Assessment of Trade and Competitiveness Barriers to Nepal’s Export Sector

Rabi S. Sainju

Trade and Competitiveness Assessment Volume II

The Asia Foundation

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<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AQ</td>
<td>Anthraquinone</td>
</tr>
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<td>AQIS</td>
<td>Australian Quarantine Inspection Services</td>
</tr>
<tr>
<td>CBS</td>
<td>Central Bureau of Statistics</td>
</tr>
<tr>
<td>COVID-19</td>
<td>Coronavirus Disease of 2019</td>
</tr>
<tr>
<td>DOC</td>
<td>Department of Customs</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FNCCI</td>
<td>Federation of Nepalese Chamber of Commerce and Industry</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GON</td>
<td>Government of Nepal</td>
</tr>
<tr>
<td>ITC</td>
<td>International Trade Center</td>
</tr>
<tr>
<td>LDC</td>
<td>Least Developed Country</td>
</tr>
<tr>
<td>MOC</td>
<td>Ministry of Commerce</td>
</tr>
<tr>
<td>MOICS</td>
<td>Ministry of Industry, Commerce and Supplies</td>
</tr>
<tr>
<td>MW</td>
<td>Megawatts</td>
</tr>
<tr>
<td>NEA</td>
<td>Nepal Electricity Authority</td>
</tr>
<tr>
<td>NTB(s)</td>
<td>Non-Tariff Barriers</td>
</tr>
<tr>
<td>NTIS</td>
<td>Nepal Trade Integration Strategy</td>
</tr>
<tr>
<td>TBT</td>
<td>Technical Barriers to Trade</td>
</tr>
<tr>
<td>TEPC</td>
<td>Trade Export Promotion Center</td>
</tr>
<tr>
<td>SPS</td>
<td>Sanitary and Phyto-Sanitary Measures</td>
</tr>
<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNESCAP</td>
<td>United Nation Economic Commission for Asia and Pacific</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
Assessment of Trade and Competitiveness Barriers to Nepal’s Export Sector

Rabi S. Sainju

Abstract

Nepal’s Balance of Trade continues to be plagued by the problem of ever-growing imports but stagnant exports. Significant gaps and barriers in trade have impacted the export sector, and the ever-escalating trade deficit worsens the economic situation. This assessment paints an overall picture of exports by comparatively examining the direction of foreign trade, cost of trade, and logistics performance across neighboring countries. It then illustrates both tariff and non-tariff barriers ranging from taxes imposed on Nepali goods by other countries to the Government of Nepal’s own restricting regulations and procedures respectively, along with poor infrastructure, as serious impediments to growth. Cross-examining the gaps and constraints when it comes to the export potential for the country’s 10 most exported products, the study provides recommendations on much-needed policy reform and interventions.

Key words: Trade policy, direction of foreign trade, export trade, connectivity, logistics performance, tariff barriers, non-tariff barriers, export goods, trade facilitation, institutional coordination.
1. Introduction

1.1 Background
Stagnant export and ever-growing import has been a recurring issue for Nepal. Due to significant gaps and barriers to trade, the export sector has been suffering continuously. The ever-growing trade deficit has made the economic situation of Nepal dire. The import goods consist largely of petroleum products (high speed diesel, motor spirit liquefied petroleum gas), automobiles, billet and gold. The exports on the other hand are concentrated in a few agricultural goods such as large cardamoms, ginger, coffee and tea, and goods such as carpet, yarn, pashmina, handicrafts and bottled water. The import goods are mainly essentials while the export goods are mainly non-essential to an extent.

1.2 Rationale
Economic well-being is often measured through GDP, interest rate, inflation, unemployment and trade deficit. As Nepal’s export is yet to boom, the trade deficit remains large. According to the World Integrated Trade Solutions (WITS) (a World Bank Group (WBG) software), Nepal’s imports as a percentage of GDP was 46.3% in 2018, whereas exports as a percentage of GDP was merely 8.93% in the same year. It is evident from the data that there are multiple gaps in the trade sector of Nepal. It is also true that trade is of the utmost importance for the economy of Nepal. In order to increase export and reduce the trade deficit, it is necessary to identify the prevalent gaps that exist in export potential products of Nepal and find out how these barriers can be eliminated.

1.3 Objectives
The main objective of this study is to assess the trade and competitiveness barriers to Nepal’s export sector. The specific objectives of the study are:

- To identify the gaps that exist in the high export potential products of Nepal.
- To identify interventions and policy reforms to enhance export competitiveness of Nepali products.
- To analyze the impediments, costs and gaps in the export sector.
- To suggest how the constraints to growth in the export sector can be eradicated.

1.4 Methodology
The study will look at export data of Nepal and examine Nepal’s comparative and competitive advantages to find high-potential export products. It will carry out a comprehensive desk review of the high-potential export products will be carried out. The desk review will consist of cost-cutting measures to increase the competitiveness of Nepali products and export promotion of the high-potential export goods of Nepal. The current policies for export promotion will also be reviewed, and necessary reforms and interventions will be suggested as per the gap of each product. The gaps that are prevalent in the export products will be identified and necessary measures to close the gaps will be outlined with the help of a literature review. Stakeholder consultations and joint meetings of various related fields will also be organized to find innovative ideas to eradicate the barriers in the export sector of Nepal.

1.5 Expected Outcome
The expected outcome of the study is to identify and analyze the gaps and constraints in promotion of high-potential export products of Nepal. Similarly, the study is also expected to provide reforms and interventions in policies that can eradicate the barriers in the export sector of Nepal.

1.6 Limitations
The study is centered towards export competitiveness of a limited number of agriculture and non-agriculture products. Additionally, due to the COVID-19 pandemic, this study was carried out in an abnormal period, thus this study was carried out with desk study and virtual consultation with a
limited number of stakeholders. In order to expand the dimensions of the study, further consultations with diplomats, government officials and private sector representatives are required.
2. Trade Situation of Nepal

2.1 Overall Trade Situation

The trade situation of Nepal has undergone many experiments and policy ratifications over the years. Many initiatives have been undertaken to promote export of Nepali products over the years with a strategy to increase trade competitiveness and reduce the trade deficit. “Over the years, Nepal has taken a series of initiatives to promote exports so as to achieve sustainable and inclusive economic growth, poverty reduction, and improvement in the living standard of the Nepalese people.” (GON/MOC, 2016) It has quite often been emphasized that trade is in dire need of improvement, not only by the government but also from the private sector and development partners. Recent data shows that Nepal has been enjoying economic growth with an increasing rate (before the COVID-19 pandemic), however, trade (especially exports) on the other hand is still lagging behind.

