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Memorandum on Foreign Trade Régime

The following Memorandum on Foreign Trade Régime has been received from the Permanent Mission of Nepal. In order that the matter may be examined by the Working Party (L/6532/Rev.1), contracting parties are requested to communicate to the secretariat by 30 March 1990 any questions they may wish to put concerning the matters dealt with in the Memorandum, for transmission to the delegation of Nepal.

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[1]Available in the secretariat (Development Division, Room 2010) for consultation.

LIST OF ABBREVIATIONS AND ACRONYMS

BNP	Basic Needs Programme
BOP	Balance of Payments
CCCN	Customs Cooperation Council Nomenclature
DOC	Department of Commerce
DOI	Department of Industry
DCVI	Department of Cottage and Village Industries
EDC	Export Development Committee
EPDPC	Export Product Development and Promotion Council
EES	Export Entitlement Scheme
ETDMC	Export Trade Development and Management Committee
FOB	Free on Board
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HMG/N	His Majesty's Government of Nepal
IC	Indian Currency
IMF	International Monetary Fund
LDC	Least Developed Country
MFN	Most-Favoured-Nation
MW	Mega Watt
NC	Nepalese Currency
NDC	National Development Council
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NTPB	Nepal Trade Promotion Board
PE	Public Enterprise
SAARC	South Asian Association for Regional Cooperation
SAP	Structural Adjustment Programme
TPC	Trade Promotion Centre

Fiscal Year (FY)

July 16 - July 15

All years refer to the Gregorian calendar.

SUMMARY

1. The liberalization policies adopted by HMG/N in the industrial, agricultural and trade sectors under the Structural Adjustment Programme (SAP) being implemented since 1987 have helped the revival of the economy and stimulated growth. At 1974/75 constant prices GDP is estimated to have increased by 9.7 per cent in 1988/89. The inflation rate which went up to 15.9 per cent in 1985/86 has been reduced gradually to 11.0 per cent in 1987/88. The balance-of-payments (BOP) situation began to improve after 1985/86. There was a favourable BOP of Rs 2,273 million in 1987/88. The economy, however, has experienced a set back since March 1989 as a result of the unilateral termination of the Treaty of Trade by India. Keeping in view the difficulties arising after the expiry of the Treaty, HMG/N introduced a twenty-two point economic programme to minimize the adverse effects on the economy and the development process.

2. Nepal is one of the Least Developed Countries (LDCs) of the world with a per capita income of US$160 per annum. An analysis of selective socio-economic indicators also shows that Nepal does not seem to compare favourably with other LDCs in many respects.

3. Nepal launched its First Five-Year Plan in 1956/57. The current Fiscal Year 1989/90 is the last year of the Seventh Plan (1985-90). HMG/N has launched the Basic Needs Fulfilment Programme (1985-2000) which aims at improving the living standard of the people below the poverty line, estimated to be 42.5 per cent of the total population.

4. The analysis of foreign aid disbursement shows that there has been a steady growth in foreign aid, especially loans, which accounted for 60.8 per cent of total aid in 1988/89. As most of the foreign loans have been under concessional terms, Nepal will have no problem of debt servicing in the immediate future.

5. The main thrust of Nepal's import policy has been to ensure the easy, cheaper and regular supply of developmental and essential goods. Altogether 111 items including industrial raw materials and essential goods are listed under Open General Licence (OGL). The passbook system has been evolved for the effective supply of industrial raw materials. The auction system has been introduced to simplify licensing procedures, utilize scarce convertible foreign exchange and liberalize import trade.

6. The export trade involves no restrictions other than prohibition of certain items based on considerations of national security, cultural and social heritage and natural conservation. The industrial policy introduced in 1987 has provided various incentives for the development of export-oriented industries. High level export development and promotion bodies have been set up. Various incentive measures such as cash incentives and duty relief measures have been designed to enable the Nepalese exporters to compete in the world market in view of Nepal's special geographical constraints and level of economic development.

7. India is the major trading partner of Nepal. The other neighbouring trading partner of Nepal is the Tibet Autonomous Region of the People's Republic of China. Nepal is one of the founding members of the South Asian Association for Regional Cooperation (SAARC) which has been making efforts to extend cooperation in trade and manufactures. Nepal has trade relations with more than fifty countries, of which only sixteen countries, including India and China, have entered into bilateral trade agreements.

8. Nepal has been pursuing the policy of trade diversification since the early sixties. The Exchange Entitlement Scheme (EES), the dual exchange rate system and cash incentive measures were implemented under this policy. The present exchange rate system is based on a trade weighted basket of currencies which allows the exchange rate of the Nepalese currency to change in accordance with fluctuations in the country's trade performance.

9. There has been a significant change in the structure of exports during the period 1975-89. The share of manufactured goods chiefly classified by materials (SITC-6) reached 47.8 per cent of total export in 1988/89. The major destinations of Nepal's exports in 1987/88 were India, United States, Germany, F.R., Hong Kong and the United Kingdom. Woollen carpets, ready-made garments and hides and skins were the prominent exports in 1988/89 which accounted for 68.9 per cent of total exports.

10. The growth rate of imports has exceeded the growth rate of exports in many years, leading to persistent trade imbalances. India is the single biggest source of Nepal's imports. The other major sources of imports are Japan, Singapore, Kuwait, Germany, F.R., and the Republic of Korea. In 1988/89 petroleum products, raw wool, transport equipment, soyabean oil, cement, iron and steel products were the main import items from countries other than India.

11. In sum, Nepal has been pursuing a liberalized trade policy with non-discriminatory customs tariffs and a tax system consistent with the GATT principles. Nepal's accession to GATT will help further the liberalization of imports and promotion of exports and thereby contribute to the steady growth of the economy. Nepal will be able to participate in international fora under the aegis of GATT and enjoy all the benefits envisaged under the international conventions.

CHAPTER I: GENERAL ECONOMIC SITUATION

1.1 Past development and present situation

A. Background

12. Nepal is a land-locked country surrounded by India to the south, east and west and by the Tibet Autonomous Region of the People's Republic of China to the north. It lies on the lap of the Himalayas between latitudes 26.22 to 30.27 North and longitudes 80.4 to 88.12' East. The country is rectangular in shape, stretches from east to west and varies in width from 145 to 241 Km. It has three ecological zones: the Mountains, the Hills and the Plains (Terai). Of the total area of 147.181 Sq.Km. the Mountains and Hills occupy 83 per cent. The altitude ranges from 150 metres above sea level in the southern parts (Terai) to 8,848 metres in the North. In the northern part of the country there are several peaks with altitudes above 8,000 metres, including Mount Everest, the highest peak in the world.

13. The main natural resources of the country are water, forests and minerals such as iron, lime, zinc, copper etc. Nepal has a large number of rivers, lakes and ponds. The estimated hydro-power potential of the country is 83,000 mega watts. The area covered by forests was 4.5 million hectares in 1986. The principal forest products are timber, rafters, beams and faggots.

14. As recorded in the 1981 census the population of Nepal was 15 million. The annual rate of growth of the population is estimated to be 2.66 per cent. Based on this growth rate it is estimated that the population of the country reached 18.5 million in mid-1989. The average density of population per square kilometre is 125.7. The density of population is higher in the southern part and valleys compared to the northern parts of the country.

15. The port of Calcutta (India) is the nearest from the southern border of Nepal (about 800 Km). The Bangladesh port of Chittagong is also used by Nepal as a transit port for its import and export cargoes.

16. Nepal is one of the Least-Developed Countries (LDC) of the world with per capita income of US$160 in 1989. The growth rate of GDP for 1988/89 is estimated to be 7.0 per cent at current prices and 1.2 per cent in real terms.

17. Agriculture is the mainstay of the Nepalese economy accounting for approximately 60 per cent of GDP and employing 90 per cent of the economically active population. Agricultural production depends upon the monsoon rains, which are known to be highly unreliable in terms of amount and time of precipitation. The major agricultural crops are paddy, maize, wheat, millet and barley in food crops and sugar cane, oil seeds tobacco, potato and jute in cash crops. Animal husbandry is an integral part of the farming system in rural Nepal. Due to topographical and climatic diversity, temperate as well as tropical trees grow in the country.

18. Nepal did not have an infrastructural base when it launched its First Five-Year Plan in 1956. Since then significant achievements have been made in the development of physical and institutional infrastructure. Despite several decades of concerted efforts to accelerate development, poverty has persisted widely in the country. It is estimated that 42.5 per cent of the population are below the absolute poverty line. A cursory review of the selected socio-economic indicators also shows that Nepal does not seem to compare favourably with the other LDCs in many respects (Table 1).

19. After the development of basic infrastructure, there has been a shift in emphasis towards the productive sectors since the Fifth Plan (1975-80). The Sixth (1980-85) and Seventh (1985-90) Plans gave priority to the fulfilment of basic needs of the people. A long-term programme for the fulfilment of basic needs (1985-2000) has already been launched to alleviate poverty by 2000 A.D.

20. HMG/N has been pursuing policies of decentralization to promote economic development at a regional level by mobilizing local resources and manpower. The Decentralization Act (1982) and Decentralization Rules (1984) devolved considerable authority for planning and implementation to the local elected bodies.

21. Nepal's attempts to accelerate development with higher public expenditure resulted in an unprecedented growth of deficit finance around the middle of the Sixth Plan. To revitalize the economy, which had suffered adverse macro-economic imbalances, the Stabilization Programme was initiated in 1985 and subsequently a Structural Adjustment Programmes (SAP) was implemented to address the longer-term constraints to growth. Liberalization of trade has been one of the important components of SAP. The economy responded positively to these government-initiated reforms.

22. With a view to facilitating the readjustment process, HMG/N has announced a Twenty-Two-Point Economic Programme containing both short and long-term economic objectives (Annex III).

B. Development Plans

23. The First Five-Year Plan was launched in 1956/57. In view of the lack of basic facilities required for accelerating economic growth, the first four Plans (1956-75) gave priority to the development of infrastructures. The Fifth Plan (1975-80) aimed at increasing production, maximizing the utilization of human resources and promoting balanced regional development. During this Plan period, the national production increased by 2.2 per cent as against a target of 4.5 per cent. The Sixth Plan (1980-85) targeted to increase national production by 4.5 per cent per annum. Priority was given to agriculture, irrigation and forestry, which shared 31.1 per cent of the total developmental expenditure. The overall growth during this Plan period was 4.4 per cent.

24. The current Seventh Plan (1985-90) has set three main objectives: to increase production at a higher rate; to create employment opportunities; and to fulfill the minimum basic needs of the people. The Plan has given first priority to the agricultural sector. The targets of the Plan were to increase national production by 4.5 per cent, agriculture production by 3.5 per cent and non-agriculture production by 5.7 per cent per annum. According to a mid-term progress report of the Plan, it is estimated that national production has increased by 4.5 per cent annually. The Eighth Plan (1990-95) is under formulation and is giving due consideration to new developments, particularly to meeting the basic needs of the people and the reorientation of economic policies.

C. Production

25. The socio-economic indicators have shown improvements after implementation of the SAP in 1986/87. Additional reforms have been continued in conformity with SAP. At 1974/75 constant prices GDP is estimated to have increased by 9.7 per cent in 1987/88. Agricultural production rose by 8.6 per cent and non-agricultural production rose by 11.3 per cent. The annual rate of food crop and cash crop production was 17.1 per cent and 24.9 per cent, respectively. The growth in food crop production is largely due to acreage expansion rather than productivity increase. Industrial production rose by 4.5 per cent. Electricity generation increased by 20.6 per cent in 1987/88 (Table 2).

26. The real GDP was estimated to have increased by 5.3 per cent in 1988/89. Because of the present problems it now appears that the economy will not achieve a growth of more than 1.5 per cent in 1988/89. GDP in 1988/89 is estimated to reach Rs. 74.57 billion at current prices or Rs 28.19 billion at 1974/75 prices. Of the total GDP in 1988/89, agriculture accounted for 55.8 per cent at current prices and 60.9 per cent at constant prices.

D. Employment

27. Nepal is essentially an agrarian society. Most of the labour force (90-94 per cent) is engaged in agricultural activities. The predominance of labour force in agriculture remained almost unchanged during the period 1961-81.

28. According to the 1981 Population Census some 1.6 per cent of the population or 101,000 people of working age were unemployed. Surveys conducted by the National Planning Commission (NPC) in 1977 and 1984 indicated an unemployment rate of around 5.0 per cent. The figures for urban unemployment and rural unemployment were 4.4 per cent and 5.1 per cent, respectively.

