

Nepal
A Generic Guideline
for
Development through Economic Diplomacy

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Government of Nepal

Minister for Foreign Affairs

Minister for Foreign Affairs
Shital Niwas
Kathmandu, Nepal

April 8, 2008

MESSAGE

I am, indeed, delighted to learn that the *Institute of Foreign Affairs* is bringing out a handbook on Economic Diplomacy under the title "**Nepal: A Generic Guideline for Development through Economic Diplomacy**". I am confident that this upcoming handbook would provide practical guidelines not only to the Nepali diplomats stationed abroad but also to the planners and policy makers involved in this field within the country. I hope that the handbook would be instrumental in sharpening the professional skills of working diplomats and deepening the intellectual discussions among policy makers.

After the restoration of multiparty democracy in 1990, Economic Diplomacy has been embraced with renewed attention as a vital aspect of operational part of the Nepalese foreign policy. The Ministry of Foreign Affairs has witnessed some organizational restructuring with a view to bringing the economic diplomacy into the forefront of Nepali diplomatic activities. As a result, the Multilateral Economic Affairs Division (earlier genesis is Economic Relations and Coordination Division) has been established in the ministry. This preparation was pertinent to materialize the opportunities emerged in the national and international fora due to the overwhelming wave of liberalization and globalization. Assessing the need of activities at field level, the Ministry of Foreign Affairs has set aside a small amount of budget of NRs. Eight million for the fiscal year of 2064-65 BS to conduct various tailor made programs through missions abroad. Further to this humble beginning, Eleventh Plan (2007-2010) has incorporated the matter on economic diplomacy which indicates the commitment of the Government of Nepal.

The importance of Economic Diplomacy has increased manifolds at present context as our nation is prepared to embark upon a new age. Time has come to reinvigorate the machineries equipping them with practical guidelines and needed resources to accrue the fruits from the business of economic diplomacy. In such a context, this publication, I am sure, would serve as a beacon to guide our efforts towards fructifying economic diplomacy in the days ahead.

I would like to extend my thanks to team members Prof. Dr. Madan Kumar Dahal, Dr. Mohan Man Sainju, Prof. Dr. Mohan Prasad Lohani, Dr. Shanker Prasad Sharma and Mr. Umakant Parajuli Under Secretary, Ministry of Foreign Affairs who have contributed generously to prepare this useful handbook. My thanks also go to Prof. Dr. Gopal Prasad Pokharel, Executive Director, IFA and Ms. Anjan Shakya, Deputy Executive Director of IFA for facilitating the team.

Thank you.


Sahana Pradhan



Government of Nepal

Minister for Foreign Affairs

Foreign Secretary
Government of Nepal
Kathmandu, Nepal

April 30, 2008

MESSAGE

Nepal's diplomatic missions abroad are guided by the basic tenets of Nepal's foreign policy. The essence of our foreign policy is to protect Nepal's sovereignty, territorial integrity and independence and promote our larger national interests within the comity of the nations. Protection of the fundamental interest of our foreign policy and promotion of our national interests prop up each other. Therefore, in promoting friendly relations with the world, protection related in interests form the core of our foreign policy. This core gets reinforced only with the concomitant promotion of our economic and political interest within the framework of international peace and cooperation in the larger international arena, based on the basic principles of the United Nations, the Panchsheel and international law, among others. In this context, the Nepalese missions hold a larger responsibility to promote political, economic, business, cultural educational as well as people to people relationship between the countries of their accreditation and Nepal at the field level. Economic diplomacy captures those elements, which have a direct bearing upon the overall and dynamic economic interests of the nation.

It is therefore a great pleasure that the Institute of Foreign Affairs has prepared a guideline on economic diplomacy in order to provide a theoretical framework together with some operational and practical aspects of its promotion. This is indeed what is now required for all our diplomatic missions. We have to move from the initial stage to the comprehensive stage of promoting economic diplomacy. As we move towards successive consolidation of sustainable peace in Nepal with a vision of creating a new and modern Nepal, there is hardly any need to emphasize here that such a transformation must have profound economic change as its principal constituent element. Business as usual is not adequate in today's fast changing face of the globalized world. Competitiveness, innovativeness, responsiveness and visionary outlook are the defining features for the success in the modern world. Considering Nepal's diverse level of integration with the outside world and the important role that the international community has been playing by providing cooperation for Nepal's development endeavors, such a far reaching transformation is only possible with a proactive, articulate, coordinated and sustained campaign by all to promote the large and comprehensive economic interests of the country. Trade, transfer of technology, investment, finance, tourism, labor and development cooperation are natural areas of our economic engagement with the rest of the world. Therefore, a promotional and facilitatory role in a focused manner in these areas would go a long way towards further enhancing and consolidating our reach beyond the borders of Nepal.

I would also like to express my sincere appreciation to all the members of the task force for the dedication and commitment with which this handbook has been prepared. I hope that by giving us necessary direction this will contribute to more us resolutely towards further consolidation of our efforts for the promotion of economic diplomacy in the days ahead.

Gyan Chandra Acharya

Preface

With a view to strengthening and streamlining the activities of the Ministry of Foreign Affairs, the Institute of Foreign Affairs (IFA) requested notable experts, planners and scholars and as such constituted a Taskforce to prepare a handbook on Economic Diplomacy with Prof. Dr. Madan Kumar Dahal, a member of IFA board and President of Nepal Economic Association, as Convener. The other dignitaries involved in the Taskforce are Dr. Mohan Man Sainju, former Vice-Chairman of National Planning Commission and former ambassador, Prof. Dr. Mohan Prasad Lohani, former Executive Director of IFA and former ambassador, Dr. Shankar Prasad Sharma, former Vice-Chairman of National Planning Commission and Mr. Uma Kant Parajuli, Under Secretary, MoFA, as the Core Members.

Established a decade ago as a semi-autonomous body under MoFA, the Institute aims at strengthening and enhancing further activities of the Ministry of Foreign Affairs (MoFA) while undertaking timely initiatives and actions in the forms of seminars, policy debate, short-term training programmes and orientations to provide additional impetus and inputs to the working staff at different levels (both gazetted and non-gazetted), plus the Ambassadors and Consul Generals designated to different missions abroad. Besides, the Institute tries to set the goals (vision), conducts studies and researches while going through periodic publications so as to disseminate information to the stakeholders both at home and abroad. In other words, the Institute is committed to ensuring effective conduct of Nepalese Foreign Policy suggesting timely reforms required as per the needs of the Nepalese society in conformity with the pace of globalization.

As a part of the process, IFA undertook much needed, debated and often reiterated project on Nepal's Economic Diplomacy to promote the country's overall national interest as a prime concern at this juncture in the history of Nepal's foreign policy.

While undertaking the project, IFA reviewed the earlier reports prepared at different intervals of time and tried to incorporate the

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Chapter I

Economic Diplomacy

Concept and Classification

1. The Concept

Economic diplomacy is concerned with economic policy issues. Economic diplomats also monitor and report on economic policies in foreign countries and offer advice to the home government on how best to influence them. Economic diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes called 'economic statecraft'. Economic diplomacy is the decision-making, policy-making and advocating business interests of the sending state. Economic diplomacy requires application of technical expertise that analyzes the effects of a country's economic situation on its political climate and on the sending state's economic interests. The sending state and receiving state, foreign business leaders as well as government decision-makers work together on some of the most cutting-edge issues in foreign policy, such as technology, the environment, and HIV/AIDS, as well as in the more traditional areas of trade and finance. Versatility, flexibility, sound judgment and strong business skills are all needed in the execution of economic diplomacy.

Economic diplomacy engages contacts with foreign and sending states' institutions, businesses and international organizations to advance the sending state's economic interests; seeks to resolve bilateral trade disputes and negotiate with trading partners to liberalize world trade; seeks to formulate official policy for development and formulate recommendations for sending state; facilitates negotiation on trade-related agreements and treaties; and identifies and coordinates financial assistance to troubled areas. Economic diplomacy also engages development partners to raise standard of living in both sending and receiving states; co-ordinate trade policy, promote open markets, and promote sending states policies and interests in international and bilateral scientific, environmental, and technological arena.

The concept of economic diplomacy is of recent origin. There is no exact definition of economic diplomacy, but it can be described as formulation

and advancing policies relating to production, movement or exchange of goods, services, labor and investment in other countries. A distinctive feature of economic diplomacy is that private sectors are involved in the decision-making process to influence negotiating position and to remain in the global or regional competitive market. This is because market developments are rigorously monitored by private sectors and they know where and how to invest and sell goods and services in the interests of a country.

Economic globalization has increasingly made economic diplomacy a significant factor in foreign policy. Economic progress and prosperity depends on beneficial relationship with other countries and each country wants to penetrate into other countries with its goods, services, labor and investment. Global economic issues have great impact on domestic issues, and in the process, economic diplomacy involves global economic issues. Economic diplomacy is concerned with the prediction of outcomes of future trade regimes and therefore it will need an understanding of market factors at work in a given global economic environment, and in that process, a country will involve itself in making decisions in advancing economic interests. There is an awareness that economic diplomacy may strive for greater transparency, better information, greater clarity and more publicity. Private sectors give high priority to transparency. Economic diplomacy refers to the use of our political influence and relationships to: promote international trade and investments; improve the functioning of markets; reduce the cost and risks of cross-border transactions; achieve internationally accepted standards; secure private property rights; develop international telecommunications, energy and transport networks; and of course consolidate the right political climate to facilitate and institute all of these objectives.

1.2 Classification

Multilateral economic diplomacy, ordinarily, takes place within the framework of World Trade Organization, International Monetary Fund and the World Bank. The conduct of economic diplomacy presupposes that there must be a pool of skilled persons in the government and private sectors to understand and negotiate key economic and trade issues from national perspective. Economic diplomacy may operate at three levels: (a) bilateral (b) regional and (c) multilateral.

Bilateral economic diplomacy forms a major part in economic relations, whether this consists of informal dealings between two countries on a range of issues or formal bilateral agreements on trade or investment or

avoidance of double taxation. Regional dimension in economic diplomacy is of growing importance. Regional economic agreements offer a more rapid way of opening markets. Liberalization of economy may be easier to accept for promoting national interests when it occurs within a regional grouping of countries. For example, South Asian Free Trade Agreement (SAFTA) within the eight South Asian countries has been agreed by all member-countries. One of the areas of economic diplomacy is related to bilateral free trade agreements (FTA). Different countries may use different levels of trade agreements. The multi-level nature of economic diplomacy means that governments take advantage of such levels. It implies that governments have many options to take and choose from.

Since bilateral trade agreements have become the order of the day, many countries have concluded bilateral Free Trade Agreements (FTA). The number of FTAs constituting trade blocs has increased substantially in recent years. Regional agreements may suit neighboring countries and countries at the same level of economic and social development. Details of South Asia Free Trade Agreement (SAFTA) are being worked out so that its implementation may begin in 2009 and become complete by 2013, depending on the size and scale of economy. Many economists and policy makers prefer multilateral treaties on trade to bilateral trade agreements. Another matter that merits attention is that millions of people of South Asian origin live in Western countries and most of them earn good money. One dimension of economic diplomacy has been to get them involved in economic and commercial activities within their home countries by disseminating information about investment climate. They can invest not only to earn profits but also help embark their home countries on the road to economic development.

Economic diplomacy is essentially a process of mainstreaming economic dimension into our foreign policy perspective with the objective of further promotion of our economic interests with cooperation of the outside world and through well informed negotiation. With fast and changing global policy on aid and trade, foreign aid is becoming highly competitive for recipient countries as evidenced by declining ODA, shift from grant to loan and growing preference for funneling aid through INGOs and local institutions (IFA, 2002). In Nepal economic diplomacy has to shift its focus increasingly from aid to trade, tourism and employment generation with the private sector playing a major role and MOFA and its Missions abroad acting as facilitators. Nepal has been striving to promote economic diplomacy, one of the pillars of foreign policy, through strengthening economic relations with friendly countries in the world (Foreign Policy Task Force, 2006).

Chapter II

Dynamics of Nepal's Foreign Policy

2.1 Nepal's Foreign Policy: An Overview

Nepal's unique geo-strategic location has shaped and guided the country's foreign policy formulation and implementation ever since the "yam between two boulders" strategy was adopted more than two centuries ago. Situated as Nepal is between two Asian giants, India and China, as her immediate neighbors, the need for this country to maintain balanced, cordial, friendly and cooperative relations with these two most populous neighbors cannot be overemphasized.

Nepal opened up to the world outside after the overthrow of the Rana regime in 1951. She attended in 1955 the Afro-Asian Bandung Conference and the same year she was admitted to the UN. The establishment of diplomatic relations with the People's Republic of China in August 1955 became a milestone in Nepal's eagerness and efforts to diversify her external relations and forge new links of friendship and cooperation with other countries of the world, including newly independent countries of Asia and Africa. Diplomatic relations with more than 100 countries have been established during the last four decades and a half.

Nepal became a founding member of the Movement for Nonalignment (NAM) in the early sixties and has actively participated in all NAM Summits at the highest political level. Precisely speaking, the parameters of Nepal's foreign policy have been guided since 1951 by the principles enshrined in the UN Charter, the **Panch Sheel**, the principles of Nonalignment, world peace and respect for international law. The same parameters were reaffirmed in the 1990 Constitution following the people's movement or *Janaandolan-1*. The government elected under this Constitution gave a new dimension to the country's foreign policy by laying special emphasis on human rights, freedom and economic diplomacy.

Despite political instability resulting from frequent changes in the government, the democratic dispensation embraced by the country considerably boosted Nepal's international image during this period. The country's prestige suffered a setback in the community of nations after the Royal takeover in February 2005. The international community

has welcomed the change and the ongoing peace process after the second historic people's movement of April 2006 or *Janaandolan-1*. It is hoped that elections to the Constituent Assembly (CA) would usher in a new era of peace and stability with a positive impact on the foreign policy apparatus of the country.

