential benefits under the SAFTA LDC category, which will change after graduation. Although Nepal will still receive SAFTA non-LDC benefits, local value addition requirement will increase from more than 30 percent to more than 40 percent, which might affect the export of yarn.

#### 4.1.5 Trade with European Countries

Trade with European countries mostly consists of manufactured goods, specifically garments, carpets, felt, and yarn. Among the European countries, Germany is the largest trading partner of Nepal, with carpets being the number one export item. Yarn is mostly exported to Turkey, and some agriculture goods such as tea and MAPs are exported to some countries as shown in Figures 5-8. An outlier export item is leather, which is exported to Italy. Although the TEPC has considered leather to be a high potential export item of Nepal, significant export is not seen, indicating further facilitation is necessary.

*Figure 8: Major Exports from Nepal to Germany*

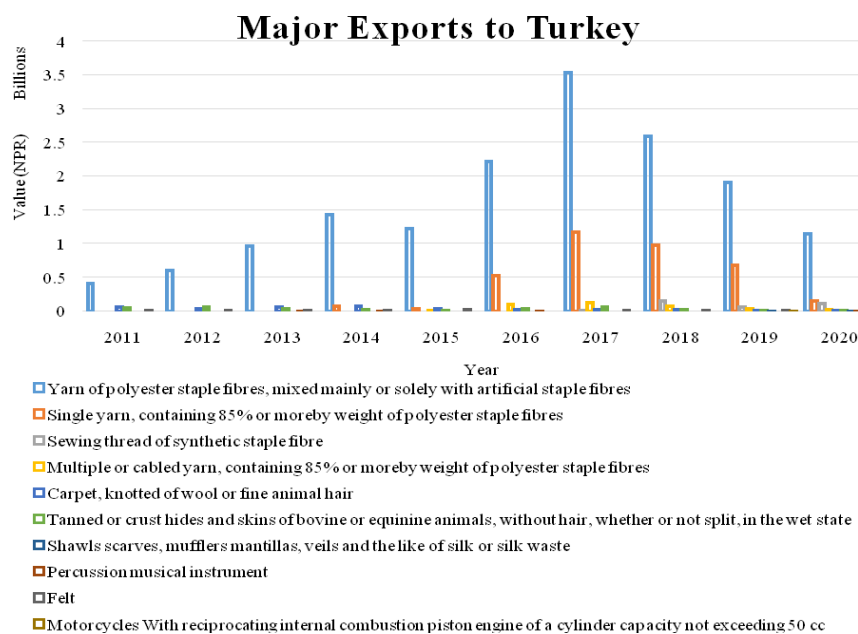


*Source: Illustrated by author(s), data from TEPC*

Exports to Germany mostly consist of carpets and garments, but both show a declining export trend, which is highly worrisome as both are considered to be sustainable export items of Nepal. Similar is the case with exports to Turkey, where yarn export is seeing a downward sloping trend. Figure 6 shows that 2016 saw the highest yarn export, but exports have been decreasing in the subsequent years. At the end of 2017, Turkey’s Ministry of Economy published a notification regarding its investigation into the export of Nepali yarn under HS code 5509. The Turkish government then withdrew its LDC Specific GSP on Nepali yarn on account of its higher volume of exports, adversely impacting Nepali yarn producers as the preference margin has decreased substantially. In this regard, the MOICS commissioned a study team to assess the entire process of yarn production and export by three major yarn spinning mills of Nepal, which were also under investigation by the Turkish government, to ascertain if there was any possibility of circumvention or diversion from Nepal to Turkey. Based on the investigation by the expert team, the MOICS came to the conclusion that no circumvention or diversion of yarn from Nepal to Turkey had taken place. Hence, a Nepali delegation led by a MOICS official visited Ankara, Turkey in April 2018 to present its case to concerned high-level Turkish officials and also presented reasons for the increased export of Nepali yarn to Turkey. The Turkish government then considered resuming LDC specific GSP to Nepali yarn after fulfilling the official procedure.

Nepal currently receives DFQF benefits in trade for all items under EBA, but after graduation, it must move to GSP or GSP+, which will require local value addition of more than 50 percent.

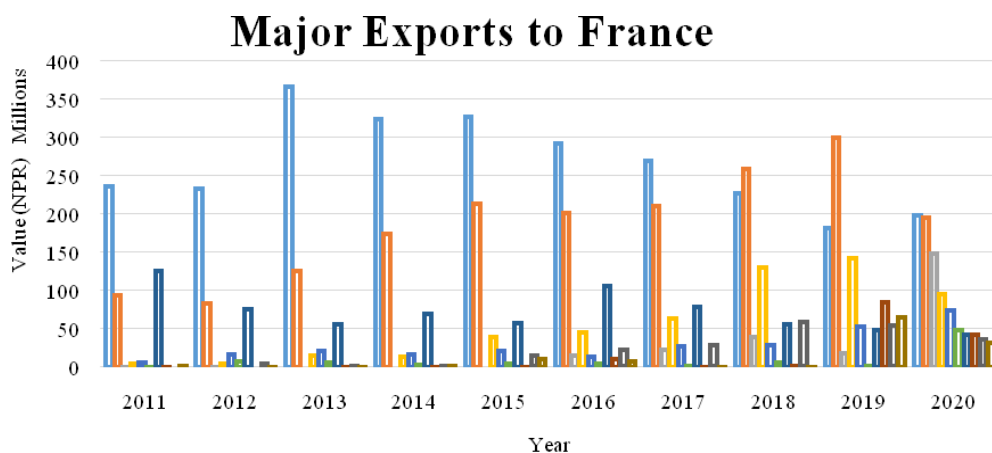
Figure 9: Major Exports from Nepal to Turkey



Source: Illustrated by author(s), data from TEPC

Major exports to France and Italy are similar to those of Germany – carpets and garments. Pashmina shawls are a top export commodity to EU countries, especially France. As for Italy, carpets and leather are big export items. Although all goods exported to the EU and Turkey are considered to have competitive advantages, they are seeing a downward sloping trend.

**Figure 10: Major Exports from Nepal to France**



Woolen shawls, scarves, mufflers, mantillas, veils and the like

Carpet, knotted of wool or fine animal hair

Essential oil

Jerseys, pullovers, cardigans, waistcoats and similar articles of Kashmir (Cashmere) goats