29. Under-employment rather than unemployment has remained a serious problem in Nepal. According to the NPC survey of 1984, 41.2 per cent person-days in rural areas and 25.0 per cent person-days in urban areas (of age 10 years and above) remained inactive.

30. The economically active population is also increasing along with the overall population growth rate, estimated at 2.66 per cent. Between 1971 and 1981, the economically active population has increased to 2 million at the rate of 0.2 million per annum. The increase in the unemployed and semi-employed population is adversely affecting the economic activities of the country. The percentage distribution of the economically active population aged 10 years and over, by sex, urban/rural areas and major industries is presented in Table 3.

31. In view of the problem of unemployment and under-employment the Sixth and Seventh Plans aimed at increasing employment opportunities for the people. Attempts have been made to create employment opportunities in the non-agricultural sector in order to alleviate the additional burden of the labour force in agriculture.

32. HMG/N has adopted the following broad policy to promote gainful employment opportunities:

- to undertake productivity oriented programmes in the agricultural sector;

- to expand and generate self-employment activities in the rural areas;

- to encourage labour-intensive techniques for industrial production and construction of infrastructure;

- to promote regional programmes which utilise local materials and skills;

- to give priority to involving the unemployed educated persons in industry, trade and social services;

- to conduct training programmes to impart technical and vocational skills to meet the demands of the economy.

E. Foreign debt and aid

33. The amount of the outstanding foreign debt reached Rs 26.2 billion by the end of the first nine months of the fiscal year 1988/89 compared to Rs 20.8 billion at the end of the fiscal year 1987/88. Thus, there was a 25.6 per cent increment in the net outstanding foreign debt in the first nine months of 1988/89. Changes in exchange rates resulted in a big increase in the net outstanding foreign debt. In the first nine months of 1988/89 the share of direct and indirect debts was 99.7 per cent and 0.3 per cent, respectively (Table 4).

34. The country had paid off Rs 297.5 millions as principal and Rs 293.5 million as interest in 1987/88. Over the corresponding period in 1986/87 there was an increase of payments by 17.9 per cent and 3.4 per cent on account of principal and interest, respectively.

35. The analysis of foreign aid disbursement shows that there has been steady growth in foreign aid inflows to finance development expenditures of the Government. In 1987/88 total foreign aid including loans and grants increased by 53.5 per cent. The share of loans was 60.8 per cent in 1988/89. However, in the immediate future Nepal will not be required to pay a higher amount for foreign debt servicing as most of the loans have been received at concessional terms (Table 5).

F. Prices, exchange rates and interest rates

36. The Nepalese economy experienced a double digit inflation rate after the devaluation of the Nepalese currency by 14.2 per cent against all foreign currencies in mid-December 1985. As indicated by the consumer price index, the average annual rate of inflation increased from 4.1 per cent in 1984/85 to 15.9 per cent in 1985/86, which declined to 13.3 per cent in 1986/87 and 11.0 per cent in 1987/88. It is estimated that the average inflation rate has come down to a single digit in 1988/89 (Table 6).

37. The inflationary pressure on food price was low in 1988/89 due to an increase in agricultural production caused by a favourable monsoon. The factors contributing to the higher growth in non-food items included the price adjustment policy adopted by some of the Government institutions and a rise in the prices of imported goods. The internal inflationary factors are: growth in the money supply with credit expansion and changes in taxation, supplies and the distribution system.

38. Since June 1983, Nepal has adopted an exchange rate system under which the Nepalese Currency (NC) is pegged to a composite basket of currencies. The weight of each currency is determined on the basis of a set of related economic indicators. The Indian Currency (IC) was also included in the currency basket in May 1986. The exchange rate with IC is fixed at NC Rs 168.15 per Rs 100.00 IC. The exchange rate with other foreign currencies, however, is revised daily. In 1988/89 the Nepalese Rupee was automatically devaluated by 16.2 per cent against the US Dollar (Table 7).

39. During the past two years, the Nepal Rastra Bank (NRB) set a ceiling on the maximum interest rates on credit and the minimum interest rates on deposits for commercial banks and financial institutions (Table 8). HMG/N has announced a new interest rate policy effective from July 1989 which enables institutions to enjoy complete freedom in determining their own lending and borrowing rates. Healthy competition among the banks and financial institutions resulting from this arrangement will enable these institutions to mobilize more and more financial resources by setting interest rates in relation to investment risk.

G. Balance-of-payments

40. The balance-of-payments position was found to be deteriorating during 1982/83, 1983/84 and 1984/85. It began, however, to recover after the devaluation of the Nepalese Rupee in 1985/86. There was a balance-of-payments surplus of Rs 561 million in 1985/87, which declined to Rs 376 million in 1986/87. The situation improved significantly and reached a Rs. 2,273 million surplus in 1987/88. In 1988/89 the balance-of-payments situation worsened (Table 9).

41. The analysis of the balance-of-payments components indicates that the trade balance and net foreign capital inflow are the main determinants of Nepal's balance-of-payments situation. It is hoped that Nepal's accession to GATT will help to diversify the existing trade and improve the balance-of-payments position to some extent.

1.2 Structure And Evolution Of Foreign Trade

A. Exports

42. Nepal's export trade shows a fluctuating trend. Total exports in 1984/85 were Rs 2,740.6 million, which increased by 12.3 per cent in 1985/86. The volume of exports, however, declined in 1986/87 by 2.8 per cent. There was a significant increase in exports in 1987/88 (37.5%), but in 1988/89 exports grew by only 1.7 per cent. The ratio of exports to GDP was about 6 per cent in 1987/88. There is tremendous scope for expanding the export sector by developing exportable goods and diversifying export trade by both country and commodity.

43. There has been a significant change in the structure of exports during the period 1975-89. Primary goods (SITC Sections 0-4), which constituted about 82.6 per cent in 1974/75, accounted for only about 21.4 per cent of total exports in 1988/89. The share of manufactured goods chiefly classified by materials (SITC-6) went up significantly during this period.

44. Ten major commodities exported to overseas countries accounted for 72.2 per cent of total exports and 98.7 per cent of overseas exports in 1988/89. Woollen carpets, ready-made garments and hides and skins are the prominent exportable products which represented about 68.9 per cent of total exports in that year. Twenty major commodities exported to India made up 19.2 per cent of total exports and 80.5 per cent of exports to India in 1988/89. During the past three years exports of pulses, catechu, salseeds oil, large cardamom and medicinal herbs to overseas countries have declined while exports of woollen carpets, ready-made garments and handicrafts to overseas countries have gone up. Exports of hides and skins to overseas countries have been stagnant during the past two years. Woollen carpets and ready-made garments dominated overseas exports trade and these two items accounted for 38.2 per cent and 26.7 per cent of total exports, respectively, and 88.7 per cent of total overseas exports. Besides these two goods, Nepal's exports are mainly agro and forest-based. The major destination for other goods was India (Tables 10 to 13).

45. The major destinations of Nepal's exports in 1987/88 were India (38.3%), United States (22.6%), Germany, F.R. (16.2%), Hong Kong (6.5%), United Kingdom (6.1%), Italy (1.7%) and Belgium (1.3%). In 1988/89 Nepal's exports to India were less than Rs 1,000 million (25% of total exports).

B. Imports

46. The analysis of import trade over the past five years shows that the growth rate of imports has exceeded the growth rate of exports in all years except in 1987/88. Nepal imported Rs 7,742.1 million worth of goods in 1984/85. The import volume grew by 20.6 per cent in 1985/86, 16.7 per cent in 1986/87, 27.2 per cent in 1987/88 and 17.6 per cent in 1988/89. The ratio of imports to GDP reached 20.4 per cent in 1987/88.

47. The share of primary goods (SITC section 0-4) in total imports fell from about 28.4 per cent in 1974/75 to about 25.5 per cent in 1988/89. It is observed that the change in the structure of imports is not as dramatic as in the case of exports.

48. Imports from India represented 49.3 per cent in 1984/85, which declined steadily to reach 26.0 per cent in 1988/89. The major exporting countries to Nepal other than India are Japan, Singapore, Kuwait, Germany, F.R., Republic of Korea, New Zealand, People's Republic of China, USSR and United Kingdom.

49. The main items imported from India in 1988/89 in order of value are: cotton fabrics, medicines, machines and equipment, transport equipment, live animals, tobacco, cotton thread, cement, electric goods, milk products and coal. Petroleum products, raw wool, transport equipment, soyabean oil, cement, iron and steel products and construction materials were the main import items from countries other than India.

50. The important factors contributing to the increase in the growth of imports by Nepal are: steady growth in development expenditures of the Government which is mostly financed by foreign assistance, high income propensity to imports, inflationary pressures in the country and slow growth of import substituting industries. It is estimated that more than 20 per cent of the total imports of Nepal are goods imported in terms of foreign aid (Tables 14 - 17).

C. Trade balances

51. There has been a persistent trade imbalance in Nepal over the years. In 1988/89 the trade deficit grew by 33.9 per cent (i.e. from Rs 9,755 million in 1987/88 to Rs 12,084.8 million in 1988/89). The trade deficit in 1988/89 was 2.9 times the country's exports in that year. Nepal's trade deficit with India increased by 6.5 per cent while her trade deficit with overseas countries increased by 31.7 per cent in 1988/89. The imports from overseas countries include developmental goods financed by foreign aid which apparently is the cause of an ever-increasing trade gap. The liberalization of import trade by HMG/N for the past few years has also contributed to the increase in the deficit by putting pressure on imports (Table 18).

1.3 New Government policy initiatives

A. Stabilization Programme

52. In view of the continuous deficit in the overall balance of payments and a substantial drawdown in the foreign exchange reserves, HMG/N implemented its Stabilization Programme in December 1985. The focus of the Stabilization Programme was to restrain excess demand in the economy. The principal elements of the programme were: first, a devaluation of the Nepalese currency vis-a-vis the currencies of its trading partners including India; second, restraint in public expenditures; third, a drive for mobilizing additional resources; fourth, control of budgetary deficits; fifth, a restrictive policy on commercial bank credit; sixth, liberalization of industrial licensing; and seventh, drive for export promotion and control on imports. A stand-by arrangement for SDR 18.65 million was made with the International Monetary Fund (IMF) on 23 December 1985.

53. On the trade front, exporters were provided pre-shipment and post-shipment credit facilities and requirements of collateral for such credit were eliminated. Export licensing procedures were simplified and a go down facility with 5,000 MT capacity was provided at the Tribhuvan International Airport, the major outlet for overseas exports.

54. In the industrial sector, a more liberal policy was adopted on industrial licensing, and twenty-two categories of industries of all sizes that use domestic raw material or produce construction materials such as cement, nuts and bolts, concrete blocks, etc., were exempted from industrial licensing requirements. Existing industries were allowed to expand their capacity upon submission of a proposal showing the volume of imports they would save by such an expansion programme. More emphasis was given to simplifying imports of industrial raw materials. An additional thrust has also been given to increasing agricultural production, and private sector investments were encouraged in the health, education and other sectors.

B. Structural adjustment programme (SAP)

55. The new economic policy helped to correct short-term imbalances, but it was realized that the continuation of the programme may jeopardize the long-term growth of the economy if it is not appropriately complemented by growth-oriented strategies. The SAP was therefore designed to strengthen growth with stability in the economy in a medium-term framework with fiscal year 1990/91 as the target year.

56. As commanded by His Majesty, King Birendra Bir Bikram Shah Dey, HMG/N launched a long-term programme for the fulfilment of the minimum basic needs of the people by the year 2000. The Structural Adjustment Programme (SAP) was initiated as a first step towards fulfilling this long-term objective. Two major objectives of the SAP are to accelerate growth and to manage the public sector more effectively by introducing financial control mechanisms and strengthening Government institutions.

57. The essential features of this programme are macro-economic policy stabilization, resource mobilization, investment efficiency, improvements in the workings of the public-sector enterprises and activation of the private sector in areas such as agriculture, forestry, trade and industry.

58. In the industrial sector, the industrial licensing system was simplified and a passbook/open general licence system was introduced for the importation of industrial raw materials. Import and export procedures were simplified with greater emphasis on the export drive. An open general licence (OGL) system, bonded warehouse exports as well as duty refund schemes were introduced to boost exports. Similarly, an import licence auction system was introduced to ease the importation of consumer goods and other essential items.

59. The SAP envisaged agricultural policies which include the strengthening of institutions supplying inputs and support services, providing adequate price incentives to producers, liberalizing the distribution of inputs with the involvement of the private sector and improving irrigation services. Agricultural research was strengthened through the establishment of a fully fledged central agricultural research centre.