The illustration in graph 1 depicts some impressive and worrying statistics for Nepal. GDP has been rising every year but so has imports and yet exports has barely seen any increment and thus remains stagnant. The most upsetting point demonstrated in graph 1 is that the gap between export and import has widened. The gap between import and export in 2010 was narrower than it was in 2019. Imports have been increasing every year, except in 2015 (2015 economic blockage), causing the trade gap to widen.
### Table 1: Direction of Foreign Trade

(Rs in million)

<table>
<thead>
<tr>
<th>Heading</th>
<th>2017/18 Annual (Rs,)</th>
<th>2018/19 Annual (Rs,)</th>
<th>2018/19 Percent Change</th>
<th>2018/19 Annual (US$)*</th>
<th>Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EXPORTS</td>
<td>81359.8</td>
<td>97109.5</td>
<td>19.4</td>
<td>867.0</td>
<td>100.0</td>
</tr>
<tr>
<td>To India</td>
<td>46719.8</td>
<td>62731.8</td>
<td>34.3</td>
<td>560.1</td>
<td>64.6</td>
</tr>
<tr>
<td>To China</td>
<td>2437.7</td>
<td>2109.8</td>
<td>-13.5</td>
<td>18.8</td>
<td>2.2</td>
</tr>
<tr>
<td>To Other Countries</td>
<td>32202.3</td>
<td>32267.9</td>
<td>0.2</td>
<td>288.1</td>
<td>33.2</td>
</tr>
<tr>
<td>TOTAL IMPORTS</td>
<td>1245103.2</td>
<td>1418535.3</td>
<td>13.9</td>
<td>12665.5</td>
<td>100.0</td>
</tr>
<tr>
<td>From India</td>
<td>814101.6</td>
<td>917909.3</td>
<td>12.8</td>
<td>8195.6</td>
<td>64.7</td>
</tr>
<tr>
<td>From China</td>
<td>159987.1</td>
<td>205527.4</td>
<td>28.5</td>
<td>1835.1</td>
<td>14.5</td>
</tr>
<tr>
<td>From Other Countries</td>
<td>271014.5</td>
<td>295098.6</td>
<td>8.9</td>
<td>2634.8</td>
<td>20.8</td>
</tr>
<tr>
<td>TOTAL TRADE BALANCE</td>
<td>-1163743.4</td>
<td>-1321425.7</td>
<td>13.5</td>
<td>-11798.4</td>
<td>-100.0</td>
</tr>
<tr>
<td>With India</td>
<td>-767381.8</td>
<td>-855177.5</td>
<td>11.4</td>
<td>-7635.5</td>
<td>-64.7</td>
</tr>
<tr>
<td>With China</td>
<td>-157549.4</td>
<td>-203417.6</td>
<td>29.1</td>
<td>-1816.2</td>
<td>-15.4</td>
</tr>
<tr>
<td>With Other Countries</td>
<td>-238812.2</td>
<td>-262830.6</td>
<td>10.1</td>
<td>-2346.7</td>
<td>-19.9</td>
</tr>
<tr>
<td>TOTAL FOREIGN TRADE</td>
<td>1326463.0</td>
<td>1515644.8</td>
<td>14.3</td>
<td>13532.5</td>
<td>100.0</td>
</tr>
<tr>
<td>With India</td>
<td>860821.4</td>
<td>980641.1</td>
<td>13.9</td>
<td>8755.7</td>
<td>64.7</td>
</tr>
<tr>
<td>With China</td>
<td>162424.8</td>
<td>207637.2</td>
<td>27.8</td>
<td>1853.9</td>
<td>13.7</td>
</tr>
<tr>
<td>With Other Countries</td>
<td>303216.8</td>
<td>327366.5</td>
<td>8.0</td>
<td>2922.9</td>
<td>21.6</td>
</tr>
</tbody>
</table>

Sources: Trade and Export Promotion Centre (2020)

* Calculated at 1 US$ = 112.00 Nepalese Rupees.

Table 1 indicates the balance of trade of Nepal in 2017/18 and 2018/19. It shows a huge trade imbalance on the part of Nepal. Presently the total export-import ratio of Nepal in 2018/19 was 1:14.61. This ratio was 1:14.63 with India and 1:97.41 with China, whereas the rest of the world was 1:9.15 in 2018/19. Out of total trade of US$ 13532.5 million, US$ 12665.5 million (93.6 %) were imports and US$ 867.0 million (6.4 %) were exports.

One study conducted by UNESCAP in 2018 showed that Nepal could not use its trade potentials. Nepal’s trade in South Asia is less than one fourth of its potential as estimated by the UNESCAP South Asia Gravity Model of intraregional trade (Table 2). The UNESCAP Model demonstrates that the potential of Nepal’s export in South Asian Association for Regional Cooperation (SAARC) countries in 2014 was $2.39 billion. However, only US$ 78.17 million was realized in that year, leaving over 76.17% of trade potential unexploited. Furthermore, the model estimations indicate that export potential could more than double by 2020 to an estimated US$ 6386.69 million, where, as in 2019, Nepal’s total export reached only US$ 867.0 million.
Table 2: Actual Export and Potential Export in South Asian Countries in 2014

(Millions US$)

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


The gap in actual and potential exports trade can be explained by 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, high costs of trading due to poor transportation, and logistics infrastructure and inefficient trade facilitation. There are tariffs, non-tariffs and trade facilitation-related barriers that have hindered the exploitation of trade potential. Several studies suggest that trade and transport facilitation measures such as efficiency of customs, quality of transport service, cost of transport and border procedures, are among the major barriers in trade promotion.

Costs of trading for Nepal within South Asia, prominent European countries, and the USA remain high (Table 3). Nepal’s cost of trading with neighboring nations is more expensive than their trading cost with 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 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 USA 251.4 % whereas cost for India in Germany 104.3 %, UK 97.6 % and USA 98.3 %.

This discourages the formation of regional value chains, despite the geographic contiguity (UN ESCAP, 2018).
### Table 3: Bilateral Comprehensive Trade Cost with Selected Countries (excluding tariff cost), 2011-2018

(Percentage)

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


Improvement in trade facilitation would substantially reduce trade costs. Modernizing the inland ports, upgrading logistics systems, simplifying customs procedures, and introducing automated clearance would significantly cut 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 trade cost. Digitizing trade processes towards paperless trade would not only improve transparency, streamline formalities, and aid institutional cooperation and coordination among 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 the containerized cargo from the gateway port in India to the border of Nepal would be valuable for Nepal to move ahead with a paperless trade system. The Government of Nepal needs to develop the legal and technical framework to support paperless trade and enable electronic exchanges and legal recognition of trade data and documents between public and private actors and 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 internet access, inadequate soft and hard infrastructure, lack of testing, and standards-related institutions - are responsible for the low use of export potentials.