Felt

Woolen jersey, pullover, cardigans, sweater, waistcoat, knitted

W&G cotton trousers, bibs and brace overalls, breeches and short

Blankets and travelling rugs

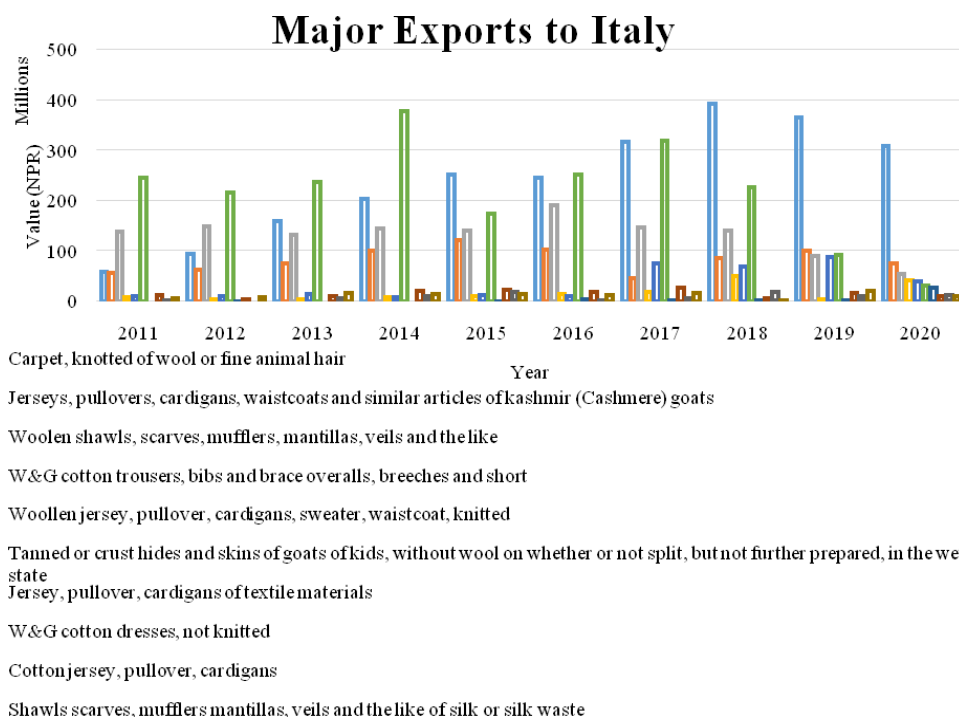
Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes

Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste

*Source: Illustrated by author(s), data from TEPC*

Figures 7 to 10 show that the export value is decreasing, which indicates heavy trade facilitation is necessary to boost trade with European countries. As a LDC, Nepal is still receiving trade benefits, but the graduation might change the trade scenario significantly in the case of EU. The current benefits include DFQF on all items under EBA with at least 30 percent local valuation. The graduation will move Nepal from the EBA category to either the GSP or GSP+ category, which will require local valuation of at least 50 percent. Table 9 shows the details of all three categories and their eligibility.

**Figure 11: Major Exports from Nepal to Italy**



Source: Illustrated by author(s), data from TEPC

**Table 9: EU Categories for Trade**

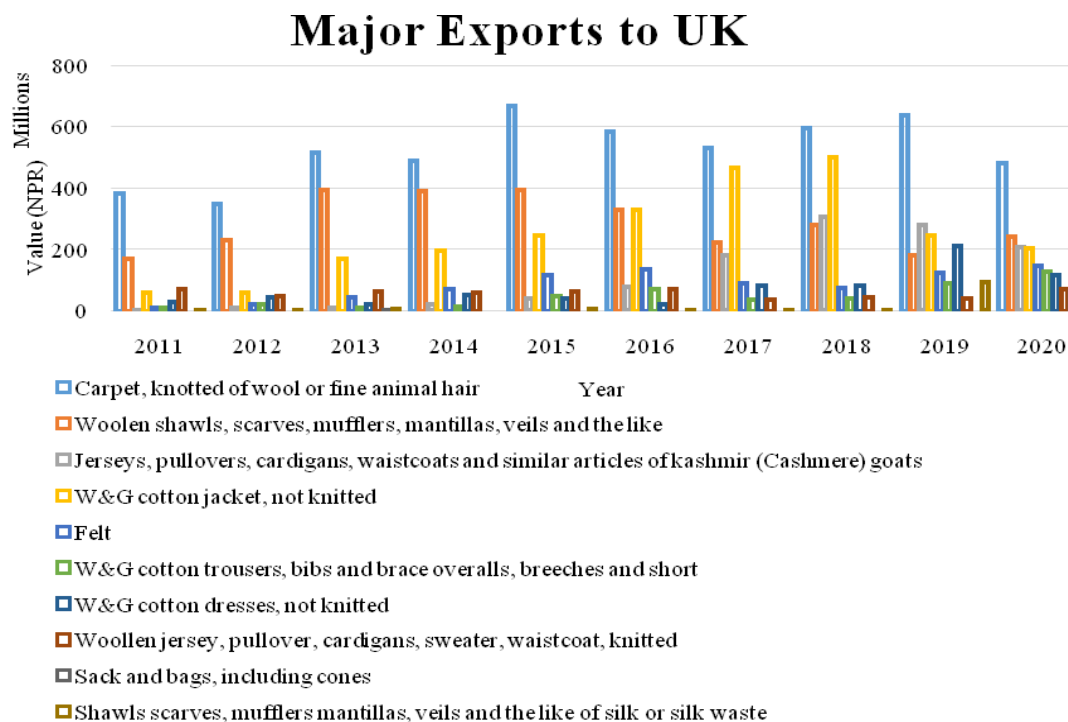
EU Trade Categories and Indicators			
	EBA	GSP+	GSP
Indicators	LDCs	Vulnerable countries ratifying 27 pre ratified international conventions	Low or lower middle income countries
Non Sensitive Goods	No duty on EBA	Duty suspension for 66 percent of all EU tariff lines	Duty suspension for 66 percent of all EU tariff lines
Sensitive Goods (both specific and ad valorem)			Duty suspension 30 percent and up to 3.5 percentage points
Local Value Addition	≥ 30 percent	≥ 50 percent	≥ 50 percent

Source: Generalized System of Preferences, European Union

#### 4.1.6 Trade with Commonwealth Nations

Nepal's trade with the United Kingdom (UK) is similar to its trade with other European countries, i.e., major export goods are carpets, garments, and pashmina. Carpets are seen as a more robust export item than pashmina and garments. Figure 9 shows that the export of carpets has remained fairly constant over the years while garment and pashmina have fluctuated with some rises and falls.

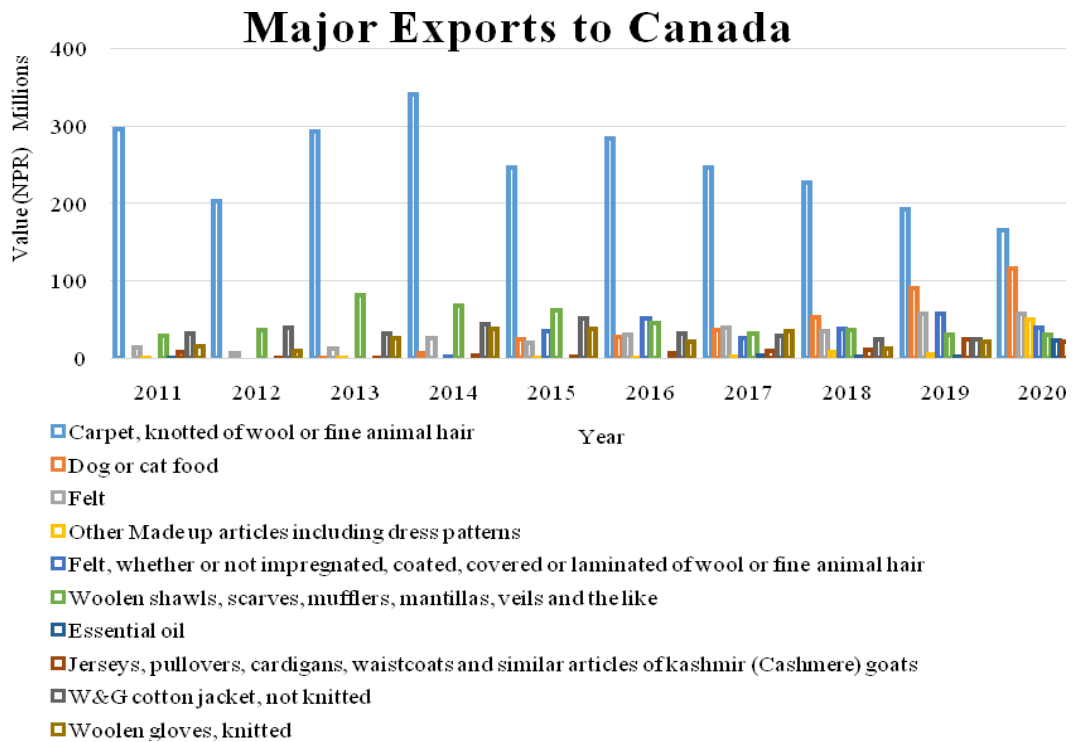
*Figure 12: Major Exports from Nepal to UK*



*Source: Illustrated by author(s), data from TEPC*

Nepal's exports to Canada are almost only carpets with the addition of dog or cat food in the recent years. While the export of carpets had seen an increasing trend until 2015, in the recent few years, carpet exports to Canada have decreased. The export of dog or cat food on the other hand is on an increasing trend as shown in Figure 10.