Since restructuring of the state after CA polls, in response to people's interests, aspirations and expectations, has become the prime agenda and since the people are at the centre of politics and other activities involving them, their interests should be invariably reflected in foreign policy decisions and measures that governments of the day take from time to time, taking into consideration the changing international situation.

The end of the Cold War in the eighties of the last century, which coincided with the disintegration of the Soviet Union and dissolution of the Warsaw Pact, brought about a dramatic shift in the balance of power in international relations. A large number of East European countries, the erstwhile republics of the former Soviet Union, have already joined NATO and obtained membership of the European Union (EU). With the end of the Cold War followed the wave of globalization which has made it possible to integrate the economies of both developed and developing countries in an increasingly interdependent and globalized world. Conventional diplomacy has undergone a paradigm shift in view of the growing relevance of trade, investment and other economic activities to developing countries like Nepal under increased pressure to uplift the living conditions of their people.

Military security is no longer the exclusive concern of nations today. There is a global emphasis on human security which also includes social and economic security. In other words, comprehensive security is threatened as much by poverty and destitution, hunger, disease and illiteracy, environmental degradation, population explosion, the widening gap between haves and have-nots within and beyond national borders, human rights violation and ethnic cleansing leading to massive exodus of refugees as by the escalating arms race, military buildup consuming colossal sums of money and nuclear proliferation, including proliferation of weapons of mass destruction.

The foreign aid scenario has considerably changed over the years after the end of the Cold War leading to competition for such aid among countries that once belonged to the Soviet bloc. Besides, the grant element in the aid package has given place to concessionary finance or loans payable within a liberal time frame with sufficient grace period. In brief, the time for grants-in-aid has passed and LDCs like Nepal strive to receive loans from international financial institutions like the World Bank and the Asian Development Bank in concessional terms

Needless to point out, one of the least developed among developing

countries Nepal needs development finance or foreign aid, in terms of substantial resources, for poverty alleviation and economic growth. Nepal has received, in the past, generous assistance from its development partners. For instance, foreign aid was the main source for financing and implementing the First Five –Year Plan. In recent years, development projects have become increasingly donor-driven. To avoid donors imposing their own priorities, the adoption of a coherent foreign policy would persuade or even compel the donor community to relate their development assistance to the country's developmental needs and priorities. Diplomatic missions should make a strong case for increased development assistance or foreign aid to Nepal for post-conflict rehabilitation, reconstruction and development.

Trade, not aid, is the prevailing motto in economic relations among nations today. It is no doubt a more powerful catalyst of sustained development than aid. As Nepal has recently obtained membership of WTO which calls for increased capacity-building to compete with other trading partners in the world market, she must adopt a cogent and coherent export policy and ask diplomatic missions to make consistent efforts towards attaining the export objectives for which missions need both latest information about laws and regulations as well as resources.

Investment or, for that matter, foreign direct investment (FDI) is a crucial factor for development, as it brings capital, technology and marketing skills. Today, most countries offer protection, facilities or incentives to attract foreign investment. Despite efforts made by Nepal to bring in as much FDI as possible through an attractive package of incentives, a lot remains to be done to make effective our promotional activities in this area. Diplomatic missions need to be mobilized for the promotion of FDI They should be provided updated and bankable investment projects so that they can approach prospective investors in the countries of their assignment. It is possible to attract FDI in such areas as hydropower, tourism, biodiversity and education where Nepal has both comparative advantage and competitive edge.

Tourism and the development of water resources are two areas with enormous possibilities for economic diplomacy. The strength of Nepal's cultural and natural heritage has been widely recognized. The country has not yet been able to make the maximum use of its tourism potential and market our products as a package for tourist attractions. It is high time tourism development was made as one of the diplomatic priorities and part of Nepali missions' regular activities. Likewise, it has not been possible for Nepal to tap its abundant water resources in order to accelerate economic growth leading to improvement in the people's standard of living. Since there is a broad consensus among all stakeholders, including political parties on tapping the country's huge water resources, the government should take advantage of the current positive political climate and mobilize diplomatic missions to attract FDI for viable hydropower

and irrigation projects. It is equally essential to establish formal and informal communication links with India, a potential market for Nepal's surplus energy, for tapping water resources in this country.

Foreign employment has become a viable option for Nepal to absorb its growing labor force. While Nepal has been promoting, in recent years, foreign employment to provide jobs to its youth, both skilled and unskilled, the government should ask diplomatic missions to explore employment opportunities for Nepali nationals in the countries of their assignment. These missions need relevant and updated information about the skills available in Nepal for employment abroad. Needless to point out, foreign employment has become a major source of national revenue to meet both regular and development expenses through remittances amounting to more than 1.5 billion US dollars. The appointment of an economic counselor or a labor attaché at diplomatic missions would greatly facilitate the promotion of foreign employment which has by now become an integral part of economic diplomacy.

Successful diplomacy demands close public-private partnership (PPP), as both are equal stakeholders. While the public sector reaps benefits from stepped-up economic activities reflected in increased revenue expansion of job market and improvement in the living standard of people, the private sector representing individual firms and the business community directly benefit from expanded economic opportunities available from active diplomacy. Nepal should also opt for PPP by mainstreaming economic priorities into diplomatic functions. There should be coordination and cooperation, apart from mutual trust, between the two sectors. A major obstacle to PPP is resource constraint which can be overcome through active partnership by forming a joint coordination committee. Diplomatic missions with economic cells should work out modalities to share expenses necessary for financing such cells and their promotional activities with the trade and tourism promotion boards and other apex organizations like FNCCI, CNI and Chamber of Commerce and Industry.

The unprecedented historic people's movement of April 2006 (*Janaandolan-1*), as stated earlier, has provided to Nepal an excellent opportunity to renew, redefine and prioritize her foreign policy and benefit from the goodwill earned by her commitment to democracy and human rights, which has been applauded by the international community at large. Such goodwill and support should be nurtured and sustained for the benefit of the Nepali people. Nepal's foreign policy should be geared to realize this vision (*Report of Foreign Policy Task Force, August 2006*, P.3, Para 14).

Economic diplomacy has become a new and critical component of Nepal's foreign policy, and the country has been justifiably striving, in recent years, to promote it as effectively and efficiently as possible, since

she has to eradicate poverty and achieve the Millennium Development Goals (MDGs). Quite obviously, economic elements need to be incorporated into foreign policy and diplomatic activities. The efficient conduct of economic diplomacy depends, to a large extent, on the deployment of trained manpower and expertise in all diplomatic missions. These missions should be provided with minimum resources to undertake promotional activities. In the day-to-day schedule of missions, priority needs to be accorded to the task of promoting and strengthening economic ties with the countries to which missions are assigned. It is important to remember that successful diplomacy seeks to bridge differences and widens the common ground to realize or achieve the shared interests. Diplomats should be evaluated on the basis of their performance, that is, the efforts they have put in and their achievements.

In the light of the foregoing, the government of the day will draw up a set of foreign policy guidelines and articulate the new focus on economic relations to:

- (a) provide orientation and training to diplomats and other officials who have to deal with different aspects of economic relations;
- (b) prepare terms of reference (TOR) for Ambassadors clearly laying or spelling out indicative goals and priorities regarding the promotion of economic ties with the countries of their assignment;
- (c) link diplomats' efforts and performance to incentives and disincentives (including continued retention in ambassadorial posts) and make them accountable for their failure in making the maximum efforts;
- (d) encourage the private sector Apex organizations (such as FNCCI, CNI, Chamber of Commerce and Industry and others), trade and tourism promotion boards to provide diplomatic missions with updated information, including through electronic means, on various economic opportunities in Nepal;
- (e) ask diplomatic missions to work with likeminded countries for the restructuring of international financial institutions and reform of UN economic entities in favor of developing countries, in particular the least developed and land locked developing countries; and
- (f) build a strong and functional framework (mechanism) at a fairly high level for inter-ministerial cooperation and coordination and hold its meeting at regular intervals for policy and implementation coherence.

Chapter III

Nepalese Economy

Underpinnings and Dimensions

3.1 An Overview of Nepalese Economy

Nepal is a tiny landlocked Himalayan country with a size of 147,181 square kilometers ranging from 70 to 8,848 meters altitude (Mt. Everest) surrounded by rapidly expanding two neighborhood economies viz., India in the East, West, and South and China in the North. Nepal's geo-physical setting and time-zone location assume strategic significance in South Asia (Dahal, 2004). Nepal's territory runs all along 885 kms from east to west having non-uniform, mean width of 193 kms north to south at the latitude of 26⁰22' N to 30⁰27' N and longitude 80⁰4' E to 88⁰12' E. The country consists of three ecological regions comprising mountain, hills and terai (plain) blessed with tremendous bounty of nature. Nepal is rich in biodiversity comprising eco-system, species, and a broad variety of topography experiencing tropical, mesothermal, microthermal, tiga and tundra climates, which provide 60-80 percent of rainfall during the monsoon season from July to September (Dahal and Inoue, 1994).

The nation possesses 2.3 percent of the world's hydro resources attributable to four principal river systems, the life-line of Nepalese economy viz., Koshi (east), Gandaki (central), Karnali (Far-west) and Mahakali (Far-west). The theoretical hydropower potential is estimated to be 83,000 MW, and per capita hydropower capacity is assumed to be second highest next to Brazil. Nepal, a Shangri-La of the World, is endowed with gorgeous mountains, magnificent panorama of flora and fountains, beautiful lakes, valleys and basins, medicinal herbs, precious stones, and sub-tropical forest. Nepal possesses magnificent biodiversity especially the forest resources, which are of great value from economic development point of view.

Nepal is the most popular tourist hub and a global destination for tourists from all over the world. There exists a vast potential for heritage tourism, white-water tourism, eco-friendly tourism, health tourism, mountain tourism, safari and adventure tourism. In addition, Lumbini - birth place

of Lord Buddha, rich cultural heritage, *pagoda* and *stupa* style art and architecture, gateway to Tibet and Bhutan, pleasant climate in most parts of the country are basic and prominent characteristics of tourism instrumental to attract a large number of tourists in Nepal. Preliminary geological surveys reveal that subterranean resources such as iron, copper, mica, gold, lead and zinc, limestone, slate, mineral oil and gas, coal nickel, sulphur, graphite, dolomite are available in the country. However, the extent and commercial potential of these mineral deposits are not yet known. With total assets of 27 million population, 6,000 rivers and rivulets, 5,000 species of vascular plants, 175 species of mammals, and 850 species of birds, Nepal's territory is double the size of Sri Lanka, 3.5 times greater than Switzerland, 6.7 times bigger than Israel, 23 times smaller than India, and 68 times less than the size of China (Dahal and Inoue, 1994). The striking features of Nepalese economy reveal that agriculture productivity and rainfall steadily increases from west to east, poverty is more acute and widespread from south to north, and migration tends to be skewed from north to south.

3.2 Current Status of Nepalese Economy

Nepal is predominantly an agrarian economy, and agriculture is the mainstay of life. The economy is characterized by a subsistence agriculture sector with high incidence of disguised unemployment and pervasive poverty. Around 78 percent of the total population still depends on agriculture based on monsoon for their income and employment. The contribution of the agriculture sector to GDP is estimated to be as high as 38 percent, while the share of services sector in GDP, subsequently, increased to 40 percent. The contribution of manufacturing sector is merely confined to 10 percent of GDP as of 2006 (WDR, 2008).

The size of arable land suitable for all times cultivation is limited to 17 percent of the total land area. Productivity index of cash crops is relatively higher than food crops. The major food crops are paddy, maize, wheat, barley and millet, and the principal high value crops consist of sugarcane, oilseeds, potato, tobacco, jute, pulses, fruits, vegetables, spices, tea, coffee, large cardamom, cotton, honey, floriculture (Economic Survey, 2007), beetle-nut, mushroom and *yarsagumba*. In 2007 the Government of Nepal inducted the concept of "One Village One Product" with a view to paying special attention to the products of indigenous communities that can capture local markets as well as subscribe to the exports of the country. Of total land area (14.72 million ha), forest covers about 4.27 million ha (29.0 percent) and shrub covers 1.56 million ha (10.6 percent); both forest and shrub together cover 39.6 percent of land area of the

country. The area of reachable forest is about 2,179.3 thousand hectares. However, the total value of forest resources in Nepal is not accurately estimated and its commercial viability not properly examined.

Around 2.0 percent people are engaged in industry sector. Production of most of the food products, beverages, tobacco, shoes, wood and wooden products, paper and stationary board, other chemical goods, and mineral products other than metals is expected to increase in coming years. During FY 2006/07 production of noodles, squash and juice, sugar, tea, vegetable ghee, liquor, cigarette, paper, soap, detergent powder, plastic goods, cement, GI/HD wires, and PVC cable moderately increased. However, the overall index of manufacturing production marginally increased from 100 in FY 2000/01 (base year) to 104.3 in FY 2006/07.

The size of Gross National Income (GNI) is found to be diminutive, which is estimated to be US\$ 8.1 billion with GNI per capita around US\$ 290 during FY 2006 (WDR, 2008). Nepal's GDP growth rate remained below 5.0 percent during the last six years, and it was further compressed to 2.5 percent in 2007 attributable to both economic as well as non-economic factors. The economic growth rate is projected to be 5.5 percent during Three-Year Interim Development Plan, 2007-2010 (TYIP, 2007). As of international poverty line, the population receiving less than US \$1 a day has been reduced to 24.1 percent by the end of 2003/04, and around 30.9 percent population is still found to be below the national poverty line (NLSS, 2003/04). The magnitude of external debt exceeded US\$ 3.5 billion, which is 34 percent of GNI as of present value in 2005 (WDR, 2008).

