

Report on the Guest Lecture: Nepal's Graduation from LDC Status and its Relationship with the WTO

Introduction

The Kathmandu University School of Management (KUSOM) organized a guest lecture titled "Nepal's Graduation from Least Developed Country (LDC) Status and its Relationship with the World Trade Organization (WTO)," which attracted a diverse audience including students, faculty, and industry professionals. The event was introduced by Ms. Neema Tamang, an MBA student, who welcomed the speakers, including Professor Dr. Achyut Wagle, Registrar of Kathmandu University, and Dr. Ratnakar Adhikari, Executive Director of the Enhanced Integrated Framework (EIF) Secretariat at the WTO. She also acknowledged the presence of additional notable guests, including Ms. Rafael Quintard, Portfolio Management Officer at the EIF Secretariat, as well as Ms. Mona Shrestha, a Gender and Development Practitioner, and Mr. Asish Khatri, Section Officer at the Multilateral Trade Section of Nepal's Ministry of Industry, Commerce, and Supplies. Their attendance highlighted the collaborative effort between academia, government, and international organizations in addressing the nuances of trade and development.

The lecture aimed to unveil Nepal's journey towards graduating from LDC status, exploring the opportunities and challenges of this transition in relation to its engagement with the WTO. Dr. Adhikari, drawing on his extensive experience and contributions to international trade and development policy, particularly in the context of LDCs, was positioned as a noteworthy voice on the subject.

Main Lecture: Insights from Dr. Ratnakar Adhikari on Nepal's LDC Graduation and the WTO

Dr. Ratnakar Adhikari began his lecture by expressing his gratitude for the warm introduction and acknowledging the efforts of those involved in organizing the event. He then seamlessly transitioned to the core focus of his presentation: an in-depth examination of Nepal's graduation from LDC status and the consequential implications of this shift as a WTO member.

Key Themes of the Presentation

The title of Dr. Adhikari's presentation, "Graduation from LDC Status as a Member of the World Trade Organization," encapsulated the essence of the discussion. His objective was to address the multifaceted challenges and opportunities that accompany this transition. While discussions surrounding LDC graduation often highlight the potential difficulties, Dr. Adhikari aimed to debunk certain myths while emphasizing strategic pathways for Nepal to successfully navigate the post-graduation landscape.

Overview of LDC Graduation

Dr. Adhikari commenced his analysis with an overview of the history and dynamics of LDC graduation, a topic of considerable interest in Nepal for many years. He detailed the evolution of the LDC list, which was established in 1971 with 25 countries. Today, it includes 45 nations, reflecting changing economic realities. Successful graduates he mentioned included Botswana (1994), Cabo Verde (2007), the Maldives (2011), Samoa (2014), Equatorial Guinea (2017), Vanuatu (2020), and Bhutan (2023). Currently, countries such as Sao Tome and Principe are set for graduation in December 2024, alongside Nepal, Bangladesh, and Lao PDR, all of which are anticipated to graduate in 2026.

Nepal's Graduation Process

Dr. Adhikari elaborated on the three critical criteria for LDC graduation as established by the United Nations:

1. **Gross National Income (GNI) per capita:** Currently, Nepal's GNI per capita stands at \$1,300, which is slightly below the LDC average of \$1,307. To successfully graduate, a country must reach a GNI of at least \$1,306.
2. **Human Asset Index (HAI):** With a HAI score of 76.3, Nepal exceeds the LDC average of 59.6 and surpasses the graduation threshold of 66. Notably, Nepal has consistently met this criterion since 2015, indicating significant improvements in health and education sectors.
3. **Economic and Environmental Vulnerability Index (EVI):** Nepal's EVI score of 29.7 falls below the threshold of 32, qualifying it for graduation based on its reduced vulnerability.

Dr. Adhikari emphasized that while Nepal did not meet the GNI criterion, it satisfied the other two requirements, making it eligible for graduation. He clarified that under international guidelines, fulfilling any two of the three criteria allows a country to graduate.