In 2019, 64.6 percent of Nepal's exports were in India and 35.4 percent were in third countries, including China. Out 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 Banglaband land route, and 0.11 percent to Bhutan through land route. Substantial export in third country has been through Tribhuvan International Airport, but logistics infrastructure and facilitation is very poor.
Table 4: Third Country Transit Trade in Nepal in 2019 (in NRs. 000)

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

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

Nepal’s current state of connectivity can be gauged from the World Bank’s Logistic Performance Index (LPI) which highlights performance on various logistics-related indicators (customs, infrastructure, international shipment, logistic competence, tracking and tracing, and timeliness). Table 4 shows the average LPI score and ranking of SAARC countries. India ranks first on the index, followed by Maldives, Sri Lanka and Bangladesh. Nepal ranked fifth, ahead of Pakistan, Bhutan and Afghanistan. The sub-components of LPI also show India’s superiority compared to other countries. The gap between these countries on these parameters reflects prevailing asymmetries in logistics and trade-related infrastructure development.

The sub-optimal performance of Nepal on the LPI index draws attention to the urgency of reforms in key areas such as transport, transit, and trade infrastructure and customs clearance procedures. Consequently, cross-border movement of goods is fraught with institutional and regulatory complexities that affect connectivity in the sub-region. During internal consultations, Nepalese stakeholders claimed that the logistic cost in Nepal is more than 25% of the total cost. Meanwhile the logistic cost in India is 13-14%, Japan 11%, USA 10%, and Germany 9%. According to the Trading Across the Border Index of Doing Business 2020, it costs Nepal US$ 330 per container in domestic transport to export to India, takes 11 hours for cargo clearance at border for Customs and other related agencies, and requires 10 types of documents for export.

Table 5: Logistics Performance Index of South Asian Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>LPI score</th>
<th>LPI rank</th>
<th>Customs</th>
<th>Infrastructure</th>
<th>International shipments</th>
<th>Logistics competence</th>
<th>Tracking &amp; tracing</th>
<th>Timeliness</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.18</td>
<td>44</td>
<td>2.96</td>
<td>2.91</td>
<td>3.21</td>
<td>3.13</td>
<td>3.32</td>
<td>3.50</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2.58</td>
<td>100</td>
<td>2.30</td>
<td>2.39</td>
<td>2.56</td>
<td>2.48</td>
<td>2.79</td>
<td>2.92</td>
</tr>
<tr>
<td>Nepal</td>
<td>2.51</td>
<td>114</td>
<td>2.29</td>
<td>2.19</td>
<td>2.36</td>
<td>2.46</td>
<td>2.65</td>
<td>3.10</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2.42</td>
<td>122</td>
<td>2.12</td>
<td>2.20</td>
<td>2.63</td>
<td>2.59</td>
<td>2.27</td>
<td>2.66</td>
</tr>
<tr>
<td>Bhutan</td>
<td>2.17</td>
<td>149</td>
<td>2.14</td>
<td>1.91</td>
<td>1.80</td>
<td>2.35</td>
<td>2.35</td>
<td>2.49</td>
</tr>
</tbody>
</table>

Source: Logistic Performance Index, World Bank 2019

Nepal’s LPI rank improved to 114 in 2018 from 147 in 2010 (Table 5). Although Nepal has improved in all parameters compared to the core in 2010, it is still low as compared to neighboring South Asian...
countries. Its score was better in 2014 compared to 2018, which indicates that neighboring countries have improved more compared to Nepal.

2.2 Impediments to Growth in Nepal

Specific barriers cause the slow growth of the trade sector of Nepal. These barriers - in the form of tariff and non-tariff barriers (NTBs) - have contributed to broadening the trade gap of Nepal. Graph 1 already illustrated that the trade deficit of Nepal has been widening due to stagnant export and increasing import. “Although customs and administrative procedures are necessary for the smooth application of trade and other policies, they can ‘thicken’ the borders between trading partners if the customs and administrative procedures are more stringent than necessary or inefficient.” (Wilson, 2007) The barriers to trade, whether imposed purposely for quality control or unknowingly, do seem to have a big impact on export goods.

2.2.1 Tariff Barriers

Tariff barriers are taxes imposed on imported goods by the importing country. Imports are taxed mainly to make imported goods less competitive and to promote domestic goods and services. Nepal, still being a least developed country (LDC), enjoys duty waived and/or reduced entry on various export products in markets such as the US, India, China and EU which Nepal has not been able to take advantage of yet. The tariff barriers that Nepal faces for exporting Nepali products are low due to being a LDC. If all the United Nations (UN) requirements are met, then Nepal is set to graduate to a developing country in 2022, resulting in the loss of certain benefits an LDC enjoys.

2.2.2 Non-Tariff Barriers

The NTBs Nepal faces for trade can have been imposed knowingly or unknowingly by the government of Nepal as well the importing country. “Half of Nepalese exporters face difficulties with various regulations applied either by Nepal or partner countries.” (ITC, 2017) The Doing Business index of the World Bank provides some insights into the barriers Nepal faces in terms of time and procedures. For example, the Doing Business index of 2020 shows that an entrepreneur wishing to start a new business is required to complete eight different procedures which take at least 22 days to complete (ceteris paribus). In Afghanistan, the number of procedures to start a business is merely four and the number of days it takes to start a business is eight days. Similarly, paying taxes is another demotivating, time consuming and stressful activity that entrepreneurs face in Nepal. Entrepreneurs are required to make 46 different payments per year which takes around 377 hours (ceteris paribus), whereas in Bhutan only 18 payments are required per year, which takes only around 52 hours to complete. There are certain other NTBs such as sanitary and phyto-sanitary (SPS) measures and technical barriers to trade (TBT) that have been found to be major impediments to export for Nepal. A study by Bhattacharya and Mukhopadhyay (2002) presented findings of which NTB has the greatest weight in trade transactions of SAARC countries.
Table 6: Percentage of Non-Tariff Barriers (NTB) to all NTB Faced by SAARC Countries

<table>
<thead>
<tr>
<th>Non-Tariff Barriers</th>
<th>Percentage Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPS, TBT, and Other Related Measures</td>
<td>86.3</td>
</tr>
<tr>
<td>Tariff Quota</td>
<td>9.8</td>
</tr>
<tr>
<td>Anti-Dumping Measures</td>
<td>7.4</td>
</tr>
<tr>
<td>License Requirement</td>
<td>5.3</td>
</tr>
<tr>
<td>Countervailing Measures</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Percentage Shares Exceeds 100 percent since number of cases varies