Figure 13: Major Exports from Nepal to Canada

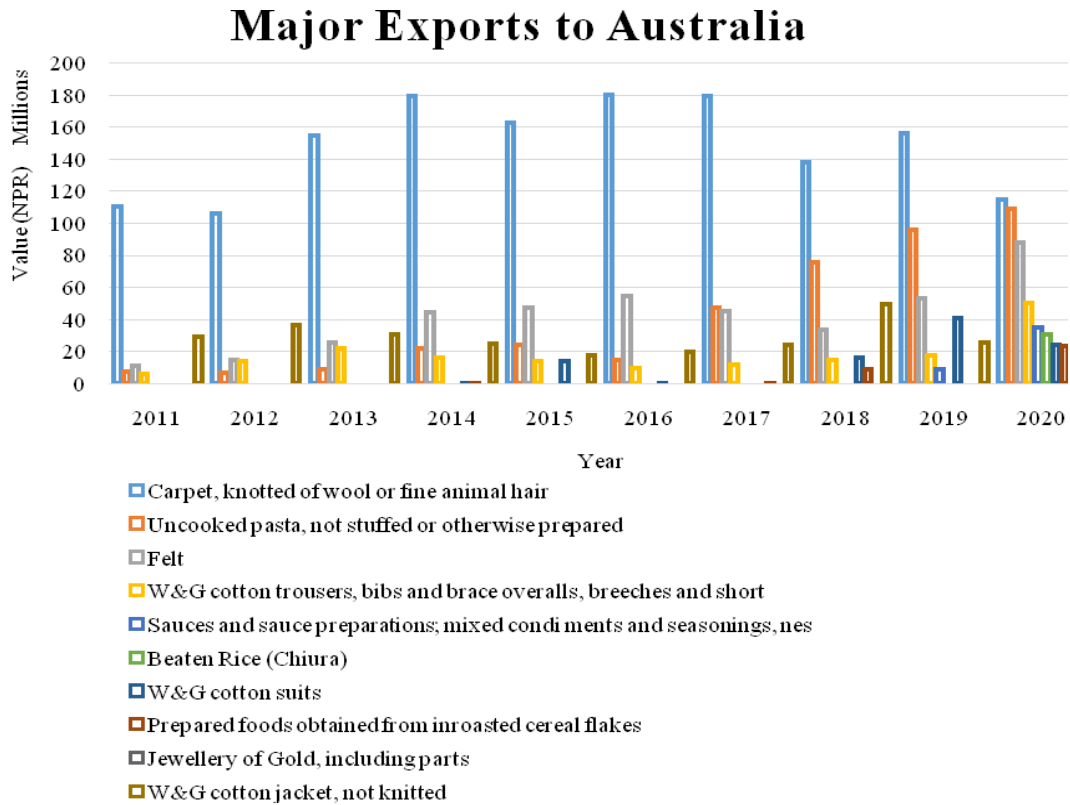


Source: Illustrated by author(s), data from TEPC

Currently, trade with Canada receives least developed country tariff (LDCT), but after graduation, general preferential tariff (GPT) will be applied instead. The local value addition will also increase from at least 40 percent to at least 60 percent. This can have an impact on textiles and carpets.

As with Canada, the major export item to Australia is also carpets with the addition of uncooked pasta in the recent years. The export of uncooked pasta and felt has witnessed an increasing trend over the past few years whereas carpet exports are some what constant, with a few fluctuations. Figure 11 shows that garments and beaten rice are also among the top 10 export items to Australia.

Figure 14: Major Exports from Nepal to Australia



Source: Illustrated by author(s), data from TEPC

Currently as a LDC, Nepal enjoys DFQF facilities, and after graduation GSP will be applied, but local valuation requirement will not change.



## 4.2 Regional Agreements

Nepal's regional agreements for trade are mainly SAFTA under SAARC, BIMSTEC and BBIN MVA. SAFTA came into effect in 2006 and recognizes the needs of LDCs. SAFTA provides DFQF market access for a wider range of products and less stringent rules of origin. Nepal benefits from SAFTA as a LDC. The objective of SAFTA is to promote and enhance mutual trade and economic cooperation among the SAARC members by eliminating barriers in trade, facilitating cross-border movement of goods between territories, and promoting conditions for fair competition in the free trade area. The SAFTA agreement also provides trade facilitation measures to be adopted to support and complement SAFTA for mutual benefit. Some of the adoption measures include: harmonization of standards, reciprocal recognition of test and accreditation of testing laboratories and certification of products, simplification and harmonization of customs clearance procedure, harmonization of national customs classification based on HS coding system, customs cooperation to resolve disputes at customs entry points, simplification and harmonization of import licensing and registration, transit facilities for efficient intra-SAARC trade, especially for landlocked countries, and development of communication system and transport infrastructure. While the SAFTA agreement provides both benefits and provisions for trade facilitation, these measures have not been largely adopted by Nepal. One crucial measure being the reciprocal recognition of tests and accreditation of testing laboratories.

Recognizing the importance of connectivity for economic integration in the South Asia region, SAARC ministers proposed the SAARC Motor Vehicle Agreement (SAARC MVA) during the SAARC Summit in Kathmandu in November 2014. However, the agreement could not materialize because of Pakistan's contention that it had not completed domestic preparations. When the SAARC MVA could not be signed at the 18th SAARC Summit in Kathmandu, a parallel initiative was undertaken to formulate a sub-regional framework agreement with the participation of four countries – Bangladesh, Bhutan, India, and Nepal. The BBIN MVA, which was geared to link the four countries, was discussed at a meeting of the Transport Secretaries of the four countries held in February 2015. One of the distinctive features of the Agreement is that membership has been kept open, presumably with a view to keeping open the possibility of Myanmar and China joining the Agreement at some later stage (an idea that was mooted by Bangladesh). At the next meeting of the nodal officers in April 2015, the signing venue (Thimphu, Bhutan) was finalized, and the member states were asked to complete the internal procedures before June 15, 2015. The text of the draft BBIN MVA was finalized at the consultation meeting of the Transport ministers on June 14, 2015; and the final draft was signed on June 15, 2015 in the presence of the Transport ministers of the participating countries. A six-month work plan was drawn with activities to be covered and milestones to be reached over the next six months (July-December 2015).

