Nepal's Post LDC Graduation Scenario: An Economic Diplomacy Perspective

Institute of Foreign Affairs (IFA)
Tripureshwor, Kathmandu, Nepal

Nepal's Post LDC Graduation Scenario: An Economic Diplomacy Perspective

Edited by:
Rajendra Pandey

INSTITUTE OF FOREIGN AFFAIRS
Kathmandu, Nepal

Research by:
Uma Shanker Prasad
(This research was prepared in 2022)

Published by

Institute of Foreign Affairs (IFA)
Kathmandu, Nepal
Phone : 5366954, 5366955, 5366956
Email : ifa7nepal@gmail.com
URL : www.ifa.gov.np
ISBN : 978-9937-9533-3-7

First Published IFA, July, 2023
500 pcs
Printed at S & S Offset Press
Koteshwor, Kathmandu

Foreword

This publication dealing with "Nepal's Post LDC Graduation Scenario: An Economic Diplomacy Perspective" assumes a pragmatic importance in view of Nepal's economic situation. Because the publication mainly traces the portrait of Nepal as the least developed country, which indeed impels authoritative decision -makers to move on toward the possible uplift of its national society. In the course of the paper preparation, the author has vividly discussed Nepal's current situation primarily dealing with economic situations prevalent in the country and also discussed about the post-graduation country experiences gained by the African and Asian countries. The main objective of the chapter is to make Nepal learn something valuable and concrete from them in order to put Nepal on the desired traction with the lesson learnt. The author also explains the need of effective economic diplomacy with a purpose to promote foreign investment, tourism, foreign employment and foreign trade, which are considered to be main components of promoting Nepal's economic interest vis-à-vis friendly countries of Nepal. He also thinks of a compelling need of necessary reforms; for example, institutional reform, human resource reform, financial reform, amongst others. In the course of his writing, the author also warns of potential implications of LDC graduation, especially related with the businesses of Foreign Trade. Official Development Assistance and Foreign Direct Investment, which should be promoted through the efficient conduct of economic diplomacy abroad as demanded by situational circumstances of Nepal to put it in the interface of the developing countries. The author has, in the meantime, proposed fourteen reforms among which legal reform, institutional reform, human resource reform and financial reform occupy significant status and prominently figure up as important recommendations. The publication is indeed an additional document which is important, and needs to be studied carefully by the Nepali people interested in the economic progress of the country.

The Institute of Foreign Affairs is indeed grateful to Dr. Uman Shanker Prasad who painstakingly prepared the paper at the request of the Institute.

The contributions of Mr Madhavji Shrestha, Mr Matrika Poudyal (resource person), Mr Sanu Raja Puri (information officer), Mr Mahendra Prasad Joshi, Mr Dron Prasad Lamichhane, Ms Renuka Khadka and all the IFA staffs are worth mentioning in this regard.

Rajendra Pandey
Officiating Executive Director

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Acronyms and Abbreviations

$	-	Dollar
ADB	-	Asian Development Bank
BBC	-	British Broadcasting Corporation
BBIN	-	Bangladesh, Bhutan, India, Nepal
BIMSTEC	-	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic
CBS	-	Central Bureau of Statistics
CDP	-	Committee for Development Policy
		Cooperation
DTIS	-	Diagnostic Trade Integration Study
EIF	-	Enhanced Integrated Framework
EU	-	European Union
EVI	-	Economic and Environmental Vulnerability Index
FDI	-	Foreign Direct Investment
GCF	-	Green Climate Fund
GDP	-	Gross Domestic Product
GEF	-	Global Environment Facility
GLOF	-	Glacial Lake Outburst Floods
GNI	-	Gross National Income
GSP	-	Generalized System of Preferences
HAI	-	Human Assets Index
HDI	-	Human Development Index
HS	-	Harmonized System
IFA	-	Institute of Foreign Affairs
IT	-	Information Technology
LDC	-	Least Developed Country
LDCF	-	Lease Developed Countries Fund
LLDC	-	Landlocked Least Developed Countries

MFN	-	Most Favoured Nation
MoC	-	Ministry of Commerce
MoF	-	Ministry of Finance
NPR	-	Nepalese Rupee
NTIS	-	Nepal trade Integration strategy
ODA	-	Official Development Assistance
OECD	-	Organisation for Economic Co-operation and Development,
PPP	-	Purchasing Power parity
S&DT	-	Special and Differential Treatment
SAARC	-	South Asian Association for Regional Cooperation
SAFTA	-	South Asian Free Trade Agreement
SAFTA	-	South Asian Free Trade Agreement
TRIMS	-	Agreement on Trade-Related Investment Measures
TRIPS	-	Agreement on Trade-Related Aspects of Intellectual Property Rights
UAE	-	United Arab Emirates
UN	-	United nations
UNCLOS	-	United Nations Convention on the Law of the Sea
UNCTAD	-	United Nations Conference on Trade and Development
UNDP	-	United Nations Development Programme
UNICEF	-	United Nations Children Fund
US$	-	United States Dollar
USA	-	United States of America
USD	-	United States Dollar
USDOS	-	United State of Department State
USDOS	-	United States Department of State
WB	-	World bank
WCO	-	World Custom Organization
WITS	-	World Integrated Trade Solution
WITS	-	World Integrated Trade Solution
WTO	-	World Trade Organization

Chapter 1
Introduction

Nepal is one of the 46 least developed countries (LDCs)[1] in the world. The country is highly integrated with the global economy in terms of external trade both in merchandise and service, Official Development Assistance (ODA), and Foreign Direct Investment (FDI). These three facets of Nepal's economic diplomacy are key to analyse for its post LDC graduation strategy.

Nepal has historically been a trade deficit country. The country primarily exports primary commodities and imports finished goods. Nepal's foreign trade has largely been confined to India because of close proximity, similar socio-economic condition and availability of transport facilities. Moreover, a substantial portion of trade between Nepal and India is not recorded. In respect to service trade, foreign employment and tourism have been playing a major role in maintaining balance of payment. However, foreign employment is largely confined to unskilled labour migration. Tourism sector has not been able to tap the potentiality of natural beauty and climatic conditions.

Although the role of Official Development Assistance (ODA) has been vital in the development process of Nepal, its proportion in overall finance has declined over the years. Despite positive trends in internal resource mobilization over the past decade, domestic revenue has largely been contributing to the recurrent expenditure. Official Development Assistance (ODA) plays an integral part in financing the capital expenditure. In total ODA, the proportion of loans has been on increasing trend. The proportion of grants has been decreasing.

Despite huge potential, Foreign Direct Investment (FDI) in Nepal has not been encouraging in comparison to South Asian as well as landlocked countries. FDI inflow into Nepal is less than 1 percent of GDP. However, the country has provided significant policy attention to attract FDI in recent years. Article 51 D 10 of the Constitution of Nepal has provisioned to encourage and mobilize foreign capital and technological investment in areas of import substitution, and infrastructure building. Enactment of the Foreign Investment and Technology Transfer Act, 2019 and establishment of the Investment Board Nepal are other efforts in attracting FDI.

[1] Currently, three criteria define the LDCs—GNI per capita, the Human Assets Index (HAI) and the Economic and Environmental Vulnerability Index (EVI).

Nepal has been an LDC since the category was created in 1971. After over 5 decades, the United Nations Committee for Development Policy (CDP) has recommended for Nepal's graduation from the LDC category in 2026 as the country had met the criteria for graduation[2] for three consecutive reviews in 2015, 2018, and 2021.

Nepal met the threshold level for LDC graduation on two criteria, the Human Assets Index (HAI) and Economic and Environmental Vulnerability Index (EVI) in 2015 triennial review for the first time. It also met the threshold criteria in 2018 review, becoming graduation by 2021. But due to the adverse effects of the Gorkha Earthquake 2015, low GNI per capita than the threshold, and other vulnerabilities, Nepal requested the CDP to postpone the graduation process until 2018. Although, the income criteria—GNI per capita—remains substantially below the threshold ($1222), Nepal qualified for the graduation during the latest triennial review in 2021. The normal preparatory period of three years has been extended to five looking at the challenges posed by the COVID-19 pandemic. Hence, Nepal is now poised to graduate from the LDC group to the developing countries' group in 2026.

Graduation from the LDC category has a number of pros and cons. Graduation increases national pride as well as the collective self-confidence of the people and leaders. The country would be positively viewed by international investors, leading to increased foreign investment for both public and private sectors. It leads to a stronger position in international negotiations with multi and bi-lateral organizations. On the other side, graduation entails the phasing out of access to LDC-specific international support measures—trade-related special and differential treatment, targeted official development assistance (ODA) that includes concessional financing and technical assistance, and other support measures.

Against this backdrop, the principal objective this policy paper is to analyse the implications Nepal's LDC graduation on various crucial components interlinked with economic diplomacy—external trade, official development assistance (ODA), foreign direct investment (FDI), and foreign employment. It also reviews the postgraduation experiences of five countries—Botswana, Cape Verde, the Maldives, Samoa, and Equatorial Guinea. Last but not the least, the paper tries to provide some policy reform agendas for Nepal's post-LDC graduation period.

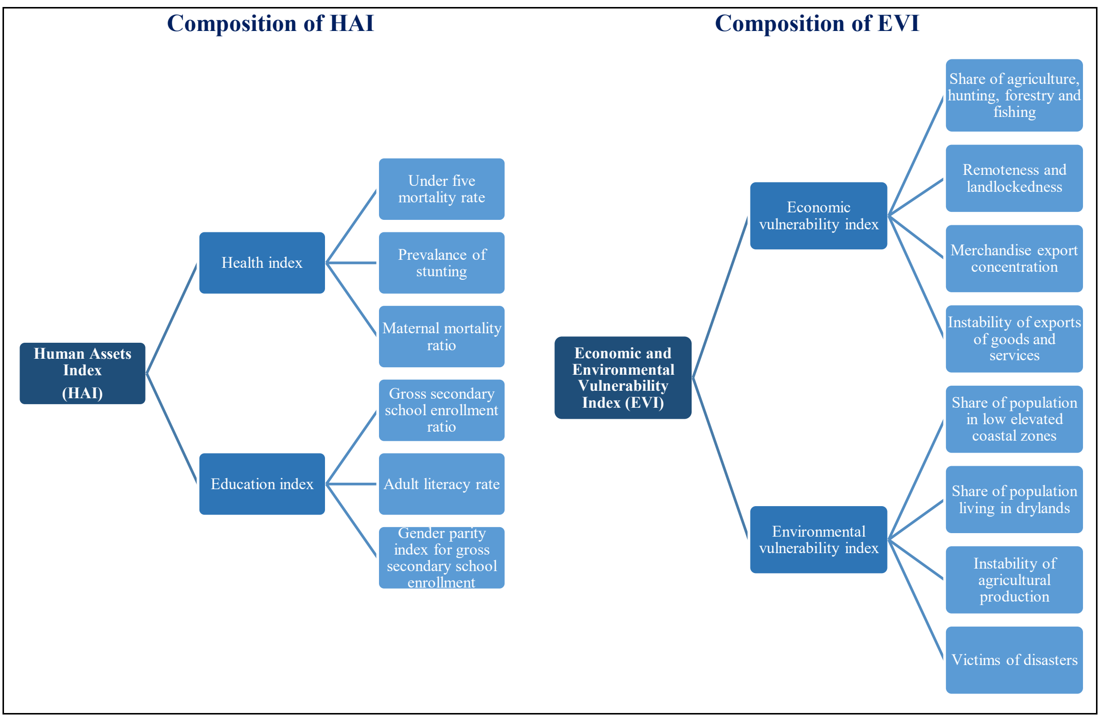
[2] To qualify from graduation from the LDC category, a country must meet the graduation thresholds at least two of three criteria or the per capita GNI is at least twice the amount of what the graduation threshold demands in two consecutive triennial reviews.

This policy paper is divided into six chapters. Chapter one provides the introductory snapshot with statement of the problem and objectives of the policy document. Nepal's status of graduation criteria comprising three main criteria (two of them index-based), four sub-indices along with various indicators is presented in Chapter two. Chapter three analyses the various sectoral and countries' aspects of Nepal's economic diplomacy. Chapter four focuses the potential implications of LDC graduation under three broad headings—external trade (both merchandise and service), Official Development Assistance (ODA), and Foreign Direct Investment (FDI). The experiences of five countries that have been graduated from the LDC category since its creation in 1971 are examined in Chapter five. Chapter six delivers the concluding remarks and offers recommendations.

Chapter 2
Nepal's Status of Graduation Criteria

The identification of LDCs is currently based on three criteria: income criterion, Human Assets Index (HAI), and Economic and Environmental Vulnerability Index (EVI). Based on these three criteria, the Committee for Development Policy (CDP)[3] is mandated to review the category of LDCs every three years. CDP is also the authority to monitor their progress after graduation from the category.

Figure 2.1: Composition of HAI and EVI under LDC criteria

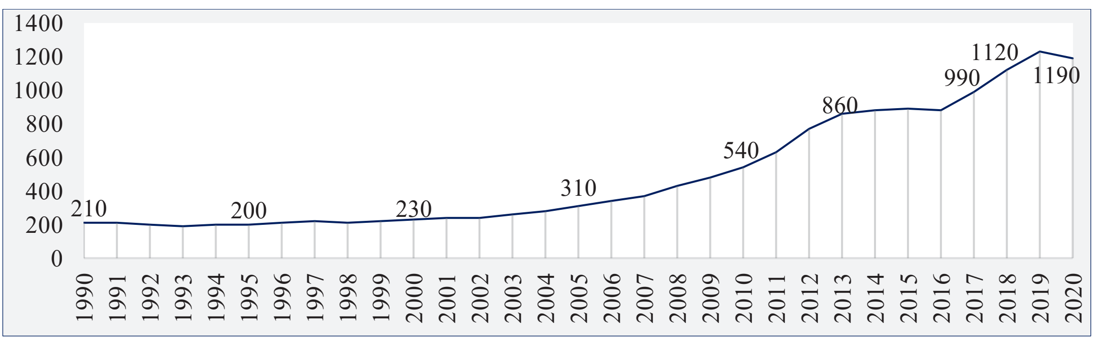


[3] CDP is a subsidiary body of the UN Economic and Social Council (ECOSOC).

2.1. Income criterion

In general, per capita income measures the state of material well-being. It also reflects productive capacity. Low per capita income is the consequence of structural impediments to economic development. The income criteria for LDC graduation is based on a three-year average GNI per capita in US$. The current threshold is US$ 1,222. The latest triennial review in 2021 shows that Nepal’s GNI per capita is still low at US$ 1,027. Nepal is only the country amongst all eligible countries that secured the graduation requirement without meeting the per capita threshold criteria. Nepal’s GNI per capita is increasing at slow pace. About a decade during the Shah regime from 1990 to 2000, the GDP of Nepal was almost stagnant. It started to increase only after the restoration of democracy in the country 1990. After 2016, it seems faster growth (Figure 2.2). The crisis of COVID-19 pandemic has badly affected the income of Nepalese people after 2019. The pandemic is impeding to meet the threshold.

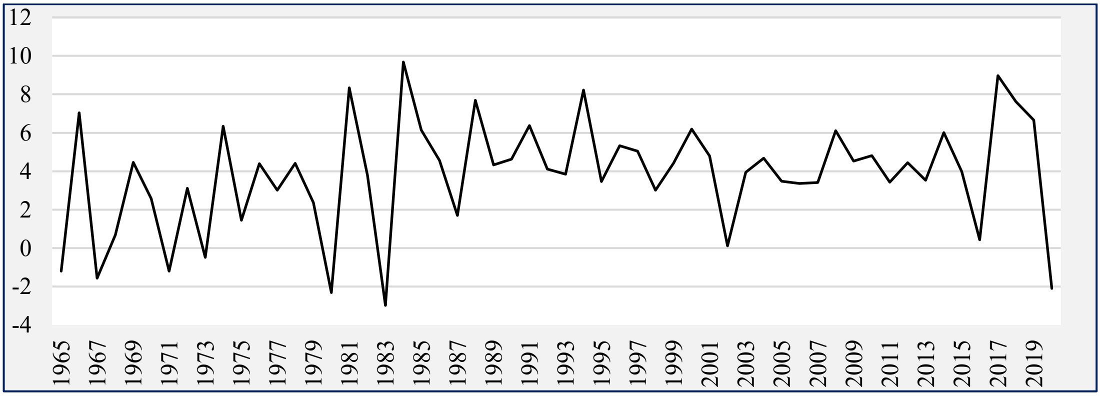
Figure 2.2: GNI per capita of Nepal (in US$)



Source: World Bank (https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=NP)

There has been slow growth of Nepal's GNI per capita over the years. During the period of five and half decade from 1965 to 2020, the average annual GDP growth rate was 3.8 percent.

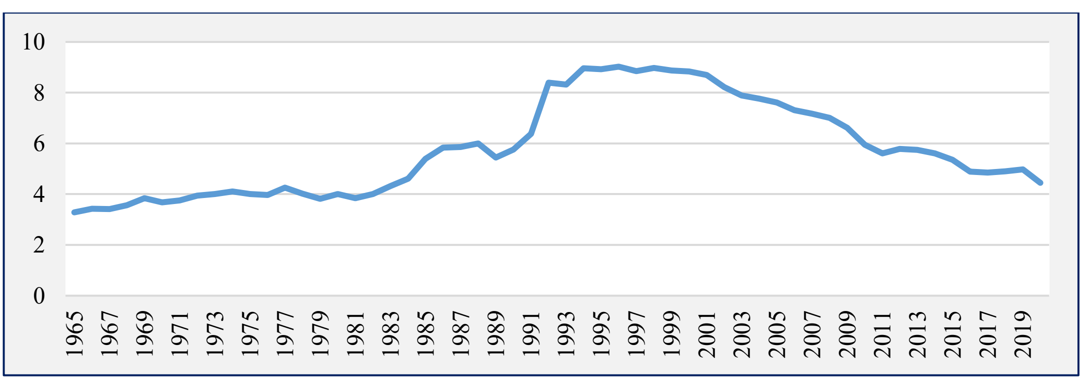
Figure 2.3: Trends of Nepal's GDP growth rate, 1965 – 2019



Source: World Bank,
https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NP

The slow pace of growth is largely linked with the underdevelopment of the manufacturing sector and minimum level of domestic employment generation. Share of manufacturing sector in GDP decreased from 8.9 percent in 1995 to 5.4 percent in 2015. It further decreased to 4.4 percent in 2020. The figure is the lowest among all Asian LDCs (Razzaque, 2020 and Figure 2.4).

Figure 2.4: Share of manufacturing sector in GDP, 1965 – 2019



Source: World Bank,
https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=NP

2.2. Human Assets Index (HAI)

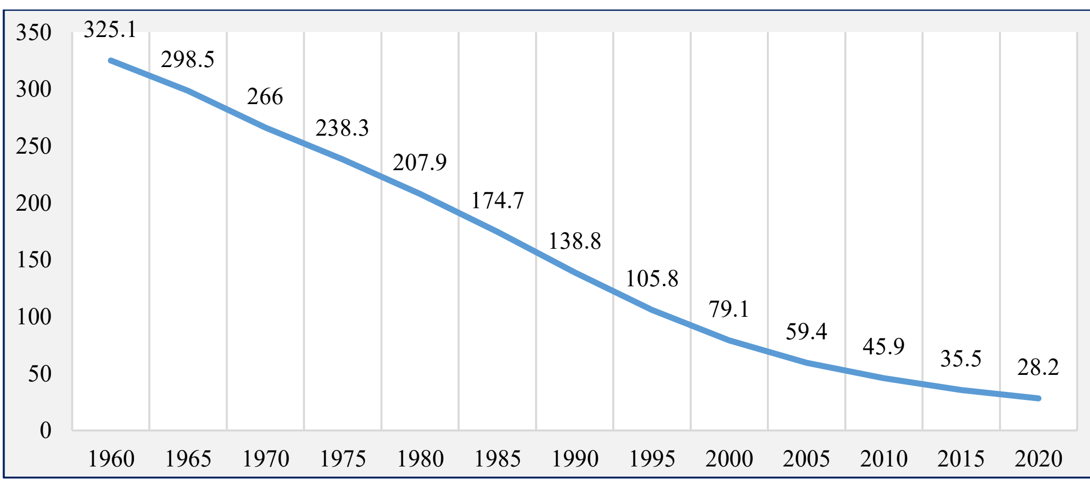
The graduation threshold of HAI is greater or equal to 66. CDP triennial review held in 2021 shows HAI of Nepal is 75. HAI involves a composite index of two sub-indices: health sub-index and education sub-index.

2.2.1. Health Index

Under health index, LDC graduation criteria include three indicators—under five mortality rate, prevalence of stunting, and maternal mortality ratio. All these three indicators of health index in Nepal are in improving trend.

Figure 2.5 presents that under five mortality rates in Nepal—the rate per 1,000 that a new born baby will die before reaching age five, if subject to age-specific mortality rates of the specified year. It is significantly declining.

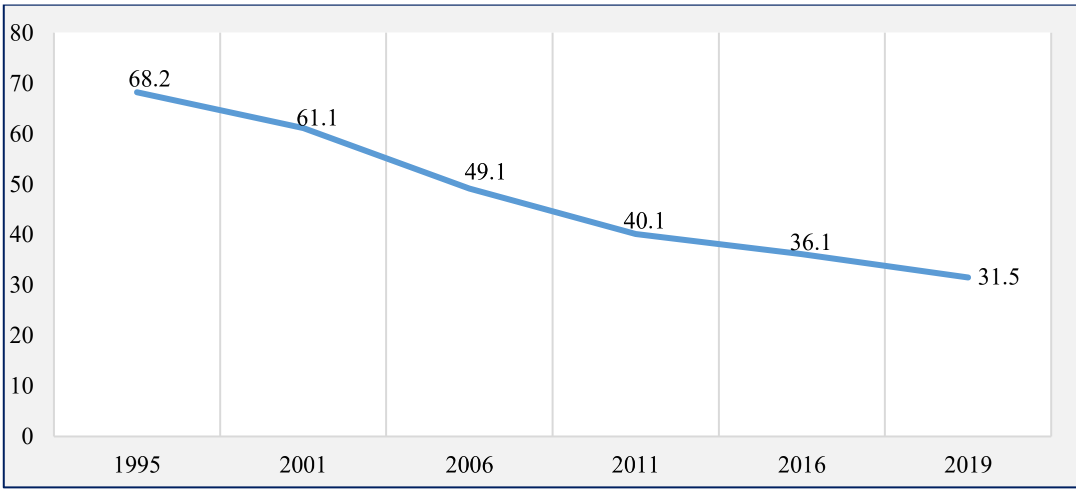
Figure 2.5: Under five mortality rate (per 1,000 live births)



Source: World Bank (https://data.worldbank.org/indicator/SH.DYN.MORT?locations=NP)

Figure 2.6 shows the prevalence of stunting in Nepal—the percentage of children under age 5 whose height for age is more than two standard deviations below the median for the international reference population ages 0-59 months. For children up to two years old height is measured by recumbent length. For the older children, height is measured by stature while standing. The data are based on the WHO's new child growth standards released in 2006. The prevalence of stunting has been continuously decreasing.

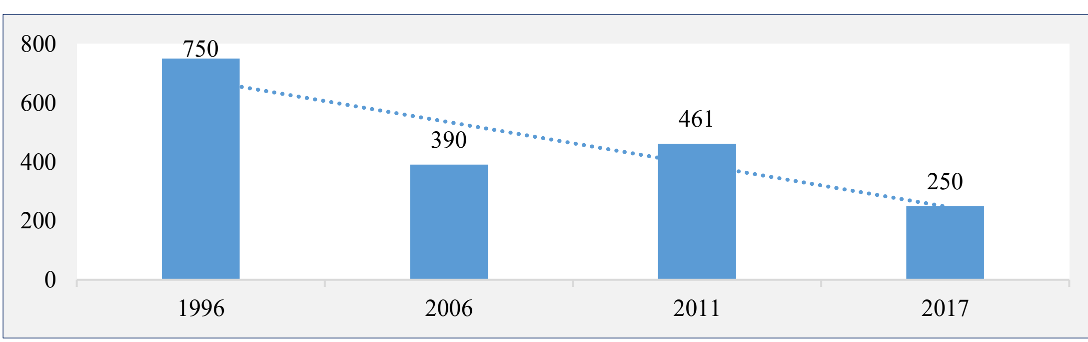
Figure 2.6: Prevalence of stunting



Source: World Bank (https://data.worldbank.org/indicator/SH.STA.STNT.ZS?locations=NP)

Figure 2.7 depicts the maternal mortality ratio per 100,000 live births in Nepal. Maternal mortality ratio is the number of women who die from pregnancy-related causes while pregnant or within 42 days of pregnancy termination per 100,000 live births. The ratio is gradually decreasing over the time.