Source: Bhattacharya and Mukhopadhyay 200 Table A-10 Part B

Table 6 shows that SPS and TBT measures have the highest percentage share in the SAARC region. Similarly, Raihan (2016) argues that lack of recognition of test certificates and excessive testing requirements created significant impediments to trade. Documentation is said to be a major hindrance for exporting Nepali goods. Country of origin certificates and health certificates usually vary depending on the country, which sometimes demotivates exporters to export to a new country even if the demand is higher. The documentation requirements can also change frequently due to changing the political system or government, which can again create issues for exporters. ITC (2017) states that rules of origin, pre-shipment and border clearance procedures of partner countries, and quantitative restrictions are comparatively minor compared to the difficulties related to SPS and TBT requirements.

Another study by Meer (2015) provides an analysis of SPS-related issues that are impeding Nepal’s trade of agriculture and food products. “The present SPS system is not compliant with the WTO SPS Agreement. SPS measures should be risk-based and controls should be proportionate to risk.” (Meer 2015) As the current SPS system of Nepal does not meet the requirements of WTO it is crucial to create changes in the system and policy to meet the SPS requirements so that Nepali exporters do not face difficulties while trying to export to a new potential market. The customs facilities are also insufficient which has created burdens for exports. According to ITC’s Company Perspective of Nepal regarding Non-Tariff Measures, around half of the companies expressed dissatisfaction with risk management system, warehousing facilities, and cargo safety at customs points. Considering the many NTBs that Nepali exports face, it is evident that certain interventions are necessary to ease the current difficulties that exports face.

2.2.3 Logistics Infrastructure

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, other countries with similar geographical conditions have created a successful trade route due to strong and sufficient infrastructure. Nepal’s infrastructure lacks in most aspects of trade; the roads lack connectivity and standard, there is a significant need for warehouse storage, and check points are minimal in the border. Due to poor road conditions, 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 on roads, rails, air or seas. As already mentioned, given 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, relationships between different modes of transportation are equally important, especially for a landlocked country like Nepal. Goods that arrive via air or sea must be efficiently transferred to another mode of transportation, namely 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 most often roads for the case of Nepal. If the transfer is not swift and efficient, it can lead to unwanted delays and ultimately affect the cost.

3. High-Potential Export Goods

For export promotion, the Trade and Export Promotion Center (TEPC), a development board within the Ministry of Industry, Commerce and Supplies (MOICS) has identified various products that have a high export potential. The goods can be categorized into agricultural and non-agricultural goods. “The country’s main export products such as hand-woven woolen carpets, fabric, shawls and scarves, tea and cardamom are labor-intensive. Nepal’s exports have relied heavily on these products for a long time and have not diversified sufficiently.” (ITC, 2017) High-potential export goods of Nepal do face various tariff and non-tariff barriers. As the nature of each product is different, it is necessary to identify specific barriers and create measure to overcome the barriers.
3.1 Agricultural Products

3.1.1 Large Cardamom

Large cardamom is a good that is only grown in the Himalayan region of South Asia; therefore, naturally, Nepal is the largest producer of large cardamom. “Nepal is the world’s largest producer of large cardamom. Other countries where this cultivar is produced are India and Bhutan. The average annual production of Nepal exceeds 6,600 tons, which is about 55% of the average annual world production of around 12,000 tons.” (ITC, 2017) Although large cardamom is a major export good, the number of exports is few. Large cardamom exports face regulatory and procedural obstacles to trade along with lack of infrastructure. As large cardamom is a food product, contamination tests are required by the importing countries. The worrisome aspect is that Nepal lacks accredited laboratories that can perform reliable tests. Although a few laboratories perform contamination tests, none of them are accredited, making it difficult to export cardamom. Due to this burden, exporters usually take samples to Indian testing centers for appropriate testing. However, a long waiting time is required to obtain the test results.

Inability to export to the correct markets is also a reason large cardamom has not increased its export value. Middle Eastern countries are the largest importers of large cardamom. However, the majority of Nepal’s large cardamom produce is exported to India without any processing. As large quantities of large cardamom are exported to India without any processing, Indian exporters take advantage of this by purchasing Nepali large cardamoms, processing them and re-exporting to other South Asian (Pakistan) and Middle Eastern (UAE, Saudi Arabia) countries. “Even though Nepal has access to many markets through these preferential schemes, there has been limited utilization of the benefits due to variations in the nature of schemes and lack of awareness among Nepali exporters about the requirements to comply with strict rules of origin and other regulatory and administrative procedures.” (NTIS, 2016) NTBs have created major hurdles to export large cardamom. Similarly, lack of awareness of the benefits of exporting processed goods has prevented large cardamom from reaching its potential value and revenue. However, with the proper trade facilitation, awareness and motivation, large cardamom can be an extremely successful export good for Nepal.

3.1.2 Ginger

The hurdles in terms of NTBs and SPS and TBT barriers that ginger exports face are similar to that of large cardamom. Rules of origin, quantitate restriction, testing delays and inadequate testing centers in Nepal are the major barriers to trade for ginger. Similar to that of large cardamom, even though there are testing facilities in Nepal that conduct residue test of ginger they are not recognized by third countries where ginger is exported. As a result, Nepali ginger traders are reluctant to send their ginger samples to India for testing where they incur time delays of up to 75 days.

The export pattern of ginger is also similar to large cardamom; the majority of the produce is exported to India. Exporting to India is both a challenge as well as an easy option. India being a major market as well as the ease of transportation, open border and neighboring country of Nepal, exporting to India is an easy option that many exporters take. At the same time, there are certain challenges when exporting to India as well. In 2016, India banned imports of all Nepalese ginger claiming that they contain high pesticide residue of Aldicarb. The ban caused chaos and uncertainty among the Nepalese traders who deny the allegations of high pesticide residuals on their products. The ban was subsequently lifted after 25 days following additional tests that showed no traces of harmful pesticide residue in Nepalese ginger. These types of restrictions, rules and uncertainty are what make exporting to India a challenge.