60. Financial sector reform policies were implemented to strengthen the sector. Interest rates were freed and monetary control techniques were better systematized. Government securities were auctioned at a regular interval of time. A variety of securities with maturities running from ninety-one days to fifteen years were introduced to provide greater options for investors. Better supervision and control mechanisms were introduced at the Central Bank.

61. The Programme also emphasized improving the system of budgeting and monitoring of development expenditures and strengthened the Ministry of Finance, the National Planning Commission and other Ministries to improve project identification and selection. Similarly, the policy of privatizing public enterprises and providing autonomy for the efficient operation of PEs has been initiated.

62. All these policy reforms have resulted in better economic management, with the overall balance of payments recording a continuous surplus, the budgetary situation performing as targeted, industrial and agriculture production as well as the export sector recording higher growth, and money supply well under control.

C. Basic Needs Programme (BNP)

63. The Programme for the Fulfilment of Basic Needs of the People (1985-2000) has identified foods, clothing, shelter, health, education and security as basic need items. The targets of the programme are as follows:

Food	-	2250 Calories per person per day
Clothing	-	11 metres per person per year
Housing	-	30 Sq. Metres floor area per family in urban areas, and 40 to 60 Sq. metres floor area per family in rural areas
Education	-	100 per cent enrollment of children aged 6 to 10 years in primary school (grades I to V)
Health	-	Reduce annual population growth rate to 2 per cent
	-	Increase life expectancy from 51 to 65 years
	-	Reduce infant mortality rate from 111.5 per thousand to 45 per thousand
Income level	-	Increase per capita income of the population below poverty line by 242.5 per cent from Rs 1,971 to Rs 2,212 per annum
	-	Increase the income share of the population below poverty line from 12.6 per cent to 23.0 per cent
	-	Achieve 5.7 per cent annual growth rate of GDP

64. These targets will be achieved by launching programmes within the framework of the country's Seventh, Eighth and Ninth Plans.

CHAPTER II: FOREIGN TRADE POLICY AND PROCEDURES

2.1 Background

65. Nepal has adopted liberal trade policies and simplified trading procedures especially after the implementation of the Structural Adjustment Programme (SAP) in 1987. To liberalize and simplify import procedures, the system of providing licence through the auction system has been introduced for commercial imports. Provisions are also made for imports of industrial raw materials and essential goods under OGL (Annex II-1). The passbook system has been introduced for the effective supply management of inputs for industries. Various tariffs and non-tariff measures have been introduced for the promotion of exports of the country. The introduction of a bonded warehouse system for import of fabrics, the duty drawback the system, the provision of pre-export credit and the extension of scheduled and non-scheduled airflights, are some of the important and notable measures. The trade sector responded positively to these measures. It is expected that Nepal's accession to GATT will provide support to continue and enhance trade liberalization efforts.

2.2 Trade modalities

66. A major trade partner of Nepal is India. In view of traditional economic ties between Nepal and India preferential trading arrangements were made in trade and transit treaties signed in different dates (1950, 1960, 1971 and 1978). In 1978, for the first time, separate treaties for trade and transit were concluded considering the short-term nature of trading arrangements and the long-term and permanent requirements of transit facilities as guaranteed by the provisions made in international laws. These treaties expired in early 1989. India proposed to conduct trade with Nepal based on the principle of MFN. Nepal has welcomed India's proposal and handed over a new draft treaty of trade to India.

67. The following were the main provisions of 1978 Treaty of Trade:

- Free movement of primary commodities was allowed between Nepal and India without basic customs duties, quantitative restrictions, licences or permits.

- India provided, on a non-reciprocal basis, access to the Nepalèse industrial products which contained not less than 80 per cent of Nepalese or Nepalese and Indian materials to the Indian market without any quantitative restrictions and basic customs duty (Annex II-2).

- The mode of payments for all transactions was in Indian currency.

- Nepal provided preference to the Indian goods to the maximum extent compatible with the economic development of the country.

- India refunded excise duties to His Majesty's Government realized from exports of such excisable goods to Nepal.

- There were twenty-two exit-entry points for flow of trade and movement of goods between the two countries.

68. The other neighbouring trading partner is Tibet Autonomous Region of the People's Republic of China. Trade transactions between Nepal and Tibet have been carried out under trade agreements signed in May 1968, May 1974 and November 1981. The main features of the Trade and Payments Agreement of 1981, which is the basis of present trade relations, are:

- promotion and facilitation of trade with mainland China and traditional overland trade with Tibet in accordance with their respective trade and foreign exchange regulations and procedures;

- conduct of mutual trade transactions on the basis of MFN in all matters relating to customs duties and other taxes, fees and charges to be levied on exports and imports of goods and to other customs formalities;

- development of overland trade through three trading points;

- promotion of a traditional barter trade system on behalf of people living within 30 kilometres of the border.

69. Nepal is one of the founding members of the South Asian Association for Regional Cooperation (SAARC). The other members are Bangladesh, Bhutan, India, Maldives, Pakistan and Sri Lanka. As regards the promotion of Nepal's trade with SAARC members other than India, particularly with Bangladesh and Pakistan, several areas of cooperation have been identified. Efforts are made to extend cooperation in economic fields including trade and manufactures.

70. Nepal has adopted the policy of trade diversification. The volume of trade with countries other than India and the Tibet Autonomous Region of the People's Republic of China has been increasing steadily since the early sixties. Nepal has concluded trade agreements with sixteen countries (Annex II-3).

2.3 Trade policy

A. Export policy

71. HMG/N has adopted a liberal export policy and has taken various measures to develop the country's export sector. The Sixth Plan (1980-85) recognized the importance of the export sector and gave it high priority. The export policies as spelt out in the current Seventh Plan (1985-90) are as follows:

(a) increase the quality and quantity of exportable items by raising production in both agricultural and non-agricultural sectors;

(b) coordinate the activities of all organizations relating to export promotion and consolidate their activities for higher efficiency;

(c) review and amend the prevailing acts, laws and regulations (excise duty, income tax, customs duty, licence and foreign exchange) for the expansion and promotion of export trade;

(d) set up necessary arrangements to enable the exportable goods to be competitive by reducing transport costs;

(e) Provide cash incentives to encourage exports of selected products;

(f) arrange for the internal movement of export goods free of all local taxes.

72. In 1987 a new industrial policy was introduced which included a number of measures for the development of export-oriented industries. The main features of the policy related to export promotion are:

(a) export-oriented industries will get priority and protection;

(b) premiums, customs duties, excise duties and sales taxes charged on raw materials, will be refunded to all industries and exporters on the basis of the actual amount exported;

(c) only 0.5 per cent customs duty will be charged on all exports, recording purposes only;

(d) the refund of taxes will be applied to those industries which produce intermediate goods for export-oriented industries;

(e) customs duties will be waived for production materials which will be used by industries in export-promotion zones and bonded warehouses.

73. HMG/N has played the rôle of facilitator in promoting exports by encouraging the private sector. Almost all of the country's exports are handled by the private sector.

B. Import policy

74. The objective of the import policy is to supply developmental and essential goods regularly at a reasonable price. To achieve this objective attempts have been made to develop less expensive and efficient transit and transport systems and encourage diversification of imports from cheaper markets.

75. All import trade, except coal, fertilizer and petroleum products for which specialized State-trading enterprises have been established, are undertaken by the private sector in Nepal. However, these items have been listed under Open General Licence (OGL) System.

76. Some of the features of the import policy are given below:

(a) the primary consideration for adopting a liberal import policy is to maximize national economic benefits. Thus the national import policy has been oriented to emphasize imports of any commodity from any country which ensures the highest economic gain to the Nepalese manufacturers or consumers with respect to both price and quality;

(b) a liberal and non-discriminatory import policy has been adopted for the import of capital goods, construction materials, industrial raw materials and other inputs and consumer goods;

(c) protection is provided against all foreign competition to domestic industrial or agricultural products for only a reasonable period of time on the basis of comparative economic advantage;

(d) the policy for strengthening and streamlining the private sector in import activities is being pursued, while in the public sector the existing trade entities have addressed themselves to supply management of very few materials such as petroleum products, coal and fertilizers;

(e) the administrative procedures and formalities relating to imports have been made as simple and economical as possible. The auction system has been introduced for issuing import licences for the last four years;

(f) full attention has been given to render efficient transit transport services so as to simplify import trade and minimize the import cost and time.

2.4 Tariff policy

77. Goods imported into or exported from the Kingdom of Nepal are subjected to rates of duty according to the Customs Tariff Schedule under the Customs Act 2019, Section 6. A notification to this effect is issued every year in the Nepal Gazette. The main features of the present Customs Tariff Schedule are as follows:

A. General Customs Tariff

(i) Exports

78. Only 0.5 per cent customs duty is imposed on exports of all items except sand, boulders and timbers. The export duty is imposed only for recording purposes.

(ii) Imports

79. There are two types of customs duties on imports: specific and ad valorem.

80. The customs duty ranges from 5 to 110 per cent in ten slabs. Specific duties on some goods are imposed per kilogram of weight or per item.

B. Additional duty on imports

(i) The additional customs duty is levied on the basis of the value of goods in addition to the general customs duty.

(ii) On seventy-two essential items, additional duties have been fully waived (Annex II-4).

(iii) Rates of the additional duty are based on the General Customs Tariff rates as follows:

General Customs Tariff Rate	Additional Duty
5 to 10%	25%
15 to 20%	35%
25 to 30%	45%
50% and above	55%

(iv) One hundred per cent additional duty is levied on synthetic textiles and ready-made garments made from synthetic fabrics.

2.5 Non-tariff measures

A. Imports

81. In view of the need for streamlining import management in conformity with the requirements of the national economy, goods on the import list have been classified into the following categories (Annex II-5):

(a) Banned items

82. This category comprises commodities that are prohibited for import in the interest of national security, health, industrial protection and general public welfare.

(b) Items under quantitative restrictions

83. This category comprises items identified for import in limited quantities, keeping in view the policy of protecting indigenous agricultural or industrial enterprises from foreign competition, and to ensure optimum use of available foreign exchange.

84. The import-licence premium is determined by the demand for particular goods in the market: the stronger the demand for goods in the market, the higher the premium. As the auctions for imports are called six times a year, (every alternate month), some of the basic and core items are placed under OGL with a fixed premium. Importers of these items under OGL do not have to wait for regular auctions. Moreover, importers can import these items as often as necessary.

85. All items which do not fall under the OGL and auctioning systems are subject to a 1 per cent licence fee.

B. Exports

86. Exportable items have been classified into the following categories: (Annex II-6).

(a) Banned items

87. This category comprises commodities which are sensitive and hence inadvisable for export for security reasons and social, economic and national considerations.

(b) Items under quantitative restrictions

88. This category includes those commodities which are considered basic items of daily necessity, for example, food and raw materials. In the issuing of export licences for such commodities, due consideration is given to domestic demand and the national production situation.

(a) Unrestricted commodities

89. This category comprises all commodities not included in the above categories (a) and (b). There is no need to obtain licences to export these items.

90. The above classifications and licensing regulations are reviewed annually and the revisions are published in the Nepal Gazette.

2.6 Special customs treatment

(a) A 5 per cent rebate on additional duty is granted for the goods imported from countries having MFN trade agreements.

(b) A flat-rate is applicable on the importation of goods brought in by travellers as accompanied or unaccompanied baggage under the personal baggage rules.

(c) Countervailing duties equal to excise duty are levied on imports of items which are produced indigenously and are subject to excise duties. However, no countervailing duties are levied on the seventy-two items given in Annex II-4, nor on the raw materials imported by registered industries.

(d) Only a 5 per cent customs duty is levied on the value of books printed abroad and imported by the Nepalese publishers.

(e) No duty is levied on the value of standard printed materials required to promote tourism.

(f) A 50 per cent rebate on customs duty is granted on imports of raw materials for industries producing rods (billets).

(g) Full exemption from customs duty is granted for imports of necessary equipment for solar power, and all kinds of bio-gas units.

(h) Full exemption from customs duty is granted for imports of equipment, machinery parts and transportation vehicles required for the expansion and installation of electric-trolley transport development projects.

(i) Registered hospitals enjoy full exemption from customs duties for imports of medical equipment.

(j) Full exemption from customs duty is granted for imports of equipment and machinery for cold storage which are installed for preserving agriculture products, fruits and fish.

2.7 Tariff nomenclature

91. The classification of the General Customs Tariff of Nepal at present is based on the Customs Cooperation Council Nomenclature (CCCN). The application of the import tariff is also governed by the general rules of the tariff and the nomenclature.