Figure 2.7: Maternal mortality ratio (per 100,000 live birth)



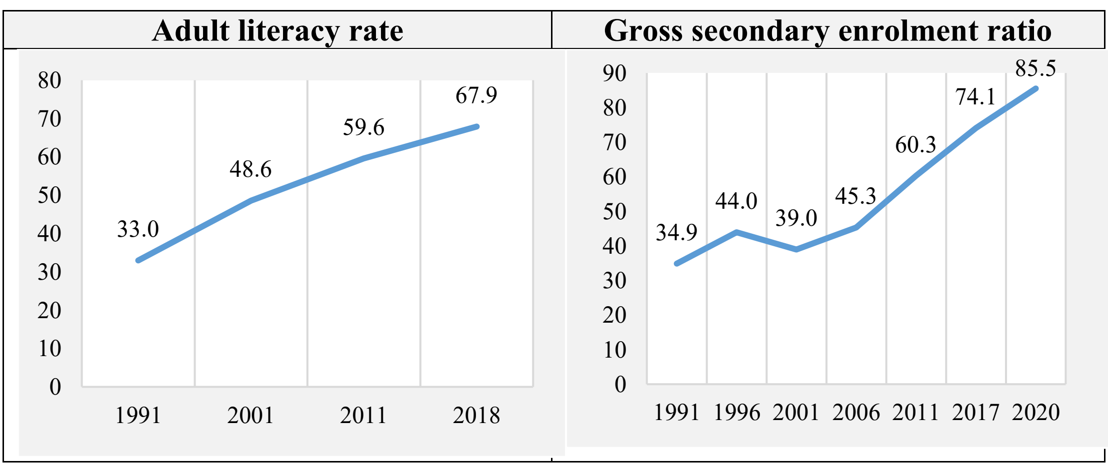
Source: World Bank (https://data.worldbank.org/indicator/SH.STA.MMRT.NE?locations=NP)

2.2.2. Education Index

Under education index, LDC graduation criteria include three indicators—gross secondary school enrolment ratio, adult literacy rate, and gender parity index for gross secondary school enrolment. Figure 2.8 presents the trends of adult literacy rate and gross secondary enrolment ratio. Adult literacy rate is the percentage of people ages 15 and above who can both read and write with understanding a short simple statement about their everyday life. It is persistently increasing—increased from 33 percent in 1990 to 68 percent in 2018.

Gross secondary enrolment ratio is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Secondary education completes the provision of basic education that began at the primary level, and aims at laying the foundations for lifelong learning and human development, by offering more subject or skill-oriented instruction using more specialized teachers. The ratio has been increasing significantly—increased from 32 percent in 1990 to 85 percent in 2020.

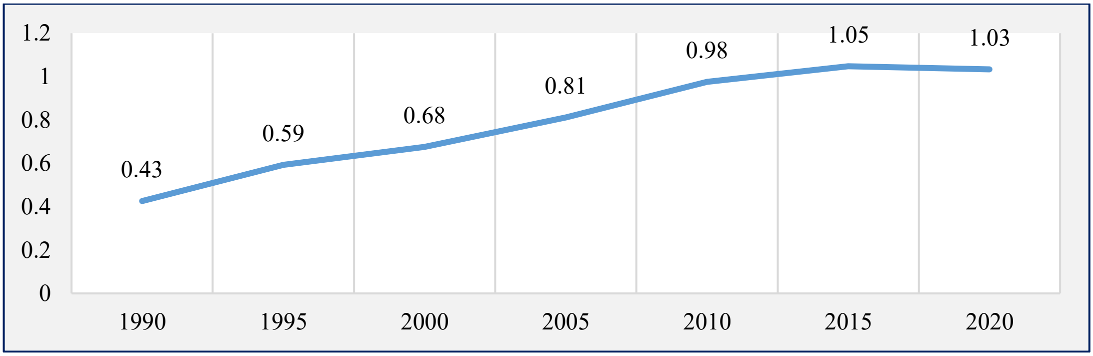
Figure 2.8: Adult literacy rate and gross secondary enrolment ratio



Source: World Bank (https://data.worldbank.org/indicator/SE.ADT.LITR.ZS?locations=NP & (https://data.worldbank.org/indicator/SE.SEC.ENRR?locations=NP)

Figure 2.9 depicts the gender parity index for gross enrolment ratio in secondary education. It is the ratio of girls to boys enrolled at secondary level in public and private schools. It is also positive sloped.

Figure 2.9: Trend of gender parity index for gross secondary education



Source: World Bank (https://data.worldbank.org/indicator/SE.ENR.SECO.FM.ZS?locations=NP)

2.3. Economic and Environmental Vulnerability Index (EVI)

The graduation threshold of EVI is below 32. CDP triennial review held in 2021 shows EVI of Nepal is 24.2. EVI involves a composite index of two sub-indices: economic vulnerability sub-index and environmental vulnerability sub-index. Under economic vulnerability sub-index, LDC graduation criteria includes four indicators—share of agriculture, hunting, forestry and fishing; remoteness and landlockedness; merchandise export concentration; and instability of exports of goods and services. Similarly, environmental vulnerability sub-index also includes four indicators—share of population in low elevated coastal zones, share of population living in drylands, instability of agricultural production, and victims of disasters. Out of these indicators, data is available for two indicators in the case of Nepal including share of agriculture, hunting, forestry and fishing, and merchandise export concentration.

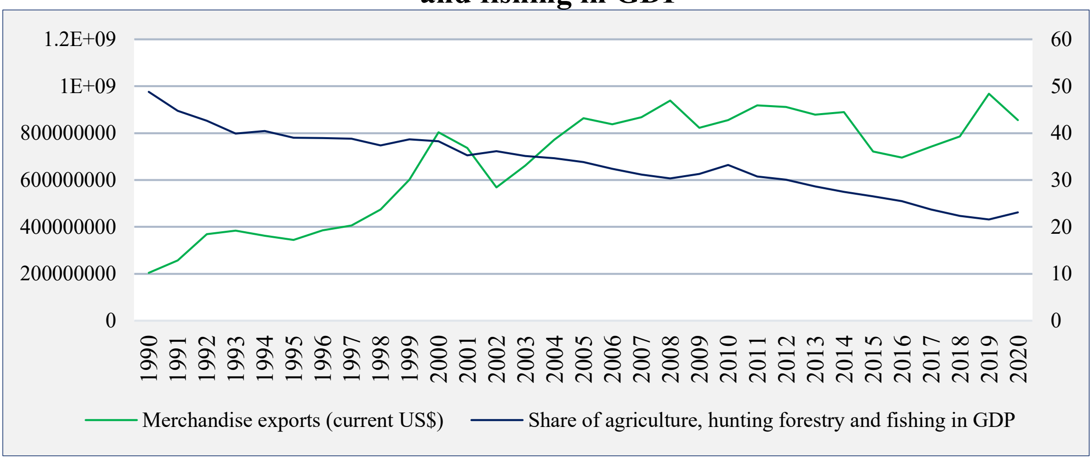
The CDP (2018) highlights that among various environmental risk indices, Nepal is environmentally most vulnerable countries in the world. Nepal's geographical location exposes it to extreme precipitation, seismic activities and landslides. Loss of lives and damage to property and infrastructural assets as a result of natural disasters are a regular phenomenon in the Nepalese economic and social landscape.

Like exposure to intense cyclonic frequency in insular regions, exposure to plate tectonics is an acute dimension of Nepal's vulnerability. The country straddles the fault line between two major tectonic plates, the Indian plate and the Eurasian plate, which push each other and displace the crust of the earth. This process periodically causes earthquakes, latest in 2015, when strain built up along the fault must give way.

Another serious natural menace is the flooding phenomenon. Nepal's water body consists of more than 6,000 rivers and rivulets with a total length of 45,000 km. They are critical for the irrigation of agriculture, and they also serve as a source of drinking water. However, in every monsoon season, rivers often overflow and cause severe damage to life and property.

In addition to monsoon floods, the country also faces two types of flooding threats that have become more recurrent with climate change: glacial lake outburst floods (GLOF); and the bishyari, which occurs when a landslide that blocked a river is breached by the reservoir of water which formed upstream of the blockage.

Figure 2.10: Trends of merchandise export and share of agriculture, forestry and fishing in GDP



Source: World Bank, (https://data.worldbank.org/indicator/TX.VAL.MRCH.CD.WT?locations=NP & (https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=NP)

Figure 2.10 shows that Nepal's merchandise export, placed in left vertical axis, is in increasing trend. The share of agriculture, forestry and fishing in GDP, demonstrated in right vertical axis, has negative trend. In 1990, the share was 49 percent which decreased to 23 percent in 2020.

2.4. Province-wide differences on LDC criteria

Nepal is a federal democratic republican state. The country is divided geographically into 7 provinces and 753 local governments including 6 metropolitan cities, 11 sub-metropolitan cities, 276 municipalities, and 460 rural municipalities.

Table 2.1: Nepal's status on the LDC criteria by province (CDP methodology)

Province	Income US$	HAI	EVI
Province 1	661	65.3	33.9
Madhehs	461	50.0	34.0
Bagmati	1,448	74.0	30.5
Gandaki	736	75.0	34.4
Lumbini	576	62.4	35.0
Karnali	428	58.0	39.6
Sudurpaschim	489	58.4	33.2
Nepal	**860**	**67.9**	**28.3**
Threshold	**1,222**	**Above 66**	**Below 32**

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme, 2020

At province level, only Bagmati province met all the criteria of LDC graduation. Out of seven provinces, four provinces—Province 1, Madhesh, Lumbini, Karnali, and Sudurpaschim are unable to meet at least one criteria. Hence, these provinces are more vulnerable in terms of production capacity, human development and other factors as well.

Chapter 3
Nepal's Economic Diplomacy

Nepal has bilateral relations 173 countries of the world. The country has been the part of 5 main regional affairs comprising South Asian Association for Regional Cooperation (SAARC); Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC); Bangladesh, Bhutan, India, Nepal (BBIN), Asia Cooperation Dialogue (ACD) and Shanghai Cooperation Organization (SCO). Currently 4 categories of Nepalese diplomatic missions are existing overseas—embassies, permanent missions, consulate generals, and honorary consuls. There are altogether 30 embassies, 3 permanent missions to the UN and other international organizations, 7 consulate generals, and 53 honorary consuls. Embassies are placed at Canberra in Australia, Manama in Bahrain, Dhaka in Bangladesh, Brussels in Belgium, Brasilia in Brazil, Ottawa in Canada, Beijing in China, Copenhagen in Denmark, Cairo in Egypt, Paris in France, Berlin in Germany, New Delhi in India, Tel Aviv in Israel, Tokyo in Japan, Seoul in Korea, Kuwait City in Kuwait, Kuala Lumpur in Malaysia, Yangon in Myanmar, Muscat in Oman, Islamabad in Pakistan, Doha in Qatar, Moscow in Russia, Riyadh in Saudi Arabia, Pretoria in South Africa, Colombo in Sri Lanka, Bangkok in Thailand, Abu Dhabi in United Arab Emirates, London in United Kingdom, Washington DC in USA, and Madrid in Spain. Permanent mission to the UN and other international organizations are located at New York in USA, Geneva in Switzerland, and Vienna in Austria. Consulate generals are situated at Kolkata in India, Hong Kong, New York in USA, Jeddah in Saudi Arabia, and Guangzhou, Chengdu, and Lhasa in China.

Dimensions of economic diplomacy are bilateral, multilateral, and regional. Its main goals are to improve economic and overall national security, mobilize resources for development, promote trade, explore markets from home and support businesses abroad, promote culture and tourism, attract FDI, promote foreign employment, increase the volume and effectiveness of aid, and mobilize diaspora resources. To meet these objectives, Nepal has adopted various policies, for instance, the Foreign Investment and Technology Transfer Act, Trade Policy, Tourism Policy, Civil Aviation Policy, and Privatization Policy. According to these policies, ministries, embassies, missions, and consulate generals have been carrying out different programmes and activities. A few programmes are guided by the government of Nepal, but each overseas entity may regulate the different programmes with the Nepalese diaspora and international communities to the best of Nepal's interests. These activities are the priority of the government of Nepal. These programmes are originated and regulated by the foreign ministry in Kathmandu or by Nepalese embassies, missions, and consulates generals.

Economic diplomacy is a vital part of Nepalese foreign affairs. It has been continuing since 1934, after the first formal establishment of foreign affairs in Tibet (Lhasa) and India (Patna). Programme-based diplomacy was started in the mid-1990s, including economic diplomacy (MoFA, 2022). Moreover, diplomacy for development became a new dimension of foreign policy after the restoration of the democracy in 1990. The economic diplomacy adapted by MoFA in 2021 is oriented towards contributing the national prosperity and economic development. The important economic diplomacy policies include to enhance development cooperation; promote FDI, export, and tourism; manage effective foreign employment; and utilize the knowledge, skills, capital, technology, network, and access of NRNs for the economic development of Nepal.

3.1. Need of effective economic diplomacy: sectors and countries

There are various sectors and countries in which sound and effective economic diplomacy is needed to realize the country's interest at optimum level. Healthy economic diplomacy induces economic prosperity and long-term economic development. However, in the case of Nepal, most of the indicators or components are not at a satisfactory level. FDI inflow, tourism, official development cooperation, networking, trade, foreign employment, and so on are important indicators of the economic diplomacy of any country. This section deals with the state of few major sectors.

3.1.1. Foreign investment

Investment Board Nepal is particularly responsible to look after the large projects. The Department of Industry deals with relatively small and medium projects. Table 3.1 shows that as of mid-March of fiscal year 2020/21, total foreign investment of NPR 368.7 billion has been approved from the Investment Board Nepal and the Department of Industry for altogether 5,213 projects. It is estimated that FDI of the Department of Industry will be contributing to the generation of an estimated 272,791 employment. In terms of country, investment of China stands with the highest followed by India and others.

Table 3.1: Foreign direct investment by country under Department of Industry from beginning to till mid-March of FY 2020/21)

S. N.	Country	Number	Foreign Investment (NPR in 10 million)	Proposed Employment
1.	China	1,839	16,758	85,694
2.	India	802	9,817	73,464
3.	United Kingdom	205	1,864	13,455
4.	USA	422	1,487	18,848
5.	South Korea	360	1,273	11,954
6.	Singapore	53	622	3,553
7.	UAE	23	376	1,877
8.	Mauritius	11	343	1,055
9.	Canada	47	334	2,478
10.	Japan	275	323	10,419
11.	Others	1,144	2,585	49,994
	Total	**5,181**	**35,781**	**272,791**
12.	**By Investment Board Nepal**	**32**	**1,089**	**NA**
	Grand total	**5,213**	**36,870**	**NA**

Source: Economic Survey 2020/21, Ministry of Finance, Government of Nepal, 2021

Nepal has huge potential for FDI in hydropower, tourism, industry, and manufacturing. However, FDI inflow is minuscule. Although continuous efforts have been made by the Government of Nepal to increase FDI in the country, the situation has not been encouraging. It could be hoped that after graduation, the confidence level of the foreign investors will be positive towards investment in Nepal and the situation might change. Hence, sound and effective economic diplomacy could contribute in attracting FDI.

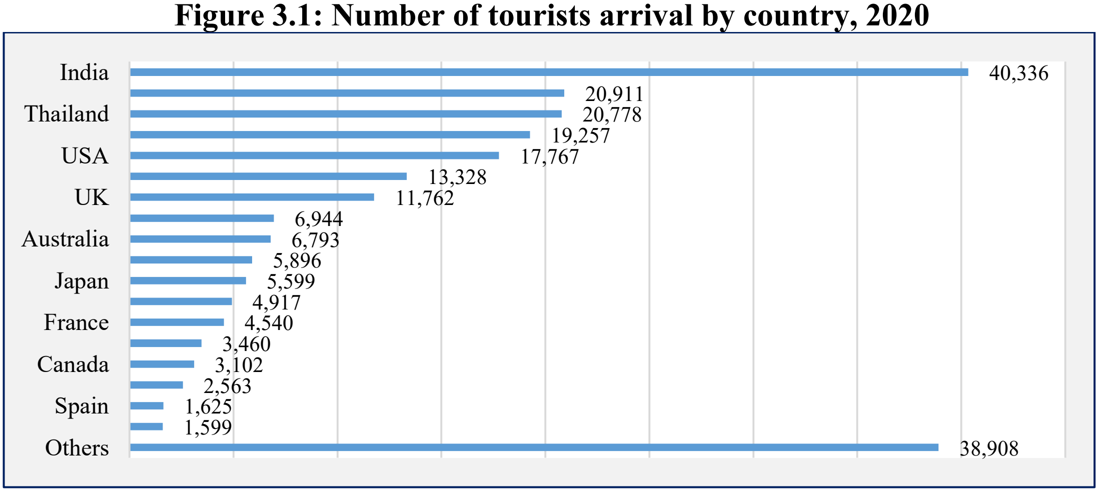
3.1.2. Tourism

Tourism is one of the potential sectors of the economic development of Nepal. Nepal is witnessing different policies and master pla ns to boost tourism development after the death of the Rana regime. Different ministries, high-level bodies, and councils of the government of Nepal have been giving efforts to boost tourism development through the announcement of various programmes, for instance, visit Nepal year, Nepal tourism year 2020, and other activities. However, the campaign of the Nepal tourism year 2020 was cancelled due to the risk of the worldwide COVID-19 pandemic. The government also adopted a public-private partnership approach in the tourism sector through the tourism board of Nepal (MoCTCA, 2022).

Nepal has high possibility to become a major tourist destination in the world due to its pleasant nature as well as historical, religious and cultural heritage. International tourism, induced by Nepal's economic diplomacy, is important to add external resources into our domestic existing resources. However, internal tourism only exchanges the resource within the domestic territory. The economic gain from tourism is not so appreciable concerning its possibilities. Nepal has the highest plausibility to host a large number of tourists at the different tourist bases: historical, religious, recreational, and cultural heritage.

By country, India is the leading country that contributed 17.5 percent of tourists, followed by Myanmar (9.1 percent), Thailand (9.0 percent), China (8.4 percent), and the USA (7.7 percent) in 2020. In 2020, 60.5 percent of tourists came to Nepal for recreation, 15.6 percent for religious reasons, and 12.4 percent for tracking and mountaineering. The airway is the top m edium of tourist arrival in Nepal. Moreover, the major destination for tourists is Lumbini (MoF, 2021 and Table 3.1).

Figure 3.1: Number of tourists arrival by country, 2020



Source: Economic Survey 2020/21, Ministry of Finance, Government of Nepal, 2021

For a few decades, saints, philosophers, botanists, and archaeologists from around the globe preferred Nepal. This is another dimension of Tourism in Nepal. Nepal is becoming the best destination for health tourism. Meditation, yoga, wellness and ayurveda centres are the major pillars of health tourism (Khanal and Shimizu, 2019). The centres need to be established by following the Public-Private Partnership (PPP). Foreign investment could also be attracted. It will increase the number of tourists as well as length of their stay.

3.1.3. Foreign employment

Migration for foreign employment has been a major source of income for many Nepali households since 2002. The Government of Nepal has officially opened 110 countries for foreign employment on institutional basis. But the government has approved 172 countries for foreign employment if Nepalese acquire work permits on an individual basis (MoF, 2021). Table 3.2 shows that around 4.5 million Nepalese are currently employed abroad—most of them in Qatar, Malaysia, Saudi Arabia, UAE and Kuwait. Out of them, 74.5, 24.0 and 1.5 percent are unskilled, semi-skilled and skilled respectively. Moreover, the size of Nepali labour migrants in India, of course, is fairly large. It is also the case that such labours fulfil a significant portion of subsistence requirements from labour migration. The COVID19 pandemic has a massive negative impact on foreign employment and remittance.

Table 3.2: Number and percentage of laborers in foreign employment with work permit till mid-March 2021

S. N.	Country	Total	%	Disaggregated by gender	
				Male	Female
1.	Qatar	1,205,098	27.0	1,186,933	18,165
2.	Malaysia	1,258,629	28.2	1,231,177	27,452
3.	Saudi Arabia	934,411	20.9	926,727	7,684
4.	UAE	635,792	14.2	573,389	62,403
5.	Kuwait	149,180	3.3	106,777	42,403
6.	Bahrain	56,175	1.3	51,520	4,655
7.	Oman	37,597	0.8	31,852	5,745

8.	South Korea	38,774	0.9	36,742	2,032
9.	Lebanan	12,758	0.3	1,217	11,541
10.	Israel	6,714	0.2	2,292	4,422
11.	Afghanistan	13,990	0.3	13,935	55
12.	Japan	20,051	0.4	18,878	1,173
13.	Others	97,804	2.2	67,108	30,696
	Total	**4,466,973**	**100.0**	**4,248,547**	**218,426**

Source: Economic Survey 2020/21, Ministry of Finance, Government of Nepal, 2021

The contribution of remittance as a percentage of GDP increased from 2.4 percent in 2001 to 21.6 percent in 2010 and further increased to 29.5 percent in the fiscal year 2015/16. However, it decreased to 22.3 percent in 2020/21 due to the worldwide crisis of COVID-19 pandemic (CBS, 2021). Remittance inflow in Nepal is not affable to domestic investment but has tendencies towards consumption. Hence, Nepal is lacking in utilizing remittances in productive sectors.

The Foreign Employment Board, Government of Nepal has made an agreement with the Social Security Organization of Malaysia with a view to make foreign employment safe, dignified and productive and to link the Nepalese worker in Malaysia with social security programme of Malaysian government. Similarly, the Directive on Sending Nepali Care Givers to Israel, 2021 has been implemented with the objective of making the process of sending support workers to long-term care centres in Israel systematic and transparent Recently, the Foreign Employment Board is active in order to carry out welfare programmes targeting Nepali migrant workers who have gone for foreign employment and for their families (MoF, 2021).

3.1.4. Foreign trade

Foreign trade is another important sector in the economic diplomacy of Nepal. Historically, Nepal relies on import-based trading. In the comparison of exports, Nepal imports almost all commodities except mainly a few primary commodities, pashmina, leather items, tea, and other herbal items (MoF, 2021). Nepal's trading system is going on in the following ways: bidirectional, regional, multilateral, and regional. Nepal maintains special trade relations with China and India. European Union and Nepal have special trade preferences and quotas as being LDCs. As a bilateral approach, Australia has provided a special schema to boost Nepal's exports. Nepal gets access to the Bay of Bengal, East Asian and all South Asian economies through BIMSTEC and SAARC agreements. Aside from these, Nepal only exports 2.5 percent of GDP and has a trade deficit of 30 percent of GDP (MoF, 2021). It shows that Nepal's commodities are not competitive across the globe. It has also shown that Nepal's trade diplomacy is somewhat opaque when it comes to boosting its exports.

Table 3.3 shows that almost all major countries in which sound and effective economic diplomacy is needed have Nepalese embassy. However, due to the problems like the lack of proper institutional setup, and specialized human and financial resources and its optimum utilization, visible output has not been observed towards almost all the components of economic diplomacy including attracting FDI and tourists; effective management of foreign employment and remittances; enhancing development cooperation; and utilize the special and differential treatment in foreign trade.

Table 3.3: Top five countries in which sound and effective economic diplomacy needed from Nepal by major component

S. N.	Component of economic diplomacy	Countries
1.	Export destination	India, USA, Germany, Turkey, China
2.	Source countries of import	India, China, Indonesia, USA, Canada
3.	Foreign investors in terms of FDI	China (Mainland), India, China (Hong Kong SAR), USA, South Korea
4.	Tourist source countries	India, China, USA, UK, and Russia
5.	Bilateral development partners providing ODA	US, UK, China, India, and Japan
6.	Destinations for overseas employment	Qatar, Saudi Arabia, UAE, Bahrain, and Oman/other Gulf

Source: Report on Nepal's Foreign Affairs (2020-21), Ministry of Foreign Affairs, Government of Nepal.

3.2. Sectoral reform agenda

Lack of networking, inter and intra-ministerial coordination, specialized human resources and adequate budget are significant challenges of Nepalese economic diplomacy. Moreover, challenges are also associated with programme selection and implementation, budget distribution, selection of diplomates and consolers, and other officials. Hence reforms are required at institutional, human resource, coordination, and financial management levels.

3.2.1. Institutional reform

Well-structured institutional set up is vital for an effective economic diplomacy. Looking at the institutional mechanism of the Government of Nepal at the Ministry of Foreign Affairs and at the permanent missions abroad, it lacks specific departments and sections related to the proper and effective management of economic diplomacy.

The Institute of Foreign Affairs (IFA) has been established as a think tank of the Government of Nepal to conduct the research studies and provide the strategic suggestions to the government related to the economic diplomacy. The institute has also been responsible to organize seminars, workshops, meetings and conferences and brining out relevant publications. Founded as an integral part of the Ministry of Foreign Affairs in 1993, it got reconstituted as a semi-autonomous body in the year 2012. IFA works collaboratively with its government and non-government partner organizations both inside the country and abroad.

A Policy, Planning, Development Diplomacy and Nepali Diaspora Section at the Ministry of Foreign Affairs has been established. It seems much generalized nature of responsibilities and include wide range of themes. No specialized departments or sections are established at the diplomatic missions abroad including embassies, permanent missions, consulate generals, and honorary consuls. An economic section has been at place in most of the embassies.

3.2.2. Human resource reform

Nepal’s foreign diplomacy has been passing through a mixed nature of human resource management. Nepalese embassies, missions, and general consulates are home to both Nepalese and local recruitment. Local recruitment is sine qua non because they are a bridge between Nepalese diplomats and their governments, investors, and other stakeholders. They facilitate and manage the various programmes that support the priorities of the government of Nepal.

The foreign affairs services in the Government of Nepal comprise interdisciplinary human resources. No specialized stream of human resources is recruited by the government. Hence, there has been the lack of human resources from economic diplomacy discipline academically. They are only provided some short-term training on the subject. Hence, their level of expertise does not allow them to make the economic diplomacy aspects effective and sound. Hence, MoFA should develop a disaggregated recruitment plan for the ministry as well as the diplomatic mission abroad and submit demand accordingly to the Public Service Commission. Onboarding training to the new employees, on-job and refresher training courses should be provided to the employees on regular basis. Alternatively, expert services could be taken in various countries locally. It could either be a short-term contact or fixed- term contract agreements.

3.2.3. Financial reform

Various institutions associated with Nepal’s economic diplomacy including diplomatic and permanent missions abroad, IFA, and so on have been facing the challenges related to financial management both in terms of budgetary church and its proper utilization. IFA is significantly under-financed to meet the organization's mission, goal and objectives.