The agreement is aimed at facilitating intra-regional and inter-regional trade and also promoting investment linkages among the member countries through improved economic cooperation and connectivity. It was also to help stimulate bilateral and regional value

chains and build a regional production network, as it facilitates the easy movement of goods across borders. For landlocked countries, it provided added advantage of improved connectivity to integrate more effectively with the global economy.

The three signatory countries –Bangladesh, India, and Nepal have already ratified the MVA, whereas Bhutan could not ratify it in its parliament. However, the Bhutanese government gave its consent to the three countries to implement the agreement. A draft Protocol on Passenger Vehicles was discussed in September 2015 and March 2016 in Dhaka, where a concurrence was reached on the text, routes, and other operational details. An agreement to conduct trial movement of cargo vehicles along the scheduled routes was agreed upon. A trial round on cargo and passenger vehicles has been conducted on three routes between Bangladesh and India, and Bangladesh and Nepal.

The BBIN MVA is envisioned to ultimately secure integration with Southeast Asia through connectivity with Myanmar and Thailand, thereby paving the way for exploration of the untapped trading potential of the region. Improved connectivity will not only boost trade and economic activity in the region but will also help the overall development of the region. It would greatly benefit small landlocked countries like Nepal as it would ensure their reciprocity with India in vehicular movement.

The BBIN MVA is a framework agreement that aims to improve regional connectivity among the member countries of the BBIN. The effective implementation of the Agreement would contribute to better sub-regional connectivity, enriched people-to-people contact, tourism development, and deeper economic integration among the member countries. The implementation of the BBIN MVA allows adoption of standardized and streamlined procedures to facilitate unhindered movement of passenger and cargo vehicles from one country to another, which may create enormous economic opportunities in the region. Further, it may pave the way for deeper economic integration with Southeast and East Asian markets. The Agreement can create even higher economic opportunities for a landlocked country like Nepal, as it ensures seamless movement of cargo vehicles carrying exports to other third countries through India and Bangladesh. It would also facilitate strong backward and forward linkages of exportable goods.

The BBIN MVA is a good framework, however, its actual implementation requires significant institutional and regulatory reforms in each country. Many provisions of the Agreement cannot be implemented without additional legislation or a new institutional framework, which must be accepted by the contracting parties. It also requires strong capacity building and coordination among the concerned public and private institutions. More importantly, it is necessary to develop a separate Memorandum of Understanding (MOU) for a three-country implementation modality. In this MOU, a provision should be made to implement the agreement on limited routes among the BBIN countries for a certain period. After successful implementation on these specified routes, necessary revision

should be made in the draft protocol and regularize this provision on other routes specified in the protocol. The regional agreements, although all have not come into effect yet, have provisions that could benefit Nepal's regional trade significantly.

The Intergovernmental Agreement on Dry Ports was opened for signature in Bangkok on November 7 and 8, 2013 and entered into force on April 23, 2016. As of February 1, 2020, 14 ESCAP member States are parties to the Agreement. The Intergovernmental Agreement on Dry Ports is aimed at promoting and developing dry ports of international importance as one of the means to establish an international integrated intermodal transport and logistics system within Asia as well as between Asia and its neighboring regions. The Agreement provides a uniform definition of a dry port of international importance, identifies the network of existing and potential dry ports of importance for international transport operations, and offers guiding principles for their development and operation.

Nepal signed this Agreement on November 7, 2013. It has to be ratified by the parliament of Nepal. The Government of Nepal had submitted it to the parliament for ratification in 2019 and is still in the process. After ratification of this Agreement, the existing five dry ports of Nepal will get international recognition and will be registered on the international port map. Hence, it need to be ratified as early as possible.

The Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific was adopted as a UN treaty. The adoption was a result of dedicated and progressive efforts of a diverse group of more than 25 Asia-Pacific economies that were engaged in four years of intensive consultations and negotiations. It is now open to 53 members of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

The Framework Agreement is fully dedicated to the digitalization of trade processes, aiming to enable the exchange and mutual recognition of trade-related data and documents in electronic form among national and sub-regional paperless trade systems. Trade digitalization, or the simplification and digitalization of international trade procedures, will help the Asia-Pacific region harness international trade for sustainable development. Indeed, moving from paper to electronic data and information exchange is expected to make international trade easier, more transparent, more efficient, and, hence, more inclusive and less taxing on the environment.

Nepal participated in the formulation of this agreement from the very beginning, but Nepal has not signed this agreement. Nepal should, therefore, sign this agreement and have it ratified by the parliament as early as possible. It will facilitate in trade digitalization.



# CHAPTER V

## Diplomacy & Trade Facilitation

## 5. Diplomacy and Trade Facilitation

### 5.1 Trade Facilitation and Economic Growth

Trade statistics and global indicators all show that trade is in dire need of facilitation. It has been proven that trade facilitation is successful in enhancing trade and boosting economic growth. Trade facilitation, although extremely important, does not have a standard definition. According to the WTO, trade facilitation is the simplification, modernization, and harmonization of export and import processes to eradicate bureaucratic delays and “red tape” for moving goods across borders for traders. Wilson, Mann and Otsuki, (2005), explain that trade facilitation simply addresses the logistics of moving goods through ports or more efficiently moving customs documents associated with cross-border trade. Similarly, Moisé and Sorescu, (2013), refer to trade facilitation as policies and measures aimed at reducing trade costs by improving efficiency at each stage of the international trade chain. Literature for trade facilitation all have their own definition for trade facilitation, where some refer to it as simplifying processes for trade; others refer to trade facilitation as moving goods more efficiently across borders; still some define trade facilitation as a measure to reduce trade costs. Whatever the definition and scope of trade facilitation, the main idea is to enhance trade at a reduced cost.

“Economic theory suggests a relatively direct and simple chain of causality: human development is enhanced through income growth; income growth is greater with more cross-border trade; trade is increased through trade facilitation efforts” (Wilson, Mann, and Otsuki, 2003). The trade facilitation agreement (TFA), concluded by the WTO members at the 2013 Bali Ministerial Conference, contains provisions for movement, release, and clearance of goods, including goods in transit, as well as measures for effective cooperation between customs and other appropriate authorities on trade facilitation, and customs compliance issues and provisions for technical assistance and capacity building. Trade facilitation mechanisms always aim for seamless movement of cargo, and there are many areas of priority – infrastructure, customs procedures, quarantine and lab testing, certification, tracking, and mode of payment, among others. The research by Moisé and Sorescu, (2013), finds that enhancing trade facilitation has a positive impact on trade flows. The paper further emphasizes that the most significant trade facilitation measures include availability of information, harmonization and simplification of documents, automated processes and risk management, streamlining of border procedures, and good governance.

As there are many priority measures for trade facilitation, it is important to specify and define trade facilitation measures with progressing steps. Wilson, Mann, and Otsuki, (2005), highlight that there are four categories of trade facilitation effort – port infrastructure, customs environment, regulatory environment, and e-commerce. They further suggest that benchmarking a country’s condition in these four categories with respect to global best practices can provide valuable insight for policy development. The previous chapters in

this paper have indicated Nepal's condition in some of the categories mentioned by Wilson, Mann, and Otsuki, (2005), and it is evident that trade infrastructure of Nepal is in poor condition.

Trade has also been highly regarded as being important for the sustainable development goals (SDGs). Some of the 17 SDGs of the United Nations Development Program (UNDP) are directly related to trade. Often government policies and projects are focused on trade enhancement as a measure to achieve SDG 1, or reduce (end) poverty. Similarly building resilient infrastructure, promoting inclusive and sustainable infrastructure, and fostering innovation (SDG 9) can also be achieved by enhancing trade. Trade can also assist in ensuring responsible consumption and production patterns (SDG 12). As trade is important for development, the correct trade facilitation measures are vital for trade enhancement. The GON, along with the development partners (DPs), has brought forward policy changes and projects for trade facilitation, and a major focus has been trade enhancement. The next section briefly points out Nepal's trade facilitation measures and their impact.

