

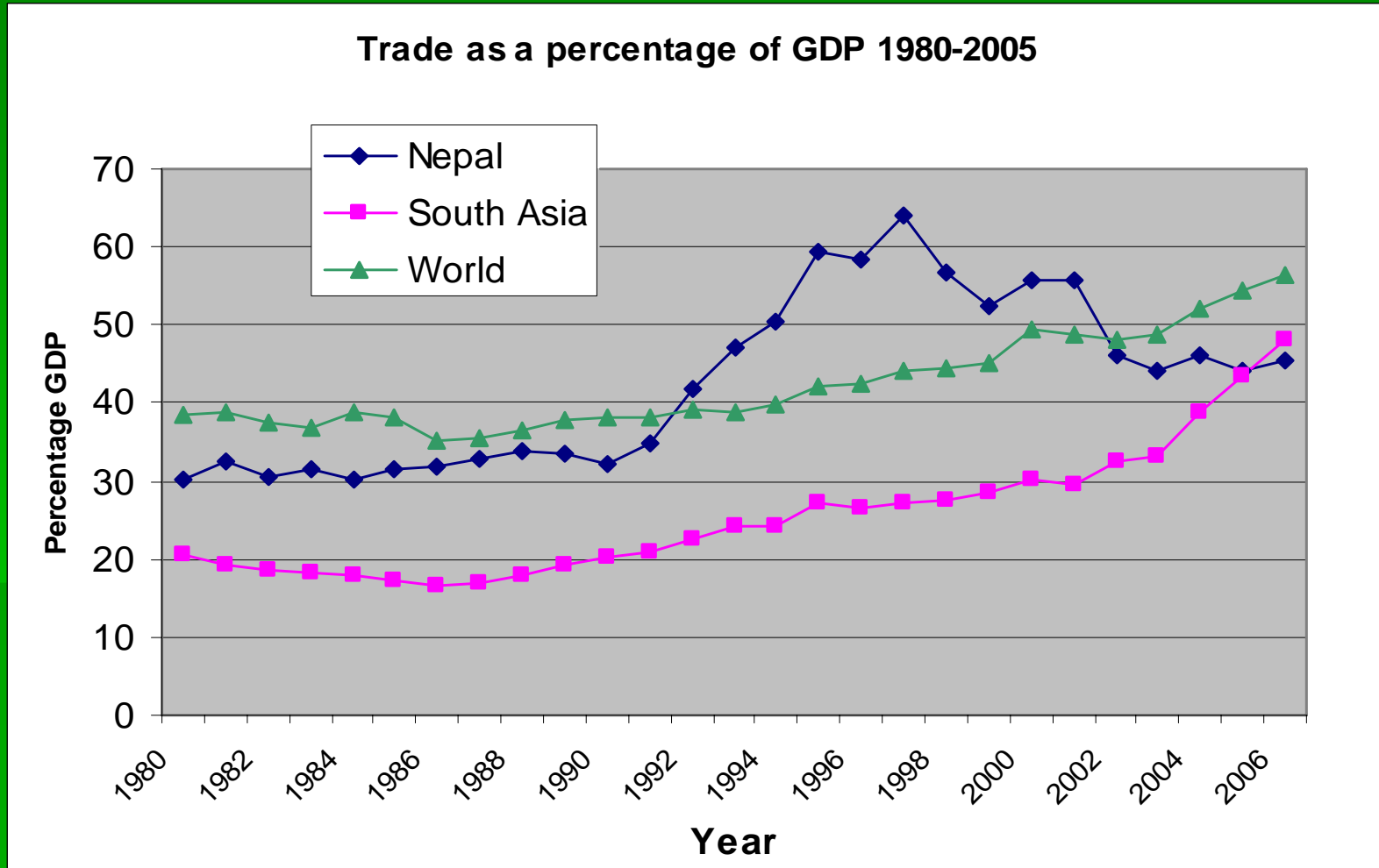
Nepal Growth Diagnostic Workshop - Constraints to International Trade

Matthew Greenslade, DfID

Consultation Workshop 23 September 2008
Nepal Country Diagnostic Study



Level of trade is falling



Levels of trade

- Nepal has been more open than region. Level of trade peaked at 67% of GDP in 1997.
- Level of trade has fallen since (45% in 2006) and Nepal is below regional and world averages.
- Countries in region are becoming more open and South-south trade is expanding.
- Nepal needs to ensure it benefits from the rapid expansion in world trade

Nepal has narrow range of exports markets which makes it more vulnerable than the region

Country	Breadth of International Markets Rank/118	Extent of Regional Sales Rank/118
Nepal	114	99
India	35	43
Bangladesh	80	107
Sri Lanka	45	53
Pakistan	70	89

Source: The Global Trade Report 2008,
World Economic Forum

Constraints on trade: what are we looking for?

Evidence of low investment in trade sector due to **low returns to investment**

Low returns due to **underlying causes**:

- Market failures
 - Weak competition in transport sector?
- Public sector failures
 - Bad regulation?
 - Weak institutions?
 - Tax distortions?
 - Bad policies?

How contestable is the market in transport services?

- Nepal's transport services are ranked poorly in the Enabling Trade Index. Logistics Performance Index ranks transport services below region.
- Affordability of shipment (ranked 109 out of 118)
- Competence of the logistics industry (ranked 103/118)
- India is a good performer for the region. 31st.
- Poor quality services offered by the transport services sector **could be evidence of weak** competition.
- Further analysis of the intensity of competition in this sector remains to be undertaken.

International trade is hampered by high costs but customs procedures are adding difficulties

- It costs US\$ 1600 and takes 43 days on average to export a container from Nepal.
- 50% of cost is for inland transportation and handling. But charges for document preparation and customs clearance are also high for the region
- Benchmark indicators point to weaknesses in customs procedures;
- Evidence of firms “getting around the problem” using informal channels of trade. Estimates that 40% of trade with India is informal.

Public sector failures could be constraining investment in the trade sector

- **Case example:** Medicinal plants sector is made up of 20-30 small firms. No medium sized firms. One large Indian company with international market access.
- Lack of medium sized firms suggests failures are binding on domestic medium sized firms;
- Could be due to licensing requirements, duty drawback scheme, and lack of complementary inputs (government R&D, standards and testing)
- Also evidence of tax wedge imposed on small traders

Any evidence of institutional failures around trade policy or trade reforms?

- Policy framework for foreign investment in the trade sector appears adequate. But limits placed on foreign investors in service sectors an issue? Range from 51 to 80 percent.
- Serious institutional failures in relation to **duty payback** which is inhibiting exports (FIAS 2007)
- Institutional mechanisms around **trade facilitation** and customs reforms inadequate (FIAS 2007).
- Institutional and regulatory framework in the electricity sector is constraining the export of hydropower to India