NEPAL

Country Statement

Delivered by the Honorable Dr. Ram Sharan Mahat

Minister of Finance

at the Seventh Meeting of SAARC Finance Ministers

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Kathmandu

Honorable Ministers of Finance,

Excellencies, Distinguished Delegates,

Ladies and Gentlemen,

On behalf of the Government of Nepal, I warmly welcome you to Kathmandu. Nearly four months ago, we experienced a major earthquake, the biggest natural catastrophe in over 80 years. This conference is a testament that we are slowly back on our feet. I begin by expressing our immense gratitude to all SAARC countries for the solidarity you extended to us in the aftermath, and at the International Conference for Nepal's Reconstruction in June. Your generous support assured the Nepali people that we can always count on our closest friends and neighbors at an hour of need.

Excellencies,

We are at a critical juncture in Nepal because the birth of a new republican constitution is imminent. It has taken us almost a decade of negotiations to reconcile diverse political interests. This reflects the complexity of nurturing a functioning democracy with equitable representation and the rule of law. This, however, has distracted us from a much needed focus on the economy. With stability, the Nepali people now expect the country to vigorously pursue the agenda of prosperity. It is for this reason that our meeting today is significant. In our quest to identify and exploit new sources of growth, regional economic and financial cooperation is paramount. This is why we adopted the theme of "Deeper Integration for Peace and Prosperity" during the 18th SAARC summit held in Kathmandu last year.

The eventual destination of our efforts to promote regional integration is clear. It is a South Asian Economic Union consisting of a common market of over two billion consumers who live in peace with each other pursuing ways and means to become mutually prosperous. But we have not matched this lofty aspiration with concrete steps so far. The road to a common market will take time and involve a series of tough decision making, but the moment to put in place credible building blocks is now. The first of such steps is an effective set of trade and investment agreements that are a vehicle for dynamic commercial exchange of goods, services, ideas and capital.

We all lament our low share of intra-regional trade. It costs more to trade within South Asia than with countries in other regions. Our progress has been sluggish because of poor connectivity and lack of will. Our barriers are largely policy-induced and man-made. Non-tariff barriers compound high transport costs. Sensitive lists shield more than 50% of traded goods from cost-based competition. While I commend India, Pakistan and Sri Lanka for eliminating their sensitive lists for LDCs, as a group we have not been bold, including Nepal. If we reduce the number of products in the sensitive list, streamline technical barriers, and simplify the rules of origin, trade volume can cross 100 billion dollars within a few years.

Success begets success. Only after we see tangible benefits from freer trade flows can we secure the momentum for common external tariffs and a regional currency. We now need to adopt an expansive notion of regional cooperation that includes infrastructure related to energy and transport; shared financial institutions; and comparable regulatory standards. We have now matured as a region to talk openly about the trade-off between security and economics. The potential for intra-regional tourism, education, healthcare and ICT services is well known. It is only after people-centric services are begun to be traded that the trust deficit will erode.

A core objective of regional integration is to augment South Asia's international competitiveness. Regional markets can only be sustainable if they are investment platforms for industries that can participate actively in the world market. In this regard, our trade agreements have a choice: they could either be a poor man's consortium riddled with protectionism, or a means to reorient our economies toward global competitiveness.

Excellencies,

The paradigm of trade and investment in the 21st century is shifting. Economies are integrating, but production is disintegrating. The emphasis now is not on complete industries, but on firms specializing in tasks. This is the rise of the phenomenon of global value chains. About half of the world's gross exports today are related to GVCs because of breakthroughs in technology and radical policy changes. Most East Asian countries have increased their participation in GVC trade over the past two decades, but South Asia has lagged behind.

In the new paradigm, intermediate imports are as valuable as final exports. Trade and investment are complements, not substitutes. Facilitation measures to reduce public barriers are important, but successful firms increasingly need to meet high private standards of exacting buyers. And competitiveness in the goods sector is determined by the competence of the service sector. Logistics, transport, telecom and business services explain over half the competitiveness in the export of goods. And, outward investment is as important as inward FDI.