There is also an issue of mixing Chinese ginger with Nepali ginger and exporting them to India, forcing India to impose strict rules of origin requirements. Due to strict certificate of origin rules, Nepali ginger
exporters have faced difficulties in obtaining certificates of origin that India accepts. To ease obtaining certificates of origin, the Federation of Nepalese Chamber of Commerce and Industry (FNCCI) and Nepal Ginger Producers and Traders Association, the two organizations responsible for issuing certificates of origin to ginger exporters, have been strictly monitoring the export-ready gingers and have formulated a number of procedures to ensure Chinese gingers have not been mixed with Nepali ginger.

While NTBs are major obstacles faced by ginger exporters, there are obstacles within Nepal as well. One reason for mediocre yield of ginger is the lack of proper storage facilities. Farmers are forced to use seedlings from crops harvested in previous cycles. Since they do not have enough resources to build proper storage facilities, the quality of seedlings is poor. Inadequate irrigation systems during the dry seasons have also contributed to lower yield. Production and transportation constraints have also affected ginger producers and traders. Support from the government and banks is also lacking when it comes to ginger farming. Farmers are susceptible to huge losses because of crop diseases. When ginger is grown, the same piece of land cannot be used again for another three years for ginger production. Despite these financial risks, government bodies have not implemented insurance mechanisms to aid ginger farmers. While there is need for government support, farmers also need to sell quality products. Some farmers sell muddy and damaged ginger which negatively impacts overall ginger prices and puts a dent on the image of Nepali ginger and ginger producers in the international market.

3.1.3 Coffee

Coffee exporters do not face significant NTBs but in turn face difficulties related to standards imposed by the buyers. Organic certification is key when it comes to coffee export. While certain coffee cooperative unions and distributors have obtained organic certification, the certificates have limited acceptance in the international markets. Given that there are many small-scale coffee producers in Nepal, it is expensive and difficult to obtain certificates widely accepted in the international market. Quarantine requirements are also major obstacles for coffee exporters. For example, Australian Quarantine Inspection Services (AQIS) does not accept the quarantine certificates issued by the Nepalese Quarantine agency. Due to this reason, coffee traders are forced to obtain quarantine certificates from foreign agencies.

There are certain production constraints in coffee growing as well. Low supply of coffee cherries results in a higher cost. There is lack of proper equipment for grading, sorting and processing coffee beans. Grading, sorting and processing are all being done traditionally which is less effective than modern techniques. Lack of tools, inability to purchase tools with higher costs and unwillingness to change from traditional to modern methods have also held coffee exports back. Producers are not able to set proper export strategies due to volatility in coffee collection and production. They also feel that there is no proper information flow and exposure to international best practices in the sector. As producers and exporters have expressed views of lack of information regarding coffee demands, prices and practices in the international markets, the government needs to make sure such information is easily available for coffee traders so that they are able to plan ahead and create strategies that will bring higher value for their yield.

3.1.4 Tea

Most government and non-government agencies put tea and coffee in the same basket and treat it as same due to the similar nature of the two. However, the constraints faced by tea exporters and coffee exporters are very different and therefore will require different facilitation mechanisms and strategies. SPS-related technical requirements and conformity assessment (68%) are the main types of burdensome NTM tea exporters face. Tea exporters also face the issue of high fees for testing and
certification. Lack of testing facilities in Nepal is also a contributing factor to the difficulties tea traders face. Restriction imposed by the importing country in tea components is also a burden that tea exporters of Nepal incur. For example, European Union (EU) countries have set a 0.02 mg/kg threshold of Anthraquinone (AQ) residue. (ITC, 2017) Many Nepali tea traders have been forced to discontinue supplying to EU countries due to difficulties complying with their requirements. As there is limited information regarding how AQ appears in tea, tea traders have had to guess how it appears and obviously there are various theories. While some believe it occurs naturally, others believe it appears due to smoke when drying, or improper conditions in the warehouse.

Testing of AQ can also not be done in the country which has created additional difficulties as exports send their samples to EU for testing. Even though tea traders send their samples to get tested for AQ, it does not always ensure it will be passed at the customs. Tea producers also face difficulties in growing and processing tea. As most tea producers still use traditional methods and tools for tea production, the quality of Nepali tea has not reached its potential. Similarly, pesticide use has led to damaged crops. In order for export to boom, NTBs and production constraints should be addressed.

3.2 Non-Agricultural Products

3.2.1 Carpet

Hand-knotted carpet is a significant export good for Nepal. Most of the products are exported to European countries, the United States, Australia and New Zealand (mostly OECD countries) with Germany as the leading importer of Nepali carpets. The barriers carpet exports face are different from those that agriculture producers and exporter face due to the different nature of the goods. Carpets exporters need to obtain a Foot and Mouth Disease (FDM) free certificate to export to several countries. The positive aspect is that there is government support in issuing FDM free certificates, but the problem lies with the time delays. The certification is done through a meeting chaired by the head of health department that takes place only once every six months. Although there is support from the government, informal payments and delays caused by customs officials is still at large.

Many markets ask for chemical compound testing of carpets to ensure they are safe for human health. Certain compounds can lead to allergies and diseases which most importing countries want to prevent. Due to an absence of laboratories to test the chemical compounds in Nepal, carpet exporters need to take them elsewhere for testing, which is costly.

3.2.2 Handmade Paper

Nepali handmade paper is a major handicraft export that has high potential. Several SPS barriers make it difficult to export handmade paper. Certain countries have specific SPS requirements when it comes to handmade paper and due to inadequate testing facilities in Nepal, exporters face the burden. There are also transit issues, especially in India, where officials ask for documents and guarantees not available for Nepali traders. Indian officials have asked Nepalese traders to present bank guarantees issued by Indian banks. However, banks in India do not issue such guarantees to Nepalese exporters.
The lack of proper tools and technology is affecting the quality and quantity of handmade paper, ultimately hindering its export potential. Due to this reason, Nepali handmade paper producers have neither been able to produce quality paper nor produce large quantities to meet the demands of the international market. Producers also incur difficulties with collection of raw materials of handmade paper. Producers can only collect lokta from community forests, which is not enough to meet their needs. In addition to inadequate resources, producers also face difficulty in obtaining permits to collect lokta from the forest due to delayed government processes.

3.2.3 Pashmina

Pashmina shawls, scarves, mufflers, blankets, and pullovers are major export goods for Nepal. The largest importers of Nepali pashmina and cashmere include EU countries and the US. However, pashmina traders have NTBs as a burden, which has not allowed pashmina to reach its full potential. Similar to agricultural goods, pashmina exporters also have difficulty with testing and certifying pashmina materials. Lack of facilities and agencies in Nepal that can certify pashmina products is a major concern of Nepali exporters. Foreign buyers demand the quality of pashminas be certified by an accredited testing laboratory. Poor product handling at the customs points has also caused certain losses for pashmina exporters. Improper packaging and mishandling of goods at customs has affected the quality of the products and thus impacted the profits of pashmina traders.

