Statement by Hon. Finance Minister Dr Ram Sharan Mahat in the Mobilizing Aid for Trade: Focus Asia and the Pacific Conference

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Trade Situation

1. Nepal is a small LDC with a per capita income of around US$ 300. Nepal's GDP, merchandise exports and imports represented 0.7, 0.7 and 1.0 percent of the respective South Asian aggregates in 2005. The trade deficit/GDP ratio was 14.0 percent compared to the South Asian average of 6.3 percent (World Development Report, 2007). Besides the weak socio-economic development indicators, the physical and social infrastructure development in Nepal is still modest, which has also constrained the prospects of trade and growth expansion.

2. Nepal adopted the current account convertibility in 1992-93, placing the imports under the Open General License (OGL). Nepal became the member of the WTO on April 23, 2004. Nepal is a party to the SAFTA and the BIMSTEC arrangements. Accordingly, the trade and tariff system has been rationalized.

3. During the four years between FY 2003/04 and FY 2006/07, Nepal's exports decelerated, with the overseas exports recording an annual average decline of 5.3 percent in the nominal terms. The exports/GDP ratios during the four years were 10.1, 10.0, 9.3 and 8.4 percent respectively. Accordingly, the trade deficit/GDP ratios reflected an upward trend at 15.3, 15.4, 17.6 and 18.2 percent respectively. The weak exports also resulted in the loss of jobs for many workers. This period also marked a slower economic growth, which averaged 3.3 percent.

4. The overseas export of the ready-made garments, which had occupied 41.3 percent share in the overseas exports and 17.7 percent share in the total exports in FY 2003/04, was affected by the discontinuation of the quota since January 1, 2005. Its export in FY 2004/05 compared to the previous year experienced a sudden fall of 35.9 percent. Accordingly, the share of its export in the overseas exports and the total exports in FY 2005/06 fell sharply to 30.9 percent and 10.4 percent respectively. The respective shares of its export in the overseas exports and the total exports further slumped to 27.5 percent and 8.6 percent in FY 2006/07.

5. Being an LDC with a fragile export sector, the role of the increased trade capacity in Nepal is thus immense.

Trade Capacity

6. The Nepalese economy was seriously afflicted by the decade-long insurgency. Leading to the forthcoming constituent assembly polls, the economy is still in a transition. The task of putting the economic agenda at the centre-stage of Nepal is long over-due. Hence, the trade capacity needs to be enhanced for fostering meaningful participation in the multilateral

trading system through tapping the opportunities and addressing the challenges so as to promote trade, economic growth and poverty reduction on a sustainable basis.

7. Both the tariff and the non-trade barriers would constrain trade expansion. To benefit an LDC like Nepal from increased trade, there is also an urgent need to scrap the non-tariff barriers on the exports of these countries. In this context, enhancing the negotiating skills of the state and the non-state sectors in order to secure the market access and improve the potential benefits of the liberal trading regime and the trade agreements would be particularly important.

9. The supply capacity for the exports needs to be enhanced by exploring potential products, encouraging entrepreneurship, improving the production and processing processes by focusing on the R&D, reorienting the marketing strategies and ensuring consumer protection, fostering better industrial relations, augmenting the human resource capability at the various levels of the stakeholders, etc. Focus needs to be placed on enhancing the efficiency and capacity of the value chain management so as to increase the competitiveness of the trade including its comprehensive and inclusive development. This process will also lead to the development of the interrelated sectors and would create favorable environment for increasing the production and productivity in the economy. Nepal needs comprehensive aid packages to help address these challenges.

9. Standardization and quality enhancement help in improving the competitiveness of the products. Education, training and awareness programs are not less significant for increasing the conformity and compliance with the standards and deepening the participation in the global trading regime. Disclosure requirements enhance transparency which improves confidence in the business and augments foreign investments.

10. Improving the trade-related physical infrastructure, especially the transport, storage, and transactions processing process and technology, and information networking would reduce the cost and facilitate the process of developing efficient markets, on a regional and global basis. Trade facilitation including reducing the delays in the transport and the transactions remain the priority areas. Improving the working of the export processing zone is another area that needs to be addressed.

11. Nepal Trade and Competitiveness Study conducted by the government and the donors in 2004 attributed the low competitiveness of the economy to the low labor productivity, low farm yields, low incentive for investment in technology, weak infrastructure, and unfavorable business climate. Price competitiveness is further diminished by one of the highest charges for electricity in the region, according to the Study.

12. Strengthening legal and regulatory framework along with their effective implementation for promoting trade built on the national advantages, priorities and interests require extensive technical support for which the aid for trade could usefully contribute.