The cumulative size of total Foreign Direct Investment (FDI) leveled at Rs. 32.0 billion providing employment to 112,393 persons as of 2006/07 (Dept. of Industries/GON, March 2006/07). India is by far the most important foreign investor in Nepal with over 35.0 percent of joint venture projects in manufacturing, services and tourism sectors. The other countries with a number of joint ventures under FDI in Nepal include: China, Japan, USA, UK, South Korea, Belgium, Germany, Iran, Netherlands, Spain, Canada, France and Israel. Altogether 116 joint ventures comprising manufacturing, services, tourism, construction, agriculture, mineral and energy were permitted for foreign investment to operate under FDI during FY 2005/06. In Nepal, new areas for foreign investment are opened up through the amendment of Foreign Investment and Technology Transfer Act, 1992. More recently, Government of Nepal has taken the initiative to establish 'Special Economic Zone' with a view to attracting foreign investment, earning foreign exchange, increasing

export trade and importing new and high technology. The Special Economic Zone (SEZ) includes industrial estate, export processing zone, special trading area, tourism/amusement park, and banking/business area. In recent times, dry ports in different industrial corridors are under construction (annex 7 & 8).

Although foreign exchange earnings from tourism sector relatively declined due to conflict until a few years back, the flow of tourists from North America, Europe, Japan, Australia and New Zealand significantly increased with full occupancy at star-hotels during the peak season after peace accord was signed in 2006. The number of tourists from India and overseas countries is estimated to be over 700,000 during the three-Year Interim Development Plan, 2007-2010. Tourism sector is likely to grow rapidly in Nepal with a substantial contribution to foreign exchange and employment after the successful accomplishment of elections to the Constituent Assembly. A new policy of 'residential tourists' may help attract people to visit and make Nepal their second home as is the case in Malaysia, Thailand, Sri Lanka and Mexico.

Trade deficit went up to Rs. 113.5 billion (22.0 percent of GDP) during FY 2005/06 due to conspicuous decline in exports to India and overseas countries. Since time immemorial Nepal's biggest trading partner is India followed by USA, Germany, France, United Kingdom, PR China, Italy, Canada, Japan, Singapore, Indonesia, Thailand, Malaysia, and South Korea. The major items exported to India are jute goods, pulses, cardamom, polyester yarn, zinc sheet, textiles and juice. Likewise, major exportable items to overseas countries comprise readymade garments, carpets (hand knotted woolen), *pashmina*, handicrafts, ornaments, paper and paper products, hides and skin, pulses, and large cardamom. It is expected that exports to India and overseas are likely to gear up in FY 2007/08 and afterwards owing to peace accord signed in April 2006 ensuring peace and stability in the country. However, the share of trade with India alone is 63.0 percent, while with the rest of other 163 countries it is 37.0 percent (Economic Survey, 2007).

The existing Nepal-India Trade Treaty, renewed in March 2007, has tremendous prospects for increasing Nepal's exports to India. Nepal's export viability to India can be further enhanced and trade deficit reduced by relaxing tariff and non-tariff barriers, and moving forward to FTA between the two countries. Currently, Government of Nepal is under heavy pressure for more than US\$ 1 billion sale to Reserve Bank of India to meet requirements of Indian currency in Nepal, which amounts to around Rs. 64 billion (NRB, 2007). Nepal's trade with Tibet is also

in deficit. The overland trade between Nepal and Tibet, Autonomous Region of PR China, is based on dual track, i.e., the traditional method of barter or counter trade and the modern trade through banking channels.

The unemployment rate was found to be 5.1 percent of the population above the age of 10 years old (Population Census, 2001). However, the survey conducted by the Central Bureau of Statistics of Nepal (CBS/N) shows that 2.9 percent population among the age group 15 and above were unemployed, 74.3 percent were employed, and 22.8 percent were economically inactive (NLSS, 2003/04). Although open unemployment is very low, the extent of disguised unemployment is as high as 50 percent with excessive concentration in rural informal sector. Employment is a key to development and the best contraceptive for reducing poverty, accelerating growth and raising overall standard of living of the bulk of the population. The crucial issue is how to speed up the process of economic recovery through a frontal attack on poverty and sustain a high level, broad-based, and inclusive growth to move toward a great leap forward within given timeframe. Poverty is attributed to lack of access to resources to live in dignity, while employment is a key to eliminate poverty. Latest data demonstrate that every year approximately 300,000 labor forces are likely to enter labor market. Labor force participation rate is fairly high.

Foreign employment is a crucial determinant for remittances, which has been instrumental in reducing poverty and it is countercyclical during growth slowdown. The remittance economy is becoming robust and expected to replace other sectors of the economy in future, if similar trend continues in future. Recent estimates indicate that the magnitude of remittances marked US\$ 1.5 billion, which is 18.5 percent of GNI. In recent years, remittances have been instrumental in sustaining growth and development activities, and accelerating the process of poverty reduction. Remittances have helped tremendously to keep the balance of payments favorable. Although the extent of foreign employment and remittances are underreported, crude estimate suggests that the size of foreign employment exceeded one million in overseas countries comprising Malaysia (40%), Gulf countries (58%), and other countries (2%). Besides, unofficial data indicate that additional one million are employed in blue color jobs in India.

Although foreign employment is highly competitive with built-in structural constraints, employment opportunities could be promoted and strengthened in international market by modulating existing education, health and nutrition policies with flexible labor laws compatible with liberalization

and globalization. This requires formulating a pragmatic and sound policy for human resource development to meet the demand for labor in both domestic and international labor markets. Therefore, there is need to develop an effective strategy for creating employment opportunities at home and promoting foreign employment. This calls for directing entire efforts of the government to work in tandem with the private sector and in close collaboration with Trade Unions. Employment is primarily a function of investment undertaken by the private sector. Foreign Direct Investment (FDI) in joint ventures supplemented by institutional and legal reforms will have significant bearing on creating employment opportunities in Nepal.

Gross domestic savings declined in recent times, and gross investment moderately increased from 20.2 percent in 2001/02 to 25.3 percent of GDP in FY 2006/07. The size of internal revenue is far below the magnitude of total government expenditure resulting in huge fiscal and budgetary deficits. The overall tax effort ratio (TFR) is estimated to be 14 percent of GDP, which is relatively low in the SAARC region but it is satisfactory considering the existing status of the economy. The fiscal and budgetary deficits are primarily off-set by internal as well as external borrowings and loan from multilateral sources, which have played a crucial role in sustaining development activities in Nepal (annex 2).

Against the backdrop of existing macroeconomic indicators, banking and financial sector witnessed a tremendous upswing in the share market ensuring sizable dividend and security to investment in recent times. The number of commercial banks went up to 23 (annex 10) with 57 development banks, 78 finance companies, 12 micro credit development banks, 17 cooperatives (licensed provided by NRB), and 47 non-government organizations (licensed provided by NRB). More commercial banks including foreign owned banks are likely to be in operation soon ensuring credibility of financial market to safe investment in Nepal. NEPSE index registered a remarkable growth from 500 in November 2007 to 723 on February 6, 2008. Internal revenue mobilization surpassed the target with positive balance of payments situation, and international reserves are likely to sustain imports for next eight months.

In the past a series of economic reforms have been undertaken to achieve desirable growth and ensure poverty alleviation. In continuation to economic reforms, Government of Nepal (GoN) designed PRSP during the Tenth Plan (2002-2007), formulated Medium Term Expenditure Framework (MTEF), and also prepared an Immediate Action Plan (IAP). The structural reforms under implementation comprise: (1) Public

Expenditure Reform; (2) Tax Reform; (3) Public Enterprise Reforms; (4) Facilitating Private Sector Development; (5) Financial Sector Reforms; (6) Decentralization; (7) Civil Service Reforms; and (8) Sector-Specific Reforms. Nepal's recent experience with implementing economic and sectoral reforms provides some valuable lessons, which can help guide future reforms in Nepal (MOF, 2004).

However, the economy is trailing behind when compared with countries of the SAARC region and China, the biggest economy in Asia, next to Japan. The economy is passing through a critical phase of poverty and stagnation aggravated by recession due to under-spending of capital budget. Nepal's international comparison of economic status with selected countries in terms of population, GNI, GNI per capita, economic growth rate, population below poverty line, external debt, and FDI is given below:

Table 1: Economic Status of Selected South Asian Countries and China An International Comparison, As of 2006

S. N.	Country	Popn.in million	GNI in US \$ billion	GNI per capita US \$	Econ. growth Rate %	Popn. below US \$ 1 a day in %	Ext. Debt in US \$ bln.*	FDI in US \$ mln.*
1.	Nepal	28.0	8.1	290	2.5	24.1	3.3	2.0
2.	Bangladesh	144.0	69.9	480	6.3	41.3	18.9	802.0
3.	Pakistan	159.0	122.3	770	8.0	17.0	33.7	2,183.0
3.	India	1,110.0	906.5	820	9.2	34.3	123.1	6,598.0
5.	Sri Lanka	20.0	25.7	1,300	6.0	5.6	11.4	272.0
6.	China	1,312.0	2,641.6	2,010	10.4	9.9	281.6	79,127.0

Source: World Development Report, 2008 & World Economic Outlook, IMF April 2007. *2005.

Table 1 shows that the size of GNI, GNI per capita and growth rate in Nepal is relatively small in the region, except the population below international poverty line (US\$ 1 a day), which is higher in Bangladesh and India. Nepal's GNI is estimated to be 3.2 times lower than the size of Sri Lanka, and 8.6 times smaller than the size of Bangladesh. In recent years, macroeconomic indicators exhibit that overall economic performance of China, India, Sri Lanka, and Pakistan is found to be remarkable in the region, while Bangladesh and Nepal's performance is clearly below the expectation. The following table provides a comparative scenario of overall economic status of the world economy in terms of economic growth rates:

Table 2: Economic Growth Rates: International Comparison

Economies/Countries	2004	2005	2006	2007*	2008*
World Output	5.3	4.9	5.4	4.9	4.9
Advanced Economies	3.3	2.5	3.1	2.5	2.7
Selected Advanced Economies	3.1	2.3	2.8	2.2	2.5
Other Advanced Economies	4.6	3.9	4.3	3.8	3.8
Emerging and Developing Economies	7.7	7.5	7.9	7.5	7.1
Developing Asia	8.7	9.2	9.4	8.8	8.4
African Economies	5.8	5.6	5.5	6.2	5.8
Asian 4**	5.8	5.2	5.4	5.5	5.8
China (11.9%)*	10.1	10.4	10.7	10.0	9.5
South Asia	7.8	8.7	8.7	8.1	7.5
Bangladesh	6.1	6.3	6.7	6.6	6.5
India (9.3%)*	7.8	9.2	9.2	8.4	7.8
Nepal	3.8	2.7	1.9	2.5	4.5
Pakistan	7.4	8.0	6.2	6.5	6.5
Sri Lanka	5.4	6.0	7.5	7.0	7.0

Source: World Economic Outlook, IMF, Washington, DC, April 2006. *Projection ** Indonesia, Malaysia, the Philippines and Thailand. 1. USA, Japan, Germany, France, UK, Italy and Canada. *** Latest growth rates obtained from The Economist October 6-12, 2007.

3.3 Vision and Objectives of Nepalese Economy

The vision or mission of Nepalese economy is to build a strong economic nation-state through active participation of the people by ensuring a high quality of life to each individual and household within given timeframe. The primary objectives of Nepalese economy are to: transform the economy from low to upper middle income by achieving a high, sustainable, broad-based, and inclusive economic growth and eliminating absolute poverty by 2025 (medium scenario) and, ultimately, make Nepal the "Switzerland" of Asia, especially by penetrating regional and international markets with exports having comparative and competitive advantages, maximizing benefits from neighborhood economies by strengthening economic relations, attracting considerable degree of FDI in priority sectors comprising infrastructure and hydropower, creating a hub for international tourism, preserving biodiversity with commercial viability, promoting foreign employment and remittances, and creating an International Financial Services Center (IFSC) by 2025 (high scenario) (Dahal, 2004).

The strategic objectives would be to: substantially increase GNI with two-digit growth rate ensuring a high GNI per capita exceeding US\$ 5,000 (average of low and middle income economies) per annum within the said timeframe; provide employment to each economically active population; and reduce absolute poverty from 31.0 percent to zero percent by 2025. Similarly, Millennium Development Goals (MDGs) consist of: eradication of poverty and hunger from 38.0 percent to 21.0 percent by 2015; attainment of 100.0 percent universal primary education 100.0 percent by 2015; promotion of gender equality and women empowerment; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and, developing a global partnership for development (MDG, 2002).

3.4 Foundations of Nepalese Economy

Nepalese economy suffers from inherent structural constraints comprising landlockedness, rugged topography, poor resource base, high extent of poverty, and sluggish economic reforms and liberalization. The major challenge to Nepalese economy is how to integrate the domestic economy with regional and global economies and maximize the benefits from globalization. However, against this backdrop there exists a vast potential for robust growth with poverty reduction through efficiently utilizing available domestic and international capital, technology, natural resources, raw materials and entrepreneurship to make a breakthrough in the economic front and move towards a great leap forward by the end of first quarter of twenty-first century.

Nepal's strategic location, amidst two neighboring economic giants India and China, provides tremendous scope for generating spillover effects on Nepalese economy. In addition, Nepal, being Headquarter of SAARC, could mobilize regional cooperation by attracting foreign direct investment to create win-win effects in mutually beneficial areas especially natural resources and biodiversity, regional trade, tourism, education and health sectors, wherein a great deal of comparative and competitive edges do exist. Nepal's current comparative advantage in international trade lies in resource-intensive and labor-intensive product areas. More than 95% of manufactured exports are concentrated in these categories (Nepal: Trade and Competitiveness Study, 2004). Nepal has already shown clear price-margin advantage in at least eleven export products within her areas of comparative advantage (Pyakuryal, 2004).

Multilateral cooperation is also highly productive to initiate mega-projects in developing infrastructure especially road and hydropower. Since Nepal

is a bonafide member of WTO, SAFTA and BIMST-EC, amendments have been made compatible with globalization and liberalization in the Acts and Regulations pertaining to these priority areas. The membership of WTO would not only enhance our effectiveness and efficiency in trading capacity but would also result in expansion of trade leading to a higher level of growth and enhancement of quality of life of our people. Among others, Nepal has made a conditional commitment to open up sectors like legal service, engineering, architecture, R&D, advertising, market research, courier, telecom, musical products, higher education, financial service, hotels and restaurants. Foreign investment in these above specified areas is safe, secure and most profitable in Nepal. With accession to the WTO, Nepal will now have to hone its technical and financial capabilities to increase competitiveness, and be able to gain from the rule-based trading regime. Industrial Development Perspective Plan: Vision 2020 has envisaged five-point industrial transformation agenda comprising industrial restructuring and fostering future promising industries (GON/UNIDO/UNDP, 2002).