The Ministry of Foreign Affairs organizes the various tourism and investment promotion programmes through its embassies, missions, general consulates, the Nepalese diaspora, and the ministries of culture, tourism, and civil aviation. During the high-level visit abroad, FDI, trade, tourism, and connectivity have been becoming the pivotal agendas between Nepalese delegations with their counterparties. For instance, during a presidential visit to Bangladesh in March 2021, both governments signed various agreements: mainly tourism and transit routes (MoFA, 2021). It will increase the connectivity between the mountain economy and the blue economy. To make all these efforts successful, it requires sufficient financial resources in foreign currency. Hence, the GoN need to increase the budget of these institutions and the institutions need to prioritize its activities and develop an action plan for the optimum allocation of available resources.

3.2.4. Stakeholders’ participation

Regarding the actions and activities related to the economic diplomacy, MoFA and diplomatic missions primarily work in collaboration with various diaspora including the government, non-government and private sector institutions of Nepal; and various similar organization abroad. In such programmes, the participation of international delegations has been low historically. Hence, motivational activities need to be organized to make their active participation. IFA in coordination with MoFA need to be focus on that part. The activities should focus on participation of private investors with their investment plan in Nepal.

The Non-Resident Nepali Association (NRNA) and the Nepal Association of Foreign Employment Agencies (NAFEA) are the two key organizations playing an important role in enhancing economic diplomacy of Nepal with many countries across the globe. NRNA, established in 2003, has been helping in establishing G2G (Government-to-Government) and B2B (Business-to-Business) relationships. The NRNA has been promoting foreign employment. The NRNA has been actively organizing public awareness programmes like social security and other provisions regarding foreign employment as well as the prospects and challenges while working abroad.

Chapter 4
Potential Implications of LDC Graduation

Economic diplomacy is an important aspect in realizing the national interest through the exploitation of country's comparative advantage. Sound and effective economic diplomacy is necessary condition for the prosperity of a country. Nepalese economy is highly integrated with the global economy in terms of foreign employment, official development assistance, international trade and tourism, and foreign direct investments including bi-lateral and multilateral. Against this backdrop, economic diplomacy has become an indispensable instrument to sustain the country's post LDC graduation era. Nepal's potentiality to engage in economic diplomacy can be facilitated by leveraging on its abundant natural resource base, rich biodiversity and cultural heritage.

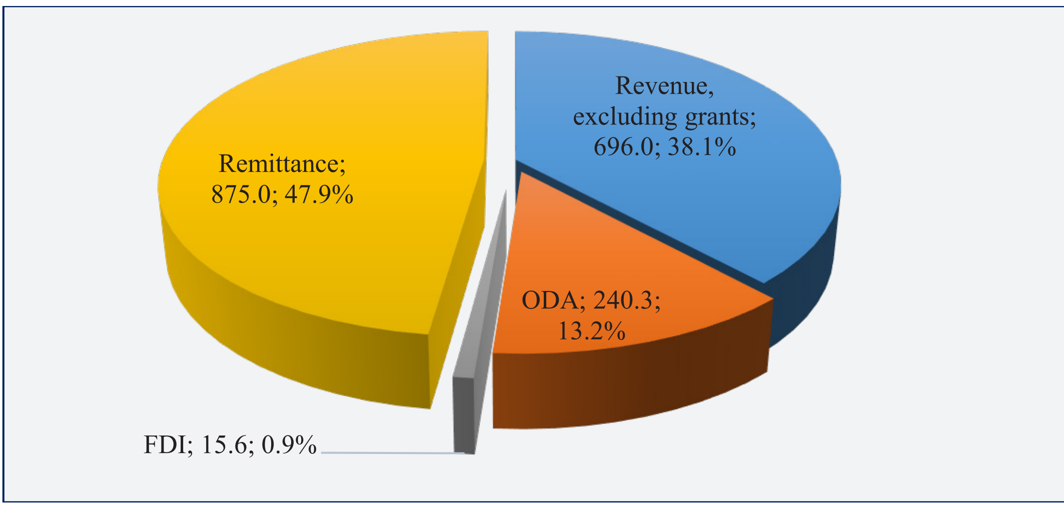
In the globalized world of today, the entire globe has become a family. Each individual has to become integrated into the global market. The largest portion of Nepalese families are integrated into the global economy through three major channels—foreign employment, official development assistance, and international trade.

There are different multilateral and international agreements at both the global and regional levels in dealing greater flow of capital, goods and services, human resources and technology. At the multilateral level, the World Trade Organization (WTO), United Nations Convention on Law of the Sea (UNCLOS), Paris Agreement on Climate Change, etc. are the major agreements. At the regional level, South Asian Association for Regional Cooperation (SAARC)/South Asia Free Trade Area (SAFTA) and Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC), the Bangladesh, Bhutan, India, Nepal (BBIN) Initiative are the regional agreements prevailing in South Asian region. Nepal has the opportunity to utilize these institutions and agreements in maximizing exports and develop its various sectors of comparative advantages comprising tourism, hydroelectricity and other various products identified by Nepal Trade Integration Strategy 2016 through effective and sound economic diplomacy.

A country raises revenue from both internal and external sources for financing its development works. Major internal sources of funding include tax and non-tax revenues. External sources particularly comprise Official Development Assistance (ODA), Foreign Direct Investment (FDI) and remittance income.

Figure 4.1 shows that remittance income is the leading source and plays an important role in the development finance of Nepal. It covers 48 percent in total financing in 2020. Internal revenue mobilization stands at second layer followed by ODA at third layer. FDI has negligible contribution in financing of Nepalese economy.

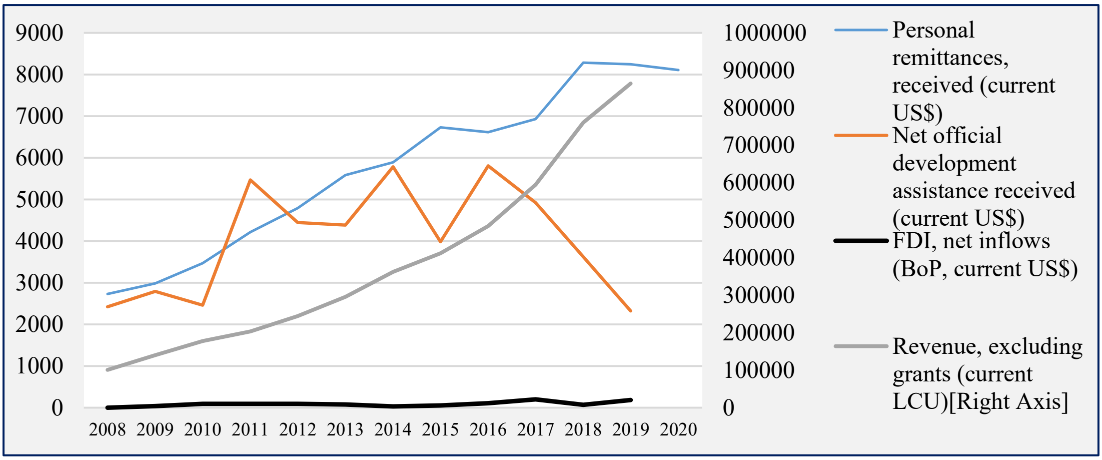
Figure 4.1: Sources of financing, 2020 (in billion NPR)



Source: Economic Survey, 2020/021 & Development Cooperation Report 2020, Ministry of Finance, Government of Nepal

Figure 4.2 depicts those personal remittances as well as internal revenue have continuously been increasing over the time. Conversely, the contribution of ODA has been decreasing. The contribution of FDI in development finance of Nepal is less than 1 percent. It is stagnant over the time.

Figure 4.2: Sources of financing (in million NPR)



Source: World Bank Open Data, 2020

Being an LDC, Nepal has been enjoying special and differential treatments (S&DT) mainly in international trade; special attention and commitments to official development assistance; various concessions; longer transitional periods; and technical assistance. After graduation, Nepal would not be eligible for the LDC-specific privileges. Consequently, the implications could broadly arise from—(i) preference erosion in international trade potentially affecting export competitiveness, (ii) reduced policy space, tightening the scope of supporting exporters and domestic market-oriented industries; and (iii) unfavourable impact on the prospects for development financing.

4.1. Foreign trade

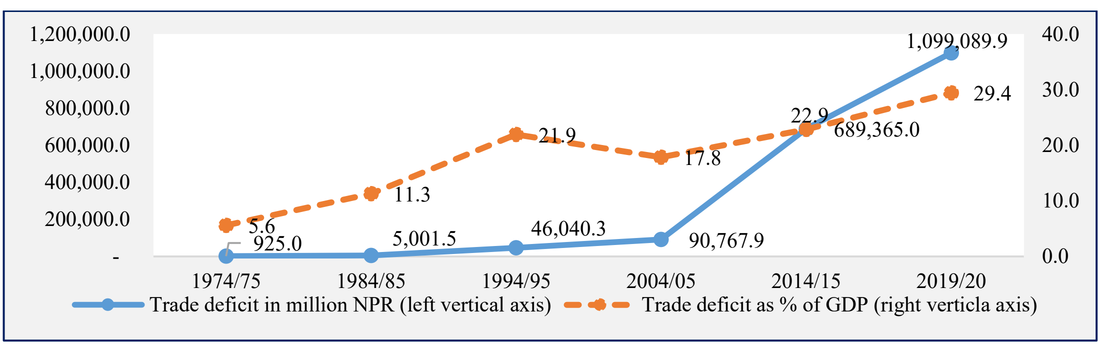
Trade is an important driver of economic growth. Nepal became the member of WTO in 2004 to get the privileges as per the provisions of the organization. Nepal's Trade Policy 2015, has the vision to achieve economic prosperity by enhancing the contribution of trade sector to national economy through export promotion, The policy has the goal to achieve inclusive and sustainable economic growth through export promotion. It has the objectives (i) to strengthen supply-side capacity, and minimize trade deficit by increasing exports of value-added competitive products and services in the world market; and (ii) to enhance access of goods, services and intellectual property to regional and world market (MoICS, 2015).

4.1.1. Nepal's trade performance

Over the years, Nepal has taken series of initiatives to promote exports as well as the country has also been provided various export incentives by foreign countries (Annex 1). However, it is almost stagnant. On the other side, import has continuously been increasing. Consequently, the growing level of trade deficit has become an alarming indicator of Nepalese economy. Figure 4.3 shows that trade deficit increased from NPR 925 million in 1974/75 to NPR 1,099 billion in 2019/20, i.e., from 5.6 percent of GDP to 29.4 percent of GDP.

Nepal has been facing a wide increasing trade deficit due to various reasons including poor infrastructure, human resources and institutional setup for the development of manufacturing sector; low foreign direct investment due to weak economic diplomacy; less diversification both in terms of products and countries; high remittance-based consumption of imported goods; weak quality of testing, authentication, labelling, and packing; slow pace in the implementation of Special Economic Zones; and so on.

Figure 4.3: Nepal's trade deficit in million NPR and as percentage of GDP



Source: Quarterly Economic Bulletin, Vol. 55, Mid-July 2021, Number 4, Nepal Rastra Bank, 2021
Economic Survey, Various Years, Ministry of Finance, Government of Nepal, 2021

Agriculture plays a dominant role in Nepal's economy with 60.4 percent of the population employed in this sector (Nepal Labour Force Survey, 2018, CBS)). The sector's contribution of agriculture to the economy is also highlighted by the fact that agriculture contributed 26.2 percent to the GDP in 2019/20 (Economic Survey 2020/21, MoF). However, Nepal has been unable to produce enough food to meet the domestic demand using domestic produce. Therefore, it has had to rely heavily on imports for even essentials such as cereals. Figure 3.3 and Table 4.1 show that trade deficit in agriculture is 15.7 percent of total trade deficit in 2019/20, i.e., NPR

172,935.7 million trade deficit in agriculture out of NPR 1,099,089.9 million total trade deficit.

Table 4.1: Exports, imports and trade deficit of agricultural products by major commodity groups, 2019/20

In million NPR

S. N.	Commodity groups	Exports	Imports	Trade deficit
1.	Food and live animal	16,878.8	166,028.8	149,150.0
2.	Animal and vegetable oil and fats	31,196.9	49,342.9	18,146.0
3.	Other agricultural products	109.70	5,749.40	5,639.7
	Total agricultural commodities	**48,185.4**	**221,121.1**	**172,935.7**

Source: Quarterly Economic Bulletin, Vol. 55, Mid-July 2021, Number 4, Nepal Rastra Bank, 2021. Statistical Information on Nepalese Agriculture, 2019/20, Ministry of Agriculture Development, Government of Nepal, 2021.

MoC (2016) has generated Nepal's third generation trade integration strategy—Nepal Trade Integration Strategy (NTIS) 2016. NTIS recognizes potentials for product and value chain development in the following priority export sectors: (i) agro and forest products (cardamom; ginger; tea; and medicinal & aromatic plants); (ii) craft and manufacturing products (all fabrics, textile, yarn and rope; leather; footwear; chyangra pashmina; and, knotted carpets); and (iii) services (skilled and semi-skilled professionals at various categories; Information Technology and Business Process Outsourcing (IT & BPO); and tourism-leisure, business, education, medical). Fruits and vegetables, all fabricated steel and metals, lentils, silver jewelry, instant noodles, paper products, wool products, honey, readymade garments, coffee, semi-precious stones, and hydro-electricity have also been identified as potential sectors.

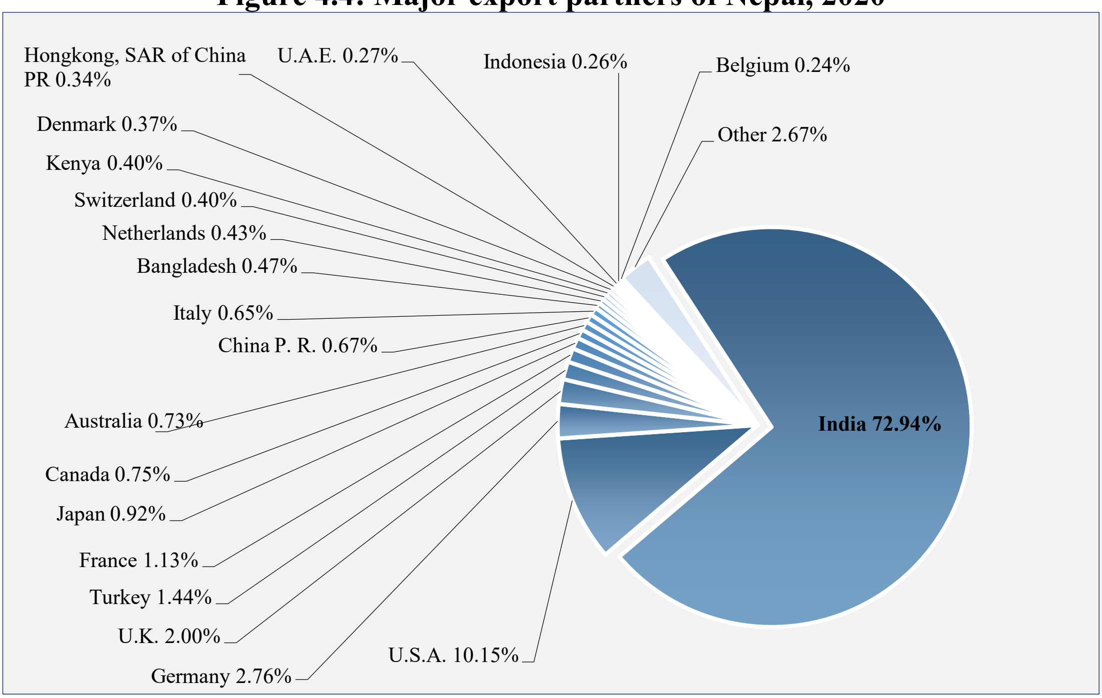
NTIS focuses on identifying key actions to be addressed for trade promotion including (i) institutional capacity building for trade, including capacity for trade negotiations; (ii) business environment for investment and trade; (iii) trade and transport facilitation; (iv) standards and technical regulations; (v) sanitary and phyto-sanitary measures; (vi) intellectual property rights, and (vii) issues related to trade in services.

Nepal's export trade: partners and commodities

Nepal's unutilised export is almost two-thirds of its potential in different destination countries, i.e., the realized exports is less than one-third of the potential. The largest difference between actual and predicted exports is with India, the largest destination market. More than 50 percent of the potential is unexploited in India. Nepal is exploiting only 17 percent of its potential in China, only 6 percent in Bangladesh, 52 percent in Germany, 57 percent in Turkey, 35 percent in Italy and 62 percent in the United States. These are the countries where Nepal also gets preferential market access as an LDC (Razzaque, 2020).

Nepal's total export was NPR 101,333 million in 2020, i.e., 2.5 percent of GDP (MoF, 2020). Nepal's major export partners include India in South Asia; USA, UK, Italy, France, Germany, and Canada from western countries; Japan and China from other Asian countries and Turkey from the Middle East (Annex 2 to 22). India is the largest export partner of Nepal. Figure 4.4 shows that it occupied around 73 percent share in total export of Nepal in 2020—worth of NPR 73,910 million. This is followed by the United States of America (10.1 percent), Germany (2.8 percent), United Kingdom (2 percent), Turkey (1.4 percent), and so on. Other major export partners of Nepal are: Australia, Italy, Bangladesh, Netherlands, Switzerland, Kenya, Denmark, Hong Kong, U.A.E.., Indonesia, and Belgium.

Figure 4.4: Major export partners of Nepal, 2020



Source: Trade and Export Promotion Centre, Government of Nepal.

Table 4.2 presents 12 categories of major products of Nepal exported to various destinations in 2020. These products shared 56.2 percent of total exports. Only soybean oil shared 24.1 percent of total exports. Soybean oil, palm oil, big cardamom, fermented black tea, and woven fabric of jute are exported only to India. These products occupied 41 percent of total export of Nepal in 2020.

Table 4.2: 12 major export products of Nepal, 2020

S. N.	Product	Export (in million)	% of total export	Destination
	Total export	**101,333.14**	**100.0**	
1.	Soybean oil	24431.66	24.11	India
2.	Palm oil	5,385.89	5.32	
3.	Big Cardamom (Alaichi), neither crushed nor ground	5,011.94	4.95	
4.	Black tea fermented	3,513.21	3.47	
5.	Woven fabric of jute	3,117.07	3.08	
6.	Carpet, knotted of wool or fine animal hair	5787.78	5.71	USA (56.92%), Germany (11.58%), UK (8.29%), Italy (5.35%), France (3.38%), Canada (2.84%), China (2.59%), Switzerland (2.53%), Netherland (0.69%), Denmark (0.15%), Hong Kong (0.27%), Turkey (0.19%), Japan (0.30%), Australia (1.98%), UAE (0.22%), Belgium (2.71%)
7.	Felt	1974.47	1.95	USA (69.06%), Canada (4.45%), Germany (11.16%), UK (7.40%), Turkey (0.06%), France (3.76%), Japan (2.61%), China (1.41%), Italy (0.10%)
8.	Dog or cat food	1446.5	1.43	USA (88.18%), Canada (7.99%), UK (1.04%), Japan (1.67%), Netherland (0.62%), Hong Kong (0.37%), UAE (0.12%)
9.	Woollen shawls, scarves, mufflers, mantillas, veils and the like	1,731.27	1.71	USA (12.87%), Germany (35.51%), UK (14.06%), France (11.47%), Switzerland (8.38%), Japan (3.52%), Italy (3.16%), Netherland (3.63%), Australia (0.68%), Canada (1.76%), China (0.93%), Denmark (2.69%),

				Hong Kong (0.16%), UAE (0.24%), Belgium (0.93%)
10.	W&G cotton trousers, bibs and brace overalls, breeches and short	642.602	0.63	USA (31.17%), Germany (16.60%), UK (20.10%), France (6.56%), Japan (8.71%), Australia (7.78%), Italy (6.60%), Netherland (1.23%), Switzerland (0.44%), Denmark (0.21%), UAE (0.61%)
11.	Single yarn, containing 85% or more by weight of polyester staple fibers	1994.074	1.97	India (92.41%), Turkey (7.59%)
12.	Yarn of polyester staple fibres, mixed mainly or solely with artificial staple fibres	1929.67	1.90	Turkey (59.39%), India (40.61%)
	Total (1 to 12)	**56,966.14**	**56.22**	
	Total export	**101,333.14**	**100.0**	

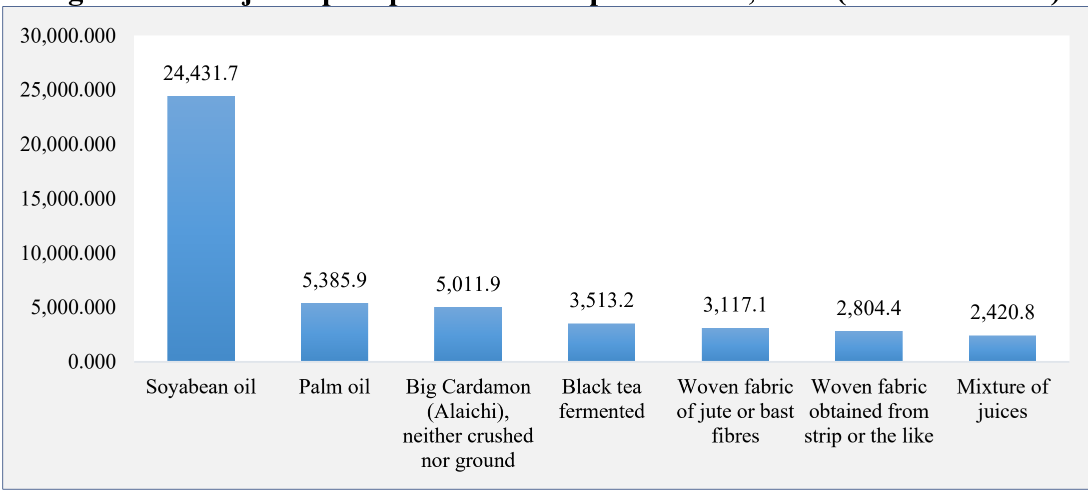
Source: Trade and Export Promotion Centre, Government of Nepal.

India and Turkey are only importers of single yarn, containing 85 percent or moray weight of polyester staple fibres; and Yarn of polyester staple fibres, mixed mainly or solely with artificial staple fibres. These products share 3.87 percent of total export.

Other main export products of Nepal are: jute bags and sacks; single yarn, containing 85 percent or more by weight of polyester staple fibres; oil-cake and other solid residues of low erotic acid rape or colza seeds; plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes multiple (folded) or cabled yarn containing 85 percent or more by weight of acrylic or modacrylic staple fibres; kitchen or household articles of stainless steel; vegetable products (khayar kattha) dentifrices (toothpaste); battisa, drakshab, trifala, kabjahar, chyawanprash, kesari jeevan etc., not put up in measured doses or in forms of packing for retail sale; yarn of polyester staple fibres, mixed mainly or solely with artificial staple fibres; rosin and resin acid.

Figure 4.5 presents that Nepal mainly exports primary commodities in India, for instance soybean oil, palm oil, big cardamom (Alaichi), black tea fermented, woven fabric of jute, woven fabric obtained from strip or the like, mixture of juice, etc. These products share about two third of total exports in India.

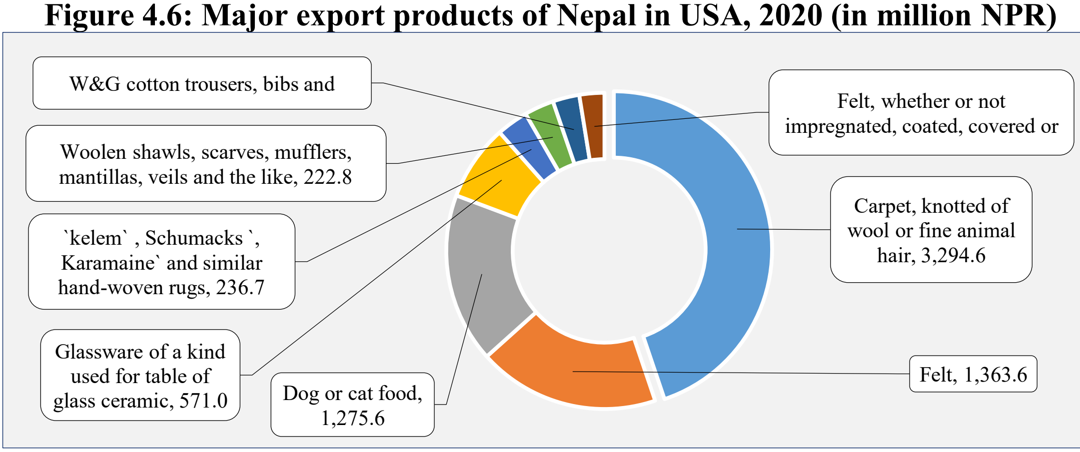
Figure 4.5: Major export products of Nepal in India, 2020 (in million NPR)



Source: Trade and Export Promotion Centre, Government of Nepal.

The United State of America is the second largest export partner of Nepal. It shared 10 percent of total export in 2020. Figure 4.6 shows that the major products exported from Nepal to the USA include carpet, knotted of wool or fine animal hair, felt, dog or cat food, glassware of a kind used for table of glass ceramic, rugs, woollen shawls, scarves, mufflers, mantillas, veils, cotton trousers, etc. These products share about 70 percent of total export in the USA.