Certain export policy issues have also affected the export of pashmina. Excessive administrative windows, not limited to Handicraft Association of Nepal, Nepal Chamber of Commerce and Nepal Customs, are troublesome for exporters due to delays. Delays in exporting can have a significant impact on exporters to an extent where they might lose buyers. There are also delays in product inspection, where there is again mishandling of the product that leads to damage that affects the quality. The Pashmina sector is affected by cases of informal payment. Many exporters make informal payments to speed up the export process in administrative windows and minimize harassment by customs authorities. Traders do not merely face difficulties in the form of delays and product mishandling but also in the form of harassment and corruption by customs authorities. Even though the GON has identified pashmina products as a high-potential export good of Nepal, there are serious issues in the form of policy, administration and support from the government itself.

3.2.4 Handicrafts

Handicrafts exports from Nepal include wooden/metal sculptures, jewelry, and stone carvings. The major importing countries of Nepali handicrafts are EU countries, the US, China, and Australia. Obtaining an archaeology certificate is a cumbersome process for handicrafts exporters. To export statues and other sculptures, exporters must acquire a certificate from the Department of Archaeology stating that the handicraft is not an antique piece and is qualified to export. The process, however, is time-consuming and requires informal payments to speed things up. Other testing such as toxicity is not done in Nepal, making it difficult for exporters who have to take their samples to another country for testing. Moisture level in wooden products is also a high concern for exporters. As it occurs naturally and there are limited solutions, many products do not pass the quarantine checks in many customs points.

An advance payment system is also a major challenge for handicrafts exporters. Strict requirements obligate the buyer to make the full payment before receiving the goods but many buyers are unwilling to make full payments which hampers the business of handicrafts traders. Shipment and re-exporting are also cumbersome processes, involving tedious amounts of documentation and payment. As the GON imposes these requirements, there is serious need for easing of processes to ensure export of handicrafts can boom.
3.2.5 Garments

The garment sector contributes mainly to Nepal’s exports and due to the production process being highly labor-intensive, it has provided significant employment opportunities. The garment sector is largely affected by difficulties related to conformity assessment. Importing countries require the clothes must be free from harmful chemicals. Nepal has no machines or laboratories to test whether the products are free from such chemicals. Lack of laboratories for testing is a major concern for the export sector as mostly all high-potential export products cannot be tested in Nepal.

An advance payment system is another burdensome barrier that garment exporters bear. The Department of Customs (DOC) requirements of Nepal make it difficult for garment exporters regarding advance payments. While advance payment certificates are not burdensome, related procedural obstacles are. Nepalese customs officials require that advance payments come from the same companies purchasing the products. The garment industry does have a tremendous amount of competition as well from other countries such as Bangladesh, Vietnam and Sri Lanka; therefore it is vital that the GON provide adequate support towards increasing export of garments.

3.2.6 Yarn

Nepal has had a long tradition of producing yarn since ancient times. Several small-scale looming and spinning industries in the past produced homemade textiles and clothes from local raw materials. With the change of time and technology, Nepali yarn industries also mechanized and expanded. Following the increasing demand of Nepali yarn in domestic market and abroad, entrepreneurs scaled up their investment in yarn industries and started exporting their product to the wider world.

There are five big yarn industries in operation in the country with more than US$ 150 million in investment. These industries provide direct employment to some ten thousand people. The average value addition of Nepalese yarn industries comes to around 50%. The total capacity of Nepalese yarn industries producing yarn is 60,000 MT per annum at present, of which 80% is being exported to several countries including India, Bangladesh, and Turkey. Yarn is one of Nepal’s leading export items, contributing around 5 to 6 % share in the country’s total export.

Table 7: Yarn Export from Nepal

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Value</td>
<td>5,356,194</td>
<td>6,931,154</td>
<td>8,421,313</td>
<td>9,776,165</td>
<td>7,170,804</td>
</tr>
</tbody>
</table>

Nepal exported yarn with the value of Rs. 5356 million in the year 2015/16 and it reached Rs. 9776 million in 2018/19. Turkey is one of the major export markets of yarn products from Nepal. The export of yarn has been affected by the economic crisis in Turkey in the past few years. In addition, the coronavirus pandemic affected the export of yarn.

Bangladesh could be one of the biggest yarn export market for Nepal. Bangladesh has opened only a sea route to import yarn from Nepal. This route is not feasible for Nepal due to high transit cost. Nepal has been negotiating to open the Fulbari-Banglaband route to yarn export for the past several years. Last year, Bangladesh opened the Rohanpur-Singabad Rail route for Nepal via India and the recent amendment in the Railway Service Agreement between Nepal and India has opened up avenues to operate railway cargo movement to Bangladesh from Biratnagar ICP via India.

The Government of India has already completed the construction of railway track up to Biratnagar ICP. The Government of Nepal is preparing to operate cargo railway from India and Bangladesh's gateway port and from Biratnagar ICP. This will facilitate Nepalese yarn exporters to export yarn to Bangladesh.
at a competitive price. During the consultation with the yarn producers in Nepal, they anticipated that they would be able to export more than ten billion Rs. of yarn to Bangladesh. This route will also facilitate export of other agricultural products to Bangladesh. Hence, the Ministry of Industry, Commerce and Supplies should expedite the development of necessary parking yard sand other facilities in the Bairatnagar ICP at the earliest. Concurrently it should also start negotiations with India and Bangladesh proactively to operate this route.

4. Trade Facilitation
Nepal has excellent products with high export potential in both the agricultural as well as manufacturing sectors. While these products have a higher potential for export, they have not reached their maximum potential yet. It is evident that all 11 high-potential export goods are in dire need of serious facilitation and promotion. “Trade facilitation is a longstanding and traditional feature of General Agreement on Tariffs and Trade (GATT), which is expected to have serious implications for developing member countries.” (Rajkarnikar, 2006) There are barriers in the form of tariffs, NTBs, SPS, TBT, production, local requirements, and bureaucratic burden that impede the growth of these products. In order to address these barriers faced by Nepali exporters it is essential to identify facilitation measures to increase export of Nepal’s high-potential goods.

