

**Utilizing Market Access Opportunities for High Potential Nepali
Products**

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Abstract

In a rural based economy, like that of Nepal, exploring business opportunities in rural areas not only provides ample profit opportunities but also hands a chance to uplift the livelihood of local people. Removal of the impediments in the production and export process enables these local goods to gain maximum value in the international market. This study uses various tools using the World Bank's competitiveness approach in the Trade Competitiveness Diagnostic Toolkit to assess the competitiveness of Nepali products with high socio-economic impact namely, Medicinal Herbs, Handmade Paper and Headwear (Garments) and evaluate their international market conditions.

From the analyses it is concluded that procedural obstacles within Nepal are affecting the production and export of non-timber forest based products and their derivatives. Furthermore, cost per unit of Nepali products is much higher than its counterparts in the international market, thanks to the low volume production and reliance on traditional methods of production. These findings call for the policy makers' immediate attention in implementing the much-hyped one-window procedure, at least for the export sector. The pattern cash crop cultivation in Nepal has changed over the past decade; thus, Nepal government should reassess its export priorities and emphasize on exporting products whose raw materials are produced within the country.

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1. Introduction

1.1 Background

Nepal is aspiring to graduate from the Least Developed Country (LDC) by 2022. The country has had some impressive improvements in the key social indicators in recent past. But, without a rapid increase in per capita gross national income (GNI) the graduation could be based in an extremely vulnerable foundation.

Trade is important for the LDCs like Nepal for a number of reasons. Pant & Pant (2009) consider trade to be the major principal mechanism for Nepal to achieve the benefits of globalization. They consider it the major tool to reallocate the business activities, in general, and manufacturing activities in particular, from industrial to developing countries. Despite acknowledging the role of international trade in the progress of the country, Nepal has not been able to fully exploit the potential of export growth and reap maximum benefits out of it.

The then Ministry of Commerce and Supplies released a report entitled National Trade Integration Strategy (NTIS) in 2010 that identified 19 products that have export potential and destination markets for them. In 2016, the list of products has been slashed from 19 to 12. The updated list consists of cardamom, ginger, tea, medicinal herbs, textile, leather, footwear, pashmina products, woolen carpet, skilled and semi skilled labor, tourism and Information technology.

Between 2009 and 2013, over 67% of Nepal's exports of goods and services was to India. During the same period, over 90% of Nepal's exports in goods and services was limited to only 11 countries. The figure is even more restricted in case of many of the products listed in the updated NTIS. Nepal, being a part of several bilateral and multilateral trade related agreements, should have been able to explore opportunities in newer markets across the globe. But a lack of adequate exploration of conditions in these markets has meant that majority of these markets are still out of reach for Nepali exporters.

Should everything go well, Nepal will obtain trade facilitation, in the form of duty-free access, for 66 type of items from the United States. Being a Least Developed Country, Nepal has been getting some preferential treatment from the European Nations as well. Apart from these, several trade related facilitations have been proposed and implemented for Nepal at bilateral and regional level. These present tremendous opportunities for Nepali business community to thrive.

Entrepreneurship, indubitably, is one of the best means for people at local level to

achieve economic empowerment. Nepal government, through its several recent direct and indirect initiatives, is looking to foster entrepreneurship at the local level. The high value items produced at local level have potential to cater the demand of not only local consumers, but also the foreign ones. Some of the products, which act as raw materials in big industries, have a larger potential in foreign market. These products, especially raw or processed agro products, have been deemed to have high socio-economic impact. This not only provides the country an opportunity to generate foreign currency earnings but also assists in transforming the livelihood of general people.

This study attempts to examine the global market of the three sectors, namely, medicinal and aromatic plants, handmade paper and garment, and find major impediments to trade the producers and exporters of products belonging to these three sectors have been facing. The study is an endeavour to find necessary measures to create an environment for high potential Nepali products to perform well in the international market.

1.2 Objective

The current study is part of a vision to enhance sustainable export of Nepal by taking necessary measures to create an environment for high potential Nepali products to perform well in the international market. The objectives of the study are:

- To identify the Nepali goods with high export potential in the international market, and analyze their competitiveness.
- To understand the trade facilitations such goods from Nepal are receiving at the international level
- To explore the ways to boost the production and exports of those goods, in particular, and overall Nepali products, in general.

2. Methodology

2.1 Research Questions

The research questions to be answered by this study are:

- Which products of Nepal, in the Medicinal Herbs and Handmade Paper sector, have the highest export potential?
- How can the exports of such high potential goods be bolstered?