The Triennial Review and Transition Period

He further explained the UN's Triennial Review process, which assesses a country's eligibility for graduation every three years. Nepal met the criteria in both the 2018 and 2021 reviews. After the 2018 review, Nepal opted to defer its graduation for three years to better prepare for the transition. This three-year transition period is crucial, as it allows Nepal to make necessary policy adjustments, negotiate preferential trade agreements, and build resilience to face potential challenges following graduation.

Nepal's Unique Trajectory

Dr. Adhikari highlighted Nepal's unique trajectory toward graduation. Despite being classified as an LDC since 1971, the country only fully met the requirements for graduation in 2021. Nepal, along with Lao PDR and Bangladesh, deferred its graduation to ensure a smoother transition, seeking further support from the UN and WTO during this critical period.

He noted that Nepal, Lao PDR, and Bangladesh were granted an extended five-year transition due to economic setbacks caused by the COVID-19 pandemic. This extended period is particularly vital, as these countries could not achieve sufficient economic and social development during the pandemic's challenging years.

Key Challenges Post-Graduation

The Fear of Losing Preferential Market Access

Dr. Adhikari emphasized that one of the most significant concerns surrounding graduation is the potential loss of preferential market access. LDCs currently benefit from special and differential treatment under WTO rules, which grant them enhanced market access. For example, Nepal enjoys duty-free access to the EU market, allowing its products to compete effectively without the burden of tariffs. Such benefits also extend to the Generalized System of Preferences (GSP), which exempts Nepal from duties on its exports to several countries.

Special and differential treatment provisions, which include extended timeframes for implementation and greater flexibility in trade obligations, will be significantly reduced. These include extended timeframes for implementing commitments and exemptions from certain obligations, such as those outlined in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. However, after graduation, these exemptions will gradually phase out, necessitating Nepal to comply with the same rules that govern other developing countries.

Notification Obligations

Graduation also entails stricter notification obligations under WTO rules. Presently, LDCs like Nepal are permitted to submit specific notifications every two years. Post-graduation, Nepal will be required to submit these notifications annually, thereby increasing its administrative burden and necessitating a more robust trade governance framework.

Impact on Trade and Development Cooperation:

Post-graduation, Nepal could experience a decline in commodity exports projected between 2.48% and 4.3%, depending on the methodology used.

Concessional Financing

Additionally, the potential loss of concessional financing raises concerns for Nepal. Graduation could mean that Nepal may no longer qualify for specific types of funding, such as grants and targeted aid for trade. Although institutions like the World Bank and the Asian Development Bank do not primarily rely on LDC status as a criterion for financing, the overall decline in official development assistance (ODA) and aid for trade—especially following the COVID-19 pandemic—remains a pressing issue. Dr. Adhikari underscored that the aid for trade paradigm has shifted, leading to increased reliance on loans, which compounds the financial pressures on Nepal.

Aid for Trade: Changing Dynamics

Since the Aid for Trade initiative began in 2006, the proportion of grants to loans has shifted significantly. Initially, about two-thirds of the assistance was in the form of grants, but as of 2023, approximately 60% of aid is now in the form of loans, with only 40% in grants. This shift raises concerns, as loans must be repaid, adding to Nepal's debt burden. Dr. Adhikari pointed out that if Nepal has to rely on loans, the overall benefit of receiving ODA diminishes.

WTO Decisions on LDC Graduation

Recent decisions by the WTO have provided frameworks for a smooth transition, encouraging member states to maintain market access preferences for at least three years post-graduation. Continued support mechanisms for capacity building and technical assistance are expected to remain available for three years following graduation. Dr. Adhikari outlined four crucial WTO decisions concerning LDC graduation that have significant implications for Nepal:

1. **Annex I Decision (October 23, 2023):** This decision stipulates that graduated countries must continue to receive preferential treatment for at least three years post-graduation. While this decision provides a safety net, it also necessitates a concerted effort on Nepal's part to maximize its benefits during this period.
2. **Annex II Decision (March 2, 2024):** This decision relates to the WTO's Dispute Settlement Understanding (DSU), which calls for developed and developing countries to exercise "due restraint" before filing disputes against LDCs. This provision will remain in place for three years after graduation, offering Nepal some protection from trade disputes during its transition.
3. **Institutional Support:** Several WTO programs, such as the Standards and Trade Development Facility and the Trade Facilitation Agreement Facility, will continue to provide technical assistance to Nepal for three years after its graduation. This support is crucial for building the capacity needed to meet post-graduation challenges.
4. **Further Work on Annex II:** The WTO Subcommittee on LDCs will continue its work on unresolved provisions, particularly those related to subsidies and countervailing measures. The subcommittee is expected to make further recommendations by December 2024.