4.1 Testing Facilities
There is a severe absence of testing laboratories and facilities in Nepal. Lack of testing facilities in the country has forced traders to send their samples to foreign countries to get the relevant test certificates. Delays in receiving testing certificates has created a significant barrier for trade. Getting samples tested in foreign countries can also be expensive which the traders/producers have to bear. Establishing testing facilities near border points can ease trading across borders process for Nepali goods. Similarly, being able to receive test certificates in the country can be cost effective as well. It is also essential to establish testing facilities whose tests are recognized in the international market. Nepal does have certain testing facilities to test components of certain agricultural goods and manufactured goods but unfortunately the test certificates are not recognized by all importing countries. This can lead to retesting at foreign laboratories which can put a heavy cost burden on traders.

4.2 Bureaucratic Burden
The bureaucratic burden faced by Nepali exporters at the DOC does create some form of barriers to trade. At the same time there are regulations from the importing country that add to the barriers faced at the border. “For low-income countries, the trade facilitation area that leads to the most significant increases in trade flows is the harmonization and simplification of documents.” (Rajkarnikar, 2006) When it comes to documentation and regulations at the border, it is neither simple nor easy. Simplification of matters and documentation is a key trade facilitation component that can change the dimension of trade in Nepal. The bureaucratic burden that exporters face includes both time delays, bureaucratic harassment and informal payments to reduce the time lag and eradicate harassment. The bureaucratic burden is mostly encountered at the DOC in Nepal while in the exporting country, traders usually face difficulties regarding regulations and refusal to enter goods through customs. “Improving the efficiency of export procedures and addressing border bottlenecks on the export side are important components of trade facilitation measures.” (Rajkarnikar, 2006) Facilitation can begin with easing the border and instituting strict monitoring to eradicate bureaucratic burdens and informal payments. To create a more favorable trading environment, negotiations between Nepal and its trading partners regarding documentation can be suitable.
4.3 Production Constraints

Several high-potential export goods of Nepal have certain production constraints. Some producers lack proper tools and techniques while others face difficulties with storage. Holding on to old traditions is important but advancing and modernizing to meet international demands has become a necessary facilitation measure. Most agricultural export goods face difficulties in the form of production constraints. Lack of and inability to purchase tools and equipment has slowed down production growth. Lack of awareness of modern techniques is also a contributing factor. Many producers also have storage problems. Lack of proper storage facilities often causes products to go bad. In order to learn new production techniques that will increase the yield of the product, it is necessary to attract foreign direct investment (FDI). The GON usually has reservations regarding FDI in the agricultural sector as it is believed that agriculture is Nepal’s comparative and competitive advantage, and thus shall be controlled by domestic firms and producers. However, FDI brings capital and technology, and creates employment opportunities that can transform the agriculture sector. Many producers are unable to purchase modern tools and lack knowledge to utilize modern tools for production; FDI can bring the required technology to address this. In order to expand and increase yields, capital is required which can also be gained by attracting FDI. If export of agriculture goods is to increase, it is essential to address production constraints and create innovative facilitation measures such as but not limited to FDI.

4.4 Value Addition

Value addition is what increases the price of the product. Simple measures such as one tier of processing and packaging can play a significant role in increasing the value of the product. Unfortunately, most agriculture products are exported without any form of processing. Ginger is even exported without being washed and thus the goods are exported at a lower value. As most agricultural goods are exported to India, the unprocessed, unpackaged goods go through processing and packaging ready for re-export from India to other countries. It is sometimes argued that Nepal does not have access to foreign markets; however, the enabling trade index by the World Economic Forum indicates that Nepal has abundant access to foreign markets with a score of 6.5 out of 7 and rank 1 among 138 countries. Therefore, instead of exporting raw unprocessed agricultural produce to India it is more beneficial to export processed goods to actual markets. Some awareness, motivation and connection with the right market is required. The government can assist with creating connections between Nepali traders and foreign traders to boost export to the right country. In addition, awareness of the benefits of processing and packaging should be disseminated to increase value-added exports instead of raw unprocessed exports.

5. Institutional coordination for export promotion

In Nepal, the Ministry of Industry, Commerce, and Supplies (MOICS) is responsible for enhancing the trade facilitations, trade promotions and coordination to expand the foreign market for Nepalese products. It seems that the coordination of the MOICS with Nepalese Diplomatic Missions abroad is weak (NTIS action matrix being an example). It has very weak working links with the Consulate General’s Office except the Consulate General’s Office in Kolkata.

Presently, there are 30 Nepalese diplomatic missions and three permanent missions in different parts of the world. Nepal has also established six Consulate General offices abroad specifically focusing 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 Southeast Asia, two in Africa and one in Oceania. These Nepalese diplomatic missions and consulate general offices can serve all major markets of the world. Recently the Ministry of Foreign Affairs – in coordination with the Ministry of Industry, Commerce and Industry – started virtual interactions with its diplomatic mission on trade diplomacy. During these
interactions, the MOFA and MOICS discuss issues such as extending foreign markets for the Nepalese products, preferences of consumers, and procedural requirements. The MOICS has also started virtual interactions with the Consulate General Offices and Economic Ministers in diplomatic missions to discuss trade facilitation issues. This kind of interaction should be conducted on regular basis and it should be developed as a routine program of the ministry and diplomatic missions.

Diplomatic missions might play special roles as trade representatives. The initiatives of these embassies and consulates could provide the initial impetus in relation to trade or investments. One of the major tasks of these Nepalese Diplomatic Missions abroad is to provide regular information to the concerned government and private sector agencies about the new trade sectors in goods for promoting bilateral trade between Nepal and the receiving state. These missions are meant to take the lead to enhance FDI and promote tourism, and also serve as contacting points between private sectors in industries, commerce or tourism sectors in Nepal and such organizations in the receiving country. These mission officials could identify an opportunity and initiate the necessary actions to penetrate the export market for domestic product.

There are 55 Honorary Consulates of Nepal in different friendly countries. One of the major responsibilities of the Honorary Consulate of Nepal in other countries is to provide information to the ministry and other concerned bodies in government or the private sector on trade in goods for promoting bilateral trade between Nepal and the receiving country. They are also tasked with performing the required functions to enhance foreign direct investment in Nepal, promote tourism development, and serve as a contact point between the private sectors in Nepal and receiving countries. During the consultation with concerned officials in MOICS and private sectors, they informed that their linkages with these Honorary Consulates abroad were very poor. The MOICS with coordination with the concerned Nepalese 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 Mission of the friendly countries serving in Nepal. There are 53 Honorary Consulates of other countries serving in Nepal. It is necessary to develop a strategy to coordinate these residential missions and honorary consulate general offices to facilitate and enhance export trade of Nepal.

These Nepalese diplomatic missions should engage in the following activities:

- **Trade Promotion:** Most exporters lack information and understanding on foreign regulations related to safety and environmental standards, and other norms in potential markets, creating nontariff barriers (NTBs) to entry. The diplomatic missions should facilitate the home exporters on accessing the basic information and trade promotion in foreign markets.