92. The nomenclature of import tariffs in force comprises twenty-one sections and ninety-nine chapters, which have been reproduced from the CCCN.

2.8 Foreign trade surveillance mechanism

93. Imports and exports are supervised b specialized government agencies for the purpose of preventing over- and under-invoicing. The value of imported items is determined by the Department of Customs. To maintain the quality of exportable items, the Nepal Standards Institute issues Nepal Standard Certificates whenever necessary. The Export Price Valuation Committee, set up under the Ministry of Commerce, fixes the floor prices for exportable items.

2.9 Institutions relating to foreign trade

A. Commercial institutions

94. Only registered firms or companies are eligible for export and import trade. For commercial purposes the firm or company should be registered with the Department of Commerce, and for industrial purposes it should be registered either with the Department of Industry or the Department of Cottage and Village Industries. The recommendation of the local chamber of commerce is essential for the registration of a commercial firm or company. A firm or a company should also be registered with the local Income Tax Office.

B. Public institutions

1. National Planning Commission (NPC)

95. The highest national policy-making body of the country is the National Development Council (NDC) chaired by His Majesty the King. The NPC, which works under the NDC, is chaired by the Prime Minister. The NPC, in consultation with the concerned organizations, formulates the country's trade policies that are consistent with its overall development strategies.

2. Export development and promotion bodies

96. The Export Product Development and Promotion Council (EPDPC), chaired by the Prime Minister, coordinates and evaluates the effectiveness of prevailing export policies and activities and provides guidance to the Export Trade Development and Management Committee (ETDMC) chaired by the Minister of Commerce. To promote export trade, a Nepal Trade Promotion Board (NTPB) has been constituted under the chairmanship of the Minister of Commerce. The Trade Promotion Centre (TPC) acts as secretariat to the EPDPC, ETDMC and NTPB. In order to sort out the day to day problems of export trade, HMG/N has formed an Export Development Committee (EDC) chaired by the Governor of the Nepal Rastra Bank and represented by the secretaries of the Ministries of Finance, Industry and Commerce.

3. The Ministry of Commerce

97. The Ministry of Commerce is responsible for the formulation and implementation of the overall trade policy of HMG/N. It supervises, controls and coordinates the general trade and export development activities of the country. It is responsible for conducting all kinds of bilateral and multilateral trade negotiations and for entering into trade and transit treaties and agreements.

4. The Ministry of Finance (MOF)

98. The MOF formulates a budget for convertible foreign exchange for different types of imports at the beginning of every fiscal year in consultation with the Nepal Rastra Bank (NRB). Before the commencement of each fiscal year, the Ministry of Finance collects data on foreign exchange

requirements from the different Ministries and other Government agencies. These institutions specify their requirements on the basis of targets fixed in the national economic plan and/or past trends. The MOF then allocates the convertible foreign exchange to different kinds of imports, such as machineries, raw materials, petroleum products, construction materials, tourism development and consumer goods. Allocations are also made for consumer goods to be imported by private commercial firms in consultation with the Ministry of Commerce.

5. Nepal Rastra Bank (NRB)

99. Nepal Rastra Bank, as the central bank of the country, directs commercial banks in financial and credit procedures for international trade and provides clearance for foreign exchange facilities for import and export trade. NRB fixes exchange rates of foreign currencies daily. It collects and analyses trade and BOP data regularly.

6. The Department of Commerce (DOC)

100. The Department of Commerce is responsible for registration of firms and companies and issuing import and export licences. The DOC issues the public notices and the calls for applications for import licences, and issues the commercial licences on the basis of the established rules, regulations and procedures. The industrial import licences are issued on the basis of the recommendations of the Department of Industry and the Department of Cottage and Village Industries.

7. The Department of Customs

101. The Department of Customs recommends tariff policies, determines the value of goods and charges the customs duty according to the valuation at the rates prescribed in the customs schedules. It examines the documents and ensures that all procedures are followed properly when the goods arrive at the customs point. It also collects trade data by item and source of import and export annually.

8. The Department of Industry (DOI) and the Department of Cottage and Village Industries (DCVI)

102. The DOI and DCVI issue the passbooks for the importation of industrial raw materials to industrial enterprises and make recommendations to the Department of Commerce on the issue of import licences.

9. The Department of Tax and the Department of Excise

103. These two Departments are involved in formulating and implementing sales taxes, income taxes and excise duties on imports.

10. The Commercial Banks

104. For the exportation and importation of merchandise, the payments are made by letter of credit (L/C). The different commercial banks and their branches are eligible to open L/Cs and settle payments for trade transactions.

11. The Trade Promotion Centre (TPC)

105. The TPC plays an important rôle as a focal point for the private sector and the government in the process of framing export policies and adopting measures to stimulate and assist export expansion and diversification. The TPC is the secretariat of the high-level export development and promotion bodies as mentioned above.

12. Chambers of Commerce and Trade Associations

106. There are various kinds of commercial and industrial organizations which represent the private sector at different levels. The Federation of Nepalese Chambers of Commerce and Industry (FNCCI), Nepal Foreign Trade Association (NFTA), Nepal Chamber of Commerce (NCC), Handicraft Association of Nepal (HAN), Trans Himalayan Trade Association, Nepal Carpet Association and Nepal Ready-made Garment Association are some of such organizations. The Government also consults with these private agencies with regard to the formulation of export and import policies as and when necessary.

2.10 Management of trade statistics

107. Nepal Rastra Bank (NRB), the Department of Customs and the Trade Promotion Centre publish and disseminate foreign trade statistics. Nepal Rastra Bank collects and publishes trade data on a SITC basis regularly in its quarterly bulletin. In addition, trade data concerning major commodities are collected by NRB. The Trade Promotion Centre collects and publishes overseas trade data by country and by commodity. The Department of Customs records detailed data for every export and import item. The sources of data of all these three institutions are the various customs points.

CHAPTER III: OTHER ECONOMIC POLICIES BEARING ON FOREIGN TRADE

3.1 Exchange rate policy and payment arrangements

108. Nepal has been pursuing a policy of trade diversification by country and by commodity since the early sixties. To achieve this policy different exchange incentive systems, such as the Exchange Entitlement Scheme (EES), dual exchange rate systems and cash incentives, have been implemented. The EES, which lasted until 1977/78, provided a certain percentage of export earnings as foreign exchange entitlements for import. The EES was replaced by a Dual Exchange Rate System under which exports to overseas countries attracted a higher exchange rate. This system continued up to 1980/81. Neither system could achieve the objective of boosting exports and diversifying trade as expected. The response of the private sector to increase production of exportable goods remained unsatisfactory and there remained scope for over- and under-invoicing. In view of these adverse effects, the Dual Exchange Rate System was abolished in 1981. In 1983, an exchange system based on a trade-weighted basket with the United States dollar as the intervention currency was introduced. The Indian currency was also included in the basket from May 1986.

109. There has been free and unrestricted trade with India. Indian Currency (IC) has been freely convertible in Nepal without any limitations. Traditionally, Nepal adopted a preferential tariff policy for Indian goods and there were negligible tariffs for imports of primary commodities from India.

110. Recently Nepal has revised the policy regarding the exchange regulations with respect to IC. The new regulation has continued the system of free convertibility. However, the amount of the currency to be made available depends on the declaration of purpose.

111. Foreign exchange transactions in Nepal are governed by the Foreign Exchange Act 2019 (1963) and the Foreign Exchange Regulations 2020 (1964). All exchange transactions must be settled through authorized commercial banks. The exchange rate of the Nepalese Currency (NC) fluctuates on the basis of a real effective currency basket.

112. Commercial payments and documents related to payments are transferred between commercial banks and their corresponding agents. Commercial banks are authorized to effect the settlement of payments for foreign transactions by means of:

(a) Letter of Credit (L/C);
(b) Documentary Bill and Advance Payment; and
(c) Clean Remittance, etc.

3.2 Tax system

113. The present tax system of Nepal is governed by the different tax acts of Nepal. The objectives of tax policy in the Seventh Plan (1985-90) are:

(i) to mobilize maximum resources for investment in development projects in the public sector;

(ii) to direct the investment of the private sector towards the activities related to increasing production and employment;

(iii) to intensify efforts to attain the goal of social justice.

114. The tax system prevailing in Nepal is presented below:

A. Income tax

115. Income tax was introduced in Nepal in 1959 under the Business Profits and Remuneration Tax Act. At present, income tax is levied under the Income Tax Act 1974. Income earned or received by individuals, firms, companies and corporations in the previous year is subject to income tax, at such rates as are in force on the last day of the taxpayer's income year.

116. The Income Tax Act 1974 divides incomes for the purpose of taxation into five categories:

(i) income from agriculture;
(ii) income from industry, business, profession and vocations;
(iii) income from remuneration;
(iv) income from house and land rent; and
(v) income from the miscellaneous sources.

117. Income from agriculture and export businesses is exempted from income tax. Income from import business is, however, taxable. For the purpose of income tax, the exemption limit for an individual is up to Rs 15,000 and for a couple and family up to Rs 20,000. Rates of income tax for the fiscal year 1988/89 above the exemption limit are as follows:

Slabs	Rates in percentage
1. First Rs 5,000	10
2. Next Rs 5,000	15
3. Next Rs 10,000	20
4. Next Rs 15,000	25
5. Next Rs 15,000	30
6. Next Rs 30,000	40
7. Above	50

B. Sales tax

118. Sales tax is collected at the point of import on all taxable goods and merchandise unless the importer is a manufacturer registered in the Tax Office under the Sales Tax Act 1966. Registered manufacturers collect sales tax at the time of their sales and deposit the tax with the Government. It is levied on the value of sales in the case of manufactured goods and on the value of imports (cost of goods purchased + expenses up to

customs point + customs and other duties) on the imported goods. The present rates of sales tax range from 5 to 20 per cent.

C. **Excise duties**

119. The rates of excise duties range from 5 to 95 per cent depending on the nature of the goods. Excise duties are levied ad valorem and/or on a specific basis. Exports are exempted from excise duty.

D. **Other taxes**

120. The other important taxes are:

- Hotel tax;
- Vehicle tax;
- Television and video tax;
- Urban house and land tax;
- Contract tax, etc.

3.3 Industrial policy and foreign investment

121. The objectives of the New Industrial Policy (1987) are as follows:

(a) to make available effective protection to industries by ensuring that such protection helps in the appropriate utilization of available resources;

(b) to strengthen the role of industry in achieving regional economic balance and rural development;

(c) to adopt comprehensive standards which benefit the nation; and in conformity with such standards to encourage entrepreneurs to take independent decisions regarding the establishment and diversification of industries;

(d) to encourage local resource mobilization in order to ensure the supply of raw materials to industries and increase the flow of foreign currency as needed;

(e) to develop industries relating to agriculture, energy, mining, tourism and services which merit national priority, in addition to manufacturing industries.

122. The New Industrial Policy (1987) identified foreign investment promotion as an important strategy in achieving the objectives of increasing industrial production to meet the basic needs of the people, create maximum opportunity for employment and improve the balance of payments through establishment of selected import-substituting and export-oriented industries.

123. Some of the important aspects of the Policy relating to foreign investment are:

- permission to remit the share of dividends in full every year for an equity investment in convertible foreign currency or machinery requiring expenses in convertible currency;

- authorization of repatriation of capital on sale or liquidation at the rate of 20 per cent per annum in the case of investments in convertible currency;

- permission to employ foreign technical personnel with the approval of the Department of Labour;

- assurance that there will be no nationalization except in very special circumstances, in the national interest or for defence purposes.

CHAPTER IV: EXPORT PROMOTION

4.1 Introduction

124. The present trade strategies have set Nepal on a new path to long-term export expansion. A key feature of these strategies is the high-level national commitment to exports, accompanied by strengthened institutional machinery and a new policy framework for exports. The private sector which has been given a leading role in the new export drive is receiving support through various incentives, duty relief measures, expanded export services and relaxed export formalities and procedures. These incentives have been designed to help the Nepalese exporters to compete in the world market in view of Nepal's special geographical constraints and level of economic development.

4.2 Economic incentives

A. Cash incentives

125. In view of the present trade difficulties, HMG/N has adopted the policy of granting cash subsidies to selected products at rates ranging from 10 to 35 per cent of FOB value. The products receiving such subsidies are given in Annex II - 7.

126. The system of subsidy has been introduced on a short-term basis until the process of readjustment for product development and export efficiency is achieved.

