

20 years of Nepal's Accession to the WTO

What have we achieved? And what is the way forward?

Speakers:

- Prof. Dr. Achyut Wagle, Registrar, Kathmandu University
- Professor Titus O. Awokuse, Associate Dean, Research and Strategic Partnership, Michigan State University
- Prof. Dr. Bijay KC, Dean, Kathmandu University School of Management
- Prof. Dr. Biswo Poudel, Kathmandu University School of Management

Moderator: Mr. Aswin Parajuli, Chief Executive Officer of SEJON

Session Chair: Dr. Toya Narayan Gyawali, Member Secretary, National Planning Commission

Panelists:

- Dr. Paras Kharel, Executive Director, South Asia Watch on Trade, Economics and Environment, Nepal
- Dr. Yamuna Ghale, Lead, SPIRIT Nepal Project, Nepal Center for Contemporary Research (NCCR)
- Dr. Biju Thapaliya, Vice-Chancellor, Purbanchal University
- Mr. Vishnu Kumar Agarwal, Immediate Past President, of the Confederation of Nepalese Industries
- Mr. Liladhar Adhikari, Under Secretary, Trade Policy and Trade Cooperation Section, MoICS

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Abstract / Summary:

The event celebrates 20 years of Nepal's accession to WTO by bringing together academics, policymakers, civil society members, the private sector, and industry leaders to reflect on the country's journey post WTO. The panel discussion highlighted the mixed outcomes for Nepal from the global accessibility to the persistent trade deficit and domestic deindustrialization. Panelists emphasized on the need for transformation of the agriculture sector, enhancement of production for domestic consumption, and building competitive capacity to reach the global market. The importance of regional trade negotiation in the context of Nepal and strategic policy alignment for the smooth transition to Developing nation status. Speakers agreed on the inability to utilize the privileges from the LDC status and emphasized the development of trade infrastructure with coordination among government bodies, the private sector, and civil societies.

The session:

1. Opening Remarks

a) Speech by Prof. Dr. Achyut Wagle, Registrar, Kathmandu University

Dr. Wagle welcomed all the participants and thanked them for their presence and willingness to participate in the celebration of 20 years of Nepal accessing the WTO. He welcomed representatives from Michigan State University to Dhulikhel and said he invited the delegation benign intention of collaborating with Asian academic and research institutions through their Asia hub. Dr. Wagle emphasized that South Asia remains generally unexplored and also trade at present involves heavily involve agricultural products. He highlighted the presence of leading professionals, high-ranking policymakers, and the private sector in the panel.

He pointed out that despite many changes in Nepal's political amnesty, one constant has been the gradual trade deficit. Dr. Wagle emphasized that the accession to WTO membership has been a mixed bag for countries like Nepal. There are forces challenging globalization, with allegations that it benefits developed countries uni-directionally and leads to policy-making interference from the developed world to developing countries. He cited issues like food security and recent controversies, such as the United States' terrorism position and China's exploitation of WTO provisions in certain trade fairness. This context has led Nepal to open up several sectors, sacrificing the most favored nation status in exporting. Transforming agriculture is critical for Nepal as two-thirds of the working-age population is engaged in it.

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b) Professor Titus O. Awokuse, Associate Dean, Research and Strategic Partnership, Michigan State University

Professor Awokuse started his speech by extending warm gratitude on behalf of Michigan State University and his colleagues to the professor and registrar of Kathmandu University. When discussing about accession to the WTO, based on his expertise in international trade and development, he pointed out that Nepal, like other developing countries, had little choice but to become a member. The crucial question, he noted, is how Nepal has navigated its WTO membership and whether it has benefited them over the last two decades. He observed that WTO membership has had both positive and negative impacts on Nepal. On the positive side, he pointed out that Nepal's exports to India and the rest of the world have increased since joining. However, instead of diversifying its trade away from India, Nepal has not significantly expanded its trade with the rest of the world, which he viewed as a negative aspect. Additionally, higher imports than exports for consecutive years lead to significant trade deficits and create economic issues such as a reputation for being able to pay for loans and in terms of bringing foreign direct investment. While foreign direct investment in Nepal has increased significantly, he questioned the type of investments being made and whether multinational firms' roles have been beneficial for the country. He emphasized the importance of evaluating these factors as Nepal celebrates its 20 years of WTO membership.