## **5.2 Current Trade Facilitation Mechanisms in Nepal**

There have been many notable developments to enhance trade in Nepal. Facilitation measures in the form of infrastructure development, customs procedures, market access have been seen to a large extent over the past two decades in Nepal. The first and one of the most important developments has been the introduction and adoption of Automated System for Customs Data (ASYCUDA) in 1996. The United Nations Conference on Trade and Development (UNCTAD)-designed computer software has been implemented in Nepal's customs offices with specific functions. The Nepali ASYCUDA system, also called Nepal Customs Automated System (NECAS), has been successful in managing customs procedures. The automation has reached the point where, based on the nature of the imported goods, the cargo is categorized into the clearing lane. Products such as fuel are usually categorized in the green lane, where neither document verification nor physical inspection is needed. Similarly, for other goods based on their nature, they are either categorized in the yellow lane (needs document verification) or red lane (needs both document as well as physical verification) for clearing. Currently more than 60 percent of cargo is classified under the red lane, causing delays in border procedures. To ease the flow of goods, the GON is planning to strengthen green and yellow lane procedures and reduce cargo clearing from the red lane. The ASYCUDA NECAS software has also consolidated data for all export and import required documents, where the concerned departments can upload their certificates. For example, cargo that requires SPS/TBT testing and/or quarantine will have its laboratory results uploaded to ASYCUDA NECAS so that traders do not need to move from one department to another. Banks have also been granted access to certain parts of ASYCUDA NECAS so that once the payment is finalized, the customs offices can release goods as soon as possible. There are some gaps in the ASYCUDA system, such as lack of e-payment, which the government is working towards.

The other notable development has been infrastructure, particularly the development of ICDs and ICPs at the major trading points as well as Kathmandu. Currently, there are four ICDs (Birgunj, Biratnagar, Bhairahawa and Kakarbhitta) and two ICPs (Birgunj and Biratnagar) bordering India, and one ICD (Tatopani) bordering China in operation. Two ICDs (Rasuwagadhi and Kathmandu) and two ICPs (Bhairahawa and Nepalgunj) are under construction. Particularly the ICPs have been able to ease trade across borders as all concerned departments and agencies (quarantine offices, banks, CHAs, etc.) are on the same premises. The newest ICP at Biratnagar has been able to facilitate trade so as to earn a better score in the DB parameter. However, there are some infrastructure gaps even in the newest ICP. Parking space is limited, which has forced truckers to park their vehicles on the road, causing traffic congestion. Warehouse facilities are limited, and disputes between officials of quarantine and testing facilities regarding jurisdiction cause delay. Along with the ICDs and ICPs under construction, the government has also identified potential border points for developing ICDs and ICPs (Dodhara Chandani and Krishnanagar), both in the western part of the country.

In order to support the easy flow of goods through the ICDs and ICPs under operation, all three tiers (federal, provincial, and local) of the government are investing in road construction and expansion. Access roads from the border point to major highways are being constructed along with new highways connecting east and west Nepal as well as north and south Nepal. Thinking about alternative means of transportation for trade, the government is also developing two new international airports, one in Lumbini and one in Pokhara. For a landlocked country, alternative means of transportation are important to avoid dependence on only one transportation mode. The only railway is linked with the ICD in Birgunj, but there are provisions to connect with more railways to enhance trade.

While transportation and border infrastructure are being developed, warehousing and cold storages seem to have received less priority from the government. The only international airport lacks adequate warehousing, and warehousing and yard space in the ICDs and ICPs get quickly congested, hinting at the need of expansion.

Some other trade facilitation mechanisms have been introduced, such as the Nepal Trade Information Portal that provides all the necessary information related to trade and the Nepal National Single Window (NNSW) for seamless movement of cargo. The government is also in the process of finalizing the logistics policy for the country to reduce the cost of goods in movement and goods at rest. Trade facilitation mechanisms also include policy changes and formulations. The Industrial Policy, Commerce Policy, Supplies Policy, Nepal Trade Integrated Strategy (NTIS) all contain significant trade facilitation measures. Some of the trade facilitation measures mentioned in the Commerce Policy 2015 are:

- **Working Policy 10.1.3:** For the growth of Nepal's export trade, procedures will be made simpler and transparent.

For simplification of the export process, the TEPC has launched the trade information



portal, which disseminates all necessary information for trading across borders. Similarly, trade infrastructures such as ICDs and ICPs are being developed at key border points for smooth international trade.

- **Working Policy 10.1.7:** E-commerce will be promoted to make trade timely, economical, and reliable.

The MOICS has developed an e-commerce strategy, e-payments have been recognized and promoted by Nepal Rastra Bank, and processes are moving ahead to include the option of e-payment for customs clearance.

- **Working Policy 10.2.10:** Assistance will be provided to organize and participate in national and international trade fairs.

Both the private sector as well as the government have participated and promoted Nepali goods in international trade fairs. Similarly, international trade fairs have also been organized in Nepal to promote export of high potential export goods (international trade fair for tea was one of the notable trade fairs organized in Nepal).

- **Working Policy 10.5.6:** Collection, processing, and communication of information related to Nepal's international trade will be made effective.

TEPC's trade information portal is working towards gathering quantitative data.

- **Working Policy 10.5.16:** The existing Nepal-India Trade Agreement and Railway Agreement will be reviewed and modified and implemented effectively. In addition, initiatives will be taken to expand the railway service to other possible points as well.

The Railway Agreement was recently signed between Nepal and India. The government is planning to build a railway from Kerung to Kathmandu and from Raxaul to Kathmandu.

- **Working Policy 10.7.1:** Trade promotion will be implemented as a key part of economic diplomacy.

- **Working Policy 10.7.13:** Nepali missions and consulates abroad will be effectively mobilized in various aspects of trade diplomacy, market research, investment potential, and export promotion.

- **Working Policy 10.7.16:** Necessary budget will be provided for Nepali embassies to conduct promotional programs, including those on international trade, investment, and market research.

- **Working Policy 10.7.17:** Arrangements will be made to organize trade and investment meetings at least once a year by Nepali missions and consulates abroad to promote the export of Nepali goods and attract foreign investment in Nepal.

Working policies 10.7.13, 10.7.16, and 10.7.17 all emphasize the mobilization of diplomatic missions and consulates to promote exports. It is clear that MOFA does

have an important role to play in trade facilitation and export promotion. Similarly, Nepal Trade Integrated Strategy 2016 also mentions some actions regarding economic diplomacy and trade negotiations.