Figure 4.6: Major export products of Nepal in USA, 2020 (in million NPR)

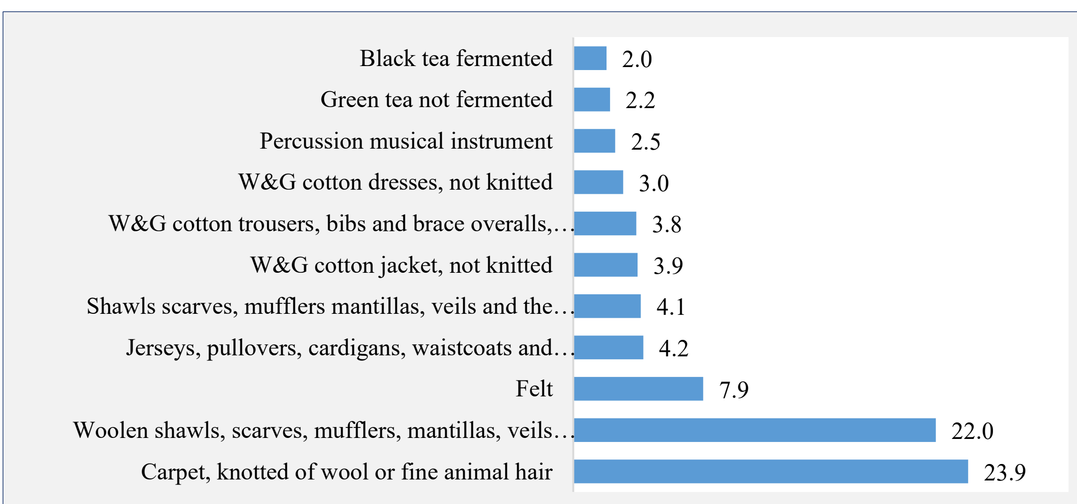


Source: Trade and Export Promotion Centre, Government of Nepal

Other major items are jerseys, pullovers, cardigans, waistcoats and similar articles of Kashmir (Cashmere) goats; percussion musical instrument; bangales, tika , tikuli, and beads; cotton sacks and bags; articles of silver jewellery, whether or not plated or clad with other precious metal; paintings, drawings and pastels; essential oil; uncooked pasta, not stuffed or otherwise prepared; W&G cotton dresses, not knitted; handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets; W&G blouses, shirt of textile material, not knitted.

Third lead export partner of Nepal is Germany. It shared around 2 percent of total export in 2020. Figure 4.7 depicts that Germany mainly imports: carpet, knotted of wool or fine animal hair; woollen shawls, scarves, mufflers, mantillas, veils and the like; felt; jerseys, pullovers, cardigans, waistcoats and similar articles of Kashmir (Cashmere) goats; shawls scarves, mufflers mantillas, veils and the like of silk or silk waste; cotton jacket, not knitted; cotton trousers, bibs and brace overalls, breeches and short; W&G cotton dresses, not knitted. The products share around 70 percent volume of export. Other major items are: percussion musical instrument; green tea not fermented; black tea fermented; Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted; handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets; cotton sacks and bags; woollen gloves, knitted; ginger, crushed or ground; String musical instrument, played with a bow; Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes; coffee, neither roasted nor decaffeinated; parts of electrical transformers.

Figure 4.7: Major export products of Nepal in Germany, 2020 (%)

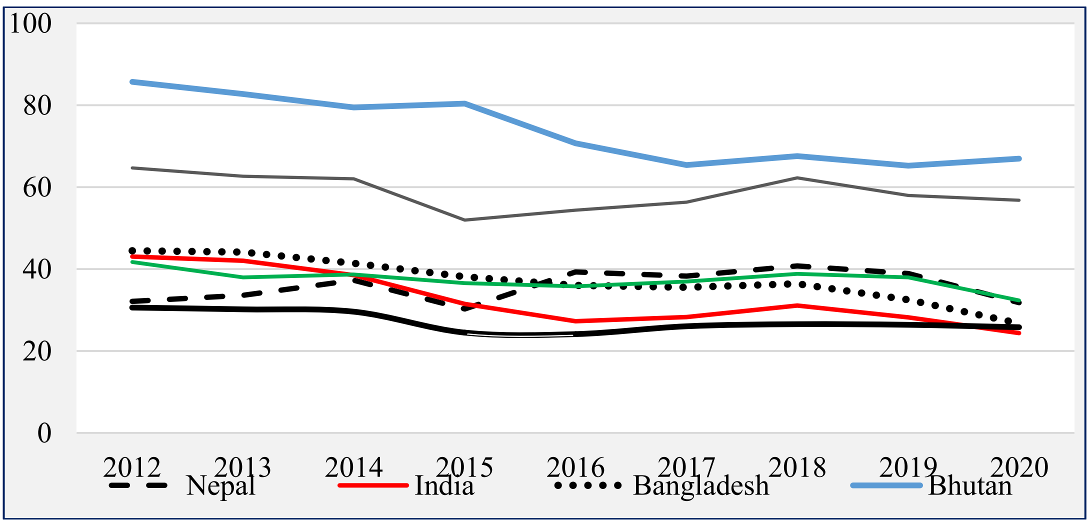


Source: Trade and Export Promotion Centre, Government of Nepal

Merchandise Trade

Nepal adopted trade diversification policies from the Second Plan (1962-65). The country followed market-oriented trade policies since the mid-1980s. Since the date, Nepal government has been trying to integrate the Nepalese economy with regional and world markets. In this process, Nepal became a member of WTO, signed on the SAFTA agreements, and joined BIMSTEC and other agreements. However, Nepal's position is at the second last among all South Asian economies in terms of trade-GDP ratio. Bhutan, a similar hilly land locked country to Nepal, has greatest merchandise trade achievement. However, Pakistan has least with reference to their GDP (Figure 4.8).

Figure 4.8: Merchandise trade (% of GDP)



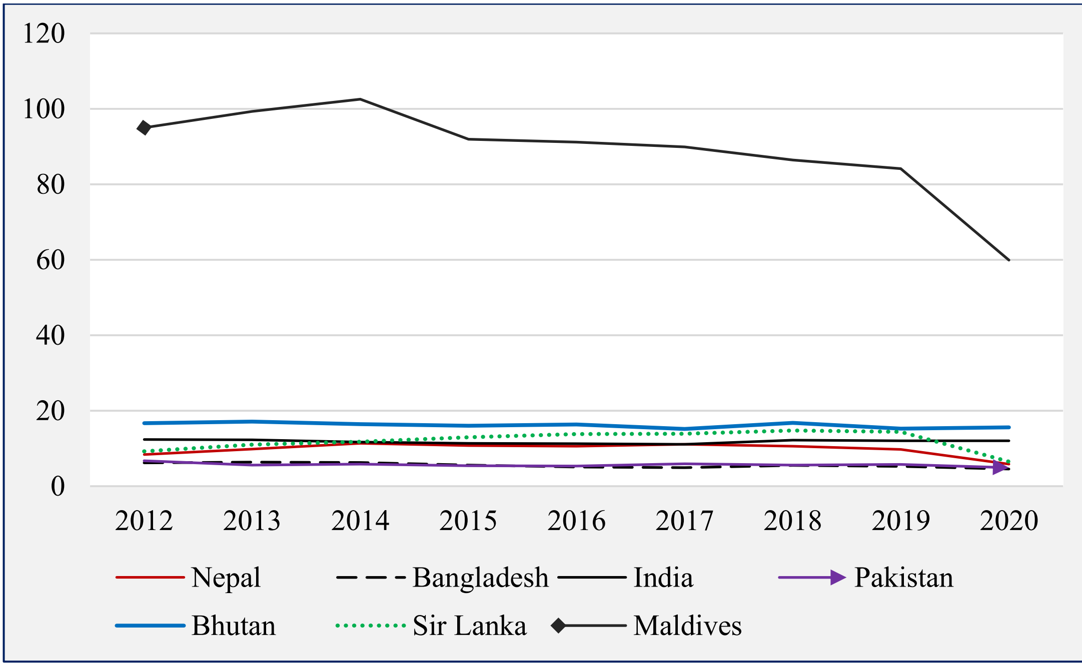
Source: World Trade Organization, and World Bank GDP estimates, 2020

Since the last decade, 2010-2020, the share of export in total merchandise trade has been declining in Nepal. Because of low export performance, Nepal is facing the problem of rapidly increasing trade deficit. Nepal is also unable to diversify its trade in terms of countries and commodities.

Trade in services

Nepal's major service trading are: IT and IT service, audio-visual service, music services, and tourism services. India is the prime partner of trade in service as like the merchandise trade. Among the South Asian countries, Maldives GDP is based on trade in services. Tourism is the main export item of it. It is followed by Bhutan and India. Nepal's position is better than the remaining two, Bangladesh and Sir Lanka (Figure 4.9).

Figure 4.9: Trade in services (% of GDP)



Source: World Trade Organization, and World Bank GDP estimates, 2020

4.1.2. Possible implications of LDC graduation

The immediate benefit that a LDC could get from their LDC status is the S&DT status in their trade (Annex 23). The broad S&DT provisions in external trade include increased market access; safeguarding the interests of LDCs; increased flexibility within the rules and disciplines governing trade measures; etc.

Multilateral trade rules have granted a number of S&DT provisions of market access to the LDCs both for goods and services. Under the WTO's "Enabling Clause" adopted in 1979, most developed country members grant concessional and/or complete duty-free, quota-free (DFQF) market access or preferential tariffs conditions and less stringent preferential rules of origin for goods originated in LDCs under the Generalized System of Preference (GSP) schemes. In some cases, LDCs also have preferential access to developing countries. In terms of preferential rules of origin, graduating countries must fulfil the standard rules of origin applicable for non-LDCs in order to obtain any favourable market access conditions (Razzaque, 2020). In terms of trade in services, multilateral trade rules contain a number of provisions granting special and differential treatment to LDCs through TRIPs Agreement and the TRIMs measures, in promoting infant industries, and in provisions on export subsidies.

Australia, New Zealand, Norway and Switzerland provide full duty-free access of goods to LDCs under the LDC preference schemes of the WTO. Canada, Chile, Japan and the European Union provide more than 97 percent tariff lines free of duties on products originating from the LDCs. China, Iceland, India and the Republic of Korea grant duty-free access to around 90 percent or more of their tariff lines. Hong Kong Special Administrative Region of China and Macao Special Administrative Region of China offer duty-free access to all products on a most-favoured nation basis; such facilities are available to the LDCs as well. In Singapore, only 6 out of 9,558 tariff lines are dutiable (UNDP, 2020 and Annex 24).

Nepal is entitled for most preferential schemes, including DFQF and bilateral preferential schemes provided by Australia, Canada, Chile, China, Iceland, India, Japan, New Zealand, the Republic of Korea, the Russian Federation, Switzerland, Taiwan Province of China, Thailand, Turkey, the United States and the European Union. To access preferential markets, the rules of origin require a minimum domestic value addition of 30 percent for India, Switzerland and the European Union, 35 percent for the United States, 40 percent for Canada and Japan, and 50 percent for Australia, Norway and Thailand (UNDP, 2020 and Annex 25).

Although Nepal is eligible for most preferential schemes provided by many developed countries both in goods and services trade, Nepal's trade deficit has widened over the time (Figure 3.3). Exports are concentrated in a few semi-processed manufacturing items based on imported raw materials (Table 3.2). However, the performance of Nepal's exports has been better in services compared to goods. There is negligible level of trade diversification both in terms of products as well as destination countries (Table 3.2 and Figure). Against this backdrop, various studies show that the impact of LDC graduation on trade performance would not be substantial—there would be a minimum impact on exports as well as trade loss from performance erosion would not be significant (UNDP, 2020 and Annex 26 to 29). Most constraints are domestic preparedness and supply-side barriers. Hence, the sound and effective economic diplomacy would be crucial to sustain the prosperity of the country during the post-graduation period.

Herfindhal-Hirschman Index has remained constant, indicating high product concentration and no substantive change in the structure of exports. This is coupled with the low preference utilization rate except in the European Union and United

States. This suggests that the impact of LDC graduation on trade performance would not be substantial. SMART, a partial equilibrium modelling tool built within the World Integrated Trade Solution (WITS), was used to simulate the effects of changes in tariffs and estimate the impacts of graduation on exports for 2017. The summary shows that there would be a minimum impact after graduation on exports to the United States, and moderate impacts on exports to other markets. In terms of export loss, the reduction would be 3.7 percent of total exports (UNDP, 2020).

Nepal's exports have been facing a number of challenges for many decades. For example, delays in getting the laws and policies put into place; problems getting to the international market; problems with intellectual property rights (IPR); poor coordination and institutionalized value chains, such as leather products, from animal farming to slaughtering, processing, and making the final products; and not enough investment in modern processing technology are some examples.

Nepal's current exports are bolstered by multilateral, bilateral, and regional agreements by providing preferential treatment, duty free quotas, and a cashback scheme (by Nepal). For example, Nepal enjoys a zero-tariff rate on the Indian market except for a small negative list and duty-free access to the European market under everything but arms (EBA). Market access to other SAARC members is facilitated under the SAFTA—South Asian Free Trade Agreement (MoF, 2021). These are all important aspects of Nepalese economic diplomacy. Moreover, Nepal has also been getting preferences as being an LDC. Nepal gets access to the Bay of Bengal, East Asian and all South Asian economies through BIMSTEC and SAARC agreements. Aside from these, Nepal export size is only 2.5 percent of its GDP and has a trade deficit of 30.2 percent of its GDP (MoF, 2021).

Table 4.3: Export performance and inclusive sustainable development impact

Export item	Export size	Export growth	Major destination in 2020*
Agro-based Goods			
Cardamom	Medium	Medium	India (99.4%), and Pakistan (0.47%).
Ginger	Low	Medium	India (99.4%), Bangladesh (0.3%)
Medicinal Plants	Low	Low	France (49%), India (24.6%), USA (17.1%), China (6%)
Tea	Low	Low	India (95.5%), Russia (1.6%), Germany (1.5%), Japan (0.3%)
Craft-based Goods			
All Fabrics Textile, Yarn, and Rope	High	Low	-
Carpets	High	Low	USA (54.3%), Germany (11.0%), UK (7.9%), Italy (5.1%), France (3.2%).
Pashmina	Medium	Low	Germany (28%), UK (11.4%), USA (10.4%), France (9%), India (8%).
Footwear	Low	High	India (98.1%), Denmark (0.8 %), Australia (0.5%).
Leather	Low	High	-
Services			
Skilled & Semi-Skilled Professional	High	High	-
Tourism	High	Low	-
IT & BPO, IT Engineering	Low	Medium	-

Source: Nepal Trade Integration Strategy 2016; * Trade and Export Promotion Centre, Ministry of Industry, Commerce, and Supply, Government of Nepal.

Agro-based Goods

Cardamom, ginger, medicinal plants, and tea are the major exported agro-based products of Nepal. Moreover, they have increasing demand around the globe, grow in

Nepal's suitable geographical and climate conditions, mainly in the hilly landscape, and prevent soil erosion. Cardamom is exported to India dominantly. Among these items, cardamom has both a medium intensity of export size and growth. However, medicinal plants and tea have low export size and growth. Ginger has a medium export growth rate but a low export size. Nepal has huge potential for high export size and growth of all these products. But in reality, they are not at a satisfactory level. Most of the agro-based products are exported in their raw form. If the government can facilitate converting it into other value chains, the export size will increase. For this, government of Nepal can take an agglomeration deal with its counter parties.

Craft-based Goods

All fabrics (textiles, yarn, and rope); carpets; pashmina; footwear; and leather items are the major exportable craft-based goods of Nepal. Nepal exports these items to the USA, Germany, France, the UK, India, Denmark, France, and so on. All fabrics (textiles, yarn, and rope) and carpets have a high export size with a low growth rate. Pashmina has a low growth rate as well. For more sustainability, an export growth rate is necessary. However, footwear and leather have a low export size with a high growth rate.

India is the prime market for all fabrics, textiles, yarn, and rope. Regarding these products, Nepal has a competitive labour force available, good quality equipment and machineries are available, and a good relationship with importing partners. The growing preference for organic packaging for this product has great opportunities in the coming days. Similarly, Nepal exports a significant amount of footwear to India (almost all). Nepal has an opportunity to grow it in other countries too.

Nepal has great scope for Pashmina exports in terms of volume. Chyangra Pashmina is made using traditional manufacturing methods, quality, and designs. It is another good source of income generation in rural Nepal and promotes tourism in the country. Pashmina is a popular choice among tourists, and they are its best ambassadors for mormiting it. The production cost is low, and it has long-term relationships with importers. Nepalese Pashmina's demand in Germany, the UK, the USA, France, and India is popular and increasing. It has no more rivalry overseas. It should be also looked for new markets through economic diplomacy with the current market.

Overall, in the export basket of Nepal, there are generally reported to be a couple of fixed problems. Export bases and directions are almost stagnant. It has also shown that Nepal's trade diplomacy is somewhat sluggish and not competitive. It recommends two facts: Nepal must increase its export size in existing foreign markets via bilateral, regional, multilateral, and diaspora networks. Second, Nepalese diplomats need to focus on country specific and product-specific programmes.

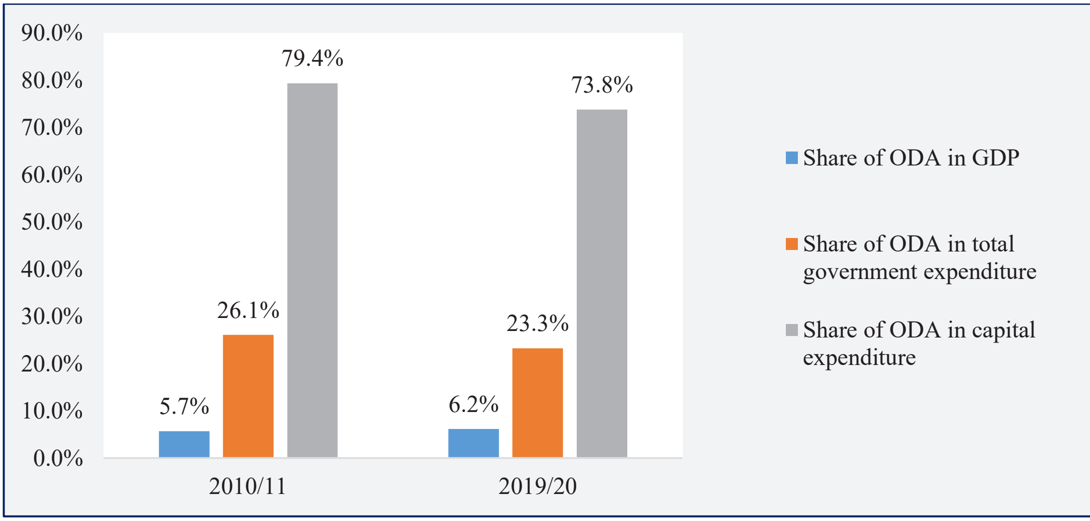
Service

Nepal exports service items, mainly skilled and semi-skilled professionals, tourism, and IT & BPO, IT Engineering. Nepal significantly exports labour forces to different destinations in the world. The major destinations are the UAE, Qatar, Saudi Arabia, Kuwait, Cyprus, Jordan, and so forth (MoLESS, 2020). Most professionals face significant costs, both in terms of health and money, both in their home country and in other countries. In general, Nepal exports less skilled labour forces to the rest of the world, as well as semi- and unskilled labour forces. Nepal is a significant remittance recipient country, where its two neighbours—India and China—are the first and second remittance recipient countries in the world in 2020 (Statista, 2022). In Nepal, remittances have the greatest share of total financing (MoF, 2021). However, skilled and semi-skilled professionals' export size and growth are high. Tourism exports are large, but growth is slow. Nepal also exports IT, BPO, and IT engineering. Its export size is low, but its growth is medium. Thus, the government need to provide a typical training programme, who are interested in a particular type of foreign employment. It may be possible in home or host countries with incorporation of Nepalese embassies and host countries. It is also essential to discover new tourist destinations, routes, information centres, help line centres, and tourist products. Incentive should be provided in IT sector. The government should increase the bilateral, multi-lateral and regional relationship to boost it.

4.2. Official Development Assistance

Despite positive trends in domestic resource mobilization over the past decade, development cooperation continues to play a significant role in the development efforts of Nepal. The level of Official Development Assistance remains steady in between 2010 to 2016. Recent years, the role of development cooperation has declined as a proportion of overall finance thereby indicating a positive signal towards reducing aid dependency. Most of the ODA has been utilizing in capital expenditure in Nepal (Figure 4.10 and Annex 30).

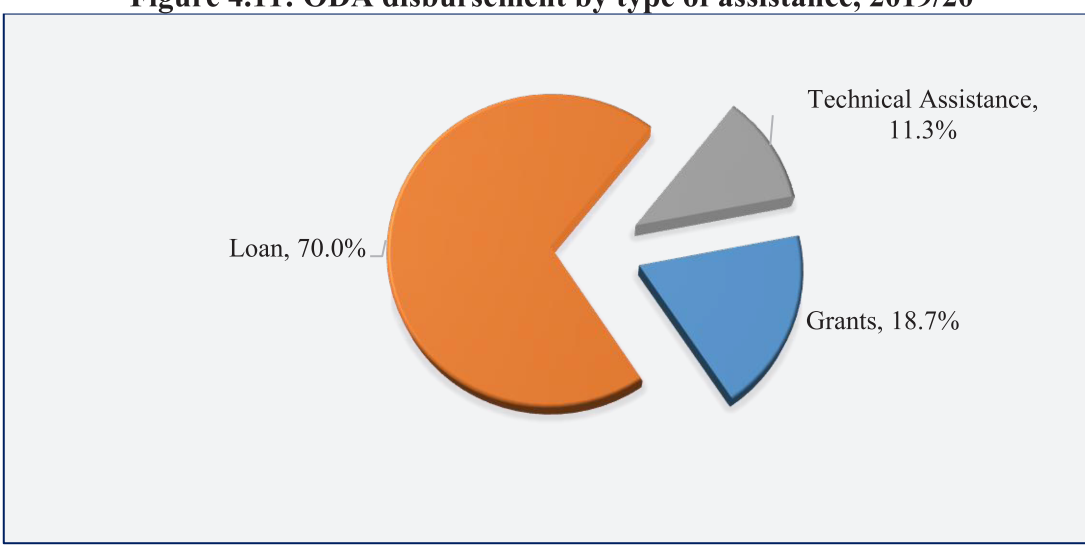
Figure 4.10: Official Development Assistance Inflow to Nepal, 2010/11 and 2019/20



Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme, 2020; Economic Survey 2077/78, Ministry of Finance, Government of Nepal.

In the structure of ODA, loan's share is greater than the grant and technical assistance

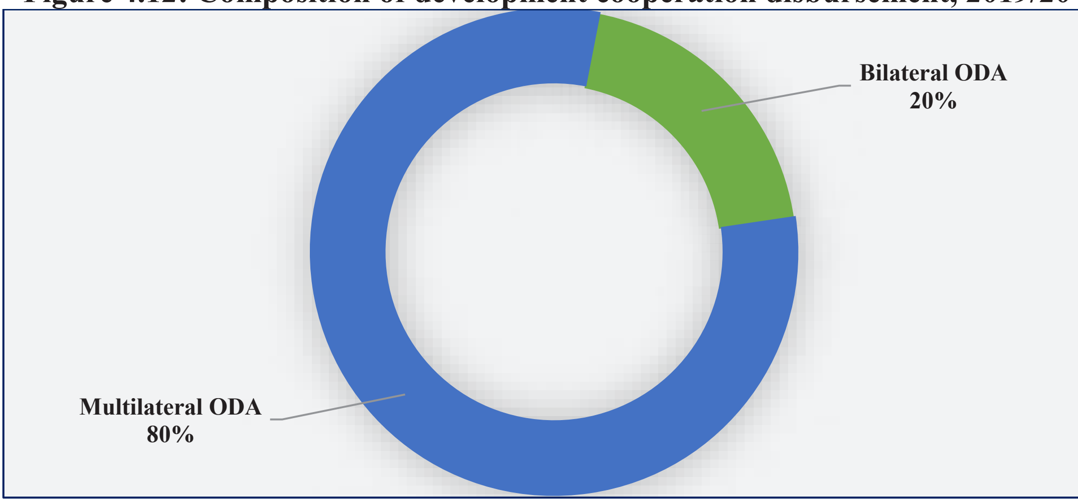
Figure 4.11: ODA disbursement by type of assistance, 2019/20



Source: Development Cooperation Report Fiscal Year 2019/20, Ministry of Finance, Government of Nepal.

Loans, grants, and technical assistance accounted for 70 percent, 18.7 percent, and 11.3 percent of total development cooperation mobilized in 2020 respectively (Figure 4.11). The development cooperation commitment was for Rs. 219.88 billion. The reasons behind the increasing share of loans and decreasing share of grants to total development cooperation are developing economic capacity, increased per capita GDP, increased capacity to repay loans, and the near completion of post-earthquake reconstruction activities (Ministry of Finance, 2021).

Figure 4.12: Composition of development cooperation disbursement, 2019/20



Source: Economic Survey 2020/021, Ministry of Finance, Government of Nepal

Moreover, among the total development cooperation disbursement, multilateral cooperation's share is high. The ratios of multilateral and bilateral disbursement to total disbursement are 80 percent and 20 percent in 2019/20 (Figure 4.12). The top ten disbursing development partners contributed approximately 94.7 percent. The top disbursing multilateral partners were the Asian Development Bank followed by the World Bank, the IMF, the European Union and the UN. The top disbursing bilateral development partners were the United States of America followed by the United Kingdom, India, China and Japan (MoF, 2021).

4.2.1. Possible implications of LDC graduation

Nepal receives ODA mainly through three channels—multilateral, bilateral and UN system. ODA received from multilateral and bilateral channels are primarily determined by the mutual understanding based on the economic diplomacy as well as political, cultural and historical relationships. For example, India and China provide ODA to Nepal exclusively on political, cultural and historical relationship, and it does not take any relations with UN’s provision of ODA transfer to LDCs. Lending from multilateral financial institutions is basically determined based on the recipient country's risk of debt distress, the level of GNI per capita and credit worthiness. Multilateral organizations like the World Bank particularly provides concessional loans to the low-income countries.