Drawing on examples from his observations from Asia and Latin America, he highlighted that successful developing countries are not those that focus solely on exports and income but those that build domestic capacity and competitiveness in both local and global markets. He explained that Nepal should ensure the capacity of production with a lot of value addition rather than merely exporting raw materials. National policies should promote local industry while aligning with WTO regulations. He also mentioned the importance of having the right people and soft infrastructure to support competitive productivity. One of the ways Michigan State University is contributing is through the collaboration with several institutions in Nepal, aimed at building intellectual capacity and promoting human development. He also encouraged continued investment in physical infrastructure and other areas of trade facilitation.

c) Prof. Dr. Biswo Poudel, Kathmandu University School of Management

The speaker commented, based on his experience as a planner and economist, that there exists a close relationship between trade and economics. He observed for the last five years Nepal's trade concentrated on India and China, with limited diversification beyond these major partners. He suggested that Nepal should focus on securing better trade terms with these key countries. Many industry leaders felt that Nepal's trade negotiations were not fully optimized as they connected the decline of Nepal's carpet industry, despite early success in the 90s, with the WTO agreement. Dr. Poudel observed that first half of the 1990s, Nepal experienced progress with liberalization and welcomed Foreign Direct Investment (FDI). Nepal opened up the finance sector, Tourism and manufacturing improved drastically, and witnessed the growth of exports. During the 1960s, the Indian state of West Bengal, the then most industrialized state, started introducing labor regulations more strictly, leading to industries moving towards

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states with fewer regulations. Similarly, in the 90s Nepal implemented many regulatory acts being motivated by increased manufacturing and the ratio of exports & imports.

He raised the issue of a lack of systematic economic history to evaluate the WTO effects on the Nepalese economy. The impact of WTO membership is unclear as a lot of events were taking place at that time such as armed insurgency, human capital flight, export knocking every other aspect with no industrial progress. Despite these challenges, remittances have been a crucial source of financial support, providing a stable reserve for the country. He also noted that Nepal has also started selling electricity to India and the increase in revenue through remittance at more than 20% kept the government satisfied until revenue dipped. In terms of the Cement industry, from being a net importer of 30 billion rupees to being an exporter of around 4 billion rupees. He concluded the speech by highlighting the importance of a good relationship with India to gain favorable access to the market and growth of Nepali industries.

Moderator: Mr Aswin Parajuli Chief Executive Officer of SEJON

Mr. Parajuli starts with providing historical context, noting that Nepal, listed as a Least Developed Country (LDC) in 1971, began its journey toward international trade integration by applying for the General Agreement on Tariffs and Trade (GATT) in 1989, amid an economic blockade. Nepal eventually joined the World Trade Organization (WTO) in 2004. Reflecting on nearly two decades of membership, Parajuli moderates the session, focusing on Nepal's journey to WTO accession, the evolution of its business environment post-membership, the role of supply chain management in international trade, trade policy issues, challenges in implementing export promotion strategies, and the possible way forward.

2. Comments/Speech by Panelist

a) Dr. Paras Kharel, Executive Director, South Asia Watch on Trade, Economics and Environment, Nepal

Dr. Kharel reminded the audience of the year 1989 when Nepal had applied for the GATT against unavoidable transit blockades and interruptions after she had faced an economic blockade the very same year. He mentioned the surge in pharmaceutical products' trade by 171 percent between member countries, way above that between nonmember countries. He pointed out the pivotal role of WTO in reducing trade wars along with trade liberalization. Despite these, Dr Kharel noted the massive fall in services export in Nepal's context from 26% of GDP in 1997 to 6.8% at present, which was amplified by the expiry of the Agreement on Textiles and Clothing (ATC) with the USA. Despite having the privilege of Duty-Free Quota Free (DFQF) preferential treatment from the EU, Japan, and the USA, Nepal could not fully utilize such facilities provided to Least Developed Countries to promote exports. Studies suggest that not only WTO but also bilateral and regional trade has helped Nepal with stable policy.

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Dr. Kharel claimed that the South Asian Free Trade Area (SAFTA) had been forgotten until recently few enterprising traders utilized its provisions by importing crude palm oil, processing it, and selling it to India at 0% duty. Apart from India, Bangladesh is a great potential market in SAFTA but due to the provisions of WTO to GATT members, Bangladesh imposes a higher duty than Nepal. The speaker opined on the need for a preferential trade agreement with Bangladesh. Nepal also has not successfully utilized duty-free access granted by China, which is likely to be revoked once Nepal graduates from LDC.