During the 3-Year Interim Development Plan (2007-2010), foreign investment in the form of joint ventures will be invited for hydropower production, tourism development (airport, airlines, star hotels, and recreational facilities construction), agro-based high value products, development of education and health related facilities. Financial services, information technology and bio-technology related industries will also be included in the field of such investments. In the medium and large scale industries, hundred percent share based foreign investment will be admitted. Investors willing to invest in joint ventures with Nepalese possessing management skills and technology transfer package will be encouraged. Appropriate policy will be adopted to attract capital, skills, efficiency and technology of the non-resident Nepalese. Nepalese diplomatic missions abroad will be mobilized to promote foreign investment. A high level investment promotion board will be established to facilitate foreign investment. Since 1990 Nepal has adhered to the policy of liberalization in trade and investment regime (TYIP, 2007).

Nepal has tremendous prospects for economic development through mobilizing the prime foundations of Nepalese economy, which are as follows:

Water Resources and Hydropower

In Nepal theoretical hydropower potential is estimated to be 83,000 MW with commercial potential as high as 50 percent. As of FY 2005/06,

altogether 556.4 MW (0.67 percent of total) electricity has been produced, which is 0.67 percent of total theoretical potential. The long term vision of the hydropower sector is to develop hydropower based on optimal utilization of water resources to meet the domestic power demand and export the surplus while expanding the development and services in order to contribute to improving the livelihood of Nepalese people. The Government of Nepal has envisaged a strategy to develop hydropower estimated to be 820 MW (short-term 5 yrs) by the end of 2007. Similarly, the government has the plan to develop hydropower estimated to be 2,230 MW (Medium-term 15 yrs) by 2017 and, subsequently, 22,000 MW (long-term 25 yrs) by 2027. Following attainment of these targets, electricity will be available to 60.0 percent HHs including 1,500 MW for export to India and Bangladesh (Energy Commission, 2001). *Karnali* river alone has 10,000 MW capacity of producing electricity.

Bilateral, regional and international cooperation is most welcome to initiate mega-projects for hydropower development in Nepal. Investment in hydropower is safe and secure with investment-friendly climate supplemented by appropriate laws, regulations and credit facilities. In the context of hydropower production, construction of Middle *Marshyangdi* hydropower project (70 MW) in *Lamjung* district with financial support from the Government of Germany is nearing completion. *Chameliya* (30 MW) and *Kulekhani III* (14 MW) hydropower projects are likely to start up production. A number of small hydropower projects have been initiated by the private sector in recent times. Efforts are continued to mobilize fund for the detailed study of *Upper Seti* (122 MW) reservoir type project. Funding arrangement is being explored, detailed design works are underway for the infrastructure, and access road is under construction for the *Upper Tamakoshi* hydropower project (Economic Survey, 2007). Hydropower potential has great merit of attracting FDI in Nepal. Investment in hydropower sector in Nepal is safe and lucrative with high return. Harnessing of water resources and developing hydropower will ensure both sustainable high growth and substantial poverty reduction not only in Nepal but also in South Asia region.

Tourism

The number of tourists is expected to grow by 700,000 during the period of Three-Year Interim Development Plan, 2007-2010. Major activities under tourism sector comprise preparation of an Integrated Tourism Master Plan, and Three-Year Plan, opening of foreign investment in tourism industry, amendment to the Travel and Trekking Agency Regulations 2006, enforcement of Water Journey Regulations 2007,

construction and improvements of *Dhangadhi* airport, conservation of World Heritage, organization of special tourism program, and implementation of tourism promotion program (Economic Survey, 2007). *Lumbini*, birth place of Lord Buddha, is a great centre for international pilgrimage; *Pokhara* is an international destination for pleasure trip; Mountaineering and rafting are adventure tourism to attract additional tourists in Nepal. The tourists visiting Lhasa via Kathmandu could stay back in Nepal for a longer period, and *Chitwan* Safari Park has immense potential to attract a large number of tourists. They can enjoy their holiday trips to Nepal with full assurance of tranquility, security, high quality services and facilities at par with international standard and at cheaper rates.

Nepal is often combined by the long haul consumer with holiday destinations such as India and Tibet. To a lesser extent, it is sometimes combined with Bhutan. The possibility for international partnerships in marketing the Himalayan region is at present being explored and the ideal partnership would include Tibet, as Nepal is often its gateway, and both destinations are combined by tour operations. A study commissioned by ADB on South Asian sub-regional cooperation (SASEC) has identified opportunities to jointly promote eco-tourism and Buddhist circuits in Bangladesh, Bhutan, north and north-east India and Nepal. By 2020 India will be supplying almost half a million visitors to Nepal, while UK, Japan, France, German-speaking Europe, Benelux, North America and Australia-New Zealand will emerge as high value markets, which will be providing one-third of total visitors to Nepal (TRAPAP NEP 99/013). In addition, a considerable size of tourists will flow from developing and emerging markets such as China, South Korea, Malaysia, Singapore, Thailand, Spain, Italy, Sweden, Denmark, Norway and Finland, which will certainly help foster tourism in Nepal.

Nepal compares more favorably than other tourist destinations in the world in many areas, which include: friendly people, good facilities, adventure travel destination, wildlife destination, adventure tourism, culture, pilgrimage, value for money, and overall experience. TRAPAP has envisaged long term (2010-2015) objectives to promote tourism development in Nepal by developing a strong Nepal tourism brand, which will focus on five product clusters: culture, traditions and people, cities and leisure, outdoors and adventure, religion and pilgrimage, and nature and wildlife. The three ancient and cultural cities Kathmandu, Patan and Bhaktapur are most popular tourism areas of historic importance in Kathmandu Valley, Nepal. Outside Kathmandu, Pokhara is the most beautiful and admired destination for tourists. Besides these, Nagarkot, Annapurna, Chitwan, Mt. Everest, Dhulikhel, Lukla, Langtang and

Lumbini are gorgeous, panoramic and magnificent destinations for tourists arriving at Nepal from all over the world.

Nepal Tourism Board (NTB) has played a crucial role in the development of tourism in Nepal since its inception in December 1998. According to NTB, four-fifths of tourists come by air to Nepal through different carriers, which are: Nepal Airlines Corporation (NAC), Indian Airlines, Royal Thai Airways, Qatar Airlines, Gulf Air, Austrian Air, Biman Bangladesh and China Southwest. Since the Government of Nepal accorded top priority to development and promotion of tourism sector, foreign direct investment in joint ventures is most welcome.

Human Resources and Remittance Economy

Nepal's HDI rank is 142/177 under medium human development. Life expectancy at birth was estimated to be 62.6 years in 2005, while adult literacy (% aged 15 and above) was found to be 51.5 years during the period 1995-2005 (HDR, 2007/2008). The number of migrant workers for foreign employment including India is estimated to be two million, while the magnitude of remittances marked US\$ 1.5 billion in recent years. The demand for middle level manpower from Nepal is relatively higher in international labor market, for they are honest, hardworking and available at cheaper wage rate. The total population of Nepal is 28 million in 2006 (WDR, 2008), which is estimated to be 32.7 million by 2015. The average annual growth rate of population was 2.3 percent as of Population Census 2001, and it is estimated to be 1.9 percent for the period 2005-15. The size of labor force is estimated to be 11.4 million in 2007. The average annual growth rate of labor force aged 15 and older remained 2.6 percent during 1990-2007. This demonstrates that each year approximately 300,000 labor force will be added in the labor market. Of the total labor force, around 200,000 are estimated to be absorbed in foreign employment, and remaining 100,000 to be employed in the domestic labor market. The size of economically active population (10 years and above) was found to be 58.2 percent of total population in 2005 (World Development Indicators, 2007).

Recent trends suggest that foreign employment has been a perennial source of remittances in recent years, which has been instrumental in reducing the extent of poverty. Currently, the number of Nepalese workers employed in the Gulf and East and Southeast Asian countries has rapidly increased. The profile of the Nepali workers going abroad for employment has been changing over the years. Earlier, Nepalese went abroad as semi-skilled laborers, drivers or bricklayers, while in recent years college

graduates have been migrating. Although labor mobility is restrained by stringent immigration laws and regulations introduced by advanced economies contrary to the spirit of globalization and liberalization, the prospects for foreign employment, especially of middle level Nepali manpower, are very high in international labor market. Remittances would increase on a greater scale, if similar trend exists in foreign employment. The dramatic growth of international remittances is a manifestation of hard work and commitment of migrant workers seeking better lives for themselves and their families. Although remittances are primarily intended to meet the basic needs of family members back home, they also generate opportunities for local communities and national economies.

Biodiversity

The bio-geographical position of Nepal is very reassuring for the fact that Nepal may claim the wealth of two very large and diverse realms of the world, i.e., the Paleoarctic in the northern region and the oriental in the southern region. Its location in the central sector of the Himalayan arc further enhances its bioclimatic diversity due to the fact that the more humid conditions of the eastern Himalayas and the drier western Himalayas interpenetrate into Nepal. Nepal's proximity to the tropics, and its topographical and altitudinal range from deep valleys to mountain crests, create condition for the occurrence of Tropical to Arctic climates. All these facts and factors contribute to make Nepal an important country in biodiversity conservation. Therefore, it is but natural to assume that Nepal has a rich repository of biodiversity (Shrestha et al., 1998). Biodiversity refers to eco-system and species. Although economic and commercial values of biodiversity are yet to be estimated, it has great potential for setting up of agro and timber-based industries.

In Nepal, there are well over 5,000 species of vascular plants, including over 245 species of endemic and 700 species medicinal plants. Besides these, 175 species of mammals, 850 species of birds, 600 species of butterflies, 50 species of moths, 180 species of dragon flies, 170 fish species are found in Nepal. In the 10 national parks, 4 wildlife reserves, 2 conservation areas and one haunting reserve, covering representative ecosystems, biodiversity is being maintained. Nepal is rich in medicinal wealth. Tibetan and Chinese pharmacopias have borrowed many plants from Nepal (Bhatt, 1998).

3.5 Need for Indicative Strategic Plan

There is need to induct indicative strategic plan comprising

commercialization of agriculture as envisaged in the Agriculture Perspective Plan (APP) by developing high value cash crops such as tea, coffee, cardamom, *yarshagumba* and mushroom; attracting considerable size of FDI and technology transfer in joint ventures, especially in large-scale industries with special reference to hydropower and transport sector (road); diversifying destinations and products for exports such as carpet, garments, *pashmina* and handicrafts having comparative and competitive advantages by improving and matching quality to international standard. The plan further envisages mobilizing remittances through promoting foreign employment and competing increasing demand for middle level manpower in the international labor market to maximize benefits from globalization; initiating economic diplomacy through Nepalese embassies and missions abroad to promote and strengthen trade and FDI; creating a hub for international tourism; establishing International Financial Services Center in Nepal; expanding international cooperation especially grants in priorities areas for combating poverty in partnership with development partners; maximizing benefits from economies of neighborhoods, India and China and finally, preserving biodiversity for commercial exploitation.

There is also need to initiate mega-projects especially in hydropower and infrastructure to spur economic growth. The proposed mega-projects, for example, comprise construction of: Karnali and Arun III hydropower projects; East-West railway; Networking of ropeway in hilly region; East-West highway connecting mid-hills and mountains; International airports in Lumbini, Biratnagar, Pokhara and Nijgadh; Underground fast track (tunnel) road connecting Kathmandu with terai under BOOT system; Disneyland type of amusement park and recreational center in Kathmandu; and Electric rail at outer ring road in Kathmandu valley.

3.6 Trends in Bilateral and Multilateral Cooperation

Nepal is fortunate enough to have received substantial amount of foreign aid from bilateral and multilateral sources in recent years. The data show that share of loan in total foreign aid received by Nepal during FY 2007/08 is estimated to be 39.0 percent, while foreign grants constitute 61.0 percent. The contribution of IDA to Nepal's foreign aid is approximately 23.0 percent followed by the share of ADB, which is estimated to be 22.0 percent during the period under consideration. Of the total foreign aid flow to Nepal, the share of EFA (8.7%), Japan (8%), Germany (6.5%), India (6.2%), Donors' Joint Fund (6%), DFID (5.3%), and UNDP (4.9%) has remained moderate as compared to the magnitude of cooperation offered by other bilateral and multilateral agencies, except

IDA and ADB, during the same period. The other donors providing foreign aid to Nepal comprise USAID (US), Denmark, Norway, GAVI, IFAD, OPEC Fund, Saudi Development Fund, Finland (FINNIDA), Netherlands (SNV), Switzerland (SDC; Helvitas), European and China and other countries (annex 5).

3.7 Major Exportable Products with Comparative and Competitive Advantages

Nepal has developed its comparative and competitive advantages over several products, which are exported to a number of destinations comprising Asia, Europe, Africa, North and South America, and Asia-Pacific region. These products are:

Handmade Woolen Carpets

The art of woolen carpet weaving based on traditional skill is found to have prevailed particularly in the Himalayan belt of the country. Handmade woolen carpet is an art inspired by culture, religion, tradition and environment of the country. Since Nepal is a country with centuries old history, tradition, culture, religion and crafts, the technology of carpet weaving has existed since centuries as a traditional occupation. Nepalese handmade woolen carpets stand for quality and excellent image, recognition and importance both at home and abroad. The original Nepalese carpets are characterized by exclusive design and elegant color matching international market needs. Made with high quality wool imported from New Zealand and Tibet, Autonomous Region of P.R. China, carpets are customized in different sizes and knots which range from standard 60 knots to 200 knots per sq inch. Special carpets are also made with 100% silk as well as silk bending. Exclusively introduced carpet based on hemp fiber is also well accepted by carpet connoisseurs. Germany, USA, Austria, the Netherlands, UK, Switzerland, Spain, Belgium, Sweden, Russia are the major export markets for Nepalese carpets (NCC, 2007).