LDCs are characterized by low income with significant structural constraints to long-term development. They are highly susceptible to economic and environmental shocks. They also have inadequate human capital. Against this backdrop, developed countries have made commitments to provide the equivalent of 0.15 to 0.20 percent of their GNI in the form of ODA to LDCs. It is the part of the commitment of providing the equivalent of 0.7 percent of their GNI in ODA to developing countries. However, this has not been materialized as only five countries have so far been able to meet the overall target of 0.7 percent. Therefore, graduation does not mean the reduction of ODA.

However, the UN system’s ODA priorities are determined some level of LDC status. For example, the United Nations Development Programme (UNDP) and United Nations Children Fund (UNICEF) have targets allocating 60 percent of core resources to LDCs. Similarly, the Least Developed Countries Fund (LDCF), the Enhanced Integrated Framework (EIF), the Technology Bank for the LDCs and the United Nations Capital Development Fund (UNCDF) have been created particularly to support the LDCs. The LDCF was established to assist LDCs in carrying out the preparation and implementation of national programmes of action under the United Nations Framework Convention on Climate Change. The EIF is a programme to support LDCs to increase their participation in the international trading system through Tier I and Tier II funding facilities. Tier I facilities focus on institutional and policy-related support. Tier II funded projects address supply side constraints. The UNCDF is the capital investment agency of the United Nations that supports access to microfinance and investment capital (UNDP, 2021). Nepal also receives support from climate change funds like Global Environment Facility (GEF) and Green Climate Fund (GCF).

Available information shows that major part of the multilateral and bilateral ODAs received by Nepal are not dependent on the LDC status of the country. Therefore, graduation will not affect most current sources of support (Annex 31). Nepal will continue to remain eligible for EIF support automatically for three years and possibly for a further two years subject to justification and approval by the EIF board. UNCDF-funded programmes can be continued under the same conditions for three years.

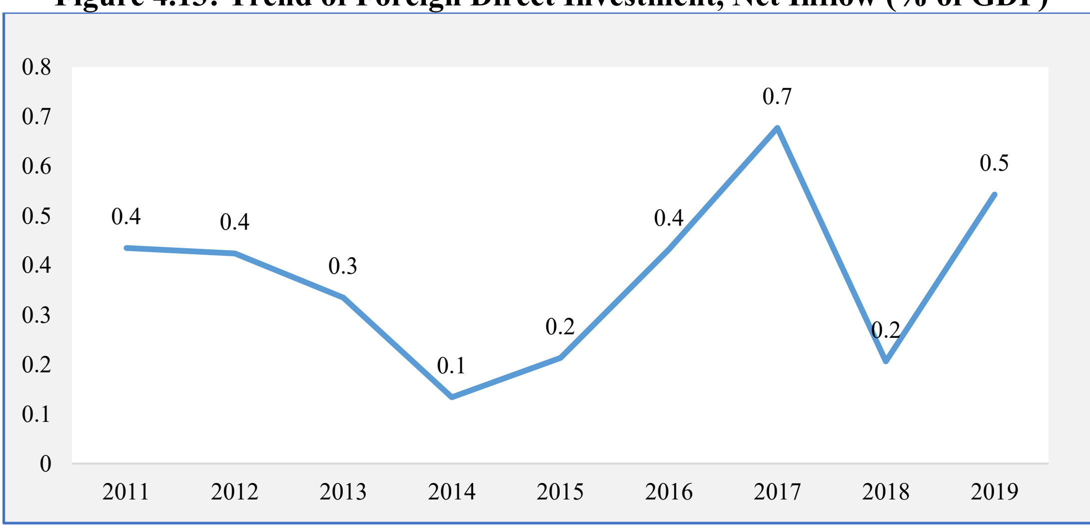
Funding for another two years can be provided on a 50/50 cost-sharing basis with the Government or a third development partner. There might be a negative impact on the country's access to support provided by the United Nations. However, Nepal would not be eligible to receive new funding after graduation, but projects already approved and funded will continue to completion.

4.3. Foreign Direct Investment

Nepal has admitted the high importance to attract Foreign Direct Investment (FDI) for the development of the country. The Article 51 D 10 of the Constitution of Nepal has provisioned to encourage and mobilize foreign capital and technology investment for import substitution, export promotion and infrastructure development. The Government of Nepal has enacted Foreign Investment and Technology transfer Act (FITTA), 2019 to realize the constitutional provisions. Nepal has huge potential to attract FDI in hydroelectricity generation and distribution, tourism development, transportation sector, agribusiness and herb processing, etc.

Figure 4.13 shows that FDI inflow into Nepal was only 0.5 percent of GDP in 2019. It never crossed more than 0.7 percent of GDP.

Figure 4.13: Trend of Foreign Direct Investment, Net Inflow (% of GDP)

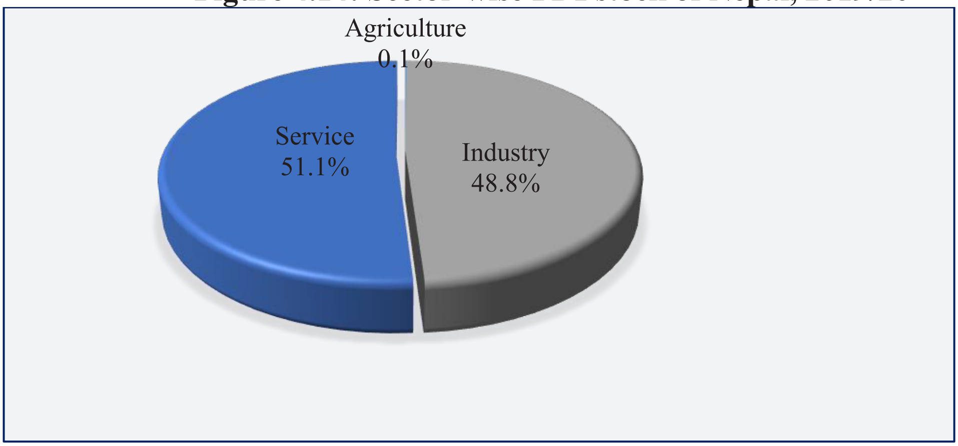


Source: International Monetary Fund, International Financial Statistics and Balance of Payments Databases.

Service sector is the leading sector of FDI stock in Nepal in 2019/20. It alone accounted for 51.1 percent of the total FDI stock, followed by industry sector, i.e., 48.8

percent. The agricultural sector's FDI stock is minuscule, accounting only 0.1 percent (Figure 4.14). Manufacturing, mining, and quarrying makes up 28.6 percent of total FDI in Nepal (NRB, 2021).

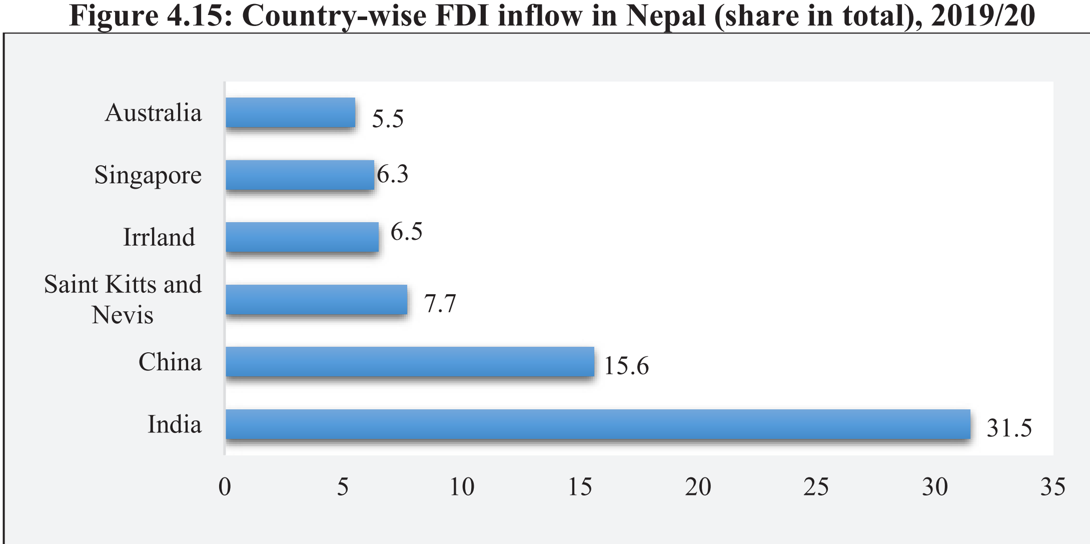
Figure 4.14: Sector-wise FDI stock of Nepal, 2019/20



Source: A survey report on FDI in Nepal, 2019/2020, Nepal Rastra Bank.

India is the top most country investing in Nepal in 2019/2020. It shared 31.5 percent of total FDI, i.e., NPR 62.45 billion, followed by China (15.6 percent). India has invested particularly in manufacturing, mining and querying; electricity, gas, and water; and financial intermediation. These sectors shared 39.1, 34.2 and 23 percent respectively.

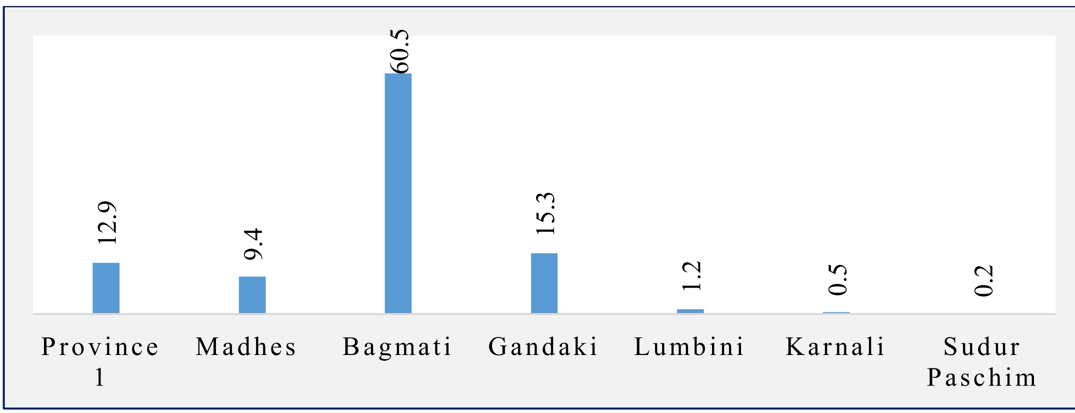
Figure 4.15: Country-wise FDI inflow in Nepal (share in total), 2019/20



Source: Survey report on FDI in Nepal, 2019/2020, Nepal Rastra Bank.

At province level, FDI inflow is disproportionately skewed towards a particular territory. In 2019/20, it holds 60.5 percent to Bagmati province. Lumbini, Karnali, and Sudur Paschim provinces, on the other hand, have only 1.2, 0.5, and 0.2 percent share, respectively (Figure 4.16).

Figure 4.16: Province-wise FDI inflow in 2019/20 (in %)



Source: Survey report on FDI in Nepal, 2019/2020, Nepal Rastra Bank.

4.3.1. Possible implications of LDC graduation

Nepal's graduation from the LDC category to developing country would obviously increase the confident among the global investors. It will create the enabling environment for investment. It will brand the country as a potentially competitive destination for FDI inflows. Graduation would improve Nepal's credit rating, reduced risk premium and access to commercial loans at preferential interest rates (UNDP, 2020).

Chapter 5

Post-graduation Country Experiences

Only five countries have graduated from the LDC category since its creation—Botswana in December 1994, Cape Verde in December 2007, the Maldives in 2011, Samoa in January 2014, and Equatorial Guinea in 2017. In 2021, 33 LDCs, out of 46, are from Africa. In African continent, only three countries including Botswana, Cabo Verde, and Equatorial Guinea are graduated from LDC status till now. Bangladesh and Lao People’s Democratic Republic have also been recommended for graduation with Nepal.

5.1. Botswana

Botswana Republic is a landlocked country in Southern Africa. It is a member of the African Union, Southern African Development Community, Commonwealth of Nations, and United Nations. The country is bordered by Namibia in the west, Zimbabwe in the north-east, and South Africa in the south and south-east. It is topographically flat and covered by 70 percent of its territory by the Kalahari Desert. The total population of Botswana is 2.3 million in 2020. The population density is relatively low—3.4 inhabitants per square kilometre. Approximately 11.6 percent of the entire population live in the capital city Gaborone. Gaborone is also a commercial hub. Altogether 21.1 percent of the country's land area is covered by forests. Arable land covers 0.65 percent and 0.01 percent of land area is devoted to permanent crops.

Over the past three decades, the economy of Botswana grew from US$ 3.8 billion in 1990 to US$ 16.6 billion in 2019 (World Bank, 2022). The share of service sector in GDP has been significant in Botswana, increased from 55 percent in 2010 to 63 percent in 2020. There is marginal decline in the share of industrial sector from 32 percent in 2010 to 25 percent in 2020. There has been minimum share of agriculture sector in GDP in the economy of Botswana. It was 2.5 percent in 2010 and is almost constant over the period three decades, i.e., 2.1 percent in 2020 (Statista, 2022).

In terms of social development, most of the health and education indicators of Botswana present that there has been significant improvement. Maternal mortality ratio of Botswana has decreased from 262 per 100,000 live births in 2000 to 144 in 2017. Similarly, under five mortality rate decreased from 69.3 per 1,000 live births in 2000 to 41.6 in 2019. On the education side, adult literacy rate was 68.6 percent of people age 15 and above in 1991. The latest adult literacy data of Botswana available in most of the sources show that it was 86.8 percent of people age 15 and above in 2013 (World Bank, 2022).

The export-GDP ratio of Botswana was 51.8 percent in 2000 which decreased to 39.6 percent in 2020. Similarly, trade balance of Botswana was recorded positive, i.e., 11.74 percent in 2000. However, it is recorded negative (-16.7 percent) in 2020. Botswana mainly exports ornamental items are: natural or cultured peart, precious or semi-precious stones, precious metals, metal clad with precious metal and articles thereof. These items have 89 percent share in Botswanan export in 2020 (Trend Economy, 2022). Botswana mainly exports diamonds, which occupies more than 60 percent share of total export. Botswana's major export partners are: United Kingdom, Belgium, South Africa, Israel (Trading Economics, 2022).

Moreover, FDI to GDP ratio was 2.5 percent in 1990 and is decreased to 0.6 percent in 2020. Net ODA received of Botswana is in decreasing trend. It has reached 0.4 percent of GNI in 2019 from 3.9 percent in 1990 (World Bank, 2022).

5.1.1. LDC graduation experience of Botswana

Botswana's graduation has been driven by rich natural resource base. The utilization of natural resources has largely been responsible to translate in funding the planned investments in basic infrastructure, education, health, and human capability (Bose and Bose, 2011). Hence, the country has been able to maintain a stable rate of growth over the time. Consequently, the country succeeded to meet the graduation requirements. Finally, CDP declared to graduate Botswana from LDC in 1994. Botswana's success story in graduating from LDC status is also linked with sound planning and the effective measures taken in the control of corruption. These consistent efforts turned towards the country's progress and improved socioeconomic indicators.

Table 5.1: Major economic indicators of Botswana during pre-and post-graduation period (in average)

S. N.	Indicator	Pre-graduation period (1984 - 1994)	Post-graduation period (1995 - 2020)
1.	GDP growth (%)	8.3	4.0
2.	GDP per capita (current US$)	2,253	5,423
3.	GDP per capita, PPP (Current international $)	5,976	11,824
4.	Export (annual growth)	5.5	4.2
5.	Import (annual growth)	6.4	6.4
6.	FDI, net inflow (% of GDP)	1.7	2.51
7.	External debt (% of GNI)	22	11
8.	Net official development assistance received, growth (constant 2018 US$)	-6	19

Source: World Bank (https://data.worldbank.org/country/botswana).

Table 5.1 summarizes the Botswana's comparative analysis of pre and post LDC graduation macroeconomic indicators to assess the country's path of success in graduation track. Additionally, the story and impact prior to and following graduation are critical for Botswana and other countries. The indicators show mix outcome. Basically, the indicators including GDP per capita, FDI, ODA, external debt etc. provide positive message. On the other hand, the indicators comprising GDP growth rate, export, etc. have not been encouraging.

Prior to graduation, between 1984 to 1994, the country's annual GDP growth rate was higher, i.e., was 8.3 percent. It dropped to 4.0 percent during the post-graduation period between 1995 to 2020. Although exports, imports, and external borrowing drop following graduation, GDP per capita, GDP per capita PPP, and foreign direct investment continue to move upward. The pace at which the GDP grows in relation to the population grows is the rate in Botswana after 1994. As a result, it is conceivable to increase per capita income while maintaining a lower average GDP growth rate. After graduation, the average growth rate of ODA is positive. In general, macroeconomic parameters favour the State upon graduation.

5.2. Cape Verde

Cape Verde or Cabo Verde, formally the Republic of Cabo Verde, is a central Atlantic Ocean archipelago and island country. It is composed of ten volcanic islands with a combined land area of around 4,033 square kilometres (Basu, 2013). These islands are located between 600 and 850 kilometres—320 and 460 nautical miles—west of Cap-Vert, continental Africa's westernmost point. As of the 2021 Census, Cape Verde has 483,628 population. Population pyramid is upward, and density of 123.7 citizens per square kilometre.

Cape Verde’s economy size is 1.7 billion in 2020, which was 0.5 billion in 2000 (World Bank, 2022). Due to a lack of natural resources, the economy is primarily service-oriented, with an increasing emphasis on tourism and foreign investment. The share of the service sector in GDP is 58.9 percent, whereas the industry and agriculture sectors have 23.1 and 4.9 percent, respectively in 2020. These proportions are almost stagnant from 2010 to 2020 (Statista, 2022). Cape Verde’s climate is arid. Due to the infrequent occurrence of rainfall, it represents less than 2 percent of arable land (Marilyn, 2013). Consequently, agriculture sector has less share in GDP.

The maternal mortality ratio of Cape Verde has improved from 93 per 100,000 live births in 2000 to 47 in 2016. By the same token, the under-five mortality rate has plummeted to 14.9 per 1000 live births in 2019 from 38.1 in 2000. Overall health indicators sound good for Cape Verde. On education index, adult literacy rate people ages 15 and above of Cape Verde has progressed to 86.79 percent in 2015 from 76 percent in 2000. Hence, the overall social development of Cape Verde is found positive (World Bank, 2022).

In the last two decades, Cape Verde has robustly increased its export capacity. Cape Verde's total export to GDP ratio is 50.6 percent in 2019, which was 27 percent in 2000. Currently, its import value is greater than its export value. Imports' share of GDP is 65.3 percent. Cape Verde's major exports include fish, salt, pozzolan, rum, animal hides, bananas, and coffee. The country is heavily dependent on imported food. Cereals, fruits and vegetables, beverages, and other foodstuffs are the major imported items. In 2019, Spain was the largest export partner, followed by Portugal and Italy. Nevertheless, Portugal is the largest import partner of Cape Verde, followed by the Netherlands, Spain, and China (WITS, 2022).

Net FDI inflow of Cape Verde is decreased over the time—it was 9.1 percent of GDP in 2000 and reached 5.3 percent in 2019. Tourism is the dominant sector of FDI utilization in the Cape Verde (UNCTAD, 2018). In 1990, FDI was almost non-existent here (DTIS, 2009). The major FDI partner of Cape Verde are United Kingdom, Portugal, Italy and Spain (USDOS, 2020). Similarly, the Cape Verde has significantly reduced its ODA dependency. Net ODA receipt share in GNI is decreasing over the time. In 2020, it has reached up to 7.9 percent of GNI from 18.0 percent in 2000 (World Bank, 2022).

5.2.1. LDC graduation experience of Cape Verde

Cape Verde, whose economy is mostly dominated by the service sector, i.e., tourism, was upgraded from the least developed country to a developing country in 2007. Despite being geographically fragmented, barren volcanic islands, deficient in agricultural land and natural resources and heavily reliant on food imports, it has succeeded in achieving significant growth in the education and health sectors' development too. These are all the fundamental arguments for the LDC graduation of Cape Verde.

Table 5.2: Average annual growth rate of major economic indicators of Cape Verde during pre-and post-graduation period

S. N.	Indicator	Pre-graduation period (1997 - 2007)	Post-graduation period (2008 - 2020)
1.	GDP growth (annual %)	9.2	2.7
2.	GDP per capita (current)	1,757	3,443
3.	GDP per capita, PPP (Current international $)	3,440	6,168
4.	Export	-	0.8
5.	Import	-	0.9
6.	FDI, net inflow (% of GDP)	6.18	7
7.	External debt (% of GNI)	53	80
8.	Net official development assistance received, growth (constant 2018 US$)	2	5

Source: World Bank (https://data.worldbank.org/country/capeverde).

Table 5.2 is the synthesis of Cape Verde's macro-economic analysis for pre and post-graduation phases. Net FDI inflow, ODA, and foreign debt are augmented after graduation, however, GDP growth rate is declined. Prior to graduation between 1997-2007, GDP growth rate was 9.2 percent, and after the graduation it is only 2.7 percent. Despite the declination in GDP growth rate, GDP per capita and its purchasing power parity indicators are significantly increased by nearly two-fold, which shows the positive signal of graduation. The post-graduation effect is beneficial for Cape Verde's foreign investment. It has progressed from 6.2 to 7 percent of GDP after graduation. External borrowing has been elevated to meet the resource gap from 53 percent of GNI to 80 percent GNI. ODA dependency of Cape Verde has been increased after graduation. It was only 2 percent between 1997-2007, and is 5 percent between 2008 to 2020. Import and export growth rate are positive after graduation. Overall, macroeconomic indicators are positive after LDC graduation of Cape Verde.

5.3. Maldives

The Maldives, formally the Republic of Maldives, is an archipelago country located in Asia's Indian subcontinent. It is approximately 750 kilometres southwest of Sri Lanka and India. Its territorial territory, including the water, is around 90,000 square kilometres and land area is about 300-kilometre squares. The Maldives is one of the world's most geographically dispersed republics, one of the smallest Asian countries, and one of the smallest Muslim countries. It is the world's lowest-lying country, with an average ground-level height of 1.5 meters above sea level and a highest natural point of only 5.1 meters (WWF, 2010). Maldives has 556,622 population and population density is 1802 per squares kilometres. Average life expectancy of Maldivian people is 79.9 years; death under ages 5 is 6.2 per 1,000 live births (Worldometer, 2022).

Historically, the Maldives supplied vast numbers of Cowry shells, an early form of international currency (Lyon, 2003). The cowry has been adopted as the Maldives' Central Bank's symbol. The Maldives was one among the world's 20 poorest countries in the early 1970s. At this period, the economy was heavily focused on fishing and trade with neighbouring countries and East Asian countries. In the 1980s, the Maldives' government embarked on a mostly successful economic reform program, beginning with the easing of import quotas and expanding opportunities for the private sector. At the time, tourism was in its infancy; agriculture and industry continued to play a smaller role in the economy; hindered by a scarcity of arable land and a manpower constraint.

At present, the Maldivian economy has been transferred from fishing and trade into tourism. Over 1.7 million visitors visited the Maldives islands in 2019. Tourism accounts for 28 percent of GDP and more than 60 percent of foreign exchange receipts in the Maldives (Ministry of Tourism, 2019). Over 90 percent of government revenue is generated by import charges and tourism-related levies. It facilitated direct and indirect employment and revenue production in other linked businesses. The fishing sector is also a significant source of employment, employing over 17,000 people in 2017, accounting for about 10 percent of total employment in the state, and employing more than 25 percent of the total population (ADB, 2019).

The Maldivian economy's size has been persistently increasing. It peaked at 77.1 billion in 2019 before falling to 51 billion in 2020 (World Bank, 2022). In 2020, service sector has the greatest share in GDP. It accounts for 70.76 percent alone, followed by industry and agriculture, which account for 11.8 and 8 percent, respectively. External balance on goods and service is in decreasing trend. It shares negative 19 percent of GDP in 2020. Maldives’s major three export items are: seafood, prepared meats and animal feeds, however it imports dominantly food items. The main three trade partners of Maldives are: UAE, China, and Singapore (GolbalEDGE, 2022).

The Maldives has achieved significant progress in social development as well as economic development. It has the highest HDI score among SAARC members. It was ranked 95th in the world with a HDI of 0.74 (UNDP, 2022). The maternal mortality ratio is in a decreasing trend. It reached 53 per 100,000 live births in 2017, down from 67 in 2010. Similarly, the mortality rate under 5 years of age plummeted to 6.5 per 1,000 live births in 2020 from 14.9 in 2010. On the other hand, the Maldives' education index has significantly improved. The adult literacy rate, people ages 15 and above found 98.6 percent in 2016, which was 98.4 in 2006 (World Bank, 2022). Thus, overall social development of the Maldives is positive.

International financing in Maldives is seen progressive. The net FDI inflow of percentage of GDP over the time seems upward direction. It is 11.8 percent in 2020, which was 8.4 percent in 2010 (World Bank, 2022). Foreign direct investment in the Maldives has primarily focused on resort management, but also on telecommunications, accounting, banking, insurance, air transport, real estate, courier services, and some manufacturing (USDOS, 2022). Also, Maldives has been reducing its dependency on foreign development assistances. The net ODA is 1.4 percent of GNI, which was 11.8 percent in 2010.

5.3.1. LDC graduation experience of Maldivian economy

Despite a delay in review due to the destructive tsunami of December 26, 2004, the Maldives, an economy dominated by the service sector, i.e., tourism, was promoted from an LDC to a developing economy on January 1, 2011 (CDP, 2012). The Maldives has grown in its overall education and income indices despite its low population, food imports, fragmented topography with one of the lowest elevations to the sea, and low arable lands.