**Outcome 1:** ‘Trade Capacity, Including Trade Negotiation’ mentions conducting trade negotiation training in-country with special focus on bilateral, regional, and multilateral trade as one of the actions. As this enhances the negotiating capacity of government officials, it is important, but it mentions the trainings will be held only under the MOC (Ministry of Industry, Ministry of Commerce, and Ministry of Supplies were separate ministries). Officials of MOFA have been at the front line of economic diplomacy and negotiations, but the NTIS has not included MOFA as a responsible agency. MOFA officials can provide valuable insight and negotiation techniques in the trainings. The role of MOFA is mentioned mostly in outcome 7: ‘Trade in Services-related Cross Cutting Matters’. Action 5 under outcome 7 mentions: Initiate negotiations at various bilateral and multilateral forums to include the movement of ‘skilled and semi-skilled professionals in various categories’ under mode 4, in which MOFA is a responsible agency along with MOC. Similarly, action 6 mentions: Assess and explore market potentials and promote Nepali service sectors through diplomatic missions abroad. While it is important to explore potential markets for the promotion of the Nepali service sector, it is also important to explore potential markets for Nepali goods. Diplomatic missions have first-hand knowledge about the market and can provide valuable information regarding the market needs. The gaps in the NTIS in mobilizing diplomatic missions have been addressed by Foreign Policy 2077 BS to some extent as mentioned in Trade Diplomacy in Nepal in chapter 2.2.1.

### **5.3 Gaps in Trade Facilitation Strategies**

Trade facilitation strategies in Nepal have impacted trade to some extent, but gaps still persist, which need to be addressed. The gaps in trade facilitation from the government side include bureaucratic hassles, lengthy procedures, informal payments, low coordination among department and ministries, and insufficient infrastructure.

The ASYCUDA/NECAS system has brought significant changes to customs clearance, but gaps still persist. The government has not been able to implement paperless trade, and thus traders are required to submit documents in hard copy form. While there have been consistent efforts to adopt paperless trade, electronic submission is still not accepted. Similarly, another gap in customs clearance is the mode of payment. Most of the major border points have a designated bank branch at the customs on the ICD/ICP premises for payment processing, but the bank closes after business hours, and electronic payment has yet to be implemented. Traders are required to go to the bank in person or send a representative to process payment. Without electronic payment in place, customs clearance incurs additional delay.

According to the SAFTA agreement, countries are required to have reciprocal recognition of testing laboratories. However, SPS/TBT-related test results issued by Nepali testing

authorities, such as the Department of Food Technology and Quality Control (DFTQC), are not recognized by the Indian customs, forcing Nepali traders to send samples to India or third countries to receive accepted testing certification. Lack of coordination can also be witnessed among the testing departments. While the DFTQC, plant quarantine and pesticide management center, and animal quarantine office all fall under the purview of the Ministry of Agriculture and Livestock Development (MOALD), they maintain separate laboratories, with each department trying to protect its own turf, which increases the burden on the traders. Another issue with the testing laboratories is that not all are in close proximity to the major trading points. The recently developed ICPs and some ICDs do have testing laboratories on their premises, but some customs offices do not have testing facilities nearby. Traders are thus required to travel long distances from the customs office to the testing laboratories, wait for the results, and again travel all the way back to the customs office. This increases clearance time for exports and can compromise on the quality of the goods, especially perishable items, if the customs offices lack adequate warehousing or cold storage facilities.

One major focus of the government has been infrastructure development in the form of ICD/ICP construction at the major border points and major markets (ICD Chobhar, Kathmandu), and construction of highways and access roads. As global indicators such as the WBG's LPI and the World Economic Forum's enabling trade index both show that trade infrastructure is in poor condition, its enhancement is important. However, there are some significant design inefficiencies even at the ICP in Biratnagar. The ICP has been designed as a mirror image of the ICP across the border at Jogbani in India, but it lacks some significant infrastructure needs. The ICP yard has limited parking space and lacks warehouses for inspection. Hence, truckers are forced to park on the side of the road, which is increasing traffic jams and deteriorating the quality of roads. Additionally, many of the ICDs lack cold storage facilities and sufficient warehousing facilities. Even the only international airport in Kathmandu lacks proper storage facilities. As a landlocked country, Nepal is highly dependent on road transport for trade, and minimum development has been seen on alternative means of transportation. There is currently only one railway in operation from Raxaul, India to Birgunj ICD in Nepal and that too is only a single track link. There are two other railway connections between Nepal and India – the 28-kilometer-long track from Jayanagar, India to Janakpur (not in operation) and 18.6-kilometer line from Jogbani, India to Biratnagar, Nepal (first phase Nepal to Bathnaha, India has been completed). Similarly, air transport also consists of gaps. While additional airports are being constructed in Pokhara and Lumbini, significant improvements are required at the Tribhuvan International Airport in Kathmandu. As already mentioned, the airport lacks proper storage facilities, and, more importantly, Nepal does not have any cargo flights. Traders who use airways for export and import have to rely on passenger planes to move their goods beyond the border. Many high value goods such as carpets and pashmina are exported via air, but lack of cargo flight means that traders do not always receive the required space and weight.

Similarly, diplomatic missions also show trade facilitation gaps. Limited trade diplomacy practices of the consulate generals, diplomatic missions, and honorary consulates, limited coordination between the MOICS and diplomatic missions, insufficient information on trade and markets on the diplomatic missions' official websites, and insufficient facilitation for connecting traders are some of the major gaps seen in trade facilitation.

#### 5.4 Role of Embassies in Economic Diplomacy

Most of the countries now give high priority to economic promotion. Many entrust this work to diplomatic service, while others handle it exclusively through specialist commercial services, or trade commissioners or consulate generals. Hence, diplomatic missions might play the special role of trade representatives. Presently Nepali diplomatic missions have their presence in most parts of the world. The initiatives of these embassies and consulates could provide the initial impetus in boosting trade or investments. One of the major tasks of Nepali diplomatic missions abroad is to provide regular information to the concerned government and private sector agencies about new goods to promote bilateral trade between Nepal and the receiving state. These missions are also supposed to take the lead in enhancing FDI and promoting tourism while also serving as contact points between the private sector in industry, commerce, or tourism sectors in Nepal and similar organizations in the receiving country. These officials could identify opportunities and take necessary actions to penetrate the export market for domestic products.

*Table 9: Number of Nepali Missions Abroad and Residential Diplomatic Missions in Nepal*

Region	Nepali Diplomatic Missions Abroad and Nepali Permanent Mission	Consulate Generals of Nepal	Honorary Consulate of Nepal Abroad	Honorary Consulate of other Countries in Nepal	Residential Diplomatic Missions for Nepal
Oceania	1			2	
North and South America	4	1	12	5	2
Europe	9			31	
South Asia	4	1	1	1	3
South East Asia	6	3	10	3	7
Middle East	7	1	6	1	4
Africa	2			8	
Central Asia				2	
Total	33	6	55	55	25

*Source: Illustrated by author(s), data from MOFA*

Presently, there are 30 Nepali diplomatic missions and three permanent missions in different parts of the world. Nepal has also established six consulates general abroad, focusing specially on trade facilitation activities and trade promotion. There are four missions in North and South America, nine in Europe, four in South Asia, six in South East Asia, six in South East Asia, two in Africa and one in Oceania. These Nepali diplomatic missions and consulates general can serve all the major markets of the world.

In Nepal, the MOICS is responsible for enhancing trade facilitation, trade promotion, and coordination to penetrate the foreign market for Nepali products. It seems there is poor coordination between the MOICS and Nepali diplomatic missions abroad (NTIS action matrix being an example). Even it has very weak working links with the consulates general, except for the Consulate General in Kolkata.

Recently, MOFA, in coordination with the MOICS, has started virtual interactions with its diplomatic missions on trade diplomacy. During these interaction, MOFA and MOICS discuss issues regarding extending foreign markets for Nepali products, preference of the consumers, procedural requirements, etc. The MOICS has also started virtual interactions with the Consulates General and finance ministers of the countries where our diplomatic missions are based to discuss trade facilitation issues. Such interactions should be conducted on a regular basis and become a routine program of the ministry and diplomatic missions.