Dr. Kharel observed that capital account liberalization should ideally follow tariff liberalization, a sequence that Nepal seems to have reversed. FDI in large-scale industries is doubtful despite the large demand. The Nepal Trade Integration Strategy (NTIS, 2016) identifies goods with eight to ten times more potential trade with good branding. Dr. Kharel also observed the relationship between trade deficit with migration. Conflict-led migration increased the remittances leading to an appreciative exchange rate, indicative of Dutch disease. Labor migration decreased the workforce in the factories while increasing the remittance inflow thus in turn increasing the demand for the service industry. Both the agriculture and manufacturing sectors suffered a decline and the potential of the IT sector does not alone complement the need for agriculture and manufacturing. He viewed that agriculture and manufacturing are the sectors that can utilize the labor going to Qatar and Malaysia. He stressed on the importance of competition with big nations over manufacturing and focusing on every sector to address the trade deficit.

b) Dr. Yamuna Ghale, Lead, SPIRIT Nepal Project, Nepal Center for Contemporary Research (NCCR)

Dr. Ghale recalled how difficult and troublesome for the private sector and civil society to prepare the necessary documents to proceed to become a member of the WTO due to the Government's limited information provision. She remembered the painstaking process of discussions and amendments while preparing the necessary documents. She mentioned that the decision to adopt the 1991 version of the UPOV (International Union for the Protection of New Varieties of Plants) convention highlighted Nepal's stand towards manufacturing and commercial farming. The bound tariffs were based on the collaborative negotiation by civil society, private sectors, and farmers' associations. Despite the inaccessibility of data and inadequate research on issues such as bio-diversity and its patent, civil society, and the private sector worked together to bring favorable trade policies to the country. However poor political will and collaboration hindered Nepal's ability to get privileges as an LDC.

Dr. Ghale observed that agriculture was initially left out of GATT but became a part of the WTO framework when Nepal accepted the 1995 package deal, despite global sentiment against the commercialization of agriculture. There were significant campaigns from environmentalists and agriculturist groups to keep agriculture out of WTO. However, she noted, that due to fast paced negotiations and the dominance of countries like the USA, such movements did not make any impactful change. She pointed out the fact that despite the majority of the population being engaged in

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agriculture for livelihood, their voices were not heard due to a lack of research, limited institutional capacity, and poor negotiation skills. Nepal was poorly prepared for issues such as the Agreement on agriculture, International Property Rights related to living organisms, Environmental health, Human health, Animal health, Technical Barriers to Trade, Production conditions, testing protocols, etc. She highlighted the need for scientific documentation of Nepal's biodiversity and the importance of regional integration for agro-products such as Basmati rice, Citrus, Mandarin, and Turmeric. She noted how a lack of documentation and unwillingness from bureaucracy has hindered Nepal from claiming ownership of its bio-diversity and genetic resources. For example, we could not benefit from the research Japan is doing on the medicinal properties of turmeric. She noted how Nepal's agricultural products are sold to Indian traders before harvest, stored in the warehouses, and resold to Nepal when we need rice. She emphasized the need for trade diplomacy as well as an auction market for Nepal's tea and coffee products as they are relabeled and resold in foreign markets. Nepal should create a export support mechanism and she concluded to protect agriculture by emphasizing that food security is national security.

c) Dr. Biju Thapaliya, Vice-Chancellor, Purbanchal University

Dr. Thapaliya acknowledged the important role of the supply chain in international trade and complained about the lack of preparedness of Nepal on such parameters. Membership in WTO does not result in benefits without effective preparation and negotiation. He noted that despite the focus on international trade and market access, over the past 20 years, Nepal has not been able to utilize facilities and make significant progress. The panelists emphasized the importance of infrastructural enhancement and improved transportation speed.

Dr. Thapaliya highlighted his decade-long effort to establish an auction center in Nepal and sue to the lack of which Nepali tea is being sold as Darjeeling tea in the international market. He emphasized the essence of the country's involvement in the global supply chain and suggested Nepal could benefit from regional supply chain improvement as the world is slowly moving towards regionalism. He credited the growth of Mongolia, another landlocked country like Nepal, to the regional trade between China and Russia. He concluded that the way forward for Nepal is to improve regional connectivity between China India and others in the region.

d) Mr. Vishnu Kumar Agarwal, Immediate Past President, of the Confederation of Nepalese Industries

Mr. Agarwal argued that successful implementation of any policy requires a shift in mindset. He noted that the privatization of industrial areas has been mentioned twice in the budget but has not been implemented yet. He stressed the need for preparation and study before making policy level decisions or announcements. He criticized the top-down approaches to privatization and the lack of ownership of the decision among the policymakers. He highlighted the importance of careful planning, feasibility study, and ownership of decisions to utilize the opportunities we have from WTO.