Table 5.3: Average annual growth rate of major economic indicators of Maldives during pre-and post-graduation period

S. N.	Indicator	Pre-graduation period (2000 - 2010)	Post-graduation period (2011 - 2020)
1.	GDP growth (annual %)	6.4	6.4
2.	GDP per capita (current)	4980	8657
3.	GDP per capita, PPP (Current international $)	11026	16326
4.	Export	-	-4.6
5.	Import	-	-1.6
6.	FDI, net inflow (% of GDP)	5.4	10.9
7.	External debt (% of GNI)	41	43
8.	Net official development assistance received, growth (constant 2018 US$)	34	18

Source: World Bank (https://data.worldbank.org/country/maldives).

Table 5.3 is the summary of Maldivian macro-economic analysis for the pre and post phase of LDC graduation. Overall, income parameters such as GDP growth, GDP per capita, GDP per capita-PPP, net ODA, and FDI illustrate the positive message of graduation. However, external debt is a little bit higher.

Prior to graduation (between 2000 and 2010), GDP growth, GDP per capita, and GDP per capita PPP were 6.4 percent, 4980 USD, and 11026 USD, respectively. Moreover, after graduation, GDP per capita and GDP per capita PPP improved by up to 8657 USD and 16326 USD, respectively. There has been significant growth in FDI inflow in the Maldives after graduation. Between 2000 and 2010, net FDI inflow was 5.4 percent of GNI, which has been reported as 10.9 percent between 2011-2020. Similarly, the Maldives has reduced its reliance on foreign resources, i.e., ODA.

Between 2000 to 2010, the ODA's growth was 34 percent, which has been scrutinized at 18 percent between 2011 to 2020. Between 2000 and 2010, external debt was 41 percent of GNI, rising to 43 percent between 2011 and 2020.

5.4. Samoa

Samoa, formally the independent state of Samoa and formerly known as Western Samoa until 1997, is a Polynesian island country comprised of two main islands, Avai's and Upolu, two smaller populated islands (Manono and Apolima), and several uninhabited smaller islands. Samoa is 64 kilometres west of American Samoa, 889 kilometres northeast of Tonga (the nearest foreign country), 1,152 kilometres northeast of Fiji. Geologically, the Samoan islands are the product of volcanism. Samoa has an equatorial and a heavy rainy climate. It includes the moist tropical forest ecoregion (Eric et al., 2017). Samoa's population is 194,320, and the population density is 70 per square kilometer (SBS, 2016). Around three-quarters of the population resides on Upolu's main island (USDOS, 2016).

Samoa's market size is increasing persistently. Its GDP reached 800 million USD in 2020, with an annual growth rate of 2.5 percent, up from around 600 million in 2010 (World Bank, 2022). Samoa's economy is predominantly service-based. The service sector accounted for 66 percent of GDP, followed by industry (23.6%) and agriculture (10.4%) (TWF, 2022). Tourism, agriculture, fisheries, and trade services are the economy's foremost pillars. Agriculture: 24.4 percent of the land area of 2,934 km^2 is used for crops that last a long time. It also makes up two-thirds of the workforce and accounts for 90 percent of the country's exports, which include coconut cream, coconut oil, noni juice, and copra (TWF, 2022). However, it has a large-scale merchandise trade deficit, mainly increasing import dependency on food items. Samoa has made significant strides in the renewable energy sector. It generates 60 percent of its electricity using hydro, solar, and wind energy. The Electric Power Corporation has set a target of producing 100% renewable energy by 2021 (RNZ, 2018).

Overall, social indicators in Samoa sound good. The mortality rate, under 5 per 1,000 live births, in Samoa has been improving. In 2019, it reached 17 from 19.3 in 2010. Samoa has significantly improved its education. In 2020, the adult literacy rate was reported at 99.1 percent, which was higher than the recorded 98.9 percent in 2011. Life expectancy at birth in Samoa is persistently increasing; it reached 73.3 years in 2019 from 71.7 years in 2010 (World Bank, 2022).

In recent times, the economy has been lubricated by development aid, remittances, and agricultural exports. In the last three decades, Samoa has sharply reduced its dependency on external assistance. For example, in 1991, net ODA inflows were 48.4 percent of GNP, but in 2011 and 2019, they were only 14.2 and 15.2 percent, respectively. Similarly, personal remittances received as a percentage of GDP has been found to be on an increasing trend. It increased from 21.9% in 2010 to 25.3% in 2020. Samoa's FDI inflow is inconsistent and insignificant. It has slowly increased in size from 0.05 percent of GDP in 2010 to 0.5 percent in 2020 (World Bank, 2022).

Table 5.4: Average annual growth rate of major economic indicators of Samoa during pre-and post-graduation period

S. N.	Indicator	Pre-graduation period (2003 - 2013)	Post-graduation period (2014 - 2020)
1.	GDP growth (annual %)	1.6	2.0
2.	GDP per capita (current $)	3,172	4,137
3.	GDP per capita, PPP (Current international $)	5,177	6,347
4.	Export	-	-
5.	Import	-	-
6.	FDI, net inflow (% of GDP)	2.1	1.7
7.	External debt (% of GNI)	46	55
8.	Net official development assistance received, growth (constant 2018 US$)	10	5.3

Source: World Bank (https://data.worldbank.org/country/samoa).

5.4.1. LDC graduation experience of Samoa

Samoa has adopted a progressive strategy for uplifting the economy. Agriculture, tourism, fisheries, and remittance inflow are the major pillars of augmenting the country's economic profile. Social development indicators have been appreciable for many decades. Despite of devastating tsunami in 2012, CDP declared its graduation in January 2014. (CDP, 2015). After the cyclone blast, economy was reconstructed by agriculture and reconstruction operations (ADB, 2014).

Table 5.4 summarizes the pre and post macro-economic story of Samoa's LDC graduation. The story is worthwhile for the countries that have similar resource constraints in the world. Samoa's macro-economic profile shows the mixed results of LDC graduation. Graduation has a positive effect on GDP, per capita GDP, GDP per capita PPP, and net ODA inflow. On the contrary, FDI inflow and external debt have experienced negative motivation.

Samoans' average GDP growth rate between 2003-2013 was low, i.e.,1.6 percent per annum, and during 2014-2020 it increased to 2 percent. GDP per capita and GDP per capita PPP rose from 3172 and 5177 USD in 2003 to 4137 and 6347 USD in 2014-2020, respectively. However, there has been a fall in FDI by 2.1 to 1.7 after graduation. After LDC graduation, Samoa has had success in reducing its foreign assistance dependency. Between 2003 and 2013, it's growth was 10%, but only by 5.3 percent between 2014 and 2020 (Table 4.1).

5.5. Equatorial Guinea

Equatorial Guinea, formally the Republic of Equatorial Guinea, is a country in the northern hemisphere located on the west coast of Central Africa. It covers an area of 28,000 square kilometres. It is divided into two geographical regions: an insular region (a small volcanic island that is the only section of the country located south of the equator) and a mainland region. The country had a population of 1.5 million as of 2021 estimation (UN, 2022). Equatorial Guinea spans multiple ecoregions and was ranked 30th in the world out of 172 countries (Grantham, et al., 2020). Equatorial Guinea is home to gorillas, chimpanzees, and a variety of other exotic animals. They are the touristic creatures of the country. Equatorial Guinea is the third-largest oil producer in Sub-Saharan Africa (Blum, 2004). The discovery and subsequent exploitation of substantial oil reserves in 1996 resulted in a dramatic boost in government revenue.

Between 2000 and 2010, Equatorial Guinea experienced unprecedently the highest yearly average growth in GDP—17 percent (Glenday, 2013). Equatorial Guinea had the greatest GNI per capita of any African country, 83 times that of Burundi, the world's poorest country during 2012 (World Bank, 2012). In 2000, the GDP of Equatorial Guinea was only 1 billion USD. It suddenly grew and reached its highest point in history—22 billion in 2012—and then plummeted to 10 billion in 2020. Despite its excellent GNI, Equatorial Guinea suffers from acute poverty as a result of wealth inequality, i.e., few people have control over the oil resources. According to the Gini Index, it is one of the most unequal countries in the world, with 70 percent of the population living on less than a dollar per day. The country is ranked 145th out of 189 countries on the 2019 HDI. However, the country is expected to enter a new recession in 2022, with real GDP falling by 4.4 percent (ADB, 2019). However, the economy is struggling with pre-recessionary symptoms because of widespread corruption (Sena, 2021).

Overall, the social development of Equatorial Guinea is not impressive. It is ranked 144th in the 2019 human development index. Most people do not have enough access to safe drinking water. The mortality rate in the country is improving. It decreased from 155.7 per 100,000 live births in 2010 to 78.5 in 2020. The maternal mortality ratio, from the latest survey in 2011, shows 380. The life expectancy of citizens has increased. It was 55.6 years in 2010 and reached 58.7 years in 2020. Many people in the country are being trafficked, forced to work for little pay, and traded in sex (BBC, 2014).

Furthermore, the export of goods and services to the GDP of Equatorial Guinea is in a decreasing trend. In 2010, it was 88.8 percent, and it reached 43.3 percent in 2020. The main three export items of Equatorial Guinea are natural gas, crude oil, and alcohol. Equatorial Guinea exports 68 percent of total crude oil exports to China, India, Spain, the United States, and other countries; 20 percent of total exports to Singapore, South Korea, Brunei, and other countries; and 6 percent of total exports to Spain, the Netherlands, the United States, and other countries. The main import items include gas turbines, beer, valves, iron products, etc. The major import partners are China, the UAE, the USA, Turkey, and Nigeria (OEC, 2022). Similarly, the country's external financial situation is not stable. The FDI inflow and net ODA receipt are both in a declining trend. FDI was 16.8 percent of GDP in 2010 and is expected to be 5.3 percent in 2020. Similarly, net ODA increased from 0.88 percent of GNP in 2010 to 7.9 percent in 2019 (World Bank, 2022).

Table 5.5: Average annual growth rate of major economic indicators of Equatorial Guinea during pre-and post-graduation period

S. N.	Indicator	Pre-graduation period (2006 - 2016)	Post-graduation period (2017 - 2020)
1.	GDP growth (annual %)	2.4	-5.7
2.	GDP per capita (current $)	17,212	8,809
3.	GDP per capita, PPP (Current international $)	32,435	20,161
4.	Export	0.34	-7.7
5.	Import	4.2	-3.32
6.	FDI, net inflow (% of GDP)	5.2	3.16
7.	External debt (% of GNI)	-	-
8.	Net official development assistance received, growth (constant 2018 US$)	182	287

Source: World Bank (https://data.worldbank.org/country/equatorialguinea).

5.5.1. LDC graduation experience of Equatorial Guinea

The Republic of Equatorial Guinea, endowed with oil and gas resources, achieved rapid economic growth in the late 2000s. However, it has one of the world's lowest rankings in various global indices. At the macro level, oil and gas resources have become the prime cause of economic prosperity. Equatorial Guinea successfully passed the LDC graduation criteria after CDP's review. The country graduated from an LDC to a developing country in 2017.

Table 5.5 shows the summary of the comparative analysis of macro-economic indicators in Equatorial Guinea for pre- and post-graduation period. It is a uniquely graduated country. When it was declared a developing country, it was already bearing a sharply declining GDP growth rate. Consequently, the global pandemic of COVID-19 escalated the problem in Equatorial Guinea.

All the macro-economic indicators reported a negative trend after 2017. Between 2017 and 2020, the average GDP growth rate was 6 percent, compared to 2.4 percent between 2006 and 2016. GDP per capita and GDP per capita in PPP declined as well. The growth rates of import and export were negative. They were 0.34 and 4.2 percent, respectively, between 2006 and 2016. However, between 2017 and 2020, the growth of exports declined by 7.7 percent annually and imports by 3.3 percent. FDI attractiveness declined between 2017-2020 and reached 3.2 percent of GNI, which was down from 5.2 percent between 2006-2016. The country has been experiencing a significant dependency on ODA, even after the LDC graduation. Between 2006 and 2016, ODA increased by 182 percent, and between 2017 and 2020, it was increased by 287 percent. The combination of a sharp drop in oil prices in early 2020 and a coronavirus pandemic was expected to shrink the economy by nearly 9 percent (USDS, 2020). Hence, in the case of Equatorial Guinea, the LDC graduation effect is opaque on various macroeconomic indicators.

5.6. Lesson to Nepal

Looking at the overall impact of LDC graduation on the various sectors of the economy in five graduated countries, mixed lessons are observed and extracted. Few macroeconomic indicators are seen at better off situation after graduation and some are not. Hence, the exact either positive or negative implications cannot be predicted in the case Nepal by observing the profile of these five countries. However, majority of the graduated countries have been experiencing increasing trend of FDI inflow. It might be due to the confidence of foreign investors for investment. Nepal could take this lesson as one of the major strategies for country's sustainable development and prosperity after graduation.

In spite of the diverse experiences of LDC graduation, these stories could be worthful lesson to Nepal. For instance, Botswana Republic, which is a similar landlocked country like Nepal, has very unique experiences. Botswana's situation is similar to Nepal as the country is dominated by the service sector in its share of GDP. After LDC graduation, Botswana has increased its FDI stock and reduced its foreign loan dependency. In the case of Nepal, FDI stock is very low in 2021—only 0.9 percent of GDP, and the loan-to-GNI ratio is 23 percent (World Bank, 2022)—much higher than Botswana's loan, i.e., 11 percent. Hence, looking at the case of Botswana, Nepal could focus to increase FDI in the country. Nepal's export-GDP ratio is 2.5 percent, while Botswana's is 39 percent. Hence, Nepal needs to augment its export capacity. Botswana is reliant on food imports because it has only 0.65 percent of arable land. Nepal has a massive staple-food trade deficit despite having 15 percent arable lands (World Bank, 2022). Nepal has huge potentiality to be self-sufficient on staple food.

Cape Verde, a country dominated by the service sector (58 percent of GDP) and 50 percent export-GDP ratio, with only 2 percent arable land, arid and infrequent rainfall, has been experiencing significant increase in FDI inflow and ODA after graduation. Similarly, the Maldives, has also been experiencing significant increase in FDI inflow in tourism sector after graduation. Looking at the experiences of these two countries, Nepal could focus to increase FDI inflow in various sectors through sound and effective economic diplomacy.

Tourism, agriculture, fisheries, and trade services are the Samoan Republic's foremost pillars. However, it has a large-scale merchandise trade deficit, mainly increasing import dependency on food items. Samoa has made significant strides in the renewable energy sector. It generates 60 percent of its electricity using hydro, solar, and wind energy. The Electric Power Corporation has set a target of producing 100 percent renewable energy by 2021. Nepal could take lesson from Samoa as hydroelectricity is one of the most potential sectors of export for Nepal.

Chapter 6
Conclusions and Recommendations

6.1. Conclusions

Nepal is one of the 46 least developed countries in the world. Nepal's underdevelopment in connection to economic diplomacy is basically reflected in terms of huge trade deficit, small inflow of foreign investment, domination of unskilled labour force in foreign employment, and inability of attracting potential number of international tourists. Of course, all these components are ultimately associated with poor economic diplomacy.

Nepal has met the threshold level for LDC graduation in two criteria. Therefore, the country is viable to graduate from LDC group to the developing countries' group in 2026. Nepal is only the country amongst all eligible countries that secured the graduation requirement without meeting the GNI per capita threshold criteria.

Graduation from the LDC category has a number of prospects and challenges. Graduation basically increases foreign investment for both public and private sectors as the country is positively viewed by international investors. It increases national pride as well as the collective self-confidence of the people and leaders. Consequently, it leads to a stronger position in international negotiations with multi and bi-lateral organizations. On the other hand, graduation entails the phasing out of access to LDC-specific international support measures—trade-related special and differential treatment, targeted official development assistance (ODA) that includes concessional financing and technical assistance, and other support measures.

The main objective this policy paper was to analyse the implications of Nepal's LDC graduation on various components interlinked with economic diplomacy. The findings of this study show that Nepal has not been able utilize the trade preferences optimally that are provided to the LDCs. However, the county has huge opportunity to attract FDI after graduation. In this particular context, the role of economic diplomacy has become the top of the any other agendas concerned to the post LDC graduation. Through sound and effective diplomacy, Nepal could increase its internal capacity by attracting FDI and investing it in manufacturing sector.

There are altogether 30 embassies, 3 permanent missions to the UN and other international organizations, 7 consulate generals, and 53 honorary consuls. almost all major countries in which sound and effective economic diplomacy is needed have Nepalese embassy. However, due to the problems like the lack of proper institutional setup, and specialized human and financial resources and its optimum utilization, visible output has not been observed towards almost all the components of economic diplomacy including attracting FDI and tourists; effective management of foreign employment and remittances; enhancing development cooperation; and utilize the special and differential treatment in foreign trade.

6.2. Recommendations

Legal reform

I. **Agreement between the Government of Nepal and destination countries to make foreign employment safe, dignified and productive:** The Foreign Employment Board, Government of Nepal has made an agreement with the Social Security Organization of Malaysia with a view to make foreign employment safe, dignified and productive and to link the Nepalese worker in Malaysia with social security programme of Malaysian government. Similar type of agreement is needed with other destination countries. It should also be oriented to mitigate labour disputes.

Institutional reform

II. **Establishment of post-graduation economic diplomacy cell at the IFA:**
Although Nepal is eligible for most preferential schemes provided by developed countries, Nepal's trade performance has not been encouraging. Trade deficit has widened over the time. Studies show that the impact of LDC graduation on Nepal's trade performance would be minimal. However, the country has huge opportunity to attract FDI. In order to realize these potentialities, an 'Economic Diplomacy Cell' need to be established at the IFA. The cell will be responsible to analyse the research-based situation and suggest the strategic policy and actions to be taken by the Government of Nepal.

III. **Establishment of an Economic Diplomacy Department or Section at MoFA and diplomatic missions abroad:** The Policy, Planning, Development Diplomacy and Nepali Diaspora Section at the Ministry of Foreign Affairs has generalized nature of responsibilities. LDC graduation requires the establishment of an Economic Diplomacy Department or

Section at MoFA as well all the diplomatic missions including embassies, permanent missions, consulate generals, and honorary consuls.

Human resource reform

IV. **Recruitment:** Recruitment of the officials working in foreign affairs sector has historically been from the generalized academic discipline. It needs to be reformed. Hence, MoFA should develop a disaggregated recruitment plan for the ministry as well as the diplomatic mission abroad and submit demand accordingly to the Public Service Commission.

V. **Capacity building:** Onboarding training to the new employees, on-job and refresher training courses should be provided to the employees on regular basis. It will enhance their performance in economic diplomacy. The process will update the are essential to Regular

Financial reform

VI. **Resource allocation:** IFA and diplomatic missions abroad are under financed to implement their pans, programmes and activities effectively. Hence, the GoN need to increase the budget.

VII. **Resource utilization:** Optimum utilization of resources is the key for LDCs. Hence, MOFA need to prioritize its activities and develop an action plan for the optimum allocation of available resources.

Progarmmatic reform

VIII. **Motivational programmes to enhance participation of Nepali diaspora**: Regarding the actions and activities related to the economic diplomacy, MoFA and diplomatic missions primarily work in collaboration with various diaspora including the government, non-government and private sector institutions of Nepal; and various similar organization abroad. In order to increase their active participation in such activities, motivational activities need to be organized by MoFA and IFA.

IX. **Effort in increasing exports:** Nepal needs to boost the existing foreign markets through the bilateral, regional, multilateral, and network of diaspora. Second, Nepalese diplomats need to focus on country specific and product-specific programmes, i.e., tea for Germany and Russia; water for Arab countries; coffee for South Africa; and moreover, guided by NTIS.

X. **Focus to attract FDI:** Graduation will provide a strong message of Nepal's economic progress and independence in international arena. It will obviously increase confidence among the foreign investors for investment in Nepal which will supportive to attract FDI in the country. Looking at the comparative advantage in hydro-electricity, tourism, and agro and forest-based products as identified by NTIS 2016, Nepal needs to focus on attract FDI in these sectors.

XI. **Attention towards health tourism:** Nepal is becoming one of the best destinations for health tourism in the world. Establishment of wellness, meditation, yoga, and ayurveda centres at major tourist destinations of the country is required to attract tourists. The centres need to be established by following the Public-Private Partnership (PPP) development model. FDI could also be a good avenue. It will be supportive to increase the number of tourists as well as length of their stay. For this, Nepal needs a long-term road-map to popularize it.

XII. **Investment in production of fisheries, fruits, vegetables, and oil seeds:** Nepal has been importing significant amount of fisheries, fruits, vegetables, and oil seeds. The supply side bottleneck of these products are causing a higher price index. Therefore, Nepal needs a significant investment on these sectors to reduce the negative trade balance. Significant investment in this sector helps in youth employment on one side, and on another side, it combats to foreign movements of labours.

XIII. **Attention towards equitable development:** Significant differences on various LDC criteria among the provinces are reported. The gaps are also prevalent among ecological belts, ethnic groups and other various clusters of the country. Hence, special attention is needed towards equitable development to sustain the gradation achievement countrywide.

XIV. **Need of big push for the development of manufacturing sector:** Nepal has not met the threshold of the income criterion of the LDC graduation. It is largely associated with the underdevelopment of the manufacturing sector in the country. Therefore, significant investment is required for the development of the manufacturing sector.

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Annex 1: Export Incentive

Certain products of Nepal are listed in the export incentive list. These products have had special preferences during international transactions by domestic and international governments in the different structures: cashback, duty drawback, duty-free quota, and so on.

1. Export Incentive by Nepal

1.1. Cash Incentive Scheme for Export

Nepal government provides cash incentives ranging from 3-5 percent of the total value of export transactions for a certain bundle of products. The exporters of Nepal can avail of the cashback scheme according to the product exported and value addition. 5 percent cashback products need to prove that domestic value addition is more than 30 percent to avail of the facility.

Table 1: The products listed in the cashback incentive scheme

Eligible products for 5% cashback	Eligible products for 3% cashback
Processed Tea and Coffee, Handicraft and Items; Processed Leather and its Product; Processed herbs and essentials oils; processed semi-precious stones and jewelry with those stones; *allo* products; processed water/mineral water; processed turmeric; vegetables; processed honey; processed black cardamom; and processed ginger and its products.	Domestically produced textiles; readymade garment; carpet and wool products; items made from Chyangra and Pashmina; jute and jute products; gold and silver jewelry; semi-processed leather; medicines; felt products; yarns of polyester, viscose, acrylic, and cotton; and items made from bronze.

Source: Trade and Export Promotion Centre, Government of Nepal.

3 percent cashback items can avail up to 5 percent cash incentive if the value addition of these products is 50 percent. By the same token, if this value addition is higher than 40 percent and they are exported under a collective trademark then such products can be availed for 4 percent cash back.

The exporters need to get a value addition certificate issued by the Department of Commerce, Supplies, and Consumer Protection for the exportable products at the beginning of each fiscal year. The value addition rate for an item is determined based on export price (free on board) and the value of foreign-originated material used.

1.2. Duty Drawback

Nepal government provides a refund of taxes and duties paid for the import of raw materials and auxiliary raw materials—for example, packing materials not produced in Nepal—provided the products thus manufactured are exported. The facility can be applied to the customs office concerned in the specified form within 12 months of the import for release or refund of the deposit.

2. Export Incentive Provided by Foreign Countries

2.1. Generalized System of Preference (GSP)

The General System of Preference provides the preferential duty treatment—in the form of partial import duty or duty-free-quota-free form—of imported goods originating in beneficiary countries. GSP was instituted in 1971 under the aegis of UNCTAD (United Nations Conference on Trade and Development). The 15th member countries that grant GSP preferences to the LDCs, are Armenia, Australia, Belarus, Canada, the European Union, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey, United Kingdom, and the United States of America. Nepal is provided GSP by European Union (including 28 members), USA, Australia, Canada, Japan, Turkey, and South Korea.

Table 2: GSP Providers to Nepal

1. GSP	Condition
European Union	
Nepal can avail of fully duty-free-quota-free access for all products except arms and ammunition.	• The goods must be originated in Nepal under EU GSP Rules of Origins. • During transportation, the goods must not be altered, transformed, or subjected to operations other than operations performed to preserve them in good condition. • A valid proof of origin must be submitted.
2. The United States of America	
The USA provides Nepal special treatment regarding duty-free access. Approximately 5000 different products are eligible under the GSP programme.	• Must be included in the eligible criteria. • Must be imported into the USA directly from Nepal, without entering the commerce of a third party country. • Must be grown, produced, or manufactured in Nepal, with the cost of the Nepali materials plus the cost of processing equal to at least 35 % of the product's sales price. • The US importer must claim either the Nepal Trade Preference Program or GSP duty.