There are 55 honorary consulates of Nepal in different countries. One major responsibility of the honorary consulates of Nepal in other countries is to provide information to the government or private sector on trade in goods to promote bilateral trade between Nepal and the receiving country. They are also supposed to perform the required functions to make or enhance FDI in Nepal, promote tourism development, and also serve as contact points between the private sectors of Nepal and the receiving countries. During consultations with the concerned officials in the MOICS and private sector, they informed that their linkages with these Honorary Consulates abroad were very poor. The MOICS, in coordination with the concerned Nepali diplomatic mission and MOFA, should develop a strategy to activate these honorary consulates and facilitate the private sector to develop linkages with the buyers in the receiving country.

There are 25 Residential Diplomatic Missions of friendly countries serving in Nepal and 53 honorary consulates of other countries. The details and whereabouts of the diplomatic missions can be seen in annex 1. It is necessary to develop a strategy to coordinate with these residential missions and honorary consulates to enhance the export trade of Nepal. Nepali diplomatic missions should involve in following activities:

**Trade Promotion:** Home exporters in Nepal lack knowledge about the basic environment in a foreign market. They also have limited capacity to invest in market exploration. The business associations at home are also fragmented and more concentrated on internal issues. Besides, most of the exporters lack information and understanding of foreign regulations regarding safety and environmental standards, and other norms in the potential markets, which create non-tariff barriers (NTBs) for entry. The diplomatic missions should facilitate the home exporters on accessing basic information and trade promotion in foreign markets.

**Enhancing Credibility of Home Exporters:** Generally most of the home exporters lack credibility with potential foreign customers due to their weak linkage and lack of necessary information. Diplomatic missions should facilitate the home exporters in enhancing their credibility in the foreign market. These missions should facilitate the home business associations and individual enterprises in accessing information about the basic economic situation in the target country. They should also help establish contact with the importers of select products or services, and sensitize them on what the home country could offer while encouraging business delegations to promote exports and mobilize FDI.

**Investment Promotion:** The diplomatic missions should facilitate in mobilizing FDI for the home country to build up the manufacturing sector in the home country. These missions should facilitate visits by business and eco-political delegations from the target country. Technology transfer is crucial for enhancing the productive capacity and increasing efficiency, and reducing the cost of production and trade. Diplomatic missions should also focus their activities on transferring appropriate technology to the home country.

**Aid for Trade:** Generally, aid diplomacy also intersects with commercial diplomacy in the leverage it provides for trade, service, and investment opportunities for the donor country. The export credits as well as loans and grants given as ‘official development assistance’ (ODA) are directly linked with business for the donor, or have an implicit connection, even if such aid is ‘untied’. Nepali diplomatic missions should give priority to Aid for Trade in aid management for Nepal. This will enhance Nepal’s export activities and ultimately decrease the dependency syndrome.

# CHAPTER VI

## Recommendation and Conclusion

## 6. Recommendations and Conclusion

In today's world, where international and economic relations are a system of power relations, economic diplomacy has become the most important activity in the diplomacy of nation states and international organizations. Moreover, it could be said that economic diplomacy has become the primary means of penetrating the world market. Economic diplomacy is important for a small economy like Nepal's. One of the reasons for this is the importance of foreign trade for its growth and development. Economic diplomacy, which can help promote foreign trade, is, therefore, essential to improve the economic situation of Nepal. The role of the state and its related agencies like the Ministry of Foreign Affairs and diplomatic missions, as well as instruments to promote and protect the interests of the state, remains important, particularly in the areas of economic diplomacy. Productive and efficient economic diplomacy, protecting the economic interests of the country, promoting modern economic opportunities, inviting foreign investors, and partnerships directly contribute to the economic development of the country.

The challenges faced by the Nepali economy due to the galloping trade gap may be solved through better linkages with the emerging economies. Economic diplomacy can play an important role here in arranging market access. Analyses show that diplomatic missions, embassies, and consulates contribute positively to trade. Bilateral economic diplomacy to create market access, combined with efforts to open up markets via the regional organizations and WTO, is thus the way forward to improve Nepal's linkages with the fast-growing emerging markets in Asia and Europe.

The following are recommendations for increasing the trade competitiveness and penetrate the external markets and promote exports of Nepal.

- Collaboration between the government and private sector is necessary to explore alternative markets beyond the neighboring countries to achieve better output.
- The government and private sector should collaborate to facilitate and produce high commercial volumes to maintain quality, reduce the cost of production, and increase productivity and competitive capacity to compete in the international market.
- The government and private sector have to work extensively for product diversification, grading, sorting, packaging, labeling, branding, storage, and setting up internationally accredited quality testing facilities in Nepal to export in the international market.
- The government has to create a conducive environment for Nepali traders through business promotional activities, facilitation for participation in trade fairs, business link-up, bilateral agreements, trade treaties, and organizing business meets to access potential international markets.



- Diplomatic missions should facilitate trade relations between Nepali traders and other business partners beyond the traditional business partners of India. They should develop their overall capacity for international trade, including international import and export presence, storage capacity, processing capacity, quality control, supply chain regulation, and expansion of business linkup and networking.
- To reduce the burden of the exporter, the government should create a hassle-free customs clearance environment to the exporter to reduce the transportation cost.
- To reduce the logistics costs and increase efficiency in supply chain management, the government should formulate a Comprehensive Trade Logistics Policy and implement it to build a proper supply chain and network directly from the farm house to the exporter warehouse and then export to the end destinations. Involvement of various layers of middlemen and individual level transportation has only added to the export cost.
- The existing Single Window System should be expanded to accommodate more related agencies to facilitate the private sector in the Exim trade.
- An electronic cargo tracking system should be promoted and implemented in cargo export to reduce documentation requirement and allow seamless movement of cargo.
- The existing trade portal administered by the TEPC should be designed to accommodate information about potential markets abroad, potential buyers, documentation and testing requirements, logistics and tariffs.
- The MOICS, in collaboration with MOFA and diplomatic missions, should work on completing the consolidated LoEs in the Transit Agreement with India, LoE on use of ECTS on transit cargo, negotiation to allow import of certain third country cargo through India, and initiation to allow the use of two additional ports in India: Dhamra and Mundra.
- Early operationalization of the Regional Motor Vehicle Agreements/ BBIN.
- Diplomatic missions should proactively work on Mutual Recognition Agreement with major trading partner countries to facilitate the export trade.
- Develop strategy and operating procedure to operationalize the Transport Transit Protocol with China.
- Negotiate with Bangladesh to open the route for yarn export from Nepal, and reduction of NTBs and preferential trade agreements should be completed as early as possible.
- MOICS should proactively coordinate for the early ratification of the Intergovernmental Agreement on Dry Port and Agreement on Paperless Trade.

Nepali diplomatic missions abroad, including Consulates General and Honorary Consulates, should focus on their function as trade missions in their respective area and perform the following activities:

- The diplomatic missions should facilitate the home exporters in accessing basic information about foreign markets, required standards, SPS/TBT, and issues of logistics management.
- The diplomatic missions should facilitate the home exporters in enhancing their credibility in the foreign market. These missions should facilitate the home business associations and individual enterprises in accessing information on the basic economic situation in the target country.
- Facilitate in establishing contact with the importers of select products or services, and sensitize them on what the home country can offer.
- Facilitate and encourage business delegations for export promotion and FDI mobilization.
- The diplomatic missions should facilitate in mobilizing FDI for the home country to enhance the manufacturing sector.
- Facilitate visits by business and eco-political delegations from the target country.
- Diplomatic missions should also focus their activities on transferring appropriate technology to the home country.
- Nepali diplomatic missions should give priority to Aid for Trade in aid management. This will enhance Nepal's export activities and ultimately decrease the dependency syndrome.