Dr. Adhikari concluded by stating that while the transition period and international support measures will help Nepal adjust, significant challenges remain. The loss of preferential market access, concessional financing, and aid for trade, combined with the stricter requirements under WTO rules, will demand careful planning and strategic policy decisions to ensure a smooth transition for Nepal from LDC status.

Strategic Recommendations for Nepal's Post-Graduation Phase

In light of these challenges, Dr. Adhikari offered several strategic recommendations to ensure that Nepal capitalizes on its graduation:

Market Access Alternatives:

Post-graduation, Nepal can still benefit from the Generalized System of Preferences (GSP) plus scheme, provided it meets certain legislative criteria. Currently, Nepal has fulfilled 24 out of 27 criteria required for GSP+.

Bilateral and Regional Trade Agreements:

Nepal can explore signing new trade agreements to enhance market access and competitiveness. Emphasis on reducing trade costs and enhancing industrial competitiveness is crucial for mitigating the adverse effects of losing preferential access.

Enhancing Human Resource Development:

A skilled and competent workforce is essential for maximizing Nepal's competitiveness in the global market. Investing in education and vocational training programs will equip individuals with the skills necessary for thriving in an increasingly competitive environment.

Promoting Private Sector Engagement:

The private sector will play a pivotal role in driving economic growth. Engaging businesses in trade policy discussions will ensure that their concerns and needs are adequately addressed.

Success Stories from Other Countries

Bangladesh and Bhutan:

Both countries have developed strategies and initiatives focusing on private investment and sustainable graduation, demonstrating effective approaches that Nepal could emulate.

Cambodia and Senegal:

These countries have ratified significant trade agreements and implemented policies to facilitate investment, showcasing effective responses to potential graduation challenges.

Brazil:

Brazil's successful implementation of a single-window system for customs clearance serves as an example of reducing trade barriers and enhancing revenue generation post-graduation.

Nepal's Positioning in the Global Trade Environment

Dr. Adhikari concluded his lecture by reiterating the importance of Nepal strategically positioning itself within the global trading system. While the graduation process may present challenges, it simultaneously offers numerous opportunities for economic growth and development. He urged stakeholders to enhance Nepal's participation in international trade, exploring avenues for bilateral and regional agreements to maximize benefits. Emphasizing the critical role of human resource development and capacity building, Dr. Adhikari stressed that a well-prepared workforce will be vital for navigating the post-graduation landscape.

Summary of Q&A Session on Nepal's Graduation from LDC Status

Neema Tamang opened the floor for questions after Dr. Adhikari's presentation on Nepal's graduation from Least Developed Country (LDC) status.

Questions from Participants

- How will Nepal's graduation affect its market access with developed countries?
- What kind of policy reforms or new laws can be incorporated in Nepal?
- Some believe that the WTO often supports stronger countries while lobbying weaker ones like Nepal. What is Dr. Adhikari's perspective on this issue?
- As Nepal transitions from LDC to a developing country in 2026, what impact will this have on incoming foreign aid and the overall economy?

Dr. Adhikari's Responses

Following are the key points of Dr. Adhikari response to the above questions:

- **Market Access Challenges**

Dr. Adhikari explained that, following graduation in 2029, Nepal would likely lose preferential treatment in markets such as the European Union. He highlighted that while a standard three-year transition period is expected, countries like the Maldives have successfully negotiated extensions of up to five years. He urged Nepal to engage in effective negotiations to secure similar arrangements, but emphasized the importance of using any extension to transition to new trade modalities.

- **Impact on Developing Countries**

Dr. Adhikari noted that Nepal would also face challenges from developing countries like Turkey, China, and the UAE, which would eliminate preferential access post-graduation. He stressed the need for Nepal to develop negotiation strategies to support small enterprises that may struggle without these preferences.