2.2 Research Design

The research has adopted both qualitative and quantitative research design to answer the research questions about the identification of high potential products and measures required to assist in expanding their production and export growth. The product competitiveness and market assessment of the products is done with the use of various quantitative tools. The impediments to production and export of these products being faced by relevant stakeholders were obtained from personal interviews with entrepreneurs and the key informants in the related sector.

2.3 Sampling

The study is limited to the three sectors, as represented by various chapters of the Harmonized System (HS) Codes:

- Sector 1: Medicinal Plants and Related Sectors
 - Chapter 12: Medicinal and Aromatic Plants
 - Chapter 33: Essential Oils
- Sector 2: Handmade Paper
 - Chapter 48: Paper and paperboard
- Sector 3: Garments
 - Chapter 65: Headgear and parts thereof

These three sectors were primarily chosen due to their ability to create high socio-economic impact to the rural community of Nepal (NTIS, 2010). The study adopted purposive sampling to identify and select information-rich entrepreneurs in Baglung, Kaski, Kathmandu, Lalitpur and Myagdi districts to find answers to the research questions. The interviews were conducted with 16 entrepreneurs, 3 presidents of product and district industry associations and 2 government representatives.

2.4 Analytical Framework

The research adopts the World Bank's competitiveness approach to study the trade position of various sectors in Nepal. The Trade Competitiveness Diagnostic Toolkit offers a framework and analytical instruments that can be used to assess a country's position, performance, and capabilities in export markets. It is designed in a modular way thus, various modules of it has been incorporated in the study to address the specific questions of interest. The toolkit combines various quantitative and qualitative tools and assists in analyzing the country's trade performance, identifying the main factors that constrain it and developing the targeted policy responses to improve the competitiveness of the sector.

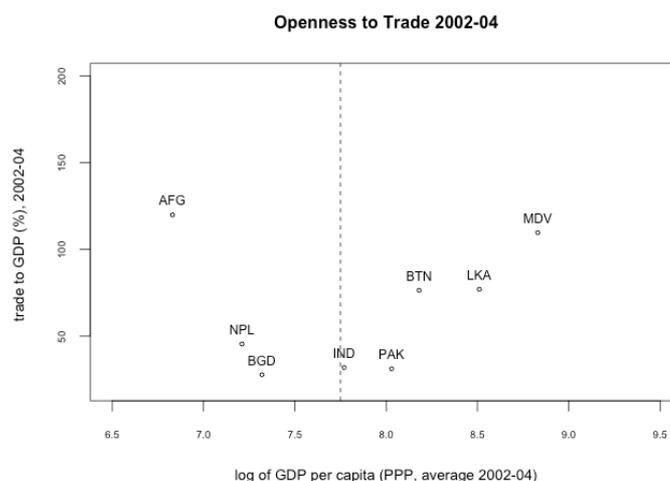
3. Results

Ever since the liberalization of the economy in the early 1900s, Nepal has emphasized the role of export growth in achieving the development ambitions. The structural adjustment programs saw Nepal introduce several trade facilitation measures, not limited to duty drawback, reduction in import duties and abolition of quantitative restrictions and import licensing system. The trade policies including that of and following 1992 have emphasized deregulation, competition and increased reliance on market forces. In the mean time Nepal became the member of WTO and two regional trading agreements- South Asian Free Trade Area (SAFTA) and Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC).

The export performance of a particular sector is highly dependent on the position and performance of Nepali exports in general. Membership of some multilateral and regional trading blocs, and a bilateral free trade agreement with India, has presented Nepal with market access and tariff concessions facilities to boost its trade, in general, and exports, in particular. An analysis of Nepal's trade performance, in light of these developments over the past decade or so, helps comprehend Nepal's export competitiveness.

i) Trade Openness

The Trade-to-GDP ratio weighs the combined importance of exports and imports in goods and services in an economy, and gives an indication of dependence of domestic producers on foreign demand and of domestic consumers and producers on foreign supply (World Bank, 2012). It measures the integration of a country in the world economy. This indicator is influenced by not only the state of the world economy but also the, trade policies adopted by Nepal and the result of bilateral and multilateral trade negotiations.