Pashmina Products

"Pashmina", Nepalese word for the highest quality of wool (generally 11-14 micron, long sample fiber), is an ultra fine and exceedingly soft wool or diamond fiber extracted from the body of the mountain goat "*chyangra*" scientifically known as "Capra Hircus." The goat is the native of the Himalayan belt, 10,000 ft. above sea level. The existence of this nature's wonder species is very harsh with extremely cold climate and scarce vegetation. Blessed with very thin, short and the softest wool found in the nature, it has an exotically silky texture, which, when

wearing it next to the skin, provides a uniquely titillating experience which has been described as sublimely sensual by our ancestors. Pashmina, the finest fiber, has been popular for centuries among royalty and other elites as the most luxurious wool in the world with development of the product in several regions of Nepal where people have recognized its special qualities for centuries (NCC,2007).

The incredible softness of the pashmina combined with unique and superior products has impressed the minds of the people, and demand for it has begun to increase worldwide. The glorious fiber has been prized for its warmth, lightness and durability. The main export products made from pashmina are shawls, stoles, mufflers, scarves, blankets and readymade garments which are woven on a wrap of cotton, the preferred composition of pashmina shawl eventually changed to cashmere and silk, because of superior pliancy and sheen and thus, the “pashmina” shawl was born. Varieties of new product fashion were such as sweaters, night suits, room slippers, set of matching bag, hat, embroidery and shaded multi-color combinations, different self-patterned shawl and baby blankets design. They are of the special products of pashmina and silk composed of 70-60%, 80-20%, 60-40% and 50-50%. Pashmina is an indigenous Nepali word which only became popular after the so-named shawls, woven in Nepal, started gaining popularity in the west. What are commonly thought of as pashminas have their origin in Nepal, where the people have a cultural heritage of hand-weaving pashmina shawls with the well-known fringing and hand dyeing.

Readymade Garments

The readymade garment industry is one of the major product sectors, which has made great contribution to the Nepalese economy. The readymade garments sector has grown as the largest export item in terms of foreign exchange earnings and creating employment opportunities in the manufacturing sector. Readymade garments ranging from the loom fabrics to mill fabrics are made and exported as per buyers order. The main categories of exports made from cotton and rayon under readymade garments include: coats, jackets, jumpers, jump suits, shirts and blouses, skirts and trousers, slacks and shirts, quilted jackets, and waistcoats (NCC, 2007). The major export markets for Nepalese garments are USA, Canada, Germany, France, the Netherlands, UK, Switzerland, Spain, Italy, and Australia.

Leather and Leather Products

For the last few decades Nepal has been producing and exporting a wide

variety of leather goods both of modern and traditional design in different sizes and color such as fashion shoes and boots, jackets and vests, trousers, skirts and other garments, travel bags, camera bags, wallets, purses, money bags, belt, gloves, aprons, folders, picture frames, key holders etc. USA, Japan, Pakistan, Italy, the Netherlands, Switzerland, Brazil, UK, Spain, PR China Taiwan, Singapore, and Hong Kong are the major export markets for Nepalese leather and leather products (NCC, 2007).

Handicrafts

Handicrafts are an important sector to provide employment to the vast segment of craftsmen and generate substantial amount of foreign exchange in the country. Over the years, export of handicrafts has grown significantly and also diversified to 150 countries. The major handicrafts products include: metal statues, ethnic costumes, traditional silver and gold jewelries, ceramic products, wood carving, religious and ritual objects, handloom products, handmade paper, stone sculpture, metal utensil, *Thanka* painting, filigree products, Bras and bronze products, home furnishing materials, floor covering, puzzle toys, knot crafts, gift wears, decorative items, crazy hats, natural buttons made of bone and horns of domestic animals etc (NCC, 2007). USA, UK, Germany, France, the Netherlands, Taiwan, Singapore, Japan, Hong Kong, Canada, Italy, Australia are the major markets for these products.

Pulses (Lentils)

Lentil, a major exportable agricultural product, has been a perennial source of foreign exchange earnings for Nepal. Nepal exports both whole and splint lentils. Lentils are grown in terai, inner terai and mid-hills of the country, and its cultivation is increasing due to promising consumption potentiality at home and abroad. Bangladesh, Singapore, Sri Lanka, Germany, S. Korea, UK, Indonesia are major destinations for exports of lentils (Economic Survey, 2007).

Gold and Silver Jewelries

The gold and silver jewelries reflect traditional art-craft and special skill almost inherited from generation to generation in Nepal. Gold and silver jewelries are prominent export items of Nepal. Unique sets and varieties of necklace, bracelets, brooches, pendants, *payels*, *kalli*, *phuli*, are popular items of Nepalese jewelries that are made especially of silver. The major export destinations for these products are USA, Canada, UK, Denmark, France, Germany, Italy, Japan, Saudi Arabia, Brazil etc.

Wood Carving

Nepalese wood carving that reflects architecture is widely renowned. This includes: picture frame, rack and hangers, small boxes, animals' buttons, furniture, decorative wall hanging such as temples, wooden panels, and windows.

Medicinal Herbs and Essential Oils

Nepal is very rich in biodiversity especially in the context of species. A large number of medicinal herbs such as citronella oil, *palmarosa* oil, *sugandhakakoila* oil, lemon grass oil, lichen extract, *yarshagumba*, and *silajit* are exported to India, Germany, Japan, Pakistan, Italy, France, USA, UK, Switzerland, Sweden and Australia.

Honey

Honey is emerging as a highly potential export product of Nepal. The hill-mountain natural honey of Nepal is very famous for its exotic taste.

Nepalese Paper and Paper Products

Nepalese paper made from 'Lokta' (*Daphne cannabin-a*) plants has its own unique feature, which has a tearing strength. Lokta paper withstands insects and temperature extremes with exceptionally durable and resistant quality. During olden days Lokta paper was used to preserve the oldest available manuscripts of Hindu and Buddhist texts. In addition, Lokta paper is primarily used for making calendar, kites, woodblock printers, mask, stationery, notebooks, gift wrappers, bags, envelopes, greeting cards, lampshades and printing materials for books and other publications.

Mushrooms

In Nepal a wide variety of mushrooms are found in the forest. High quality mushrooms are also available for export as principal cash crop in recent times.

Tea

Tea is one of the most significant products with built-in flavor of globalization instrumental in connecting people, economy and civilization at all times all over the world. Tea is a high value, flavor intensive perennial crop with a potential for generating foreign exchange, reducing rural poverty, promoting economic growth and improving ecology and environment. It is a labor-intensive industry with the provision of moderately higher minimum wage rate for the workers, when compared with informal sector. Tea provides highest yield and returns against investment in this sector. In recent times, prices of tea considerably

scaled up due to higher demand for tea in the world market. With some exception, this has been totally a private sector engagement rapidly growing as a part of global business both in quantity and quality. Informal statistics show that tea production in Nepal is currently estimated to be 11.0 million Kg against the total requirements for domestic consumption of approximately 8.0 million Kg. Of total production, the share of Orthodox tea is less than 10.0 percent, which is of high value in the international market. The production of CTC, widely used popular brand but with relatively inferior quality as compared to Orthodox tea, covers more than 90.0 percent of total production. How to get access to international market for a surplus of 3.0 million Kg tea is a prime issue confronting tea industry in Nepal.

The tea industry in Nepal provides employment to over 25,000 workers with encouraging participation of women. Foreign exchange available through the export of tea is projected to be US\$ 0.8 million. Tea industry provides 10.0 percent value added tax (VA) to treasury on the basis of selling market price at Rs. 150 Kg for the production in hills and Rs. 80 Kg in terai. Industry involves 35.0 percent capital-intensive and 65.0 percent labor-intensive technology with immense scope to provide employment to rural masses. In addition to India, tea is exported from Nepal to international markets viz. Germany, Australia, Japan, America, Switzerland and other European countries. The Government has accorded top priority to commercialization of agriculture and development of high value crops as envisaged in the Agriculture Perspective Plan (APP). Tea has been considered one of the premier high value crops during the current Three-Year Interim Plan, 2007-2010.

The biggest attraction for tea industry in Nepal is that investment is entirely secure in this sector. Loan facilities are provided to tea farming on a priority basis with reasonable rate of interest by commercial banks and financial institutions. There is also provision for insurance schemes that cover unforeseen loss or damage of the crops. Nepal's Orthodox tea contains splendid quality that is unmatched, unchallenged and extraordinary, which has credibility with high demand in the international market. Therefore, investors at home and abroad are invited to maximize the benefits from investment in tea industry in Nepal through enhancing exports to international markets (Dahal, 2006).

Cardamom, Coffee, Beetle-nuts, and Floriculture

Cardamom, Coffee, Beetle-nuts, and floriculture are also popular principal cash crops in Nepal with high potential for exports. Cardamom and beetle-nuts are cultivated on a large scale in Eastern Nepal, while coffee is being

produced in other parts of the country. Floriculture is growing commercially all over the country in recent years (Economic Survey, 2007).

There are some specific products that can capture the local markets and also be linked to the market outside the country. These are: (a) Bee keeping and honey production (b) Ginger and dried gingers (c) Winter and summer vegetables (d) Milk and milk products (e) Poultry and meat products and (f) Sub-tropical fruits. Nepal's vegetables and sub-tropical fruits are now available in the markets of Gulf countries (Ojha, 2007).

3.8 Nepal's Major Trading Partners

Currently, Nepal's trade relations exist with 164 countries. The major trading partners for exports are: India, USA, Germany, United Kingdom, France, Hong Kong, Italy, Canada, Japan, Bangladesh, Spain, China PR, Switzerland, Bhutan, Netherlands, Australia, Belgium, Singapore, Turkey, and Austria. Similarly, the major countries for imports are: India, PR China, Indonesia, Singapore, USA, UAE, Thailand, Japan, Malaysia, Saudi Arabia, Germany, Korea Republic, Argentina, Australia, United Kingdom, Brazil, Canada, Hong Kong, Italy, and Iran (FNCCI, 2007).

The major exportable items to India consist of: Banaspati ghee, Textiles (Cotton, Synthetic and others), Polyester yarn, GI sheet, Wire, Juice, sacks, Twines, Chemicals, Cardamom, Readymade garments, MS Pipes, Tooth Paste, Rosin, Catechu, Ginger, Toilet soap, Plastic utensils, Hessian, Hides and skins, Oil cakes, Pulses, Hazmola, Stone and sand, Shoes and sandals, Noodles, Particle board, Copper wire & rod, Rice bran oil, Turpentine, Herbal medicines, Writing & printing papers, GI pipes, Brans, Marble slab, and Herbs. Similarly, major exports to third countries are: Woolen carpet, readymade garments, Pashmina goods, Pulses, Gold and silver ornaments, hides and skins, Nepalese paper & paper products, Metal handicraft goods, Cardamom, Tea, Readymade leather goods, Wooden handicraft goods, Herbs, perfume oil, and Niger seeds.

Trade and investment opportunities in Nepal are safe and lucrative primarily owing to investment friendly environment, flexible rules and regulations compatible with the spirit of globalization and liberalization, cheap labor, availability of finance and credit facilities, harmonious understanding among government, employers and Trade Unions, and free access of joint venture products to vast Indian market. Of the total, trade deficit with India alone is 58.0 percent, while deficit with other countries reached 42.0 percent during the same period (annex 4).

Chapter IV WTO, Sub-regional Less-developed Countries (LDCs) and Nepal

4.1 Introduction

Nepal became 147th member of WTO on April 24, 2004. Nepal's economic integration with global economy lies in the expansion of trade opportunities through increased market access and by improving competitiveness in exports having comparative advantages and matching quality and prices in the international market. Nepal has been pursuing liberal economic policies since 1990. The licensing system was fully abolished and, subsequently, import and export regimes were liberalized. With formulation of the new trade policy, foreign investment and industrial policies in 1992, private sector entrepreneurs have been encouraged to stimulate investment for establishing a number of industrial units. The Nepal-India trade treaty renewed in 2007 provided unilateral duty free access to the Nepalese manufactured articles in the Indian market. Accession to WTO in 2004 and membership of South Asian Free Trade Area (SAFTA) and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in the same year created a staunch base for liberalizing trade and investment in Nepal. Improvement in legal regimes relating to export and import, customs valuation, transport and trade facilitation, and intellectual property rights were the new initiatives undertaken by the Government in course of meeting obligations of WTO. Services sectors are also being liberalized in line with the commitments made during accession to the world trade body and GATS provisions (annex 13).

At the multilateral level, the members of WTO stressed the importance of aid to build trading capacity of less developed countries during Hong Kong Ministerial meeting in 2005. It is widely recognized that aid for trade needs to cover the issue of supply-side capacity building and trade related infrastructure development that will help LDCs to implement and benefit from WTO agreements, and more broadly to expand their trade. The WTO Ministerial meeting also advocated the creation of a task force to provide recommendations on effective operationalization

of aid for trade. The task force will provide continuity to the Integrated Framework (IF) that can be a viable instrument for LDCs' trade development, building on its principles of country ownership and partnership for enhancing the IF process. Many developed countries including Japan, European (EU) and the United States have promised to increase their support for trade related capacity building for LDCs, especially to increase trade related infrastructure, private sector development and institution building to help LDCs expand and diversify their export base. Currently, a project titled 'Enhancing Nepal's Trade-related Capacity' is under implementation with the support of IF fund. The project aims at building capacity of both Government and the private sector and identifying new areas of comparative advantages (Ojha, 2007) WTO provisions and existing status of tariff, rules of origin and NTBs, trade facilitation, regional integration and infrastructures in less developed countries have been provided below.