3. Japan	
Japan grants preferential tariff treatment to Nepal under its JSP scheme.	• The Rule of Origin (RoO) must be fulfilled to enjoy the privilege of zero duty and quota-free treatment. • Japan's donor country content rule permits flexibility in origin criteria by providing preference to countries that import materials from japan and use them in the production of goods exported back to Japan.
4. Australia	
Nepal is eligible for the Australian System of Tariff Preference (ASTP) based on the general principle of five percentage point margin of preference, where the General Tariff (GT) rate is 5% or higher, for goods from the beneficiary. Where the GT rate is less than 5 %. The ASTP rate is zero	• The preference margin does not apply to the excise duty component of import duties applying to certain potable spirits, tobacco, and petroleum products because Australian- made products of the same kind are also subject to excise duties. • To be eligible for preference under the ASTP: 1. The final process of manufacture must have been carried out in the country claiming preference 2. At least half of the total factory or cost of the goods must consist of this requirement any Australian content may be counted as if it were developing country content.
The handicraft by-law allows duty-free entry for all goods which conform with it.	• Fabric containing not less than 90 % by weight of natural fibers, being fabric; goods containing not less than 90% by weight of natural fibers, made up from fabric or yarn, that are handed crocheted, hand-knitted, hand netted, or handwoven, being goods collector is satisfied made by one or more of the following processes: 1. By hand 2. By non-mechanical, non-powered tools held in the hand, and 3. Produced on hand- or- foot-powered looms.
5. Switzerland	
The swiss GSP for Nepal covers all industrial goods and agriculture products and provides preferential treatment in the form of duty-free- quota-free access.	• The Swiss GSP.. which includes rules of Origin the products must comply with to qualify for GSP treatment. Is identical to those of the EU for industrial products. Concerning agriculture products, the rules of origin are specific to the Swiss GSP and apply the method of tariff heading change except for products, i.e. starches, malt extract, cereal products, bread, pasty, cakes.
6. Turkey	
Nepal has duty-and quota-free access to Turkish markets for all industrial products falling under chapters	• All products originating in LDCs countries are provided with duty-free and quota-free treatment RoO. • The rules of origin of the Turkey GSP scheme are aligned to those of the EU

25-97 (except chapter 93).	

7. Canada

Canada provides duty-free access to all products from LDCs. Nepal had been granted favorable treatment than product coverage and the rules RoO of the Canadian GSP scheme, named GPT (General Preferential Tariff).	• The scheme takes the exception of over-quota tariff items for dairy, poultry, and egg products. • Rules for RoO for LDCT (Least Developing Country Tariff) textile and Clothing: 1. Yearns and sewing threads acquire originating status if they are spun or extruded in the LDC and do not undergo further processing outside an LDC. 2. The fabrics do not undergo further processing outside an LDC. 3. Apparel products are deemed originating in an LDC if they are assembled in an LDC from fabric cut in that country or Canada, or from parts knit to shape, provided the fabric, or the parts knit to shape, are produced in any of the following countries. • *RoO for other commodities:* (a) Mineral products extracted from the oil or seabed of the country (b) Vegetable products harvested in the country. (c) Live animals born and raised in the country, (d) Products obtained in the country from live animals (e) Products obtained by hunting or fishing in the country (f) Products of sea fishing and other marine products are taken from the sea by vessels of the country, (g) Products made onboard factory ships of the country exclusively from products referred to in paragraph, (h) Waste and scrap resulting from manufacturing operations of the country, (i) Used articles of the country imported into Canada for use only for the recovery of raw materials, (j) Goods produced in the country exclusively from the products referred to in paragraphs (a) to (h). • *Goods with imported content:* Originating contents need to be equal to or greater than 60 % for GPT and equal to or greater than 40% for LDCT market access.

8. China

China provides zero-tariff treatment to about 8000 goods originating in Nepal. These goods make up 95% of the total export of Nepal to China.	• Goods wholly obtained or produced entirely in Nepal shall be regarded as originating in Nepal, for instance: (a) Live animals born and raised in Nepal; (b) Goods obtained in the beneficiary country from the animals specified in paragraph (a) above; (c) Plants and plant products harvested, picked, or collected in Nepal (d) Goods obtained by hunting or fishing in Nepal;

(e) Fish, shellfish, and other marine life taken outside the territorial waters by vessels registered or recorded in Nepal and entitled to fly the flag of Nepal;
(f) Goods obtained from the processing of goods listed in paragraph;
(g) above on board a factory ship registered or recorded in Nepal and entitled to fly the flag of Nepal;
(h) Minerals and other naturally occurring substances extracted in Nepal or goods, exclusive of fish, shellfish, and other marine life, taken or extracted from the waters, seabed or subsoil beneath the seabed outside the territorial waters of Nepal, provided that the beneficiary country has the right to exploit such waters, seabed or subsoil beneath the seabed;
(i) Used goods collected in Nepal which are produced from consumption in that country and fit only for the recovery of raw materials;
(j) Waste and scrap which are produced from processing or manufacturing operations in Nepal and fit only for the recovery of raw materials;
(k) Goods obtained through processing

- Goods not wholly obtained or produced entirely in Nepal shall be regarded as originating provided that the last substantial transformation has been performed in Nepal. The criterion for "substantial transformation" under this rule shall be "ad valorem percentage" (the ad valorem percentage shall be no less than 40%), or "Change in Tariff Classification" (four-digit tariff heading changes under the "Harmonized System").
- Goods claimed to be eligible for the Duty-free Treatment shall comply with the following direct consignment rule:
  i. Goods are transported directly from Nepal to ports of entry in China.
  ii. For goods which are transported to China through a third country or region, for geographical reasons or by consideration related exclusively to transportation, with or without transshipment or temporary storage of up to 3 months in such country or region:
    1. The goods do not enter into trade or consumption there; and
    2. The goods do not undergo any operation there other than unloading and reloading or any other operation required to keep them in good condition.
  iii. The goods which are put in temporary storage in a third country or region shall be subject to customs control in such country or region.

9. South Korea

The Government of the Republic of Korea provides preferential duty access to Nepali goods. The preferential

- *Product coverage:*
  The total number of items that preferential tariffs are applied to is 4,802 out of 5,052 items on an HS 6-digit basis, which amounts to 95%.

tariff rate is zero for all products without quotas. In the case of products eligible for minimum market access under the Presidential Decree on Tariff Concessions Granted Under the World Trade Organization Agreement and Other Agreements, preferential tariffs apply only to the in-quota amount.	a) For industrial products, almost every item is covered except for a small number of sensitive items such as crude oil and petroleum products. b) For agricultural and fishery products, 483 items, or about 63%, are covered, with the exceptions being some sensitive items including rice, beef, pork, etc. • *Rules of origin:* 1. Products eligible for preferential tariffs shall be wholly produced or obtained in the exporting country, such as: a) Raw materials or mineral products extracted from the soil, waters, or seabed; b) Agricultural and forestry products harvested; c) Animals born and raised and products obtained from such animals; d) Products obtained by hunting or fishing conducted; e) Marine products caught on the high seas by vessels (60% of the equity of which is owned by a citizen or the Government of the exporting country, or corporation or association legitimately registered in the exporting country of the exporting country and products manufactured or processed, using such products as a material; f) Used articles collected in the exporting country, fit only for the recovery of raw materials; g) Waste and scrap resulting from manufacturing operations conducted; h) Goods produced in the exporting country exclusively from the products referred to in subparagraphs (a) to (g) above. 2. Products which are finally manufactured or processed in the exporting country by using products, as input, which originates from countries other than the exporting country, or the origin of which is not determined, shall be eligible for preferential tariffs if the value of the inputs does not exceed 60% of the FOB price of the final products. 3. The value of inputs referred to in paragraph (2) above shall be calculated in the following order: (a) The value including freight and insurance cost at the time of importation to the exporting country (cost, insurance, and freight (CIF) price); (b) The ascertainable price is paid first for the inputs in the exporting country. 4. Those who wish to receive preferential tariffs shall submit a certificate of origin issued by the government of the exporting country or an authority designated by the government of the exporting country

Source: Trade and Export Promotion Centre, Government of Nepal**.**

Annex 2: Major export partners of Nepal, 2020

S.N.	Importers	Export value (in millions)	% of Total Export
	Total export of Nepal	101,333.1	100.00
1.	India	73,910.1	72.94
2.	U.S.A.	10,287.6	10.15
3.	Germany	2,800.4	2.76
4.	U.K.	2,031.2	2.00
5.	Turkey	1,456.4	1.44
6.	France	1,143.8	1.13
7.	Japan	931.2	0.92
8.	Canada	755.9	0.75
9.	Australia	735.5	0.73
10.	China P. R.	681.0	0.67
11.	Italy	662.8	0.65
12.	Bangladesh	478.1	0.47
13.	Netherlands	434.7	0.43
14.	Switzerland	409.9	0.40
15.	Kenya	402.3	0.40
16.	Denmark	374.5	0.37
17.	Hongkong, SAR of China PR	343.8	0.34
18.	U.A.E.	278.5	0.27
19.	Indonesia	262.4	0.26
20.	Belgium	246.7	0.24
21.	Other	2,705.8	2.67

Source: Trade and Export Promotion Centre, Government of Nepal**.**

Annex 3: Major export products of Nepal in India, 2020

S. N.	HS Code	Products	Export value (in millions)	% of Total Export
		Total export of Nepal	73,910.1	100.00
1.	15079000	Soyabean oil	24,431.7	33.06
2.	15119000	Palm oil	5,385.9	7.29
3.	9083110	Big Cardamon (Alaichi), neither crushed nor ground	5,011.9	6.78
4.	9024000	Black tea fermented	3,513.2	4.75
5.	53109000	Woven fabric of jute or bast fibres	3,117.1	4.22
6.	54072000	Woven fabric obtained from strip or the like	2,804.4	3.79
7.	20099000	Mixture of juices	2,420.771	3.28
8.	63051000	Jute bags and sacks	2,212.3	2.99
9.	55092100	Single yarn, containing 85% or more by weight of polyester staple fibres	1,842.7	2.49
10.	23064100	Oil-cake and other solid residues of low erucic acid rape or colza seeds	1,691.8	2.29
11.	12119090	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	1,336.8	1.81
12.	55093200	Multiple (folded) or cabled yarn containing 85% or more by weight of acrylic or modacrylic staple fibres	1,323.2	1.79
13.	73239300	Table, kitchen or household articles of stainless steel	1,007.4	1.36
14.	14049020	Vegetable products (khayar kattha)	945.9	1.28
15.	33061000	Dentifrices (toothpaste)	900.3	1.22
16.	30039040	Battisa, Drakshab, Trifala, Kabjahar, Chyawanprash, Kesari Jeevan etc,not put up in measured doses or in forms of packings for retail sale	871.6	1.18
17.	55095100	Yarn of polyester staple fibres, mixed mainly or solely with artificial staple fibres	783.7	1.06
18.	38061000	Rosin and resin acid	765.1	1.04
19.	64041900	Footwear with outer sole of rubber or plastics	655.5	0.89
20.	19023000	Pasta	642.8	0.87

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 4: Major export products of Nepal in USA, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	*10,287.6*	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	3,294.6	32.02
2.	56029000	Felt	1,363.6	13.25
3.	23091000	Dog or cat food	1,275.596	12.40
4.	70131000	Glassware of a kind used for table of glass ceramic	571.0	5.55
5.	57021000	\`kelem\` , Schumacks \`, Karamaine\` and similar hand-woven rugs	236.6	2.30
6.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	222.8	2.17
7.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	200.3	1.95
8.	56022100	Felt, whether or not impregnated, coated, covered or laminated of wool or fine animal hair	187.8	1.83
9.	62043200	W&G cotton jacket, not knitted	186.8	1.82
10.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	184.5	1.79
11.	92060000	Percussion musical instrument	180.0	1.75
12.	70181010	Bangles, Tika , Tikuli & beads	168.7	1.64
13.	63052000	Cotton sacks and bags	132.9	1.29
14.	71131100	Articles of silver jewellery, whether or not plated or clad with other precious metal	131.3	1.28
15.	97011000	Paintings, drawings and pastels	129.1	1.26
16.	33019000	Essential oil	112.8	1.10
17.	19021900	Uncooked pasta, not stuffed or otherwise prepared	100.2	0.97
18.	62044200	W&G cotton dresses, not knitted	88.0	0.86
19.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	86.8	0.84
20.	62069000	W&G blouses, shirt of textile material, not knitted	71.4	0.69

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 5: Major export products of Nepal in Germany, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	*2,800.4*	*100.00*
1.	57011000	Carpet, knotted of wool or fine animal hair	670.0	23.92
2.	62142000	Woollen shawls, scarves, mufflers, mantillas, veils and the like	614.7	21.95
3.	56029000	Felt	220.3	7.87
4.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	118.5	4.23
5.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	114.5	4.09
6.	62043200	W&G cotton jacket, not knitted	108.8	3.89
7.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	106.7	3.81
8.	62044200	W&G cotton dresses, not knitted	84.4	3.01
9.	92060000	Percussion musical instrument	71.1	2.54
10.	9022000	Green tea not fermented	62.0	2.21
11.	9024000	Black tea fermented	56.1	2.00
12.	61101100	Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted	50.4	1.80
13.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	37.9	1.35
14.	63052000	Cotton sacks and bags	37.1	1.32
15.	61169100	Woollen gloves, knitted	33.7	1.20
16.	9101200	Ginger, crushed or ground	33.0	1.18
17.	92021000	String musical instrument, played with a bow	29.5	1.05
18.	12119090	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	29.4	1.05
19.	9011100	Coffee, neither roasted nor decaffeinated	28.6	1.02
20.	85049000	Parts of electrical transformers	26.5	0.95

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 6: Major export products of Nepal in UK, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	2,031.2	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	479.8	23.62
2.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	243.5	11.99
3.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	207.0	10.19
4.	62043200	W&G cotton jacket, not knitted	205.0	10.09
5.	56029000	Felt	146.1	7.19
6.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	129.2	6.36
7.	62044200	W&G cotton dresses, not knitted	118.9	5.86
8.	61101100	Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted	70.3	3.46
9.	48194000	Sack and bags, including cones	61.9	3.05
10.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	29.4	1.45
11.	61161000	Gloves, Impregnated, coated or covered with plastics or rubber	19.9	0.98
12.	56022100	Felt, whether or not impregnated, coated, covered or laminated of wool or fine animal hair	16.9	0.83
13.	11061000	Flour, meal and powder of dried leguminous vegetables	16.5	0.81
14.	62033100	M&B jacket and blazers of wool or fine animal hair	16.5	0.81
15.	61169100	Woolen gloves, knitted	16.0	0.79
16.	23091000	Dog or cat food	15.1	0.74
17.	55093100	Single yarn containing 85% or more by weight of acrylic or modacrylic staple fibres	14.7	0.73
18.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	14.0	0.69
19.	19042000	Prepared foods obtained from inroasted cereal flakes	13.6	0.67
20.	19049020	Beaten Rice (Chiura)	12.7	0.62

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 7: Major export products of Nepal in Turkey, 2020

S. N.	HS Code	Products	Export value (in millions)	% of Total Export
		Total export of Nepal	1,456.440	100.00
1.	55095100	Yarn of polyester staple fibres, mixed mainly or solely with artificial staple fibres	1,146.007	78.69
2.	55092100	Single yarn, containing 85% or moreby weight of polyester staple fibres	151.415	10.40
3.	55081000	Sewing thread of synthetic staple fibre	108.530	7.45
4.	55092200	Multiple or cabled yarn, containing 85% or moreby weight of polyester staple fibres	27.833	1.91
5.	57011000	Carpet, knotted of wool or fine animal hair	10.934	0.75
6.	41041900	Tanned or crust hides and skins of bovine or equinine animals, without hair on whether or not split, but not further prepared, in the wet state	5.008	0.34
7.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	2.082	0.14
8.	92060000	Percussion musical instrument	1.579	0.11
9.	56029000	Felt	1.127	0.08
10.	87111000	Motorcycles With reciprocating internal combustion piston engine of a cylinder capacity not exceeding 50 cc	0.784	0.05
11.	71179000	Imitation jewellery	0.522	0.04
12.	62044200	W&G cotton dresses, not knitted	0.419	0.03
13.	92021000	String musical instrument, played with a bow	0.168	0.01
14.	63101000	Used or new rags, scrap twine, cordage, sorted	0.023	0.00
15.	49111000	Trade advertising material, commercial catalogues	0.008	0.00

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 8: Major export products of Nepal in France, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	1,143.8	100.00
1.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	198.6	17.36
2.	57011000	Carpet, knotted of wool or fine animal hair	195.8	17.12
3.	33019000	Essential oil	148.1	12.95
4.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	95.9	8.39
5.	56029000	Felt	74.2	6.49
6.	61101100	Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted	49.1	4.29
7.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	42.2	3.69
8.	63019000	Blankets and travelling rugs	42.1	3.68
9.	12119090	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	35.6	3.11
10.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	32.4	2.83
11.	62063000	W&G cotton blouses, shirt, not knitted	21.4	1.87
12.	92060000	Percussion musical instrument	20.9	1.82
13.	62033200	M&B cotton jacket, not knitted	11.9	1.04
14.	9022000	Green tea not fermented	11.6	1.01
15.	62044200	W&G cotton dresses, not knitted	11.2	0.98
16.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	11.1	0.97
17.	62052000	M&B cotton shirt, not knitted	10.9	0.95
18.	12119000	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	10.0	0.87
19.	63052000	Cotton sacks and bags	9.5	0.83
20.	33012900	Essential oils other than those of citrus fruit	7.9	0.69

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 9: Major export products of Nepal in Japan, 2020

S. N.	HS Code	Products	Export value (in millions)	% of Total Export
		Total export of Nepal	**931.235**	100.00
1.	21039090	Other Sauces and preparations	77.484	8.32
2.	14049060	Skin of Argeli	61.972	6.65
3.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	60.937	6.54
4.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	55.944	6.01
5.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	52.194	5.60
6.	56029000	Felt	51.460	5.53
7.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	46.055	4.95
8.	42029200	Bags and similar articles with outer surface of plastic sheeting or of textile materials	45.981	4.94
9.	19021900	Uncooked pasta, not stuffed or otherwise prepared	31.883	3.42
10.	11010000	Wheat flour	31.881	3.42
11.	23091000	Dog or cat food	24.137	2.59
12.	84431300	Offset printing machinery	23.096	2.48
13.	9022000	Green tea not fermented	22.028	2.37
14.	62043200	W&G cotton jacket, not knitted	19.225	2.06
15.	67042000	Wigs of human hair	18.984	2.04
16.	57011000	Carpet, knotted of wool or fine animal hair	17.611	1.89
17.	61101100	Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted	13.668	1.47
18.	12119090	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	13.329	1.43
19.	4051000	Butter	12.966	1.39
20.	62044200	W&G cotton dresses, not knitted	12.251	1.32

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 10: Major export products of Nepal in Canada, 2020

S. N.	HS Code	Products	Export value (in millions)	% of Total Export
		Total export of Nepal	755.898	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	164.356	21.74
2.	23091000	Dog or cat food	115.552	15.29
3.	56029000	Felt	57.641	7.63
4.	63079090	Made up articles	49.788	6.59
5.	56022100	Felt, whether or not impregnated, coated, covered or laminated of wool or fine animal hair	38.394	5.08
6.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	30.395	4.02
7.	33019000	Essential oil	22.462	2.97
8.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	21.773	2.88
9.	62043200	W&G cotton jacket, not knitted	21.217	2.81
10.	61169100	Woolen gloves, knitted	18.337	2.43
11.	63059000	Sacks and bags	16.676	2.21
12.	62044200	W&G cotton dresses, not knitted	15.590	2.06
13.	92060000	Percussion musical instrument	13.158	1.74
14.	9022000	Green tea not fermented	11.767	1.56
15.	61101100	Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted	11.180	1.48
16.	63052000	Cotton sacks and bags	9.546	1.26
17.	62069000	W&G blouses, shirt of textile material, not knitted	9.003	1.19
18.	19021900	Uncooked pasta, not stuffed or otherwise prepared	8.964	1.19
19.	61052000	M&B shirts, knitted or crocheted of man-made fibres	8.316	1.10
20.	62063000	W&G cotton blouses, shirt, not knitted	7.907	1.05

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 11: Major export products of Nepal in Australia, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	735.543	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	114.321	15.54
2.	19021900	Uncooked pasta, not stuffed or otherwise prepared	108.371	14.73
3.	56029000	Felt	87.819	11.94
4.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	49.987	6.80
5.	21039010	Sauces and sauce preparations; mixed condi ments and seasonings, nes	34.598	4.70
6.	19049020	Beaten Rice (Chiura)	30.683	4.17
7.	62041200	W&G cotton suits	24.037	3.27
8.	19042000	Prepared foods obtained from inroasted cereal flakes	23.665	3.22
9.	71131910	Jewellery of Gold, including parts	20.164	2.74
10.	62043200	W&G cotton jacket, not knitted	17.756	2.41
11.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	14.933	2.03
12.	62044200	W&G cotton dresses, not knitted	14.911	2.03
13.	21069099	Food preparations not elsewhere specified or included.	14.647	1.99
14.	63052000	Cotton sacks and bags	13.450	1.83
15.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	11.830	1.61
16.	19019000	Malt extracts	10.468	1.42
17.	19021100	Uncooked pasta, not stuffed containing eggs	10.239	1.39
18.	19019090	Food prep's of goods of hdgs 0401-0404 or of flour, meal, etc not cont'g cocoa	8.641	1.17
19.	19049090	Other prepared cereals in grain form (excl . maize) nes.	7.654	1.04
20.	71131100	Articles of silver jewellery, whether or not plated or clad with other precious metal	6.407	0.87

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 12: Major export products of Nepal in China, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	681.016	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	149.699	21.98
2.	83062910	Other statuettes and other ornaments	70.294	10.32
3.	97011000	Paintings, drawings and pastels	67.936	9.98
4.	90013010	Entraocular lences	53.504	7.86
5.	12119090	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	31.219	4.58
6.	56029000	Felt	27.793	4.08
7.	97030000	Original sculptures and statuary in any material	27.295	4.01
8.	14049050	Rudrakshya	24.277	3.56
9.	74181000	Table, kitchen or other household articles and parts thereof; pot scourers and scouring or polishing pads, gloves and the like	17.008	2.50
10.	90200000	Breathing appliances and gas mask	16.959	2.49
11.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	16.103	2.36
12.	92060000	Percussion musical instrument	14.669	2.15
13.	62044200	W&G cotton dresses, not knitted	12.891	1.89
14.	83062900	Statuettes of base metal	10.308	1.51
15.	33049900	Cream and like preparations	9.453	1.39
16.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	9.053	1.33
17.	67042000	Wigs of human hair	8.196	1.20
18.	33019000	Essential oil	8.039	1.18
19.	71179000	Imitation jewellery	8.008	1.18
20.	14049090	Vegetable products	6.959	1.02

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 13: Major export products of Nepal in Italy, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	662.824	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	309.488	46.69
2.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	75.832	11.44
3.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	54.735	8.26
4.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	42.383	6.39
5.	61101100	Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted	40.114	6.05
6.	41062100	Tanned or crust hides and skins of goats of kids, without wool on whether or not split, but not further prepared, in the wet state	31.631	4.77
7.	61109000	Jersey, pullover, cardigans of textile materials	26.465	3.99
8.	62044200	W&G cotton dresses, not knitted	11.410	1.72
9.	61102000	Cotton jersey, pullover, cardigans	10.506	1.59
10.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	9.246	1.39
11.	97011000	Paintings, drawings and pastels	7.493	1.13
12.	62043200	W&G cotton jacket, not knitted	6.043	0.91
13.	92060000	Percussion musical instrument	3.444	0.52
14.	62045200	W&G cotton skirts, not knitted	3.161	0.48
15.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	2.582	0.39
16.	62063000	W&G cotton blouses, shirt, not knitted	2.499	0.38
17.	61043200	W&G cotton jacket knitted	2.414	0.36
18.	61044300	W&G dresses of synthetic fibres	2.316	0.35
19.	56022100	Felt, whether or not impregnated, coated, covered or laminated of wool or fine animal hair	2.268	0.34
20.	56029000	Felt	2.071	0.31

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 14: Major export products of Nepal in Bangladesh, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	478.128	100.00
1.	7134090	Red lentils	360.881	75.48
2.	23069000	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from extraction of vegetable fats or oils	43.190	9.03
3.	5069000	Bones and horn-cores, unworked, defatted, simply prepared, treated with acid or degelatinised, powder and waste of these products	26.113	5.46
4.	12119090	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	12.109	2.53
5.	9101190	Ginger	8.855	1.85
6.	21069099	Food preparations not elsewhere specified or included.	8.737	1.83
7.	32019090	Tanning extracts of vegetable origin	3.354	0.70
8.	15149910	Crude Oil of Canola	3.223	0.67
9.	14049080	Amriso	2.735	0.57
10.	17023000	Glucose and glucose syrup not containing fructose or containing in dry state less than 20% by weight of fructose	2.489	0.52
11.	41041900	Tanned or crust hides and skins of bovine or quinine animals, without hair on whether or not split, but not further prepared, in the wet state	2.445	0.51
12.	90158000	Surveying instruments	1.304	0.27
13.	9101110	Ginger, fresh	0.808	0.17
14.	20098900	Juice of any other single fruit or vegetable	0.749	0.16
15.	63101000	Used or new rags, scrap twine, cordage, sorted	0.470	0.10
16.	20099000	Mixture of juices	0.249	0.05
17.	20097900	Apple juice	0.181	0.04
18.	20091900	Orange juice	0.111	0.02
19.	20098100	Juice cranberry	0.081	0.02

20.	7041000	Cauliflowers and headed broccoli	0.028	0.01

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 15: Major export products of Nepal in Netherland, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	434.960	100.00
1.	56029000	Felt	66.953	15.39
2.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	62.903	14.46
3.	57011000	Carpet, knotted of wool or fine animal hair	40.073	9.21
4.	71171900	Imitation jewellery of base metal	37.201	8.55
5.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	30.374	6.98
6.	70181010	Bangales, Tika , Tikuli & beads	21.557	4.96
7.	62033100	M&B jacket and blazers of wool or fine animal hair	17.432	4.01
8.	71171100	Cuflinks and studs	13.041	3.00
9.	62043200	W&G cotton jacket, not knitted	12.797	2.94
10.	97011000	Paintings, drawings and pastels	10.994	2.53
11.	63052000	Cotton sacks and bags	10.054	2.31
12.	23091000	Dog or cat food	8.979	2.06
13.	67042000	Wigs of human hair	8.408	1.93
14.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	7.912	1.82
15.	92060000	Percussion musical instrument	7.626	1.75
16.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	7.290	1.68
17.	62043100	W&G woolen jackets	6.453	1.48
18.	71131100	Articles of silver jewellery, whether or not plated or clad with other precious metal	6.000	1.38
19.	61069000	W&G blouses, shirts and shirt-blouses of textile materials	4.844	1.11
20.	9011200	Coffee, not roasted, decaffeinated	4.533	1.04