- **Policy Reforms**

Dr. Adhikari identified investment promotion as a critical area requiring attention. He encouraged exploring innovative financing instruments, such as impact investment and blended finance, to attract foreign direct investment (FDI). Recent amendments to legislations were mentioned, aimed at creating a more investment-friendly environment.

- **Digitization of Customs Processes**

He also recommended that Nepal focus on digitizing customs and quarantine processes. Citing a UNSCAP study, Dr. Adhikari indicated that digitizing customs could potentially reduce trade costs by 280%. He emphasized the importance of reducing trade costs, especially for a landlocked country like Nepal, particularly in light of the impending loss of trade preferences.

- **Free Trade Agreements (FTAs)**

Dr. Adhikari addressed the trend of regional and bilateral trade agreements. He suggested that Nepal should consider signing FTAs with countries like Australia, Japan, and Turkey to mitigate the impact of losing preferential access due to graduation.

- **WTO's Role and Perception**

In response to the question regarding the WTO's support for stronger countries, Dr. Adhikari expressed a need for clarity on what was meant by this assertion. He invited evidence to substantiate the claim that the WTO favors strong countries over weaker ones. He explained that the WTO's framework actually aims to protect the interests of all member countries, particularly weaker nations. He pointed out that preferential market access is a significant benefit for LDCs, highlighting that similar facilities provided to Nepal in the EU market are not available to countries like Canada, China, or India. Dr. Adhikari emphasized that such provisions have been part of the WTO since the enabling clause of 1979, suggesting that the system is designed to assist weaker countries rather than disadvantage them.

- **Ambitious Development Aspirations**

Addressing the question of Nepal's perceived over-ambition regarding foreign aid, Dr. Adhikari stated that having ambitious goals is crucial for national development. He cited examples of other countries, such as Cambodia and Bhutan, which have set developmental targets for the future, underscoring the importance of having a vision. He stressed that this vision must be accompanied by strategic planning, appropriate funding, and effective monitoring mechanisms to ensure successful implementation.

- **Impact of Graduation on Foreign Aid**

Dr. Adhikari provided insights into how graduation from LDC status might affect foreign aid. He indicated that the grant component of foreign aid has been declining and emphasized the importance of exploring alternative financing sources. He noted Nepal's success in mobilizing domestic resources, pointing out that it ranks well among LDCs in terms of tax-to-GDP ratio. However, he acknowledged that spending in productive sectors has lagged behind. He advocated for utilizing remittances and domestic resources for capacity development, while also suggesting that foreign aid could still be mobilized, albeit in forms other than grants. He explained that institutions like the World Bank and ADB would not discriminate based on LDC status, potentially allowing Nepal to qualify for concessional financing despite its graduation.

Dr. Adhikari concluded that proactive negotiation and policy reform are essential for navigating the challenges posed by Nepal's graduation from LDC status, and while challenges will arise from the transition to a developing country, there are ample opportunities for Nepal to mobilize both domestic and foreign resources effectively.

Neema Tamang thanked Dr. Adhikari for his comprehensive insights and the participants for their engagement. She then invited Professor Dr. Achyut Wagle, Registrar of Kathmandu University, to deliver closing remarks, encouraging everyone to give him a round of applause.

Closing Remarks by Dr. Achyut Wagle, Registrar of Kathmandu University

Dr. Wagle emphasized the crucial relationship between trade and production, stating that discussions on trade are irrelevant without a strong production base in Nepal. He argued that trade benefits, such as subsidies or tariff reductions, are meaningless if Nepal lacks sufficient goods for export. He highlighted the challenges in Nepal's export capabilities, particularly the heavy reliance on imported materials, citing the example of Nepali Chyangra fleece, which is often sourced from countries like New Zealand or Norway. Dr. Wagle expressed concern that the current approach to production lacks scale and sustainability, hindering genuine value addition to exportable goods. He also encouraged students and attendees planning to stay in Nepal to consider establishing export-oriented industries, stressing the importance of local production and its potential to significantly benefit the nation's economy. Concluding his remarks, Dr. Wagle urged the audience to foster a vision for a better Nepal, emphasizing that their active participation in and commitment to production could help create a better living environment in the country. He thanked everyone for their attendance and patience, which marked the end of the event.