4.2 Improving Market Access

Tariff: Despite the significant increase in trade volume of Asian LDCs over the last decade or so, continuing tariff and non-tariff barriers in flow of commodities along with services, and trade distorting agricultural subsidies, especially in developed countries are major impediments for higher export earnings. Tariff rates imposed by developing countries on imports from other developing countries including LDCs are not only high but, in some cases, they are higher than that of the developed countries. Developing countries should significantly reduce the tariffs levied on imports from the LDCs. Even though some of the developing countries have granted preferential treatment to imports from LCDs, but it has been offered on an ad hoc basis, and special or preferential treatment for LDCs has so far been non-binding in nature. LDCs can benefit if they are bound within the framework of WTO. As the market volume of the developing Asian countries is rising rapidly, exports of LDCs can be increased in the regional markets if preferential treatments are granted to them.

The overall tariff rates of developed countries levied on the imports from developing countries are low. However, many products lines in the Quad countries attract duties more than 15 percent. Such tariff peaks are mainly applied to agricultural products and labor-intensive products like apparel and footwear. The LDCs can have comparative advantage in agricultural products and agro-industries from cost and resources standpoint. Crop diversification, commercialization and development of agro-industries are possible in these countries. Any attempt to liberalize agriculture

sector by reducing tariff and non-tariff barriers in developing countries and subsidies in OECD countries should therefore safeguard the role of agriculture as an employer of last resort and the livelihood security of people of the LDCs (annex 8).

Rules of Origin and NTBs: Rules of origin, which has been practiced by the developed countries, particularly the EU to imports from the LDCs, has become a major barrier for development of trade of the LDCs. Low utilization rates in LDCs of the preferential treatment provided by the EU illustrates that the rules of origin and non-tariff barriers imposed on imports from the LDCs are still the major constraints for increasing trade. Asian LDCs have also not been able to use preferences given by some of the developing countries. According to UNCTAD, 40 percent of LDC exports are affected by such NTBs such as technical barriers to trade, sanitary and phytosanitary measures, customs rules and procedures, anti-dumping and countervailing duties and other compliance requirements with regard to labor and environmental standards. For example, fish and fish products, garments, and other exports are subject to quality control and regulations, labor and environmental standards before entering into developed countries. Rules of Origin should be relaxed and non-tariff barriers should be reduced to a minimum level to help the LDCs boost their exports.

As the demand of LDCs that they should be given duty and quota free market access to developed markets by 2008 at the latest has been taken positively by developed countries, they have also urged the developing countries to provide such facility. However, the Hong Kong WTO Ministerial meeting held in December 2005 decided that the members facing difficulties in providing market access as agreed earlier shall provide duty free and quota free access for at least 97 percent of products originating from LDCs. However, developed countries by sticking to this provision can legally exclude products like textile, clothing, footwear, sugar and banana - some of the products in which LDCs have strong competitive advantage. LDCs should be given non-discriminatory universal treatment for all the products originating from all these countries on a lasting basis.

4.3 Trade Facilitation

World Bank's Investment Climate Assessment Survey Report (2004) shows that the trade related transaction costs are usually high in most of the Asian LDCs. Cumbersome documentation requirements, lengthy procedures and many other bureaucratic impediments lead to increase

the direct and indirect costs, which has resulted in the erosion of competitiveness of the products of these countries. The study also found that the transaction costs would increase with the increase in volume of imports required for the production of exportable products. Studies show that trade can increase by 9.7 percent, if trade facilitation is simplified. Modernization of customs agencies, streamlining of procedures and other country-specific improvements can help reduce the transaction costs associated with trade facilitation significantly (ESCAP 2005, WTO 2004).

4.4 Regional Integration

ESCAP region accounts for more than two-thirds of global South-South trade and the share is increasing mainly because of the rapidly growing economic dynamism of China and India. Some of the LDCs (e.g. Cambodia, Laos, Nepal) have also shown significant progress in expanding the volume of exports to developing Asia. As Asian countries are at different levels of development, trade dynamism will help enhance the opportunities for establishing complementary industrial production chains and trade links across the region. Regional free trade areas initiatives, bilateral trade agreements and other forms of economic cooperation such as growth quadrangles, triangles, and corridors will help lay the foundation for a region-wide zone of efficient production and complementarities. Integration leads to the expansion of the market for goods and services and increases the scope for both economies of scale and greater competition. The ADB study (ADB Brooks, Rolan-Hosist and Fan Zhai: 2005) shows that free trade by 2025 will increase real income of the region from 0.3 percent to 6.6 percent above the base line. With People's Republic of China and India being the two most dynamic countries in the world, trade volumes of LDCs are bound to change and the structure will reflect the country's comparative advantage. Therefore, the scope for strengthening economic relations and integration is high. FTA initiatives taken by countries in the region, thus, have to be further strengthened for higher quality and closer economic partnership to speed up the region's integration into the global economy. These efforts will help to increase intraregional trade considerably.

4.5 Infrastructures

The poor state of physical infrastructures and human resources undermines the ability of Asian LDCs to expand trade volume and to ensure optimum utilization of the available trade preferences. Unfavorable geographical locations increase costs of both export and import compared to the

countries with comparatively favorable geographical condition. According to a study, an increment of ten percentage point in transport costs alone squeezes trade volume by around 20 percent and erodes trade competitiveness significantly. Being landlocked countries, the median costs of Nepal, Bhutan and Laos could be more than 50 percent higher than those of coastal countries (Limao and Venables 2001). In addition, the infrastructures of countries like Cambodia and Bangladesh are also in poor conditions (WB Investment Surveys). Similarly, LDCs' manufactured exports are dominated by low-skilled labor-intensive products. These manufacturing exports from low to high value added items are unlikely to change substantially unless the general level of education and skills are developed substantially in these LDCs. This calls for better transport and communication network and human resources management that are essential to reduce the costs of doing business. Since improvements in these facilities need huge investments, resource poor LDCs cannot handle them alone. So, they need strong support from developed partners.

Chapter V

Operationalization of Economic Diplomacy in Nepal

5.1 Agenda for Economic Diplomacy

Nepal's economic and development activities have multifarious interface with the international community. In a globalized world of today, this is going to grow more rapidly and extensively over the years. Even today, we are largely dependent on development assistance for a majority of development activities. The share of international trade in GDP is on higher side. Foreign investment plays and will play an even more crucial role in building infrastructure and in promoting industrial and service related activities in the country. Remittances have grown to such an extent that they have contributed to increase foreign exchange reserve, reduce poverty and help maintain macro economic stability in the country. Tourism is another very important sector with great potential. In that context, our international interactions and their consistent promotion in a purposeful and sustained manner would certainly help promote our economic growth in the days ahead. Today, diplomacy is being largely defined in terms of enhancement of economic interests, even though political and strategic interests in relation to the major capitals and major institutions remain an indispensable task.

Besides, it is in our strategic interest to promote our international interactions as we are positioned between the two giant neighboring economies of the world. Politically, our international personality and independence gets a boost by promoting close and deeper interactions with the wider world. And needless to say, higher economic strength brings more political weight to the country. Moreover, with restoration of peace and stability, there is also a heightened interest of the international community to support Nepal, which must be utilized to its fullest extent. Resources are flowing on a greater scale now, and the post-conflict situation can help us to look for special support from the international community in a comprehensive manner in all the diverse sectors. The Three-Year Interim Development Plan has envisaged the strategic importance of enhancing international dimension of our economic

relations in all possible fields.

5.2 Diplomatic Representation

Nepal has diplomatic missions in twenty-eight countries and cities throughout the world. Though the Nepalese missions are small in size, they have been slowly but consistently geared up toward promoting larger national interests of political, strategic and economic nature in a more effective and efficient manner. All ambassadors and other diplomats were provided with focused orientation about economic diplomacy before they left for their assignments. Wider consultations with various stakeholders, including the private sector were organized. A strong need is felt to come out with the essentials of economic diplomacy in a succinct manner to sensitize and guide them through diverse interests and challenges of Nepal's economic and development activities.

Our diplomatic missions have been established in various cities with great investment in resources. Therefore, it is important that their strength should be fully utilized. Without investing substantially on the human and physical resources or with very few additional physical resources and some financial resources, a lot of benefits could be derived from the articulation and promotion of our economic interests by the Missions.

5.3 Nature of the Program

Depending on the potentials of the countries concerned, various missions would be asked to devise a specific program, intended outcome, participants in the program, and the level of support that they can receive from the local government and various non-government organizations. Programs include organizing Nepal fair in major capitals, Product exhibition, participation in the trade fair exhibitions, focused study of market potentials, interactions with business associations, product associations, bilateral visits of business people, tourism fair participation, Investment seminar, job market fair, promotion of the Nepalese labor, campaign for labor agreements, protection of labor rights, sector-specific trade missions, investment missions and tourism missions could be facilitated, organized and promoted in the respective countries.

Similarly, lobbying for greater market access for our products, greater articulation of our overall economic interests, coalition building and effective presentation of Nepal's case in the foreign capitals as well as in the international organizations could be another major task under this program. There could also be some occasional interaction programs with

the researchers, experts and other stakeholders to fine-tune our programs and make them inclusive. This year a few small scale programs are being organized. MOFA should assess the effectiveness of the program in the days to come.

5.4 The Road Ahead

All the countries in the world organize various promotional activities utilizing the missions to the maximum on a sustained basis with fixed programs. There is a need to make it a regular feature and maximize national interests by promoting economic diplomacy. The government should provide a program budget to each mission abroad every year, which should be determined on the basis of the assessment of countries' expectations, effectiveness, relevance, outcome and long term impact of the programs. The MOFA/GON should, therefore, expedite for a program to organize specific economic diplomacy programs by the missions through the world. The program details and its breakdown should be prepared in advance. The missions could be asked to prepare details of proposed schedule on the basis of which, and the value and potential of the market they are in, MOFA should allocate resources for each mission.

5.5 Monitoring and Supervision

The Multilateral Economic Division in the Foreign Ministry should have a direct monitoring and supervisory role of the program. It should also work as a liaison with the line ministries, private sector, and other relevant stakeholders to provide information, coordinate activities to this end and support the programs. All these programs could be organized and facilitated only with the full support and cooperation of the various line ministries. The Foreign Minister and the Foreign Secretary should be regularly assessing the program activities and make quarterly review of the progress. A High-Level Committee chaired by the Foreign Minister and comprising the Ministers of Finance, Industry and Commerce, Water Resources, Labor and Tourism and the Vice Chair of the National Planning Commission should be established for better coordination at the higher political level. Similarly, Secretary level committee should be formed representing all these Ministries for multi-sectoral support and guidance and supervision for effective implementation of the programs. Presidents of FNCCI, CNI, NCC and NRN would be permanent invitees. Other agencies could be involved as invitees as necessary.

5.6 Outside Support

The promotion of economic diplomacy can help facilitate and create an environment for broader and deeper national economic activities in the country. This also demands close coordination with the private sector and other agencies. They would also be using their own resources for participation in such promotional programs. This way the scale of the program could be made much larger than the budgeted programs. Similarly, the missions would be asked to look for local support for hosting a series of events relating to trade, tourism, single country fair and others.

Likewise, bilateral and multilateral assistance could be sought to enhance the scale and diversity of the program. Various countries organize similar programs with the assistance and support of the donor community. A large number of windows for assistance are available in various multilateral institutions. These activities could be linked up with the Nepal Development Forum which is scheduled to be organized in the next autumn in order to sensitize the international community about the targeted and comprehensive nature of the programs for the missions.

5.7 Goal and Strategy

The overriding goal of economic diplomacy is to help enhance Nepal's comparative and competitive advantages in the global economy and maximize the benefits from globalization ensuring rapid economic development in Nepal.

The following are the strategies to attain the above specified goals:

- s Consolidating Nepal's foreign economic relations with friendly countries;
- s Exploring the economic opportunities for Nepal, including outsourcing;
- s Mission's focus and priority on economic diplomacy;
- s Coordination with the stakeholders on economic activities; and
- s Implementation of program-based activities by the missions.

5.8 Actions

The following actions are pertinent to pursue the policy of economic diplomacy:

Economic Diplomacy

Structural

- s Establishment of inter-ministerial mechanism of related Ministries/Authorities etc. coordinate the issue of economic diplomacy at the Minister level with the involvement of FNCCI, Chamber of Commerce, CNI, Nepal Tourism Board etc.
- s Prepare a detailed guideline and strategy.

Functional

- s Prepare programs and implement them within the framework of the program of the National Planning Commission.
- s Setting annual target with objective indicators.
- s Information about the Nepali products related to trade and tourism, updated websites, prepare brochures in local languages.
- s Display of Nepali products at mission office.
- s Regular feedback in the system.
- s Study of potential markets.
- s Training and manpower development.
- s Analysis of competitor's business strength.
- s Analysis and assessment of current trends and future perspectives of economic interactions
- s Prepare country specific annual plan.
- s Prepare the list of potential investors, commercial institutions and personalities and interact with them in person as successful economic diplomacy depends largely on our ability to win the trust and confidence of our friends, neighbors and partners abroad.
- s Regular interactions, dialogues, consultations among all sectors - political, bureaucratic, business, trade unions, NGOs, foreign countries and donors.
- s MoFA has a lead role to play in such areas as 'selling' Nepal, identifying long term business opportunities through its mission and creation of a new image for Nepal as a peaceful, hospitable, safe and stable society

Economic Diplomacy

- s Close cooperation with the NRN community for promoting economic diplomacy

Behavioral

- s Missions to be business-friendly;
- s Objective assessment of the missions as per the performance;
- s Maintaining close relations with the business people;
- s Accountability to the head office and other stakeholders and clients;
- s Accept economic diplomacy as one of the principal tasks of the mission
- s Recognition and assistance in every program, related to economic activity conducted by Nepal including the private sector;
- s Manpower development with all diplomatic skills and attitude to project Nepal's needs and interests;
- s Promotion of the private sector of Nepal with coordination and facilitation. Facilitation in the form of providing forum, organizing social events and ensuring access to them with the government agencies and other institutions.