B. Duty relief measures

127. There are various duty relief measures applicable for exports of Nepal. HMG/N has introduced the Industrial Enterprises Act 1987 to provide incentives to industries. Some industries are exempted from excise and sales tax and receive partial relief from the import tariff in respect of machinery, equipment and raw materials. Provision has been made for full or partial exemption from excise duty for exportable products in Clause 19 of the Excise Act 2015 (1958). Both the Acts mentioned above made sufficient provision for duty relief to be granted to persons using dutiable materials in the manufacture of excisable goods that are exported from Nepal. The various duty relief measures appear below:

(i) Income tax and sales tax exemptions

No income tax and sales tax are levied on products exported to any country under convertible currency payment.

(ii) Excise refund

The Excise Act provides for full exemption from payment of excise duty on exports. In practice, full excise is collected at first and treated as a deposit against claims being lodged and evidence produced that the goods have been exported.

(iii) Duty drawback

In view of the provision made under the Industrial Enterprises Act 1987, the Ministry of Finance has published a notification stating that the customs duties and the sales tax imposed on auxiliary and prime raw materials or chemicals used in the production of exportable goods are refunded in proportion to export shipments.

(iv) Bonded warehouse

The ready-made garment industry is provided with bonded warehouse facilities for imported textiles with a provision for partial freeing of bonds.

(v) Customs duty

The export duty payable on the majority of export products is levied at a rate of 0.5 per cent on FOB value.

(vi) Others

To promote export of jewellery, HMG/N provides silver to the manufacturer/exporter at an international price. In the case of raw wool imported for use in exportable carpets, the premium has been waived. Import licences are issued for some raw materials required for export-oriented industries without premium under the OGL system.

4.3 Institutional support

A. Trade Promotion Centre

128. The Trade Promotion Centre (TPC), an agency of HMG/N, was established in 1971 to promote the expansion and diversification of exports as well as to encourage growth of the country's export capacity and promote international markets.

129. The TPC is managed and guided by the Nepal Trade Promotion Board (NTPB) which was set up in December 1970. At present this Board is chaired by the Minister Of Commerce.

130. The TPC provides the following services:

(i) assesses the potentialities and prospects for the development of exportable products;

(ii) assists in the formulation of plans, policies and annual programmes for export promotion and trade development;

(iii) assists the Government in matters relating to trade development;

(iv) undertakes product development projects and market promotion activities;

(v) builds trade information and documentation networks;

(vi) fosters active links with international and regional agencies concerned with the development of trade,

(vii) provides secretarial services to important national bodies such as the Export Product Development and Promotion Council, the Export Trade Development and Management Committee and the Nepal Trade Promotion Board.

B. Other institutions

130. A number of institutions providing various services for different export commodities have been established to assist in the development, processing and export of various products. These institutions include:

(i) Jute Development and Trading Corporation (JDTC);
(ii) Tea Development Corporation (TDC);
(iii) Herbs Production and Processing Co. Ltd. (HPPCL);
(iv) Nepal Rosin and Terpentine Co. Ltd.

4.4 Other incentives

A. Incentives for exported-oriented industries

131. The Industrial Enterprises Act 1987 and Foreign Investment and Technology Act 2038 (1981) provide general facilities and incentives for export-oriented industries.

B. Foreign exchange facilities

132. The Nepal Rastra Bank (NRB) provides exchange facilities for exporters intending to participate in trade fairs or exhibitions, to advertise in other countries and to participate in trade missions abroad.

C. Export financing

133. The commercial banks provide concessional rates of interest on pre-shipment finance and other banking facilities.

ANNEX I

STATISTICAL TABLES

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1.	Selected economic and social indicators
2.	Gross domestic product by industrial origin
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8.	Interest rate structure of banks and financial institutions
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12.	Exports of major commodities to India
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15.	Distribution of imports by major country of origin
16.	Imports of major commodities from India
17.	Imports of major commodities from overseas countries
18.	Balance of trade

ANNEX 1

Table 1

Selected Economic and Social Indicators for LDCs and other Country Groups

	Indicator	Year	LDCs	Developing Countries	Developed Countries	Year	Nepal
1.	GDP per capita in 1985 $	1960 1984	184 206	501 886	5,405 10,509	1988	160
2.	Export per capita $	1985	23	186	1,241	1987/88	10
3.	Share of primary commodities in total exports %	1984	66	21	16	1987/88	36
4.	Imports per capita $	1985	46	169	1,343	1987/88	34
5.	Percentage of arable land and land under crops	1984	6	11	12	1986	31
6.	Output per worker in agriculture $	1984	309	747	10,838	1981	241
7.	Percentage share of manufacturing in GDP	1984	9	18	25	1987/88	5.98
8.	Labour force in industry %	1980 82	9	16	37	1981	2.38
9.	Energy consumption per capita kg. of coal equivalent	1984	54	523	5,781	1988/89	521
10.	Telephone/000 population	1984	3	25	372	1989	2.23
11.	Population with access to safe water in %	1983	37	51	99	1985	17.6
12.	Physician per 100,000 population	1980	8	36	246	1987/88	4.78
13.	Life expectancy at birth	1980-85	46	56	73	1989	53.5
14.	Infant mortality rate per '000	1980-85	138	96	16	1986/87	107
15.	Adult literacy rate %	1985	32	58	98	1988	35
16.	Primary school enrollment in %	1984	54	89	102	1987	77

Source: UNCTAD

ANNEX I

Table 2

Gross Domestic Product by Industrial Origin

(Rs in million at current price)

Originating sector	1974/75	1984/85	1985/86	1986/87[a]	1987/88[b]	1988/89c
1. Agriculture, fisheries and forestry	11,435	23,927	26,555	30,276	35,317	41,250
2. Mining and quarrying	22	140	120	1,322	114	119
3. Manufacturing	664	1,998	2,622	3,559	4,057	4,292
Modern	(440)	(1,446)	(2,026)	(2,900)	(3,373)	(3,568)
Cottage	(224)	(502)	(596)	(659)	(684)	(724)
4. Electricity, gas and water	34	196	342	378	391	401
5. Construction	583	3,583	3,980	4,705	5,914	5,718
6. Trade restaurants and hotels	540	1,837	2,207	2,564	3,047	2,941
Restaurants	( )	(1,664)	(1,978)	(2,302)	(2,751)	(2,646)
Hotels	( )	(173)	(229)	(262)	(296)	(295)
7. Transport, communication and storage	690	2,764	3,123	3,339	3,724	3,985
8. Financial and real estate	1,095	3,420	3,942	4,446	4,976	5,051
9. Community and social services	873	3,691	4,164	4,790	5,458	6,571
Public	(648)	(3,035)	(3,388)	(3,911)	(4,479)	(5,480)
Extra territorial	( )	(43)	(54)	(60)	(67)	(75)
Private services	225	(613)	(722)	(819)	(912)	(1,016)
GDP at factor cost	15,936	41,556	47,064	54,209	62,998	70,328
	635	2,861	3,364	3,619	4,837	4,247
Agriculture	(115)	(244)	(264)	(306	(331)	(358)
Non-agriculture	(520)	(2,617)	(3,100)	(3,313)	(4,466)	(3,880)
GDP at market price	16,571	44,417	50,428	57,828	67,835	74,575

a. Preliminary revised estimate
b. Provisional estimate
c. Tentative estimate

Source: Central Bureau of Statistics.

ANNEX I

TABLE 3

PERCENTAGE DISTRIBUTION OF THE ECONOMICALLY ACTIVE POPULATION*

Major Industrial Group	1971 Total	1981 Total	1981 Male	1981 Female	1981 Rural	1981 Urban
Total Labour force	100.00	100.00	100.00	100.00	100.00	100.00
Farmers & Fishermen	94.38	91.15	88.70	95.75	63.97	92.74
Unspecified	-	1.86	2.13	1.35	3.13	1.78
Non-Agri (industry)	100.00	100.00	100.00	100.00	100.00	100.00
Manufacturing	19.02	7.09	7.02	7.53	10.96	5.72
Electricity, Gas & Water	0.58	0.63	0.70	0.21	0.88	0.54
Construction	1.84	0.42	0.46	0.17	0.61	0.35
Commerce	23.29	22.83	22.65	23.90	29.62	20.44
Transportation	3.53	1.55	1.72	0.50	3.15	0.98
Finance & Business	1.27	2.05	2.15	1.46	4.32	1.26
Personal & Community Services	50.47	65.42	65.29	66.22	50.46	70.71

*Population aged 10 years and above, Nepal census year 1971-81.

Source: Central Bureau of Statistics.

ANNEX I

TABLE 4

FOREIGN LOANS AND DEBT SERVICING

Rs. in Million

Description	1974/75	1984/85	1985/86	1986/87	1987/88	1988/89
DIRECT						
Outstanding up to last year	214.3	7,500.0	9,184.9	13,042.8	16,990.6	23,110.7
Borrowing	85.9	1,753.1	1,287.5	2,361.9	4,069.9	3,219.0
Repayments	9.0	68.2	160.0	249.6	296.5	240.8
Interest payments	-	119.7	124.9	235.8	293.0	174.8
Net Outstanding	294.4	9,184.9	10,312.4	15,155.1	20,764.0	26,088.9
INDIRECT						
Outstanding up to last year	43.3	19.3	18.3	17.8	63.0	69.1
Borrowing	10.6	-	-	-	-	-
Repayments	2.2	1.0	0.5	1.0	1.0	0.6
Interest payments	-	0.6	0.3	0.6	0.5	0.3
Net Outstanding	51.7	18.3	17.8	16.8	62.0	68.5
TOTAL FOREIGN LOANS						
Outstanding up to last year	257.6	7,519.3	9,203.2	13,060.6	17,053.6	23,179.8
Borrowing	96.5	1,753.1	1,287.5	2,361.9	4,069.9	3,219.0
Repayments	11.2	69.2	160.5	250.6	297.5	241.4
Interest payments	-	120.3	125.2	236.4	293.5	175.1
Net Outstanding	346.1	9,203.2	10,330.2	15,171.9	20,826.0	26,157.4

Note: The figures for 1988/89 are for the first nine months at the current exchange rate.

Source: Office of the Comptroller General.

ANNEX I

TABLE 5

FOREIGN AID DISBURSEMENT BY MAJOR SOURCES

Rs. in Million

Sources	1974/75	1984/85	1985/86	1986/87	1987/88	1988/89
Bilateral	330.7	983.2	1,156.3	1,481.1	1,078.4	2,261.6
Grant	307.7	765.5	756.9	982.2	778.7	1,799.1
Loan	23.0	217.7	399.4	498.9	299.7	462.5
Multilateral	174.9	1,564.3	1,520.1	2,010.4	2,236.1	2,826.9
Grant	52.0	111.1	166.5	138.4	173.9	195.1
Loan	122.9	1,453.2	1,353.6	1,872.0	2,062.2	2,631.8
Total	505.6	2,547.5	2,676.4	3,491.5	3,314.4	5,088.5
Grant	359.7	876.6	923.4	1,120.6	1,078.3	1,994.2
Loan	145.9	1,670.9	1,753.0	2,370.9	2,236.1	3,094.3

Source: HMG/N, Ministry of Finance.

ANNEX I

TABLE 6

CONSUMER PRICE INDEX
(Base Year 1972/73 = 100)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
National Overall	269.8	280.9	325.5	368.7	421.5	464.2
Kathmandu Overall	271.4	281.6	329.9	376.0	419.3	470.4
Hills Overall	266.5	291.1	325.4	369.6	428.5	485.0
Terai Overall	268.6	277.0	320.8	360.6	418.7	455.5

Source: Nepal Rastra Bank.

TABLE 7

AVERAGE EXCHANGE RATE FOR US DOLLAR IN NEPALESE RUPEES
(Selling rate)

Year	Rate	Percentage Change
1983/84	16.80	-
1984/85	17.80	6.0
1985/86	21.30	19.7
1986/87	22.00	3.3
1987/88	22.12	0.5
1988/89	25.70	16.2

Source: Nepal Rastra Bank.

ANNEX I

TABLE 8

INTEREST RATE STRUCTURE OF BANKS AND FINANCIAL INSTITUTIONS

Types of Deposits*	Percent per annum Effective 16.11.1984	Per cent per annum Effective 29.5.1986
a) Current	-	-
b) Savings	8.5 to 10.0	8.5 (Minimum)
C) Fixed		
- 1. Less than 3 months	4.8 to 5.5	The rates can be fixed by the banks themselves.
- 2. Six months	9.5 to 10.5	8.5 (minimum)
- 3. One year	12.5 to 13.5	12.5 (minimum)
- 4. Two years	13.5 to 14.5	The rates can be fixed by the banks themselves. However, the rates should be higher than the one year fixed deposit rate.