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 16: Major export products of Nepal in Switzerland, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	409.874	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	146.657	35.78
2.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	145.063	35.39
3.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	19.894	4.85
4.	56029000	Felt	12.849	3.13
5.	97011000	Paintings, drawings and pastels	10.697	2.61
6.	92060000	Percussion musical instrument	10.205	2.49
7.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	6.701	1.63
8.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	5.543	1.35
9.	33019000	Essential oil	4.014	0.98
10.	9011100	Coffee, neither roasted nor decaffeinated	3.175	0.77
11.	33011900	Essential oil of citrus fruits	2.962	0.72
12.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	2.856	0.70
13.	71131100	Articles of silver jewellery, whether or not plated or clad with other precious metal	2.769	0.68
14.	83062910	Other statuettes and other ornaments	2.703	0.66
15.	64041900	Footwear with outer sole of rubber or plastics	2.461	0.60
16.	12112000	Gineseng roots	2.290	0.56
17.	97030000	Original sculptures and statuary in any material	1.998	0.49
18.	61033100	M & B woolen jackets and blazers, knitted or crocheted	1.680	0.41
19.	64042000	Footwear with outer soles of leather or composition leather and uppers of textile material	1.556	0.38
20.	63052000	Cotton sacks and bags	1.488	0.36

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 17: Major export products of Nepal in Kenya, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	402.265	100.00
1.	88023000	Aeroplane, of an unladen weight exceeding 2000kg but not exceeding 15,000kg	371.392	92.33
2.	88033000	Parts of aeroplane and helicopters	17.184	4.27
3.	84071000	Aircraft engines	12.008	2.99
4.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	1.666	0.41
5.	49019900	Printed books	0.015	0.00

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 18: Major export products of Nepal in Denmark, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	374.482	100.00
1.	56029000	Felt	204.670	54.65
2.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	47.146	12.59
3.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	46.527	12.42
4.	61101100	Woollen jersey, pullover, cardigans, sweater, waistcoat, knitted	20.211	5.40
5.	57011000	Carpet, knotted of wool or fine animal hair	8.488	2.27
6.	61109000	Jersey, pullover, cardigans of textile materials	5.806	1.55
7.	64041900	Footwear with outer sole of rubber or plastics	5.268	1.41
8.	14049070	Soapnut	3.055	0.82
9.	62043200	W&G cotton jacket, not knitted	2.893	0.77
10.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	2.835	0.76
11.	62052000	M&B cotton shirt, not knitted	2.366	0.63
12.	62044200	W&G cotton dresses, not knitted	2.150	0.57
13.	9024000	Black tea fermented	2.011	0.54
14.	71179000	Imitation jewellery	1.919	0.51
15.	56022100	Felt, whether or not impregnated, coated, covered or laminated of wool or fine animal hair	1.795	0.48
16.	63052000	Cotton sacks and bags	1.771	0.47
17.	97011000	Paintings, drawings and pastels	1.750	0.47
18.	69141000	Porcelain or china articles	1.661	0.44
19.	64051000	Footwear with uppers of leather or composition leather	1.368	0.37
20.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	1.343	0.36

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 19: Major export products of Nepal in Hongkong, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	343.842	100.00
1.	12119010	Yarchagumba	98.568	28.67
2.	33019000	Essential oil	51.795	15.06
3.	90013010	Entraocular lences	45.513	13.24
4.	71131910	Jewellery of Gold, including parts	20.082	5.84
5.	57011000	Carpet, knotted of wool or fine animal hair	15.893	4.62
6.	33012900	Essential oils other than those of citrus fruit	13.456	3.91
7.	19019090	Food prep's of goods of hdgs 0401-0404 or of flour, meal, etc not cont'g cocoa	8.140	2.37
8.	49029000	Newspapers, journals and periodicals	5.935	1.73
9.	23091000	Dog or cat food	5.373	1.56
10.	19042000	Prepared foods obtained from inroasted cereal flakes	5.270	1.53
11.	19021900	Uncooked pasta, not stuffed or otherwise prepared	5.039	1.47
12.	71132000	Silver Jewellery of base metal clad with precious metal	4.736	1.38
13.	90014000	Spectacle lenses of glass	4.420	1.29
14.	97011000	Paintings, drawings and pastels	4.340	1.26
15.	97030000	Original sculptures and statuary in any material	4.061	1.18
16.	92060000	Percussion musical instrument	3.786	1.10
17.	90200000	Breathing appliances and gas mask	3.095	0.90
18.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	2.822	0.82
19.	62044200	W&G cotton dresses, not knitted	2.515	0.73
20.	22083092	Whiskies of an alcoholic strength 25UP (42.8%)	2.353	0.68

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 20: Major export products of Nepal in UAE, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	278.536	100.00
1.	30023000	Vaccines for veterinary medicine	62.690	22.51
2.	82122000	Safety razor blades	43.105	15.48
3.	49029000	Newspapers, journals and periodicals	29.703	10.66
4.	40111000	New pneumatic rubber tyre for motorcar	22.167	7.96
5.	62044200	W&G cotton dresses, not knitted	18.822	6.76
6.	56029000	Felt	17.510	6.29
7.	48021000	Handmade paper and paperboard, use for writing printing or graphic purposes in rolls or sheets	17.268	6.20
8.	57011000	Carpet, knotted of wool or fine animal hair	12.998	4.67
9.	92060000	Percussion musical instrument	9.652	3.47
10.	49021000	Newspaper, appearing at least four times a week	7.116	2.55
11.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	4.231	1.52
12.	12119090	Plants and parts of plants (including seeds and fruits) of a kind used primarily in perfumery, in pharmacy or for insecticidal or similar purposes	4.206	1.51
13.	62046200	W&G cotton trousers, bibs and brace overalls, breeches and short	3.888	1.40
14.	56022100	Felt, whether or not impregnated, coated, covered or laminated of wool or fine animal hair	3.881	1.39
15.	71179000	Imitation jewellery	3.132	1.12
16.	93070000	Swords, cutlasses, bayonets, lances and similar arms and parts thereof	1.829	0.66
17.	23091000	Dog or cat food	1.780	0.64
18.	49011000	Printed books, brochures, leaflets and similar printed matter in single sheets	1.754	0.63
19.	33074100	Incense sticks	1.601	0.57
20.	97011000	Paintings, drawings and pastels	1.320	0.47

Source: Trade and Export Promotion Center, Government of Nepal.

Annex 21: Major export products of Nepal in Indonesia, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	262.404	100.00
1.	88023000	Aeroplan, of an unladen weight exceeding 2000kg but not exceeding 15,000kg	251.421	95.81
2.	41041900	Tanned or crust hides and skins of bovine or equinine animals, without hair on whether or not split, but not further prepared, in the wet state	5.349	2.04
3.	97011000	Paintings, drawings and pastels	2.560	0.98
4.	83063000	Photograph, picture or similar frames, mirrors of base metal	1.398	0.53
5.	61101200	Jerseys, pullovers, cardigans, waistcoats and similar articles of kashmir (Cashmere) goats	1.134	0.43
6.	92021000	String musical instrument, played with a bow	0.178	0.07
7.	62044200	W&G cotton dresses, not knitted	0.117	0.04
8.	63052000	Cotton sacks and bags	0.112	0.04
9.	33074100	Incense sticks	0.080	0.03
10.	57039010	Floor coverings of cotton	0.032	0.01
11.	62142000	Woolen shawls, scarves, mufflers, mantillas, veils and the like	0.013	0.01
12.	97030000	Original sculptures and statuary in any material	0.009	0.00

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 22: Major export products of Nepal in Belgium, 2020

S. N.	HS Code	Products	Export (in millions)	% of Total Export
		Total export of Nepal	246.713	100.00
1.	57011000	Carpet, knotted of wool or fine animal hair	157.041	63.65
2.	33019000	Essential oil	33.545	13.60
3.	62142000	woollen shawls, scarves, mufflers, mantillas, veils and the like	16.163	6.55
4.	19049020	Beaten Rice (Chiura)	4.341	1.76
5.	94036000	Wooden furniture	3.878	1.57
6.	22030000	Beer, made from malt	3.753	1.52
7.	62141000	Shawls scarves, mufflers mantillas, veils and the like of silk or silk waste	3.611	1.46
8.	19021900	Uncooked pasta, not stuffed or otherwise prepared	3.444	1.40
9.	20019000	Vegetables, fruits nuts and edible parts of plants, prepared or preserved by vinegar or acetic acid	2.475	1.00
10.	62041200	W&G cotton suits	2.145	0.87
11.	62043200	W&G cotton jacket, not knitted	2.106	0.85
12.	83062910	Other statuettes and other ornaments	1.606	0.65
13.	56029000	Felt	1.426	0.58
14.	92060000	Percussion musical instrument	1.251	0.51
15.	62044200	W&G cotton dresses, not knitted	1.140	0.46
16.	62171000	Clothing accessories	1.071	0.43
17.	61109000	Jersey, pullover, cardigans of textile materials	1.069	0.43
18.	21039010	Sauces and sauce preparations; mixed condi ments and seasonings, nes	1.066	0.43
19.	97030000	Original sculptures and statuary in any material	0.721	0.29
20.	33074100	Incense sticks	0.680	0.28

Source: Trade and Export Promotion Centre, Government of Nepal.

Annex 23: Special and differential treatment for LDCs under WTO agreements and related decision

Agreement/Decision	Support Measure
Understanding on the Balance-of-Payments Provisions of the General Agreement on Tariffs and Trade (GATT)	LDCs may use simplified procedures when invoking trade restrictions for balance-of- payment reasons (paragraph 8).
Agreement on Agriculture	LDCs and not food-importing developing countries may provide certain export subsidies until the end of 2030, based on Article 9.4 of the Agreement on Agriculture, Ministerial Decision of 19 December 2015 (WT/MIN (15)/45-WT/L/980), G /AG/5/Rev. 10. Longer repayment periods of export financing support (WT/MIN (15)/45-WT/L/980). Less frequent notifications to the WTO regarding domestic support- every two years instead of every year (G/GA/2).
Sanitary and Phytosanitary Measures	Priority for technical assistance (Article 9.1). The standards and Trade Development Facility (STDF) has a target of dedicating at least 40 percent of total project financing to the LDCs or other low-income countries (STDF Operational Rules). Lower co-financing requirement for technical assistance. Beneficiaries from LDCs and other low-income countries contribute at least 10 percent of the requested (STDF Operational Rules).
Agreement on Subsidies and Countervailing Measures	LDCs (and other countries with GNI per capita below \$ 1000 in constant 1990 dollars) are exempt from the prohibition of export subsides, based on Article 27.2 and Annex Vii of the Agreement, and paragraph 10.1 of the Doha Ministerial Decision on Implementation Related Issues and Concerns (WT/MIN(01)/17).
Trade Facilitation Agreement	Longer notification time frames: until 22 February 2020 for category B measures; until 22 February 2021 for indicative dates and definitive dates; until 22 August 2022 for category C measures (Articles 15 and 16). Longer deadlines under the early warning mechanism, in case an LDC has difficulties in implementing category B and C measures (Article 17). Longer time frame (4 years rather than 18 months) for new implementation dates for measures shifted from category B to category C before approval from the trade Facilitation Committee is required (Article 19).

	Longer grace period from dispute settlement (until 22 February 2023 for category A measures, and 8 years from the date of implementation of category B or C measures (Article 20).
Trade-Related Aspects of intellectual property Rights (RTIPS)	EExempation from applying substantive TRIPS standards until 2021 (Article 66.1, latest extension IP/C/64). Exemption from providing protection for pharmaceutical patens, from providing the possibility of filing mailbox applications and from granting exclusive marketing rights until 2033 (Ip/c/73 and WT/L/971). Waiver from notification requirements for issuing compulsory licenses for exports of pharmaceutical products to LDCs or other countries with insufficient manufacturing capacities in the pharmaceutical sector (Article 31 bis). Promotion of technology transfer by enterprises and institutions in developed countries (Article 66.2).
Dispute Settlement Understanding	Article 24 refers to special procedures involving LDCs. WTO members are to "exercise due restraint both in raising matters involving LDCs and in asking for compensation or seeking authorization to suspend concessions or other obligations if nullification or impairment is found to result from a measure taken by an LDC" (Article 24.1) LDCs can request the Director-General of the WTO or the chairperson of the Dispute Settlement Body to provide their good offices, conciliation and mediation services for setting disputes (Article 24.2). Related: The Advisory Center on WTO Law provides legal advice and support during WTO dispute settlement, and training. LDCs have access to these services whether or not they have joined as members.
Trade Policy Review Mechanism	LDCs may have a longer period between trade policy reviews than other countries, longer than the six years for countries that are not among the 20 largest in terms of their share of world trade (Annex 3 of the Uruguay Round Agreements).
Trade-Related investment Measures (TRIMs)	Annex F of the Declaration of the Sixth WTO Ministerial Conference allowed LDCs to maintain, on a temporary basis, existing measures that deviated from their obligations under the TRIMs Agreement. The provision applied to measures notified within a two-year period, which were then allowed to continue for another seven years. LDCs were also allowed to introduce new measures that deviated from their obligations under the TRIMs Agreement under certain conditions. All measures are to be phased out by 2020.

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 24: Major markets with multilateral preferential market access for LDCs

Market	Description	Duty-Free Tariff Line Coverage and Major Exclusion
Australia	DFQF entry for LDCs Entry into force: 1 July 2003	100 percent
Canada	GSP Least Developed Country Tariff Programme Entry into force: 1 January 2000 Extended until 31 December 2024	98.6 percent (exclusion: dairy and other animal products, meat, meat preparation, cereal products)
Chile	DFQF scheme for LDCs Entry into force: 28 February 2014	99.5 percent (exclusion: cereals, sugar, milling products)
China	Duty-free treatment for LDCs Entry into force: 1 July 2010	96.6 percent (exclusions: chemicals, transport vehicles, machinery and mechanical appliances electrical machinery, paper)
European Union	GSP Everything but Arms initiative Entry into force: 5 March 2001	99.8 percent (exclusions: arms and ammunition)
Iceland	GSP tariff preference for world's poorest countries Entry into force: 29 January 2002	91.8 percent (exclusions: meat, food preparation, vegetables, dairy and other animal products, plants and trees)
India	Duty-free Tariff Scheme Entry into force: 13 August 2008	95.1 percent (exclusions: Plastics, coffee, and tea, alcoholic beverages, tobacco, food residues)
Japan	GSP enhanced DFQF market access Entry into force: 1 April 2007 Extended until 31 March 2012	97.9 percent (exclusions: fish and crustaceans, footwear, milling products, cereal products, sugar)
Republic of Korea	Presidential Decree on Preferential Tariff for LDCs Entry into force: 1 January 2000	89.9 percent (exclusions: fish and crustaceans, mineral fuels, oil seeds and oleaginous fruits, wood products, vegetables)
New Zealand	GSP Tariff Treatment for LDCs Entry into force: 1 July 2001	100 percent

Norway	GSP DFQF market access Entry into force: 1 July 2002	100 percent
Russian Federation	GSP scheme in the context of the Customs Union between Belarus, Kazakhstan and Russian Federation Entry into force: 13 August 2008	37.1 percent (exclusions: machinery and mechanical appliances, chemicals, electrical machinery, iron and steel products, transport vehicles)
Switzerland	GSP Revised Preferential Tariff Ordinance Entry into force: 1 April 2007	100 percent
Taiwan Province of China	Duty-free treatment for LDCs Entry into force: 17 December 2003 crustaceans, plastics)	30.8 percent (exclusions: machinery and mechanical appliances, chemicals, electrical machinery fish and oleaginous fruits)
Thailand	Duty-free treatment for LDCs since 2015	70.4 percent
Turkey	GSP since 31 December 2005	80.5 percent (exclusions: iron and steel products, fish and crustaceans, food preparation, meat, oil and seeds and oleaginous fruits)
United States	GSP for least-developed beneficiary developing countries; trade preference Extension Act of 2015 (Title II) that authorizes GSP until December 2020	82.2 percent (exclusions: apparel and clothing, cotton fibers, footwear, dairy and other animal products)

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 25: Preferential rules of origin in major preferential markets

Country	Origin Criteria	Requirements	Percentage Level
Australia	Last manufacturing process performed in LDC, product-specific rules	Minimum amount allowable factory cost	Allowable factory cost should be at least 50 percent of the total factory cost; for LDCs, 75 percent with cumulating
Canada	One single rule across the board for all products except textile and apparel articles, where product-specific rules apply	maximum amount of non-originating inputs	Maximum non-originating materials 60 percent; for LDCs, 80 percent with cumulation
European Union	Product-specific rules for all products	Change of Harmonized System heading with or without exemptions, specific working or processing requirements, and/or maximum percentage of imported inputs or combinations of requirements	Maximum amount of non-originating material does not exceed 70 percent. Exception under chapter 63:25 percent, 40 percent and 50 percent where used in the single list
India	One single rule for all products	Change in tariff sub-heading and maximum percentage of non-originating materials	Maximum amount of non-originating materials is 70 percent
Japan	Change in tariff heading as a general rule and single list of product-specific rules	Change of harmonized system heading with or without exemptions, specific working or processing requirements, and/or maximum percentage of imported inputs or combinations of requirements	Maximum amount of non-originating material is 40 percent
Norway	Change in tariff heading, Product-specific rules	Maximum local content requirement	At least 50 percent
Switzerland	Product-specific rules	Maximum value of non-originating materials	Maximum 70 percent
Thailand	Last manufacturing process performed in an LDC	Maximum amount of non-originating inputs	Maximum amount of non-originating materials is 50 percent
United States	One single percentage (35 percent) rule for all products	Minimum local content requirement certificate of origin	Minimum 35 percent, exact percentage must be written in

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 26: Rate of preference utilization

Country	Share in Total Exports 2018-2019 (%)	Preference Utilization Overall (%)	Preference Utilization, Agricultural Products (%)
Australia	0.75	63.1	99.7
Canada	0.92	53.4	80.4
Chile	0.01	2.3	0.0
China	2.17	35.6	35.6
European Union	10.45	92.0	93.5
India	64.59	0.0	0.0
Japan	1.09	52.8	94.2
Republic of Korea	0.23	39.5	69.9
Norway	0.00	74.5	NA
Switzerland	0.46	61.6	69.3
Taiwan Province of China	0.1	49.5	NA
Thailand	0.05	NA	0.0
United States	11.17	80.6	91.2

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 27: Impact of graduation on exports to the European Union

HS Code	Product	Share in European Union Exports	Impact of Everything But Arms (Percentage of Existing European Union Exports)
570110	Carpets of wool or fine animal hair	11.18	-17.79
621420	Shawls, scarves, mufflers, mantillas, veils and the like; of wool or fine animal hair	9.10	-20.10
570190	Carpets of textile materials	4.11	-24.28
611011	Jerseys, pullovers, cardigans, etc. of fibres from Kashmir (cashmere) goats	3.98	-30.46
410621	Tanned or crust hides and skins	2.80	-4.22
611011	Jerseys, pullovers, cardigans, etc. of wool or fine animal hair	2.58	-29.27
620442	Dresses; women's or girls, of cotton	2.42	-24.49
610910	T-shirts, singles and other vests; of cotton	2.24	-26.13
630790	Other textiles articles	1.84	-17.78
650500	Hats and other headgear	1.81	0.00

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 28: Impact of graduation on exports to the United States

HS Code	Product	Share in European Union Exports	Impact of Everything But Arms (Percentage of Existing European Union Exports)
570110	Carpets of wool or fine animal hair	26.96	0.00
970600	Antiques	11.46	0.00
230910	Dog or cat food	7.59	0.00
630790	Textiles; made-up articles	6.42	-2.93
570190	Carpets of textile materials	6.02	0.00
570291	Other carpets and other textile floor coverings	5.48	-1.92
999999	Commodities not specified according to kind	2.90	NA
621420	Shawls, scarves, mufflers, etc. of wool of fine animal hair	1.82	0.00
650500	Hats and other headgear	1.51	-2.32
950510	Christmas festivity articles	1.44	0.00
620520	Shirts, men's or boys, of cotton	1.42	0.00

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 29: Trade loss from preference erosion

Country	Loss Due to Preference Erosion (Percentage of Bilateral Trade)	Loss Due to Preference Erosion (Percentage of Total Export)
Australia	8.1	1.6
Canada	26.1	6.5
China	24.5	14.4
United States	1.71	5.1
Japan	18.7	5.5
European Union	20.1	56.8
Switzerland	20.7	0.0
Norway	10.0	0.0
Thailand	19.7	0.3
Turkey	9.5	7.8
Chile	14.1	0.0
Republic of Korea	27.8	1.7

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 30: Inflow of official development assistance to Nepal

Particulars	1999/2000	2004/2005	2009/2010	2014/2015	2017/2018
Total actual foreign assistance (NRs. billion)	17.5	23.7	49.8	55.4	131.5
Share of ODA in GDP (percentage)	4.8	4.2	4.2	2.6	3.8
Share of foreign aid in total government expenditure (percentage)	26.4	23.1	19.2	12.9	13.6
Share of forging assistance in development expenditure (percentage)	68.8	86.5	55.1	62.5	48.6
ODA disbursement as proportion of commitment (percentage)	85.7	62.0	51.5	55.4	65.1

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Annex 31: Postgraduation scenarios for major development partners

Partner	Postgraduation Scenarios
Bilateral development partners	
China	Aid is not likely to be affected by graduation.
	A graduation would lead to a switch from mainly grants to very concessional credits in German financial cooperation loans. Due to the low rating of the country, Nepal would not gain additional access to loans with market-based financial conditions or near to market-based financial conditions.
India	Aid is not likely to be affected by Nepal's graduation.
Japan	The terms of Japanese ODA yen loans will change depending on the country's income level and projects after graduation. For instance, the interest rate may increase from 0.01 percent to 0.25 percent for a medical care project, if the country graduates and is categorized as low income.
Norway	Norway's aid does not appear to depend on Nepal's LDC status.
Switzerland	Aid bye Switzerland is not likely to be affected by graduation.
United Kingdom	The Unite Kingdom will continue support with possibly revised strategies based on the changing context after graduation.
United States	The strategy focuses on lifting Nepal out of its LDC status, but does not indicate if this would change after graduation.
Multilateral development partners	
Asian Development Band	Nepal's access to funds provided by the bank is not contingent on its status as an LDC.
European Union	No details available yet. The specific situations and vulnerabilities of Nepal are expected to be considered.
Global Alliance for Vaccines and immunization	Support does not depend on LDC status.
IFAD	LDC status is not part of the allocation formula; graduation would have no impact.
UNDP	The percentage of UNDP core resources allocated to LDCs is a minimum of 60 percent. Nepal will be out of this focus group but the impact is not yet measurable.
	A number of UNDP programmatic interventions are either in place or anticipated to support Nepal's smooth transition, including around building productive capacities. The focus will be on coordinating support for a smooth transition, localizing SDG achievement as a framework for LDC graduation, increasing resilience to shocks, postgraduation financing mechanisms and trade facilitation.

LDCF	Projects already approved and funded will continue to completion. Nepal will remain eligible to access other financing sources under the United Nations Framework Convention on Climate Change, such as the Global Environment Facility Trust Fund, the Special Climate Change Fund, the Adaptation Fund and the Green Climate Fund. For the last, Nepal would be excluded from priority groups, such as the LDCs, small island developing States and African States.
UNFPA	The Country Classification System of the United Nations Population Fund (UNFPA) includes some LDC criteria, such as GNI, maternal mortality ratio, humanitarian risk and population size. As LDC status per se is not a UNFPA country classification indicator, a shift in LDC status will not automatically trigger changes to assistance.
UNHCR	The operation of the United Nations High Commissioner for Refugees (UNHCR) is not necessarily associated with LDC status.
UNICEF	UNICEF has a 60 percent minimum programme budget allocation to LDCs, Nepal may lose this priority upon graduation, but the impact is not currently quantifiable because budget allocation targets are set for the LDCs as a group, not for each country.
WFP	The World Good Programme (WFP) will continue to support Nepal after graduation and is currently in the process of developing a new country strategic plan.
WHO	The operation of the World Health Organization (WHO) is not associated with LDC status.
World Bank	Access to funds is not contingent on being an LDC.

Source: Nepal Human Development Report 2020, National Planning Commission, Government of Nepal and United Nations Development Programme

Dr. Uma Shankar Prasad, PhD
Researcher

Dr. Uma Shankar Prasad, holds the position of Associate Professor at Tribhuvan University in Nepal and has earned a doctoral degree in economics from Jawaharlal Nehru University in India. Alongside his academic role, he serves as the Chairperson of the Health Insurance Board for the Government of Nepal and is a valued member of the High-level Cross-Sector Advisory Committee within the Office of the Chief Minister, Province 2, Government of Nepal. Dr. Prasad has lent his expertise as a consultant to various esteemed institutions including the Public Service Commission, National Planning Commission, Ministry of Finance, Nepal Cooperative Board, and Inland Revenue Department of the Government of Nepal. He also contributes to the scholarly community as a reviewer for the International Journal of Sustainable Economies Management (IJSEM) and the International Journal of Disaster Response and Emergency Management (IJDREM) published by IGI Global Academic Journals.

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Institute of Foreign Affairs (IFA)
Kathmandu, Nepal
Phone : 5366954, 5366955, 5366956
Email : ifa7nepal@gmail.com
URL : www.ifa.gov.np

ISBN: 978-9937-9533-3-7