Coordination

- s Economic diplomacy needs commitment of all for better coordination among the sectoral ministries, especially Industry, Commerce and Supply, Finance, Tourism, Labor, National Planning Commission and the private sector as well. There is also a need for constant coordination between the missions and Ministry. Ministry of Foreign Affairs is the focal point for coordination and the missions are the implementing agencies;
- s For diversification of foreign employment Nepali missions should explore job markets ensuring attractive salary and rights of Nepali manpower in the work place and intensive interaction and collaboration with manpower receiving countries
- s Ministry of Foreign Affairs through its missions should play a catalytic role in mobilization of foreign direct investment in water resources, enhancement of foreign employment for Nepali citizens, expansion of volume and value of exports, promotion of tourism, and expansion of business contacts.

Miscellaneous

- s Promote Nepal by highlighting why Nepal should be a country of interest for stronger economic interactions.
- s Look from investors' perspective as to why Nepal should be the destination for potential investment or tourism
- s Monitor and assess the policy pronouncements of the host country that relates to Nepal as a potential country (Developed countries have policy commitments to help and assist other countries from the point of view of the least developed country status or a post conflict democratic country status.).
- s Highlight Nepal's policies that promote foreign investment and trade with Nepal (Nepal is considered as the most liberal country for trade promotion; Nepal's investment policy is very attractive from the point of view of areas of investment, conditionalities and repatriation provisions).
- s Nepal and Nepali people are friendly, inviting and deserving of assistance, collaboration and investment.
- s Information: Websites, E-mail and IT means.
- s Constant feedback to government and apex bodies of private sector such as FNCCI, CNI and NCC and others.
- s Mobilization of friends of Nepal within and outside the host government.

5.9 Country/Region Focus Programs on Economic Diplomacy

(a) South Asia/India

Trade/Tourism fairs and interaction programs, investment seminars etc. with the participation of local trade and industrialist, tour operators, trade and travel writers, journalists, chamber of commerce and prominent figures in the related fields.

(b) Europe America

Tourism/Trade/investment fair, seminar, meetings, interaction programs etc. with the participation of local trade and industrialist, tour operators, trade and travel writers, journalists,

chamber of commerce and prominent personalities, in the related fields of Nepal.

(c) South East Asia/Pacific

Tourism/Trade/Foreign Employment interaction, familiarization tours, tourism fair with the involvement of trade and tour operators, local employers, chamber of commerce, travel writers, journalists and other prominent personalities

(d) Japan and Korea

Tourism/trade/investment/foreign employment fair, interaction, seminars with the participation of tour operators, Buddhist religious leaders, politicians etc.

(e) Gulf countries/Israel

Trade/Foreign employment/Foreign investment programs with interaction, seminars.

New democratic Nepal has better prospects for pursuing the policy of economic diplomacy to promote country's economic interest in bilateral, regional and global markets. Nepalese missions abroad (annex 1) have greater responsibility, in the changing context, to mobilize international cooperation, promote trade and investment through FDI in joint ventures, facilitate private sector for promoting exports having comparative and competitive advantages, promote foreign employment and remittances ensuring safety and welfare of workers, expand regional and global tourism, and propagate the message of Nepal to collectively work for attaining universal peace. The mission chiefs are vanguards of championing the cause of modern democratic Nepal toward building a strong economic nation-state through effectively propagating the policy of economic diplomacy both in theory and practice.

Annex 1 Nepalese Missions Abroad

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Economic Diplomacy

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Annex 2
Macroeconomic Indicators
1991/92 – 2001/02 and 2001/02 – 2006/07
 (As % of GDP unless otherwise indicated)

Macroeconomic Indicators	Average annual Growth Rate 1991/92 - 2001/02	Average annual Growth Rate 2001/02 - 2006/07
GDP	4.8	2.8
Agriculture GDP	2.8	2.8
Non-Agriculture GDP	6.3	3.1
Savings and Investment		
Total Investment	23.8	25.6
Gross Domestic savings	13.9	10.0
Government Finance		
Government Revenue	10.6	11.7
Total expenditure	18.0	17.5
Regular Expenditure	8.3	11.0
Development Expenditure	9.7	6.5
Current Expenditure	7.2	10.8
Capital Expenditure	7.9	4.7
Budget Deficit	5.8	3.8
Total Debt	64.5	53.5
Monetary Indicators		
Broad Money (% Change)	16.3	11.2
Domestic Credit (% Change)	22.8	2.0
Inflation (% Change)	8.8	5.1
Balance of Payments		
Exports of Goods	9.9	9.7
Imports of Goods	27.5	25.3
Current Account Balance	-2.7	2.4
Growth Rate of Manufacturing	*9.7	**3.0
Growth Rate of Exports	*25.8	*3.6

Source: *Economic Survey, Various issues*. * 1990-2000. **2001-2007.

Annex 3
Nepal - Direction of Foreign Trade,
FY 2005/06

Description	FY 2005/06 (Rs. in billion)	In percent of total
Exports F. O. B	60.2	100.0
India	40.7	67.6
Other Countries	19.5	32.4
Imports C. I. F.	173.8	100.0
India	107.2	61.7
Other Countries	66.6	38.3
Trade Balance	-113.5	100.0
India	-66.4	58.5
Other Countries	-47.1	41.5
Total Volume of Trade	234.0	100.0
India	147.9	63.2
Other Countries	86.1	36.8
% Share in Total Trade	100.0	-
India	63.2	-
Other Countries	36.8	-

Source: *Economic survey, 2007.*

Annex 4
List of Countries having Trade Relations
with Nepal, as of 2006/07

*Afghanistan, Andorra, Antigua and Barbuda, Argentina, *Armenia, Aruba, Australia, *Austria, Azerbaijan, *Bahamas, Bahrain, *Bangladesh, Belarus, Belgium, Belize, Benin, Bermuda, *Bhutan, Bolivia, *Bosnia Herzegovina, Botswana, Brazil, British Virgin Island, *Brunei, Bulgaria, Burundi, *Cambodia, Cameroon, Canada, *Chile, PR China including Tibet Autonomous Region, Cocos Island, *Colombia, Congo, *Costa Rica, *Croatia, Cuba, Cyprus, *Czech Republic, Denmark, *Dominica, *Dominican R., Ecuador, Egypt, *El Salvador, Eritrea, *Estonia, Ethiopia, *Faeroe Island, *Fiji, Finland, *France, Gabon, Georgia, *Germany, Ghana, *Greece, Greenland, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Hong Kong Autonomous Region of China, Hungary, Iceland, India, Indonesia, Iran, Iraq, Ireland, Isle of Man, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Korea DPR, Korea R., Kuwait, Laos, *Latvia, *Lebanon, *Libya, Lesotho, Lithuania, *Luxemburg, Macau, Autonomous region of PR China, Madagascar, Malaysia, *Maldives, Mali, Malta, Magnolia, Marshall Island, *Mauritius, *Mexico, *Micronesia, Midway Island, Moldova, Monaco, Morocco, Mozambique, Myanmar, Nauru, Namibia, Netherlands, Netherlands Antilles, *New Caledonia, New Zealand, Niger, *Nigeria, Northern Mariana Islands, Norway, Oman, Pakistan, *Panama, Papua New Guinea, Paraguay, Peru, Philippines, *Poland, *Puerto Rico, *Portugal, Qatar, *Romania, Russia, *Rwanda, Saint Kitts and Nevis, Sao-tome & Principe, Saudi Arabia, Senegal, *Seychelles, Sierra Leone, Singapore, Slovakia, *Slovenia, *Somalia, South Africa, *Spain, Sri Lanka, Sudan, Surinam, Swaziland, *Sweden, Switzerland, Syria, PR China Taiwan, Tajikistan, Tanzania, Thailand, Togo, Tokelau, Tonga, Tunisia, Turkey, *Turkmenistan, Turks and Calicos Islands, UAE, Uganda, UK, Ukraine, *Uruguay, *USA, Uzbekistan, Vanuatu, Venezuela, Vietnam, Yemen Republic, Wake Island, *Yugoslavia, Zaire, Zambia, and Zimbabwe (Source: FNCCI, 2007).

[Note: * Nepal has maintained trade surplus with these countries].

Annex 5: Trends in Bilateral and Multilateral Cooperation, FY 2007/08

Rs. in million

Donor Countries/ Organizations	Foreign Grants	Foreign Loan	Total Foreign Aid	In percent of total
ADB	641.3	8,479.8	9,121.1	21.9
ADB - GRP	-	680.0	680.0	
		Total 9,159.8	Total 9,801.1	
IDA	5,491.2	2,695.3	8,186.5	22.9
IDA (SC)	-	2,100.0	2,100.0	
		Total 4,795.3	Total 10,286.5	
EFA (Donor Organization)	2,652.0	1,246.9	3,898.9	8.7
Japan (DFR)	1,687.5	-	1,687.5	8.0
Japan NPG	769.9	-	769.9	
Japan (JICA)	530.0	-	530.0	
Japan	250.0	-	250.0	
Japan (KR2)	213.9	-	213.9	
Japan (KR1)	100.0	-	100.0	
Japan - JFPR	40.0	-	40.0	
	Total 3,591.3		Total 3,591.3	
Germany (KfW)	2,873.1	-	2,873.1	6.5
GTZ	18.5	-	18.5	
	Total 2,891.6		2,891.6	

Donor Countries/ Organizations	Foreign Grants	Foreign Loan	Total Foreign Aid	In percent of total
India	1,382.8	1,397.0	2,779.8	6.2
Donors' Joint Fund	2,690.8	-	2,690.8	6.0
DFID (UK)	1,557.0	-	1,557.0	5.3
UK (DRF)	840.0	-	840.0	
	Total 2,397.0		Total 2,397.0	
World Food Program	705.4	-	705.4	4.9
UNICEF	618.3	-	618.3	
UNDP	528.9	-	528.9	
WHO	219.2	-	219.2	
UN Habitat	27.9	-	27.9	
UNEP	6.5	-	6.5	
ILO	10.0	-	10.0	
UNFPA	100.2	-	100.2	
	Total 2,216.4		Total 2,216.4	
America - USAID	904.6	-	904.6	2.0
Denmark	844.0	-	844.0	1.9
Norway	366.2	-	366.2	1.0
NORDIC Development Fund	-	60.0	60.0	
			Total 426.2	

Donor Countries/ Organizations	Foreign Grants	Foreign Loan	Total Foreign Aid	In percent of total
Global Fund	367.3	-	367.3	0.8
GAVI	308.0	-	308.0	0.7
IFAD	27.6	262.6	290.2	0.6
OPEC Fund	-	225.7	225.7	0.5
Saudi Development Fund	-	220.0	220.0	0.5
Finland	108.6	-	108.6	0.4
FINNIDA	67.5	-	67.5	
	Total 176.1	-	176.1	
Netherlands – SNV	130.2	-	130.2	0.3
Netherlands	22.1	-	22.1	
	Total 152.3	-	Total 152.3	
Switzerland – SDC	126.3	-	126.3	0.3
Switzerland - Helvitas	15.4	-	15.4	
	141.7	-	Total 141.7	
European Union	106.4	-	106.4	0.2
China	100.0	-	100.0	0.2
Others	12.4	-	12.4	0.1
Total	27,461.0 (61.3%)	17,367.3 (38.7)	44,828.3 (100.0)	100.0

Source: Ministry of Finance, Government of Nepal, July 2007.

Annex 6

List of Major Acts and Regulations Relating to Trade and Investment

- s Foreign Investment and Technology Transfer Act, 1992.
- s Industrial Policy and Industrial Enterprises Act 1992.
- s Labor Act 1992,
- s Trade Unions Act and Regulations 1992.
- s Privatization Act 1994.
- s Income Tax Act 2002.
- s Nepal Rastra Bank (Central Bank) Act 2002.
- s Labor and Employment Policy 2005.
- s Nepal-India Trade Treaty 2002.
- s NRN Act 2006.

Annex 7

Home Country Distribution of FDI in Nepal (%)

Home Country ^a	Share in the number of enterprises	Share in Total FDI	Share in employment in FDI Projects
India	35.0	35.8	40.0
USA	10.3	17.1	8.1
China	7.7	10.9	7.8
British Virgin Island	0.6	6.4	1.4
Norway	0.7	4.9	0.2
Japan	10.5	4.2	5.5
Republic of Korea	3.9	3.5	2.8

Source: Compiled from data available from Department of Industries, Government of Nepal. a. Ranked by share in total FDI.

Annex 8 : The Largest Ten Enterprises with FDI in Operation (As of May

Name of the Company	Authorized Capital (Rs. in million)	Product	Annual Capacity	Share of Foreign Ownership (%)	Foreign Investor	Home Countries
Himal power ltd.	5,000.0	Hydropower Generation	60 MW	49	Statecraft & Kaemer Energy	Norway
Upper Bhote Koshi Hydro Electric Project	4,760.0	Hydropower Generation	36 MW	90	Resource Development Consultants	USA/ Germany
Manipal Education & Medical Group	3,324.6	Hospital cum Medical College	800 students	100	Manipal education & Medical Institute	India
Surya Nepal Pvt. Ltd.	2,100.0	Cigarette, Readymade Garments	6 billion sticks	51	ITC Ltd.	India/UK
Taragaon Regency Hotel	1,510.0	Hotel Service	300 Rooms	36	Radheshyam Saraff	India
Dynasties Industries Nepal Pvt. Ltd.	1,242.9	Cement	3,000 MT	100	Dynasties Industries Ltd.	India
Bhrikuti Pulp and Paper Industry	1,097	Writing Paper/Corrugated Paper Box/Board	1,200MT/ 300MT/ 1,200 MT	20	International Match Co. Ltd.	Bermuda
National Hydropower Ltd.	1,080.0	Hydropower Generation	5 MW	12	Lyse Craft DA	Norway
Medical College Cum Hospital	900.0	Hospital Cum Medical College	700 Beds	100	International Society for Medical Education	USA
Nepal Orient Magnesite Pvt. Ltd.	826.8	DBM and Refractory Bricks	5,000 MT/ 20,000 MT	50	Orissa Industries Ltd.	India

Source: Department of Industries, Government of Nepal, May 2007.