*The banks and the financial institutions may offer rates higher than the minimum fixed by Nepal Rastra Bank.

Source: Nepal Rastra Bank.

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TABLE 9

SUMMARY OF BALANCE-OF-PAYMENTS

Rs. in Million

Description	1974/75	1984/85	1985/86	1986/87	1987/88	1988/89
Exports, f.o.b.	889.6	2,746.4	3,085.7	3,003.0	4,127.3	4,285.2
Imports, c.i.f.	1,814.6	7,768.6	9,372.0	10,927.1	13,892.8	16,451.4
Trade balance	-925.0	-5,022.2	-6,286.3	-7,924.1	-9,765.5	-12,166.2
Services, net	280.8	4,079.5	1,574.5	2,327.4	2,211.7	3,047.9
Receipts	(693.3)	(2,718.4)	(3,483.3)	(4,652.7)	(4,785.4)	(6,095.8)
Travel	170.6	735.4	1,071.0	1,740.5	1,675.7	-
Investment income	108.7	93.5	63.5	100.7	196.0	-
Others	414.0	1,889.5	2,348.8	2,811.5	2,913.7	-
Payments	(412.5)	(1,638.9)	(1,908.8)	(2,325.3)	(2,573.7)	(3,047.9)
Transfers, net	564.7	2,093.7	2,240.9	2,692.3	2,931.0	2,717.9
Receipts	(523.9)	(2,127.4)	(2,340.6)	(2,761.6)	(3,043.2)	-
Private remittances	204.3	690.7	809.1	1,292.6	1,608.4	1,354.8
Official grant	242.0	1,332.8	1,355.2	1,303.4	1,278.7	1,363.1
Indian excise refund	108.2	71.8	17.4	116.1	112.8	-
Others	3.4	31.8	98.7	49.5	43.3	
Payments	(34.0)	(33.4)	(99.7)	(69.3)	(112.2)	-
Current account balance	-120.3	-1,373.9	-2,470.9	-2,904.4	-4,622.8	-6,400.4
Official capital net	86.7	1,770.2	1,811.5	1,888.3	4,368.0	-
Foreign loans	(104.0)	(1,362.5)	(2,005.1)	(2,097.9)	(4,675.4)	-
Amortization	(-17.3)	(-92.3)	(-193.6)	(-209.6)	(-307.4)	
Miscellaneous capital	-388.8	-287.2	1,220.4	1,392.6	2,527.8	1,204.9
Change in reserves net	422.4	866.0	561.0	376.5	2,273.0	-726.4

Source: Nepal Rastra Bank

ANNEX I

TABLE 10

COMMODITY TRADE BY SITC GROUP

EXPORTS

Rs. in Million

SITC Group	1974/75	1984/85	1985/86	1986/87	1987/88	1988/89
Food and live animals	517.5	992.1	835.6	703.7	804.4	540.5
Tobacco and beverage	0.4	5.0	0.2	3.5	10.1	5.0
Crude materials, inedibles	213.3	486.8	412.9	491.1	513.7	245.2
Mineral fuel lubricants	1.5	1.0	0.2	0.2	0.8	-
Animal and vegetable oils and fats	2.4	57.1	61.3	117.1	171.5	98.1
Chemicals and drugs	0.9	1.2	2.5	2.0	12.6	24.3
Manufactured goods classified by materials	28.1	649.1	899.9	1,009.6	1,601.6	1,986.6
Machinery and transport equipment	2.1	33.7	38.6	2.6	0.5	5.7
Miscellaneous manufactured articles	58.3	513.4	826.5	661.5	996.9	1,250.1
Commodity and transaction not classified	12.1	1.2	0.3	0.2	2.5	-
TOTAL	889.6	2,740.6	3,078.0	2,991.4	4,114.6	4,155.7
Change in percentage over the previous figures		208.1	12.3	-2.8	37.5	1.7

Source: Nepal Rastra Bank

ANNEX I

TABLE 11

DISTRIBUTION OF EXPORTS BY MAJOR COUNTRY OF DESTINATION

Share in percentage

S.N.	Destinations	1983/84	1984/85	1985/86	1986/87	1987/88
1.	India	68.9	58.3	40.1	43.4	38.3
2.	United States	1.8	17.6	26.0	20.2	22.6
3.	Germany, F.R.	10.5	5.3	7.2	10.0	16.2
4.	United Kingdom	5.3	3.8	3.5	5.6	6.1
5.	Italy	4.2	3.5	3.8	2.4	1.7
6.	USSR	3.0	3.5	2.1	1.4	0.9
7.	Singapore	0.9	2.5	7.0	3.5	0.7
8.	Switzerland	1.2	1.0	2.1	5.4	6.5
9.	Belgium	-	-	-	0.9	1.3
10.	Netherlands	-	-	-	-	0.7
	Share of major destinations	95.8	95.5	91.8	92.8	95.0
	Share of other destinations	4.2	4.5	8.2	7.2	5.0
	TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Nepal Rastra Bank
Trade Promotion Centre

ANNEX I

TABLE 12

EXPORTS OF MAJOR COMMODITIES TO INDIA

Rs. in Million

S.N.	Commodities	1983/84	1984/85	1985/86	1986/87	1987/88
1.	Live animals	n.a.	104	116	163	111
2.	Hessian	117	78	91	85	59
3.	Rosin	n.a.	n.a.	n.a.	70	55
4.	Pulses	n.a.	21	34	123	52
5.	Rice bran oil	n.a.	31	44	79	51
6.	Linseeds	26	58	103	141	50
7.	Ghee	39	47	47	47	49
8.	Jute bags	86	58	41	68	47
9.	Catechu	n.a.	84	109	105	44
10.	Oilcake	n.a.	51	58	58	44
11.	Salseed oil	n.a.	21	17	57	36
12.	Raw jute	44	2	15	44	34
13.	Large cardamom	n.a.	n.a.	n.a.	25	32
14.	Jute twine	57	31	32	35	29
15.	Dried ginger	39	30	35	37	29
16.	Fresh ginger	n.a.	14	22	34	26
17.	Brans	n.a.	n.a.	n.a.	n.a.	14
18.	Skins	n.a.	n.a.	n.a.	18	13
19.	Herbs	28	17	8	16	13
20.	Jute cuttings	n.a.	n.a.	n.a.	9	10
21.	Other	1,166	594	530	354	193
	TOTAL	1,602	1,241	1,302	1,568	991

Source: Nepal Rastra Bank

ANNEX I

TABLE 13

EXPORTS OF MAJOR COMMODITIES TO OVERSEAS COUNTRIES

Rs. in Million

S.N.	Commodities	1974/75	1984/85	1985/86	1986/87	1987/88	1988/89
1.	Woollen carpet	8	249	376	628	1,212	1,589
2.	Ready-made garments	1	471	803	611	897	1,108
3.	Hides and skins	6	243	233	161	165	166
4.	Pulses	8	109	240	101	4	52
5.	Handicrafts	18	13	18	28	27	31
6.	Large cardamoms	7	15	25	43	20	17
7.	Niger seeds		4	15	28	94	16
8.	Woollen goods	7	5	4	5	9	15
9.	Raw jute	46	-	29	22	30	4
10.	Salseed oil	-	-	8	20	8	3
11.	Miscellaneous	66	10	9	13	23	40
	TOTAL	167	1,119	1,761	1,660	2,489	3,041

Source: Trade Promotion Centre

ANNEX I

TABLE 14

COMMODITY TRADE BY SITC GROUP

IMPORTS

Rs. in Million

SITC Group	1974/75	1984/85	1985/86	1986/87	1987/88	1988/89
Food & Live Animals	243.1	782.9	971.1	1,028.9	1,523.7	1,291.1
Tobacco & Beverages	18.9	79.4	112.9	144.0	172.2	203.7
Crude Materials, Inedibles	63.8	424.5	393.0	657.2	1,036.9	1,165.4
Mineral Fuels & Lubricants	182.7	918.8	1,054.0	929.4	1,049.9	1,128.3
Animal & Vegetable Oils and Fats	7.0	122.7	101.9	175.9	352.6	345.6
Chemicals & Drugs	179.5	908.0	1,170.3	1,287.6	1,595.3	1,541.4
Manufactured Goods Classified by materials	509.5	2,376.9	2,759.5	3,226.8	3,359.2	4,678.8
Machinery & Transport Equipment	270.1	1,671.4	2,134.6	2,784.1	4,143.7	4,861.2
Miscellaneous Manufactured Articles	198.1	450.6	637.2	664.0	739.1	1,020.2
Commodity & Transaction not Classified	141.9	6.9	6.7	7.3	7.0	4.7
Total	1,814.6	7,742.1	9,341.2	10,905.2	13,869.6	16,240.5
Change in Percentage	-	329.0	20.6	16.7	27.2	17.6

Source: Nepal Rastra Bank.

ANNEX I

TABLE 15

DISTRIBUTION OF IMPORTS BY MAJOR COUNTRY OF ORIGIN

Percentage

S.N. Origin	1983/84	1984/85	1985/86	1986/87	1987/88
1. India	47.1	49.3	42.4	39.5	35.9
2. Japan	10.9	11.2	16.0	13.3	12.5
3. USSR	8.3	5.7	1.9	-	2.8
4. Korea, Republic of	5.3	5.1	4.9	5.4	4.2
5. Kuwait	-	3.3	8.0	6.3	5.8
6. China, Peoples's Republic	5.1	3.2	3.2	2.5	3.2
7. United Kingdom	-	3.2	-	-	1.8
8. Singapore	2.4	2.6	3.6	7.2	7.9
9. Germany, Federal Republic	3.3	2.4	2.9	2.9	4.9
10. United States	2.3	1.5	1.8	-	-
11. Hong Kong	1.8	-	1.9	1.9	-
12. Bahrain	2.4	-	-	1.8	-
13. Belgium	-	-	-	1.7	-
14. New Zealand	-	-	-	-	3.9
Share of the above origin	88.9	87.5	86.6	82.5	82.9
15. Other countries	11.1	12.5	13.4	17.5	17.1
Total	100.0	100.0	100.0	100.0	100.0

Sources: Nepal Rastra Bank.
Trade Promotion Centre.

ANNEX I

TABLE 16

IMPORTS OF MAJOR COMMODITIES FROM INDIA

R.s in Million

S.N.	Products	1985/86	1986/87	1987/88	1988/89
1.	Fabrics (Cotton)	632.6	603.8	406.7	499.3
2.	Medicines	371.0	444.3	473.1	436.4
3.	Machinery and equipment	297.7	345.2	360.1	362.8
4.	Transport equipment	195.5	217.6	280.6	328.3
5.	Live animals	146.2	192.4	317.5	183.0
6.	Tobacco	92.0	125.1	129.3	176.9
7.	Thread (cotton)	111.4	100.0	101.3	129.1
8.	Cement	59.5	65.2	7.2	89.8
9.	Electrical goods	110.8	110.7	78.1	79.1
10.	Horlicks and milk products	-	-	56.0	77.2
11.	Coal	55.4	84.2	67.4	75.4
12.	Vegetables	65.6	62.6	76.1	68.9
13.	Ready-made garments	57.0	53.9	72.2	67.7
14.	Cumin seeds and peppers	36.0	43.0	37.4	65.0
15.	Books and magazines	-	-	49.1	48.6
16.	Pipes and pipe fittings	75.9	62.8	39.1	45.3
17.	Fruits	33.1	37.4	46.2	36.2
18.	Tea	42.3	25.6	24.8	35.0
19.	Paper	46.5	34.7	11.1	21.1
20.	Salt	-	-	23.7	19.9
21.	Dried chillies	-	-	14.8	18.7
22.	Glass sheets and ware	-	-	-	15.4
23.	Bidi leaves	-	-	16.6	13.7
24.	Eggs	-	-	10.3	10.7
25.	L.P. Gas	-	-	13.7	9.5
26.	Enamel and paints	-	-	-	8.4
27.	Cotton	15.3	32.7	15.6	7.7
28.	Cosmetics	-	-	6.4	5.8
29.	Miscellaneous	1,527.1	1,620.8	1,861.4	1,281.3
Total		3,970.9	4,262.0	4,595.8	4,216.2

Note: - indicate figures not available.
Source: Nepal Rastra Bank.