Time has come for us to change gears from a top-down approach to regional integration to a bottom-up drive by private businesses. If South Asians can be pioneers, inventors and risk-taking entrepreneurs in the

West, the only reason why they can’t rise in their own homeland is the policies and institutions that hold them back. We must recognize this to achieve a minimum threshold of efficiency through infrastructure and incentives.

For South Asia to attract export-oriented investment, especially tied to global value chains, reform in investment policies is necessary. Our FDI regimes have not helped intra-regional investment. The costs and procedures for setting up foreign subsidiaries remain cumbersome. The draft *regional* agreement on the promotion and protection of investment is yet to be finalized. In several countries, there is an outright ban on outward FDI.

Attraction of global FDI to engage the region more actively in international production networks will have implications for the revival of manufacturing. Our demographic structure demands a revival of industries that can absorb a large number of workers. This is the only way South Asia can move against the wind of premature de-industrialization.

Excellencies,

We are far from the stage of even contemplating the virtues of a shared currency. But there are options to reduce currency risks and stabilize economies in the face of illiquidity by strengthening the framework on currency swap arrangements. We must build a South Asian safety net that is usable in the face of regional or global financial crises. This will require actual funds, not just pledges; we need capacity for regional financial surveillance; and rapid-response procedures to address emergencies and shocks which are likely to be frequent in the future.

It is recognized by now that we in South Asia are better at discussing ideas than implementing them. To stem the growing cynicism about the utility of SAARC, we must show results through transformative projects. This is where we in Nepal believe that trade in energy could be a low hanging fruit and an anchor for regional integration. Last year Nepal signed an historic agreement with India on electric power trade and cross-border grid connectivity. We must regionalize our bilateral agreements so that the implied size of the market can tempt large investors from afar.

The challenge of competitiveness is stark not just for the three landlocked countries amongst us, but also the lagging regions elsewhere. The hurdles of long distance, low density and thick divisions that prevent economic agglomeration can be overcome with initiatives to enhance connectivity. Shared infrastructure projects at geographical nodes proximate to Nepal, Bhutan, Bangladesh and North-eastern-India, or between North-western Pakistan and Afghanistan are necessary and strategic for development.

South Asia is the least urbanized region in the world with rates way below East Asian and global average of over 50%. With connectivity, millions of people can be pulled closer towards urban centers and world markets. But the region is expected to require around 10% of its GDP, or up to 2 trillion dollars, to fill infrastructural gaps between 2011 and 2020. This is where well-capitalized financial institutions can play a leading role. Hard infrastructure, however, must be pushed together with the soft. In the latest 2015 Doing Business ranking, South Asian countries range from 99 to 183 out of 189 economies. There is no reason why we cannot reform regulations so that we can be as attractive as a low-income, post-conflict country like Rwanda which ranks in the top 50.

Excellencies,

2015 is a significant milestone for global development. MDGs are being completed and the Sustainable Development Goals are being unveiled next month in New York. The Addis Ababa Action Agenda adopted during the third Financing for Development Conference last month provides a framework for financing the implementation of the SDGs. We in SAARC need to regionalize and implement these universal commitments over the next 15 years.

In addition to trade and investment, the Addis Agenda has important guidance for us all on the mobilization of domestic resources, ODA that is catalytic in nature, and prudent debt management. These remind us that SAARC can be an appropriate forum for an exchange of good practices on the management of not only aid, debt and taxation, but also remittance. We need to work together to lower the cost of cross-border transfers, expand financial literacy, and reduce the heavy social consequences of temporary migration. These are all areas where regional solutions trump global prescriptions. It is for this that we endorse the ongoing work of the SAARC Secretariat and allied organizations harmonizing standards, promoting arbitration, avoiding double taxation, and collecting better data.

In closing, I urge all my colleagues to step up to the challenge of effective economic and financial cooperation for deeper regional integration in South Asia. I plead that we focus on achieving results on the ground through a smaller number of flagship endeavors than be drawn to a proliferation of piecemeal initiatives. I look forward to a productive series of sessions and wish you a pleasant stay in Kathmandu.

Thank you.