- **Enhancing Credibility of Home Exporters:** The diplomatic mission should facilitate the home exporter to enchain their credibility in the foreign market, establish contact with the importers of the selected products or services, and sensitize them on the home country might offer.

- **Investment Promotion:** The diplomatic mission should facilitate mobilizing FDI for the home country to enhance the productive capacity of the manufacturing sectors in the home country. These missions should facilitate visits by business and eco-political delegations from the target country. Diplomatic missions should also focus their activities on transferring the appropriate technology to the home country.

- **Aid for Trade:** The Nepalese diplomatic missions should give priority to the Aid for Trade in aid management for Nepal. This will enhance Nepal’s export activities and ultimately decrease dependency syndrome.
6. Conclusion and Recommendations

Nepali agriculture products have been based on traditional farming practices with the involvement of numerous farmers in their small piece of fragmented land. The scattered cultivation pattern and involvement of numerous families with minimum use of modern technology have added to more production costs, limiting its competitive capacity. Lack of quality planting seeds, improper cultivation, harvesting and post-harvesting handling practices, and improper use of chemical fertilizers are the major factors affecting production of high-quality agriculture products that need addressing for increased productivity. The same goes for minimizing cost of production.

Nepali agriculture products face numerous problems while exporting to the international market. Major constraints to exporting Nepali agriculture products are summed up below:

1. quality of production and increasing productivity
2. reducing the production cost
3. high-scale commercial farming
4. product processing
5. diversification
6. value addition
7. sorting
8. grading
9. packaging
10. labeling
11. branding
12. warehousing
13. transport facilitation
14. custom facilitation
15. lack of quality consistency
16. lack of commercial approach in farming
17. lack of grading
18. improper transportation and supply chain,
19. unnecessary documentation
20. problems in custom clearance
21. difficulties in meeting sanitary and phytosanitary standards
22. transit issues

In the same way, the poor infrastructure, high cost of transportation, lack of skilled labor, and communication network problems are key difficulties affecting competitiveness in export of the non-
agriculture products of Nepal. It is necessary to identify such constraints to enable policymakers to address these issues to enhance Nepalese exports. The relevant stakeholders and concerned authorities should focus on ways to enhance processing and export capacity of the traders to achieve the expected export volume in the global markets.

Based on the available information from various sources, the study made following recommendations:

- **Government of Nepal and private sector need to work together to explore alternative markets beyond the neighboring countries to achieve better output in agro products like ginger, large cardamom, tea and coffee.**

- **Government should concentrate entirely in collaborating with private companies, exporters, traders, associations and farmers to breed high-quality and high-fertility seeds and distribute them to farmers so that the quality of the ginger, large cardamom, tea and coffee may improve while increasing productivity.**

- **Government and private sector should join forces to farm these products in a high commercial volume. They should incorporate huge cultivation areas instead of the small fragmented lands with the involvement of the small farmers who may benefit in the larger scale. This would enable maintaining quality, reducing the cost of production, increasing productivity and competitive capacity to compete in the international markets.**

- **Government and Private Sector Associations should orient farmers on Good Agriculture Practice (GAP) to control root diseases, use pesticides, chemical fertilizer, post-harvest handling, seed management, and use of advanced technology to create awareness among the small farmers on improving quality.**

- **Government should set a minimum floor price/ some market assurance of the product ensuring sustainable market linking with the exporters and private sectors to sell their product. Similarly, the government should bring effective and proactive subsidized schemes and technology support to motivate larger farmers.**

- **Government stakeholders (municipal, district, provincial and federal level) should actively coordinate in supporting farmers and provide overall farming support. These include seed support, awareness raising, good agriculture practice, buy-back guarantees, and price determination to address multifaceted problems of the farmer.**

- **Government and private sector should work extensively for product diversification, grading, sorting, packaging, labeling, branding, storage and internationally accredited quality testing facilities in Nepal to be prepared for export in the international market.**

- **Government, traders and associations should make serious efforts for branding, labeling, packaging for brand promotion to gain trust internationally.**

- **The government should create a conducive environment for Nepali traders through business promotional activities, facilitation for trade fair participation, business link-up, bilateral agreement, trade treaties, and organizing business meet to access potential international markets.**

- **Nepali traders should expand their trade relation beyond the traditional business partners of India. They should develop their overall capacity for the international market including international import and export presence, storage capacity, processing capacity, quality control, supply chain regulation and expansion of business links and networking.**
• MOICS should coordinate with concerned agencies in the home country and diplomatic missions abroad for Mutual Recognition Agreements with bilateral trading countries to enhance export of agricultural products in foreign market.

• To reduce the burden on the exporter, government should create hassle-free custom clearance environment to the exporter to reduce the transportation cost.

• To reduce the logistics costs and increase efficiency in supply chain management, government should formulate a Comprehensive Trade Logistics Policy and implement it to build a proper supply chain and network directly from farms to the exporter warehouse and then export to the end destinations. Involvement of the various layers of middleman and individual level transportation have been added extra costs of export.

• The existing Single Window System should be expanded to accommodate more related agencies to facilitate private sectors in Exim Trade.

• The electric cargo tracking system should also be implemented in export cargo to reduce the documentation requirement and seamless movement of export cargo.

• The existing Trade Portal should be designed to accommodate information about potential market information abroad, potential buyers, documentation and testing requirements, logistics information and tariffs.

• The Nepalese Diplomatic Missions abroad, including Consulate General and Honorary Consulate offices, should develop themselves as Trade Missions in their respective area and perform the following activities:
  
  o facilitate the home exporters on accessing basic information about the foreign market, standards requirement, SPS/TBT and issues logistics management.
  
  o facilitate the home exporter to enhance their credibility in the foreign market. These missions should facilitate access to information for the home business associations and individual enterprises on the basic economic conditions in the target country.
  
  o facilitate in establishing contact with the importers of the selected products or services, and sensitizing them on what the home country might offer.
  
  o encourage business delegations for export promotion and for FDI mobilization.
  
  o facilitate for mobilizing FDI for the home country to enhance productive capacity of the manufacturing sectors in the home country.
  
  o facilitate visits by business and eco-political delegations from the target country.
  
  o focus their activities on transferring the appropriate technology to the home country.
  
  o give priority to the Aid for Trade in aid management for Nepal.
7. References


Raihan, S. 2016. Enhanced Regional Economic Cooperation through Dealing with NTMs in the BBIN Sub-region in South Asia