ANNEX I

TABLE 17

IMPORTS OF MAJOR COMMODITIES FROM OVERSEAS COUNTRIES

Rs in Million

S.N.	Products	1984/85	1985/86	1986/87	1987/88
1.	POL products	887.0	1,014.7	1,128.8	1,213.8
2.	Raw wool	62.3	15.4	126.6	512.0
3.	Transport equipment	174.2	273.2	266.1	507.3
4.	Fertilizer	307.2	577.2	513.5	504.4
5.	Machineries and parts	375.5	517.1	482.6	503.2
6.	Telecommunications equipment	-	50.3	551.3	324.1
7.	Thread	120.9	169.3	297.8	300.4
8.	Hydro electric equipment	-	24.6	95.2	294.8
9.	Soyabean oil	-	-	72.3	235.6
10.	Cement	202.6	226.8	238.5	208.9
11.	Steel rod and sheet	57.3	42.6	92.9	200.0
12.	Construction materials	129.5	133.8	151.7	174.8
13.	Electrical goods	80.6	151.8	132.5	157.2
14.	Industrial raw materials	39.4	60.3	73.2	130.6
15.	Medicine & medical equipment	73.8	103.4	88.8	98.7
16.	Aircraft spare parts	127.3	109.5	95.1	97.6
17.	Billets	63.0	107.8	155.9	92.4
18.	Polythene Granules	71.7	62.2	85.4	87.6
19.	Palm Oil	40.0	42.1	52.3	71.2
20.	Office equipment & stationery	50.4	78.6	100.5	70.7
21.	Milk & milk products	39.5	58.8	18.9	52.6
22.	Textile	199.8	135.3	65.6	44.7
23.	Miscellaneous	879.4	1282.6	1392.0	1839.4
	TOTAL	3,981.4	5,237.4	6,277.5	7,722.0

Source: Trade Promotion Centre

ANNEX I

TABLE 18

BALANCE OF TRADE

Rs in Million

Fiscal Year	Export Value	% Change	Import Value	% Change	Deficit Value	% Change
1974/75	889.6	-	1,814.6	-	925.0	-
1984/85	2,740.6	208.1	7,742.1	329.0	5,000.1	440.7
1985/86	3,078.0	12.3	9,341.2	20.6	6,263.2	25.2
1986/87	2,991.4	-2.8	10,905.2	16.7	7,913.8	26.4
1987/88	4,114.6	37.5	13,869.6	27.2	9,775.0	23.3
1988/89	4,155.7	1.7	16,240.5	17.6	12,054.8	23.6

Source: Nepal Rastra Bank

ANNEX - II

FOREIGN TRADE RELATED DESCRIPTIVE INFORMATION

Contents

ANNEX II - 1

List of Items Which Could be Imported under OGL

A. With premium

(a) Industrial Raw Materials

S.N.	Items	Premium in %
1.	Billet for iron rod	1
2.	Cold rolled sheets (including cold rolled strips)	10
3.	Black sheets (Hot rolled sheets, M.S. channel and M.S. plate)	5
4.	G.P. sheets and black pipe (including G.I. sheets)	25
5.	Copper, brass, iron and aluminium wire	10
6.	Rod for copper, brass, iron and aluminium wire	5
7.	Copper brass sheets and circles	10
8.	Tin plate	5
9.	Tin ingot (soldering material)	10
10.	Zinc caltot strips, rolled plate (including zinc ingot)	11
11.	Tallow	16
12.	Zinc	10
13.	Perfume	1
14.	Full cream milk powder	1
15.	Skimmed milk powder	1
16.	Groundnut oil	16
17.	Soyabean oil	16
18.	Oil for refinery	16
19.	Plastics, polythene and other items made thereof	7
20.	Synthetic yarn less than 75 denier (excluding stretch nylon yarn)	30
21.	Cloth umbrella industry	10
22.	Kits for umbrella industry (excluding cloth)	5
23.	Acrylic yarn	15
24.	Acrylic tops	10
25.	Acrylic fibre	5
26.	Woollen yarn	10
27.	Synthetic rubber	[illegible]
28.	Natural rubber	10
29.	Carbon black	10
30.	Rubber sheets (natural and synthetic)	15
31.	Trade rubber (natural and synthetic)	10
32.	Synthetic leather, rexin and canvas	10
33.	X-ray plates and chemicals for printing industry	5
34.	Multi-band radio, transistor, tape recorder, cassette player, car stereo, cassette, lighter, fan, heater, razor, rover, hair dryer, cooker, toaster,	5
35.	V.C.P., V.C.R. deck and their assembling materials	40
36.	Television kits and their assembling materials	30
37.	Copra	30
38.	Aluminium angle, channel, section and door locks and handles	20
39.	Vinyl acitic and poly vinyl alcohol	20
40.	White mat pulp and premixed chemicals	10
41.	O.P.P. and P.V.C. films	15
42.	Acrylic or P.V.C. based glue	15

(b) Commercial Items

S.N.	Items	Premium in %
1.	Bicycle	21
2.	Bus, truck, heavy equipment (new)	10
3.	Bus, truck, heavy equipment (second hand)	15
4.	Cotton cloth	5
5.	Electrical appliances for domestic use	7
6.	Paper	7
7.	Sugar	1
8.	Milk products except milk powder	5
9.	Dyes and chemicals for carpet industry	10
10.	Equipment and instruments for medical treatment	20
11.	Veterinary Instrument	20
12.	Raw materials for birds and animals feed (not available in Nepal)	5

B. Without Premium

(b) Industrial raw material

1. Raw wool
2. Gipsum
3. Distilled palm oil
4. R.B.D. palm oil
5. Distilled palm kernel fatty acid
6. Coconut oil
7. Coconut fatty oil
8. Potassium chloride
9. Blue match paper
10. Ribbed craft paper
11. Card board sheet for inner and outer box
12. Paper rolls
13. Acityline black
14. Titanium acid
15. Cresylic acid
16. Lanolin
17. Soda ash
18. Caustic soda
19. Stainless steel in coil (different gauges)
20. Paraffin wax
21. Potasium chlorate
22. Sulphur powder
23. Iron oxide
24. Manganesite di-oxide
25. Potasium di-chromate
26. Amorphous phosphorous
27. Galitan glue
28. Foaming agent
29. Stearic powder
30. Aluminium foil
31. Triacetine

32. Textile chemicals
33. Textile dyes
34. Synthetic yarn above 75 denier
35. Copper scraps and ingot
36. Alkaline powder
37. Concentrates
38. Flavour
39. Malt
40. Dry culture or pure yeast
41. Copper findings
42. Co2 hop extract
43. Zumesite
44. Hop pellets
45. Beerostabils
46. Vatted malt scotch whiskey
47. Glycerine
48. And other industrial raw materials

Note: Imports of raw wool is totally free. It can be imported by all firms either for their own use or for commercial purpose.

(b) Commercial items

1. Cotton yarn
2. Medicines
3. Tanker
4. Salt
5. Coal
6. Petroleum products
7. Raw wool
8. Raw materials and chemicals for medicines
9. Veterinary medicines and its accessories

ANNEX II-2

List Of Nepalese Industrial Products Which Were Eligible For Preferential Entry Into India Under The Treaty of Trade (1978)

S.N.	Product
1.	Biscuits
2.	Refined ghee*
3.	High boiled sweets
4.	Salseed oil, rice bran oil salseed extraction and rice extraction
5.	Straw board*
6.	Plywood
7.	Magnesite*
8.	Marble blocks, slabs and chips*
9.	Wet blue chrome tanned goat skins
10.	Cast iron goods
11.	Raw talc
12.	Ice blocks*
13.	Wooden articles and furniture*
14.	Katha and Kutch*
15.	Wheat bran*
16.	Jute manufactures (all shorts)
17.	Mustard oil
18.	Resin
19.	Oil cake*
20.	Chuni bhusi and akra*
21.	Handicrafts and handlooms
22.	Linseed oil
23.	Match splints*
24.	Ground talc, other than cosmetic grade
25.	Saw dust*
26.	Rice bran*
27.	Sugar*
28.	Slate*
29.	Powdered lime*
30.	Cattle and poultry feed
31.	Split crust (cow & buff)*
32.	Wet blue hides (cow and buff)
33.	Wet blue hides split (cow and buff)*
34.	Vegetable tanned buff sole leather*
35.	Chromes upper and lining leather*
36.	Leather board
37.	Ginger oil
38.	Fruit jam, jelly and squash
39.	Lemon barley
40.	Vinegar
41.	Pineapple crush
42.	Rose syrup and blue syrup
43.	Tomato ketchup and sauce
44.	Golden mixed marmalade
45.	Noodles and spaghetti*
46.	Hides and skins, processed & semi-processed*
47.	Redried tobacco*
48.	Footwear and closed leather upper
49.	Mama snacks (corn)
50.	Pan masala
51.	Emery cloth
52.	Emery paper
53.	Sand paper
54.	Rosin
55.	Turpentine
56.	Dressed bristles
57.	Paint brushes
58.	Wood veneer
59.	Pasturized butter
60.	Chocolate pastry
61.	Coconut cakes
62.	Dead burnt magnesite
63.	Linchin resinoid
64.	Pineapple pulp
65.	Orange juice
66.	Orange extracts

* These products have been exempted from submission of proforma

ANNEX II - 3

Countries having Bilateral Trade Agreements with Nepal

1. People's Republic of Bangladesh
2. People's Republic of Bulgaria
3. People's Republic of China
4. Czechoslovak Socialist Republic
5. Arab Republic of Egypt
6. Republic of India (under negotiation)
7. Democratic People's Republic of Korea
8. Republic of Korea
9. Islamic Republic of Pakistan
10. People's Republic of Poland
11. Democratic Socialist Republic of Sri Lanka
12. United Kingdom of Great Britain and Northern Island
13. United States of America
14. Union of Soviet Socialist Republics
15. Socialist Federal Republic of Yugoslavia
16. Socialist Republic of Romania

ANNEX II - 4

List of Goods on Which Additional Duties Have Been Fully Exempted

1. Machinery, raw materials, auxiliary raw materials and chemicals imported by any industry, if such industry is liable to pay the sales tax on its production.
2. Medicines and medical equipment
3. Agricultural tools and insecticides
4. Pump sets and tube wells for irrigation
5. Writing and printing papers
6. Raw wool
7. Equipment for scientific laboratory and computer
8. Incense sticks
9. Abir, kesari and sindur powder
10. Aluminium utensils
11. Cotton fabrics and cotton sarees
12. Copy, register and note books
13. Bed sheets, towels and handkerchiefs
14. Nails, nuts and bolts
15. Chemicals
16. Sports goods
17. Raw sugar
18. Glass and plastic bangles
19. Cotton shawls
20. Bicycles, rickshaws, and spare parts thereof
21. Baby food and milk powder
22. Sanitary fittings
23. Iron products
24. Electrical bulbs and fluorescents
25. Electrical appliances and fittings
26. Writing and printing inks
27. Spices - cumin seeds, black peppers etc.
28. Lubricants
29. Buses, trucks and chassis for buses and trucks
30. Stationery goods
31. Tobacco
32. Hand tools
33. Tea and coffee
34. Plywood
35. Khaini and zarda
36. Door and window fittings
37. Tractors
38. Auto rickshaws
39. Betel leaves
40. Woollen rugs
41. Mirrors
42. Rope (except nylon rope)
43. Kerosene stove and oven
44. Dibiya and lantern
45. Bitumin
46. Electric poles

47. Pressure cookers
48. Duplicating paper
49. Coal
50. Rayon and alpaca cloth
51. Tube well pumps for drinking water
52. Sugar
53. Energy foods such as Horlicks, Viva etc.
54. Live animals
55. Live animal products
56. Vegetables
57. Flour and foods
58. Pulses
59. Oil seeds
60. Chillies
61. Turmeric
62. Fresh ginger
63. Fresh fruits
64. Fresh fish
65. Insulators
66. Typewriters and parts
67. Duplicating machines
68. Tapioca
69. Fire bricks
70. Ceramic pots
71. Parts of computers
72. Postal stamps, bank notes, cheque books, travellers' cheques

ANNEX II - 5

Classification of Goods for Import

A. List of banned items

1. Industrial products

   (a) Bidi (small sized tobacco cigarette in leaf roll)
   (b) Cigarettes (equivalent to the qualities of cigarette manufactured in Nepal
   (c) Matches

2. Health hazardous commodities

   (a) Addictive drugs, e.g.. opium, morphia
   (b) Liquors with more than 60 per cent alcohol content

3. Arms and explosives

   (a) Ingredients of ammunitions
   (b) Rifles and bullets
   (c) Capes without papers
   (d) Other explosives and armaments