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# ANNEX

## Annex

### Annex 1: Diplomatic Missions of and for Nepal

Region	Nepali Diplomatic Missions Abroad	Consulates General of Nepal Abroad	Nepali Permanent Mission to UN and other International Organizations	Residential Diplomatic Missions for Nepal	Honorary Consuls General of Nepal Abroad	Honorary Consuls General of other Countries in Nepal
Oceania	Canberra, Australia			Australia	Five Honorary Consuls in Australia	Fiji
						Papua New Guinea
North and South America	Washington D.C., USA	New York, USA	New York, USA	USA	Seven Honorary Consuls in USA	Columbia
	Ottawa, Canada			UN*		Canada
	Brasilia, Brazil			Brazil		Ecuador
					One Honorary Consul in Costa Rica	Mexico
						Peru

Region	Nepali Diplomatic Missions Abroad	Consulates General of Nepal Abroad	Nepali Permanent Mission to UN and other International Organizations	Residential Diplomatic Missions for Nepal	Honorary Consuls General of Nepal Abroad	Honorary Consuls General of other Countries in Nepal
Europe	Brussels, Belgium		Geneva, Switzerland	Finland	One Honorary Consul in France	Belgium
					Four Honorary Consuls in Germany	Denmark
					One Honorary Consul in Greece	Bosnia & Herzegovina
	France			One Honorary Consul in Iceland	Bulgaria	
				One Honorary Consul in Italy	Czech Republic	
				One Honorary Consul in Lithuania	Austria	
				One Honorary Consul in Luxembourg	Croatia	
	Germany			One Honorary Consul in Monaco	Cyprus	
					Belarus	
	Russia			Two Honorary Consuls in Portugal	Estonia	
			Georgia			
			Greece			
			Hungary			
	Switzerland		One Honorary Consul in Romania	Ireland		
				Italy		
				Latvia		
Norway	One Honorary Consul in Slovenia	Lithuania				
		Luxembourg				
		Malta				
		Netherlands				
UK	One Honorary Consul in Sweden	Poland				
		Portugal				
		Romania				
EU*	One Honorary Consul in Netherlands	Serbia				
		Slovak Republic				
		Slovenia				
		Spain				
		Sweden				
		Turkey				
		Ukraine				
	Madrid, Spain		Vienna Austria			

Region	Nepali Diplomatic Missions Abroad	Consulates General of Nepal Abroad	Nepali Permanent Mission to UN and other International Organizations	Residential Diplomatic Missions for Nepal	Honorary Consuls General of Nepal Abroad	Honorary Consuls General of other Countries in Nepal		
South Asia	New Delhi, India	Kolkata, India		India	One Honorary Consul in Pakistan	Maldives		
	Dhaka, Bangladesh			Bangladesh				
	Islamabad, Pakistan			Pakistan				
	Colombo, Sri Lanka			Sri Lanka SAARC*				
South East Asia	Beijing, China	Guangzhou, China		China	One Honorary Consul in China	Indonesia		
	Tokyo, Japan			Japan	One Honorary Consul in Indonesia			
	Seoul, Korea, Republic of	Lhasa, China		Korea, Republic of	Two Honorary Consuls in Japan	Philippines		
	Kuala Lumpur, Malaysia			Korea, Democratic People's Republic of	One Honorary Consul in Korea, Republic of			
	Yangon, Myanmar	Hong Kong				One Honorary Consul in Lao	Vietnam	
	Bangkok, Thailand			Malaysia	Two Honorary Consuls in Malaysia			
				Myanmar	One Honorary Consul in Singapore			
				Thailand	One Honorary Consul in Thailand One Honorary Consul in Philippines			
	Middle East	Riyadh, Saudi Arabia		Jeddah, Saudi Arabia		Saudi Arabia	One Honorary Consul in Iran One Honorary Consul in Israel	Iran
		Tel Aviv, Israel						
Kuwait City, Kuwait		Israel	One Honorary Consul in Lebanon					
Muscat, Oman								
Manama, Bahrain		Qatar	One Honorary Consul in Syria					
Doha, Qatar								
Abu Dhabi, UAE		UAE						



Region	Nepali Diplomatic Missions Abroad	Consulates General of Nepal Abroad	Nepali Permanent Mission to UN and other International Organizations	Residential Diplomatic Missions for Nepal	Honorary Consuls General of Nepal Abroad	Honorary Consuls General of other Countries in Nepal
Africa	Cairo, Egypt			Egypt	One Honorary Consul in Kenya	Ethiopia
	Pretoria, South Africa				One Honorary Consul in Sudan, Republic of	South Africa
					One Honorary Consul in Uganda	Guinea
Central Asia						Mauritius
						Seychelles
						Tanzania
						Zambia
						Kazakhstan
						Mongolia

*\* International Organizations have been kept in their respective regions as relevant as possible*

*Source: Illustrated by author(s), data from MOFA*

## Abbreviations

AD	Anno Domino
ADB	Asian Development Bank
ASYCUDA	Automated System for Customs Data
BBIN	Bangladesh, Bhutan, India, Nepal Initiative
BBIN MVA	Bangladesh, Bhutan, India, Nepal Motor Vehicle Agreement
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BS	Bikram Sambat
CHA(s)	Customs Handling Agent
COVID-19	Coronavirus Disease
DB	Doing Business
DFQF	Duty Free, Quota Free
DFTQC	Department of Food Technology and Quality Control
DOC	Department of Customs
DOI	Department of Industries
DP(s)	Development Partner(s)
EBA	Everything but Arms
ECTS	Electronic Cargo Tracking System
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GON	Government of Nepal
GSP	Generalized System of Preferences
GPT	General Preferential Tariff
ICD	Inland Clearing Depot(s)
ICP(s)	Integrated Check Post(s)
ICT(s)	Information and Communication Technology
IMF	International Monetary Fund
IR	International Relations
LDC	Least Developed Country
LDCT	Least Developed Country Tariff
LoE	Letter of Exchange

LPI	Logistics Performance Index
MAP(s)	Medicinal and Aromatic Plant(s)
MFN	Most Favored Nation
MOALD	Ministry of Agriculture and Livestock Development
MOC	Ministry of Commerce
MOFA	Ministry of Foreign Affairs
MOHP	Ministry of Health and Population
MOI	Ministry of Industry
MOICS	Ministry of Industry, Commerce and Supplies
MOS	Ministry of Supplies
NECAS	Nepal Customs Automated System
MVA	Motor Vehicle Agreement
NNSW	Nepal National Single Window
NPR	Nepali Rupees
NRB	Nepal Rastra Bank
NTB(s)	Non-tariff Barrier(s)
NTIS	Nepal Trade Integrated Strategy
PRC	People's Republic of China
PTA	Preferential Trade Agreement
NAFTA	North American Free Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trade Agreement
SDG(s)	Sustainable Development Goal(s)
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TEPC	Trade and Export Promotion Center
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
US/USA	United States of America
WITS	World Integrated Trade Solution
WB/WBG	World Bank/World Bank Group
WTO	World Trade Organization