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Mr. Agrawal noted the good reach for imports however infrastructure challenges continue to drive up the import cost. He emphasized the need for domestic exports and his role in the Swadeshi campaign. Providing examples of India, Bangladesh, and China, he pointed out the role of subsidies in developing the capabilities of the export sector. He pointed out that Nepali private sectors have not seen similar benefits or capability development. He stressed that government intervention is crucial for enhancing exports of products like pashmina and tea and criticized the lack of effective functioning of organizations such as the Nepal Tea Board. He also quoted Dr. Ghale on the need for auction markets to boost the branding of national products globally.

e) Mr. Liladhar Adhikari, Under Secretary, Trade Policy and Trade Cooperation Section, MoICS

Mr. Liladhar Adhikari pointed out several critical issues such as the lack of preparedness while binding tariffs and could not to leverage the benefits of being LDC. He highlighted the missed opportunities like producing generic medicines and criticized the lack of efforts in the production sector due to which the industrial sector deteriorated over time. He highlighted the timeframe of development of various NTIS and the issues they addressed. He pointed out the issue of exports not being diversified enough though imports have diversified and the lack of ability to utilize the preferences of the agreements such as the European market's EBA, provision of TIFA with USA, etc. He blames a sound industrial base for such underutilization and a less diverse export sector. He suggested building the legal support system along with the trade logistics policy for sustained growth such as potential IT service export. The panelist also then raised the issue of technological know-how, competitiveness, and comparative advantages. He suggested the national trade strategy should focus on both developing existing products as well as the products with export potentiality, increasing export as well as domestic consumption of Nepali products.

Mr. Adhikari emphasized the roles of private sectors, state bodies, and civil society organizations but pointed out that the lack of cooperation among governmental bodies has hindered the effective implementation of action plans and policies. Nepal needs to prioritize the cooperation and coordination among three tier subnational governments to put the plan into action. He suggested that the major key products consumed by the households must be produced domestically. He shared an observation that needs to be addressed domestic products are perceived as low quality despite having minimal differences. Then he suggested remedies such as research from academia, private sector-friendly policies, implementation from the state, simultaneous support and compliance from the private sector, etc. to improve Nepal's trade performance.

3. Conclusion by Session Chair Dr. Toya Narayan Gyawali, Member Secretary, National Planning Commission

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Dr. Gyawali provided an overview of Nepal's international trade, tracing the journey from applying for GATT membership in 1989 to becoming a WTO member in 2004. As per him, Nepal has been part of WTO for 35 years one way or another. The session chair emphasized the four dimensions of trade: domestic, bilateral, regional, and multilateral and their relation with each other. He observed that the success in domestic trade resulted in bilateral trade and weaker domestic trade resulted often in weaker bilateral and regional trade. He compared and contrasted the growth of China with that of Nepal after its membership in WTO. He noted that Nepal's initial goal was to integrate the global economy in 1989 and improve trade policies with neighboring countries. Then to gain the SNTD (Special and Differential Treatment Provisions) and to get technical support as an LDC, Nepal has not been able to fully utilize these benefits.

The Session Chair pointed out challenges faced by Nepal in attracting Foreign Direct Investment (FDI), citing low rankings in the Global Innovation Index (GII), Global Competitive Index (GCI), Logistics Performance Index (LPI), and Economic Freedom Index. These factors impact the FDI inflows to Nepal. Dr. Gyawali shared his observation over recent NRB data on trade deficit, and underutilization of hydroelectricity capacity. He stressed the need for improved standardization and quality certifications for Nepali products like tea. He explained the Smooth Transition Strategy (STS) aids in addressing challenges related to international trade, foreign debt, and other support features. Dr. Gyawali emphasized the need for careful preparation to mitigate potential impacts as Nepal approaches its scheduled LDC graduation in 2026.

4. Closing Remark by Prof. Dr. Bijay KC, Dean, Kathmandu University School of Management

Prof. Dr. Bijay K.C. thanked all the speakers, panelists, distinguished guests, and the participants of the program for their presence. He highlighted the various topics covered throughout the session ranging from diplomacy, trade, supply chain, policies, etc., and ended his short remarks with a grateful gesture towards the successful completion of the program.