4. Communication equipment

   (a) Wirelesses, walkie-talkies and other communication equipment

5. Precious metals and precious stones
   (except those allowed under personal baggage regulation)

   (a) Gold and silver including bullions, and other decoratives made of gold and silver
   (b) Diamond and diamond jewellery set with precious stones
   (c) The articles prohibited from importation on the ground of protection of domestic industry

6. Beef

B. Commodities under quantitative restriction

Group (a)

1. Cement
2. Corrugated sheets
3. Petroleum products (petrol, diesel, kerosene oil, aeroplane fuel bitumin)
4. Aluminium, zinc, lead, copper, bronze, in form of sheet or rod or ingots, scraps and other metals
5. Angles, channels, plates, strips, and rods made of iron and steel
6. Agricultural machineries, equipment, tools, insecticide spraying machinery and equipment and related accessories
7. Chemical fertilizers and seeds

8. Pump set, tube well, tractor and allied spare parts
9. Insecticides
10. Machineries and the accessories
11. Industrial machinery and the related accessories (materials required for manufacturing as recommended by the Department concerned)
12. Knitting machinery and the allied spare parts, sewing machine and the allied spare parts, needles, scissors, safety pins, measuring tape, and hand needles
13. Industrial raw materials (as specified by the concerned department)
14. Electrical generators and distribution equipment
15. Transport vehicles such as buses, trucks, mini-buses, pickups, three-wheelers and their spare parts (including tubes, batteries, ball bearings and flaps)
16. Aeroplanes and accessories
17. Fire engines, ambulances
18. Manual machinery and tools
19. Measuring and testing equipment
20. Mountaineering and trekking goods (recommended by the concerned Department)
21. Telephone, telecommunication equipment and spare parts
22. Computers and spare parts
23. Batteries
24. Chemical and products made of chemicals
25. Sports goods (included in standard classification)
26. Educational materials (included in standard classification)
27. Books, journals, magazines, posters, publicity materials, and printed materials, aeroplane tickets, unused bank notes, travellers' cheques and banking related documents
28. Office equipment and spare parts
29. Writing and printing papers
30. Paints and related materials
31. Scientific laboratory equipment
32. Acrylic, nylon stretch nylon and synthetic yarn
33. Raw wool and cotton
34. Polythene granules
35. Raw materials and parts for assembling industry
36. Medical and surgical equipment

<u>Group (b)</u>

1. Milk and milk products
2. Milk feeding bottles and nipples
3. Baby food
4. Tin packed food products
5. Torch lights and bulbs
6. Electrical goods
7. Umbrellas
8. Shoes and slippers
9. Blankets
10. Tea and coffee
11. Thermos flasks
12. Fans
13. Hardware goods, lock etc.
14. Lubricants, mobil, grease etc.

15. Spectacles, glass, frame and parts
16. Medicines (on recommendation of concerned department)
17. Lanterns, pressure and non-pressure lamps and their accessories
18. Beads, buttons, and clips
19. Spices, peppers etc.
20. Motorcycles and accessories, tyre, tube and ball bearings
21. Jeeps, station wagons etc. and spare parts (tyres, tubes, batteries, ballbearings, flaps)
22. Stationery, and uniforms of the airlines and travel agencies
23. Cotton textiles
24. Radios
25. Pocket calculators

<u>Group (c)</u>

1. Motor cars and spare parts (tyres, tubes, batteries, ball bearings, and flaps)
2. Refrigerators, deep freezers, ice-cream cabinets
3. Leather products
4. Stereo, tape recorder, record player, gramophone, cassette, tape, television, video, and other audio-visual equipment
5. All types of cameras, projectors, films and photographic goods
6. Toys
7. Household appliances, cutlery, ceramic goods, glassware, plastic goods, grinder, mixtures, juicer, and kitchen equipment (electrical and manual)
8. Liquors (except banned)
9. Cigarette (except banned)
10. Shaving cream, lotions, brushes, razor blades, pocket knives, scissors
11. Kerosene heaters
12. Water heaters
13. Bathroom and other decorative materials
14. Boxes and bags of all kinds
15. Musical instruments
16. Perfume and cosmetic materials
17. Artificial ornaments and semi-precious stones
18. Cooler, vacuum cleaner and air-condition equipment
19. Wall paper
20. Knitwear textile, textile products and ready-made garments (woollen, silks, synthetic, acrylic, nylon and polyester)
21. Soap (except laundry soap)
22. Watches
23. Dry fruits, cloves and nuts
24. Chocolates, toffee, chewing gums
25. Zip fasteners, flints

ANNEX II - 6

Classification Of Goods For Export

A. Banned items

(a) Products of archeological and religious value

- (i) Foreign and indigenous coins of antique value
- (ii) Idols of deities and historical books written in special papers or leaves of archaelogical value
- (iii) Thankas of cultural value

(b) Precious metals and stones (except those allowed under personal baggage rule)

- (i) Gold, silver, gold and silver coins and ornaments with the exception of handicrafts of alloyed metals or gilded with gold or silver or mixed
- (ii) Diamond and jewelleries decorated with diamonds

(c) Products relating to wildlife preservation

- (i) Wild animals (wild buffaloes, monkeys, pandas, habre, wild cats, rhinoceros, musk deers etc.)
- (ii) Biles and any other organs of wild animals
- (iii) Musk
- (iv) Snake and lizard skins

(d) Narcotics

Cannabis, opium, hashish etc. (any other items as specified in the Single Convention on Narcotics, 1961)

(e) Products of industrial values

- (i) Explosive items including related ingredients
- (ii) Chemicals related to arms and ammunition

(f) Industrial raw materials

- (i) Raw hides and skins including dried and salted
- (ii) Raw wool
- (iii) Sabai grass
- (iv) Scraps of copper, bronze or any alloys cast-iron and related sheets.

(g) Miscellaneous

- (i) Special herbs (Mamira)
- (ii) Coca-cola
- (iii) Timber and sawn timber
- (iv) Orchid plants

B. Items under quantitative restriction

(i) Rice
(ii) Maize
(iii) Wheat
(iv) Arahar, pulses
(v) Gram
(vi) Lentils
(vii) Black gram
(viii) Rape seeds
(ix) Mustard seeds
(x) Other oil seeds (rayo)
(xi) Industrial raw materials (as identified by the Department of Commerce from time to time)

C. Items under delicensing

All the products of Nepalese origin excluding items under export prohibition and quantitative restriction are delicensed.

ANNEX II - 7

List of Products Receiving Cash Incentives

S.N.	Items	Percentage
1.	Pulses	15
2.	Large cardamom	10
3.	Ghee	10
4.	Essential oil	15
5.	Dried ginger	10
6.	Leather goods	25
7.	Finished leather	20
8.	Crust leather	15
9.	Wet blue leather	10
10.	Rosin and turpentine	18
11.	Jute hessian	35

ANNEX III

TWENTY-TWO POINT ECONOMIC MEASURES (1989)

His Majesty's Government has, keeping in view the difficulties arising after the expiry of the Nepal-India Trade and Transit Treaties, introduced a twenty-two point economic policy to normalize the lifestyle of the people by providing essential goods and services and to minimize adverse effects on the economy and the development process.

The government is also determined to introduce austerity measures in a few economic and social sectors for the successful implementation of the policy.

According to the policy, efforts will be geared towards self-sufficiency by producing essential goods for daily use and industrial raw material within the country.

Similarly, arrangements will be made to make available sufficient agricultural inputs on time in order to maintain this year's production level in the forthcoming years. Arrangements will also be made for providing necessary fuel for the operation of farm equipment such as pumps, tube wells and tractors.

Arrangements have been made to purchase farm products such as mustard wheat that have already arrived in the market so that their market price does not fall. Arrangements will also be made for ensuring the farmers a remunerative price for their products in the future.

The private sector will be encouraged to set up and operate cold storages of appropriate capacity in all the five development regions for the storage of fruits and vegetables.

In order to maintain appropriate levels of production in industries producing essential goods, the private sector will be encouraged to make arrangements for fuel such as furnace oil, diesel, and coal, and to import the most essential raw material and spares from third countries. For this purpose, imports will be simplified and the Open General Licence facility provided for them.

Various sources of petroleum products will be identified and arrangements will be made for their regular supply from more than one source. Arrangements will also be made for sufficient reserves to remove the problems that crop up in the supply of petroleum products.

Emphasis will also be given to increasing public transport facilities for passengers and goods. Priority will be given to providing the necessary fuel for this. The private sector will be encouraged in this matter.

Some immediate as well as long-term measures will be taken in the existing transport systems to reduce dependence on imported fuel. In this connection, the existing capacity of Hetauda-Kathmandu ropeway will be fully utilized and programmes will be formulated and implemented to increase its existing capacity. Emphasis will be laid on introducing ropeway in other parts of the Kingdom on the basis of feasibility.

According to the policy, a trolley bus service extension programme will be formulated and implemented in various places in Kathmandu Valley and opportunities will be provided for joint investment by Nepalese and foreigners as well as by the private sector, if they are interested in investing in this sector.

Likewise, planned efforts will be made towards running electric railway services in the bus routes of the country. Investment opportunities will be opened for the government and private sectors as well as foreigners.

Extensive afforestation, soil erosion and river control programmes will be launched to meet the present as well as the long-term requirements of fire wood and to minimize the adverse effect on the environment.

Similarly, arrangement will be made to provide fuel efficient ovens, bio-gas and other equipment for fast cooking at low cost in order to economize fuel in cooking and other household works.

The system of supply and distribution of essential goods will be made more effective so as to meet the demand for such goods.

Most essential commodities will be transported to the Far Western Development Region before monsoon and arrangements will be made for its storage there.

Procedures will be improved and appropriate export incentives will be provided for exports of Nepalese products. For export promotion, the Trade Promotion Centre, Royal Nepalese Embassies and Royal Nepalese Consulates will be used for the study of export feasibility in various countries and publicity. The Chambers of Commerce and Industry will also be mobilized for this.

The procedures for the import of daily essentials for the general public will be simplified.

Attention will be given to indigenous production when issuing import licences.

Labour intensive techniques will be encouraged in development projects, the Food-For-Work Programme will be expanded and skill-oriented training will be extensively introduced in order to reduce the adverse effect on employment and source of income caused by the current problem and to raise the purchasing power of the people.

Programmes related to cottage industries, small farmers development and lead banking will be expanded for self-employment.

Necessary facilities will be provided for the development and promotion of the tourism sector on a priority basis, as it has been one of the most important sources of foreign exchange.

Publicity for the promotion of tourism will be intensified through Royal Nepalese Embassies, Royal Nepalese Consulates and Honorary Consuls. Associations and institutions linked with tourism will be encouraged and their cooperation will be sought.

Development and production of scientific, literary and other magazines and audio-visual materials within the country itself will be encouraged for the development of communication which plays a very important rôle in the process of economic and social development.

In order to gradually reduce the tendency of going abroad for treatment, encouragement will be provided for operating standard hospitals in the private sector through investment by the Nepalese, or through foreign and Nepalese joint investment or foreign investment and management.

The tendency to go abroad for study will be gradually reduced by encouraging the establishment and operation of good schools in the Kingdom through the private sector investment by Nepalese and foreign joint investment and management.

Similarly, the tendency to concentrate development projects in areas where facilities already exist will be discouraged and they will be extended to places with less facilities on a priority basis in order to achieve regional balance.

In formulating the budget for the coming fiscal year, priority will be given to the provision of budgeted funds and construction materials for speedy implementation of import substitution and export promotion industries, and ongoing development projects related to power generation, development of alternative sources of energy, irrigation and priority highways, besides supply, storage and security aspects.

Some steps will immediately be taken for adherence to strict financial discipline and austerity in the expenditure of government and semi-government bodies, taking into consideration the current situation.

Accordingly, administrative expense will be curtailed and purchase of furniture and vehicles stopped immediately.

Unnecessary purchase of land and building construction will be stopped.

Likewise, use of vehicles in government and government owned bodies will be reduced to a minimum level. No government or government owned bodies will import vehicles for the next five years. Permission will have to be received from the Council of Ministers if they have to import them.

Foreign visits and receptions at government expenses will be curbed, priority will be given to switch employees to new offices and projects from offices having excess employees; investment in unproductive sectors will be reduced and investment in the productive sectors increased.
137. Higher investment will be made in productive sectors by curbing investment in unproductive ones. Projects which cannot be completed even in a long period or are not likely to yield expected returns will be suspended.

It will be seen whether the austerity measures introduced under the Social Reform Act are complied with or not. In this connection cooperation will be sought from the local panchayat units, social institutions and class organizations. The dignitaries are expected to set examples in such matters.

Source: The Rising Nepal, 15 May 1989