Annex 9 Average Tariff Profile in Industrial and Developing Economies

Product Group	Industrial Economies	Developing Economies
Agriculture, excluding fish	5.2	18.6
Fish and fish products	4.2	8.6
Petroleum	0.7	7.9
Wood, pulp, paper and furniture	0.5	8.9
Textile and Clothing	8.4	21.2
Leather, rubber and footwear	5.5	14.9
Metals	0.9	10.8
Chemical and photographic supplies	2.2	12.4
Transport equipment	4.2	19.9
Non-electric machinery	1.1	13.5
Electric machinery	2.3	14.6
Mineral products, precious stones and metals	0.7	7.8

Source: UNESCAP (2005)

Annex 10: List of Commercial Banks, Class 'A', As of Mid-Oct. 2007

S. No.	Names	Operation Date	Head Office	Paid up Capital (Rs. in million)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Baniya Bank	1966/01/23	Kathmandu	1,172.3
3	NABIL Bank Limited	1984/07/16	Kathmandu	7,528.0
4	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	491.7
5	Standard Chartered Bank Ltd	1987/01/30	Kathmandu	801.4
6	Himalayan Bank Limited	1993/01/18	Kathmandu	413.3
7	Nepal SBI Bank Limited	1993/07/07	Kathmandu	810.8
8	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu	647.8
9	Everest Bank Limited	1994/10/18	Kathmandu	719.9
10	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	518.0
11	Nepal Credit & Com. Bank Ltd	1996/10/14	Siddharthanagar	603.1
12	Lumbini Bank Limited	1998/07/17	Narayangadh	699.1
13	Nepal Ind. & Com. Bank Ltd	1998/07/21	Biratnagar	660.0
14	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara	600.0
15	Kumari Bank Limited	2001/04/03	Kathmandu	821.7
16	Laxmi Bank Limited	2002/04/03	Birgunj	750.0
17	Siddhartha Bank Limited	2002/12/24	Kathmandu	729.7
18	Agriculture Dev. Bank Ltd.	1968/01/02	Kathmandu	600.0
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	510.0
20	Citizens Bank Int. Ltd.	2007/6/21	Kathmandu	560.0
21	Prime Bank Ltd	2007/9/24	Kathmandu	700.0
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	700.0
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	700.0

Annex 11 GSP* Utilization Rate in Asian LDCs

Beneficiary Country	Potential Cover Rate	Utilization Rate
Afghanistan	100	5.4
Bangladesh	100	50.8
Bhutan	81.8	15.5
Cambodia	100	36.2
Lao People's Democratic Republic	100	58.3
Myanmar	0	0.0
Nepal	100	71.3

Source: "Market access issues related to products of export interest originating from LDCs", Sub-Committee on Least Developed Countries Negotiating Group on Market Access, WTO, 2003. * Generalized System of Preferences.

Annex 12 Connecting websites (URL) relating to Trade and Investment in Nepal

- s <http://www.fncci.org>
- s <http://www.nepalchamber.org>
- s <http://www.ifa.org.np>
- s <http://www.moics.gov.np>
- s <http://www.mof.gov.np>
- s <http://www.tourism.gov.np>
- s <http://www.moltn.gov.np>
- s <http://www.mowr.gov.np>
- s <http://welcomenepal.com>
- s <http://www.cnind.org>

Annex 13: Revised Legislative Action Plan - January 2008

No	Laws/ Regulations/Administrative Decisions	WTO Agreement	Status of Draft/ Intended Actions	Approval Date	Present Status till January 2008
1	Instrument of Ratification of WTO Agreement	Marrakech Agreement Establishing WTO 1994	Council of Ministers will consider submitting to the Parliament for ratification / accession of /to the WTO Agreement as soon as WTO approves membership to Nepal		24 April, 2004, Nepal become 147th member of WTO
2	Income Tax Act 2002	General	Approved by the Parliament, April 2002	Enforced	-
3	Bankruptcy / Insolvency Act	General	Preparation of draft of the new Act by Ministry of Finance by December 2004	September 2005	Enacted in November 2006
4	Foreign Exchange (Regulating) Act 2002 (Amendment)	General	Endorsement by Council if Ministers by July 2005	Enforced	-
5	Competition Act	General	Approved by the Council of Ministers by July 2002	July 2004	Enacted in October 2006

6	Export Import (Control) Act 1957 (Amendment)	General Agreement on Tariffs and Trade 1994 Agreement on Agriculture Agreement on Import Licensing Procedures.	Initial draft being prepared by Department of Commerce by August 2003 Submission by Ministry of Industry Commerce and Supplies to Council of Ministers by September 2003 Endorsement by Council of Ministers by October 2003	December 2003	Amendment adopted in November 2006
7	Export Import (Control) Regulations 1978 (Amendment)	General Agreement on Tariffs and Trade 1994 Agreement on Agriculture Agreement on Import Licensing Procedures	Initial draft prepared by Department of Commerce in December 2002 Submission by Ministry of Industry Commerce and Supplies to Council of Ministers by October 2003 Adoption by Council of Ministers by December 2003	December 2003	Regulation is being reviewed
8	Customs Act, 1962 (Amendment)	Agreement on Implement of Article VII of GATT 1994 (Customs Valuation) Agreement on Rules of Origin	Initial draft prepared by Department of Customs in December 2002 Submission by Ministry of Finance to the Council of Ministers by June 2003 Endorsement by Council of Ministers by September 2003	December 2003	New Customs Act has been enacted

9	Customs Regulation, 1969 (Amendment)	Agreement on Implementation of Article VII of GATT 1994(Customs Valuation) Agreement on Rules of Origin.	Initial draft prepared by Department of Commerce in December 2002 Adoption by Ministry of Finance and submission to Council of Ministers by August 2003 Adoption by Council of Ministers by December 2003	December 2003	After enactment of Customs Act, the process will be to revise the regulation
10	Instruments of Ratification For United Nations Convention on Contracts for the International Sale of Goods (Vienna, 1980)	General	Endorsement by Council of Ministers by March 2004	December 2005	Under Consideration
11	Law on Anti-dumping Measures	Agreement of Implementation of Article VI of the GATT 1994 (Anti-dumping)	Preparation of draft legislation by December 2003 Endorsement by Council of Ministers by March, 2004	July 2004	Under Consideration
12	Nepal Standards (Certification Marks) Act, 1980 (Amendment)	Agreement on Technical Barriers to Trade	Preparation of draft amendment by June 2004 Endorsement by Council of Ministers by January 2005	April 2005	Under Consideration

13	Nepal Standards (Certification Marks) Regulation, 1982 (Amendment)	Agreement on Technical Barriers to Trade	Preparation of draft amendment by September 2005 Adoption by Council of Ministers by December 2005	December 2005	Regulation will be revised after enactment of Act
14	Decision on the establishment of Inquiry Points	Agreement on Technical Barriers to trade	Submission of proposal by WTO Division, Ministry of Industry, Commerce and Supplies by April 2003 Adoption by Ministry of Industry, Commerce and Supplies by June 2003	June 2003	The Bureau of Standards and Metrology, has been designated as an enquiry point for TBT (prior to January 1, 2004)
15	Plant Protection Act 1972 (Amendment)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Preparation of draft amendment by June 2004 Endorsement by Council of Ministers by January 2005	April 2005	New plant protection act 2007 enacted since September 13, 2007.
16	Plant Protection Regulation 1975 (Amendment)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Preparation of draft amendment by September 2005 Adoption by Council of Ministers by December 2005		Regulation will be reviewed once plant protection act is enacted.
17	Instrument of International Plant Protection Convention (IPPC)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Endorsed by Council of Ministers in August 2002	December 2005	Approved membership since May 8, 2006.

18	Seed Act 1998 (First Amendment)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Endorsed by Council of Ministers in August 2002	August 2004	Amended seed act in line with WTO conformity.
19	Decision on the establishment of Inquiry Points	Agreement on Sanitary and Phyto-Sanitary Measures General Agreement on Tariffs and Trade 1994	Submission of proposal by W/TO Division, Ministry of Industry, Commerce and Supplies by April 2003 Adoption by Ministry of Industry, Commerce and Supplies by June 2003	June 2003	Department of Food Technology and Quality control has been designated as an enquiry point for SPS(1st Jan. 2004)
20	Environment Act, 1997 (Amendment)	General	Preparation of draft amendment by Ministry of Population and Environment by December 2004 Endorsement by Council of Ministers by July 2005	September 2005	Under consideration.
21	Industrial Property (Protection) Act*	Agreement on Trade Related Aspects of Intellectual Property	Preparation of new draft legislation by the Department of Industry by December 2003 Adoption by Ministry of Industry, Commerce and Supplies by December 2004 Endorsement by council of Ministers by July 2005	December 2005	The existing patent, design and trademark Act has been amended. A comprehensive industrial property protection legislation is being drafted*.

22	Copyright Act 2002 (Amendment)	Agreement on Trade-Related Aspects of Intellectual Property Rights	Approved by the Parliament in August 2002	In force	
23	Instrument of Ratification of Bern Convention for the Protection of Literary and Artistic Works 1971	Agreement on Trade-Related Aspects of Intellectual Property Rights	Endorsed by Council of Ministers by December 2003	December 2005	Nepal ratified Bern Convention on October 11, 2005
24	Plant Resources Act*	Agreement on Trade-Related Aspects of Intellectual Property Rights	Endorsed by Council of Ministers in 2002	December 2003	Under consideration.
25	Access to Genetic Resources Act*	Agreement on Trade-Related Aspects of Intellectual Property Rights	Preparation of draft of the new legislation by Ministry of Forestry and Soil Conservation by June 2003 Endorsement by Council of Ministers by December 2003	April 2004	Under consideration.
26	Pharmaceutical Act, 1978 (Amendment)	General	Preparation of draft amendment by Ministry of Health by December 2004 Endorsement by Council of Minister by April 2005	September 2005	Transitional period for least developed countries has been extended until 2016.

27	Cyber Act	General	Preparation of draft amendment by Ministry of Science and Technology by December 2004 Endorsement by Council of Ministers by April 2005	September 2005	Enacted in 2006.
28	Foreign Investment and Technology Transfer Act, 1992. (Amendment)	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures	Preparation of draft bill by Department of Industry by August 2003 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by October 2003 Endorsement by Council of Ministers by December 2003	February 2004	Under consideration
29	Foreign Investment and Technology Transfer Regulations	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures	Preparation of draft regulation by Department of Industry by March 2004 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by April 2004 Endorsement by Council of Ministers by May 2004	May 2004	Under consideration

30	Industrial Enterprises Act, 1992 (Amendment)	General Agreement on Trade in Services (GATS); Agreement on Trade Related Investment Measures; and Agreement on Subsidies	Preparation of draft bill by Department of Industry by June 2003 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by October 2003 Endorsement by Council of Ministers December 2003	February 2004	Preliminary draft prepared.
31	Industrial Enterprises Regulation	General Agreement on Trade in Service (GATS) Agreement on Trade Related Investment Measures Agreement on Subsidies	Preparation of draft regulation by Department of Industry by March 2004 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by April 2004 Adoption by Council of Ministers by May 2004	May 2004	Preliminary draft prepared
32	Industrial Policy, 1992 (Amendment)	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures Agreement on Subsidies	Preparation of draft policy by Department of Industry by August 2003 Adoption by Ministry of Industry Commerce and Supplies by September 2003	September 2003	Final draft has been prepared by MOICS

33	Foreign Investment and One window Policy, 1992 (Amendments)	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures	Preparation of draft policy by Department of Industry by August 2003 Adoption by Ministry of Industry Commerce and Supplies by September 2003	September 2003	Final draft has been prepared by MOICS
34	Labor Act, 1991 (Amendment)	General Agreement on Trade in Services (GATS) Preparation of draft amendment by Department of Labor by August 2003	Submission by Ministry of Labor by October 2003 Endorsement by Council of Ministers by December 2003	February 2004	Ministry of Labor and Transport is preparing draft
35	Company Act, 1997 (Amendment)	General Agreement on Trade in Services (GATS) Preparation of draft amendment by the Office of Company Registrar by August 2003	Adoption by Ministry of Industry, Commerce and Supplies by October 2003 Endorsement by Council of Ministers by December 2003	February 2004	New company Act adopted on November 10, 2006
36	Nepal Bar Council Act, 1992 (Amendment)	General agreement on trade in Services (GATS)	Preparation of draft amendment by Ministry of Law and Justice by October 2003 Endorsement by Council of Ministers by December 2003	February 2004	Under consideration
37	Nepal Chartered Accountants (First Amendment) Act, 2002	General Agreement on Trade in Services (GATS)	Approved by the parliament in July 2002	Enforced	--

38	Labor Act, 1991 (Amendment)	General Agreement on Trade in Services (GATS)	Preparation of draft amendment by Ministry of Finance by October 2003 Endorsement by Council of Ministers by December 2003	February 2004	Nepal Insurance Board has prepared preliminary draft of amendments
39	Securities Exchange Act, 1982 (Amendment)	General Agreement on Trade in Services (GATS)	Preparation of draft amendment by Ministry of Finance by October 2003 Endorsement by Council of Ministers by December 2003	February 2004	Securities exchange act amended.
40	Bank and Finance Institution Act	General Agreement on Trade in Services (GATS)	Draft already submitted by Central Bank of Nepal to the Ministry of Finance Adoption by Ministry of Finance by October 2003 Endorsement by the Council of Ministers by December 2003	February 2004	Enacted on November 6, 2006
41	Health Institutions Operating Act	General Agreement on Trade in Services (GATS)	Endorsement by the Council of Ministers in August 2002	September 2003	Under consideration
42	Decision on the establishment of Inquiry Points	General Agreement on Trade in Services (GATS)	Submission of proposal by WTO Division, Ministry of Industry Commerce and Supplies by April 2003 Adoption by Ministry of Industry, Commerce and Supplies by June 2003	June 2003	MOICS has been designated as an enquiry point for services sector

Source: Ministry of Industry, Commerce and Supplies, Government of Nepal.

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