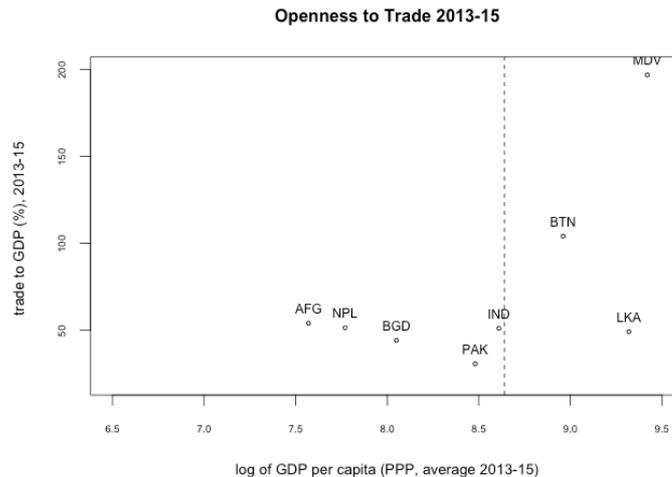


Figure 1A & 1B: Openness to Trade 2002-04 and 2013-15

The figures 1A & 1B show scatter plot of average trade-to-GDP ratios from 2002 to 2004 and from 2013 to 2015 against the log of GDP per capita in purchasing power parity for the countries in the SAARC region. The dotted line shows the average income of the region for the particular period.

It is valuable to look at changes in trade openness over time to assess the relative degree to which Nepal has integrated into the world over time. The figure illustrates that Nepal has had minimal deviation in the past decade in terms of openness. Very important changes have taken place in the Nepali politico-economic environment during the time, the most important one being- accession to the international market achieved after gaining the membership of the World Trade Organization. But, such achievements have not produced desired results in the national economy. In the SAARC region, Maldives has had a sharp increase in openness while that of Afghanistan and Sri Lanka has dropped significantly in the given period.

Reis & Farole (2012) find that as the per capita income of countries rise, they tend to trade more, relative to GDP, but they do so at decreasing rate. But, the pattern observed from the figure above does not illustrate so. The result agrees with the findings of Alcalá & Ciccone (2004) who state that, increase in real GDP per capita in PPP terms does not necessarily increase trade figures because the real openness corrects for distortions created when non-traded goods are priced differently across countries.

ii) Trend in Trade Growth

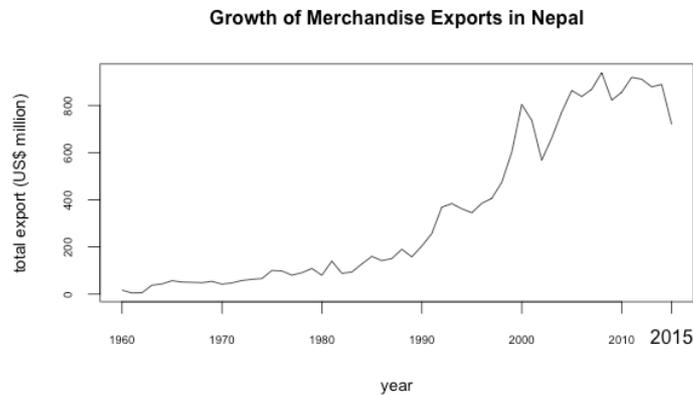


Figure 2: Growth of Merchandise Exports in Nepal



Figure 3: Share of Merchandise Exports in Nepal

The observation of trend in trade growth over the past couple of decades provides further information about Nepal's position in terms of international business. Figure 2 shows that Nepal's merchandise exports has grown from US\$17 billion in 1960 to US\$889 billion in 2014. The growth of exports has been steady and impressive, particularly after the economic liberalization efforts in the early 1990s. The exports increased four folds in a decade's time during the 1990s. But, thanks to the Maoist insurgency and years of political chaos thereafter, Nepali export figures has nearly stagnated thereafter.

The figure 3 plots the share of merchandise exports and imports in GDP for Nepal and an aggregate category of the Least Developed Countries (according to the United Nations) to which it belongs. LDCs have traded more, in general, as they have gotten richer over time. The share of merchandise trade in the GDP of LDCs has reached

57.12% in 2011 from 29.18% in 1972. The corresponding share of trade has remained close to 35-40% for Nepal. Despite a sluggish export activity, the sharp increase in imports of goods has helped Nepal's merchandise trade share to remain stable.

iii) Market Diversification

Hirschman-Herfindahl Market Concentration Index

Despite several increased market access opportunities and favorable tariff deals, Nepal has had very little achievement in terms of export market diversification, one of the major means to ensure sustainable trade growth. Ghosh & Ostry (1994) point out some potential benefits of diversification- decrease in vulnerability to adverse trade shocks, simplified channeling of trade shocks into growth and generations of learning opportunities leading to comparative advantage.

The Hirschman-Herfindahl Market Concentration Index is a measure of the dispersion of trade value across an exporter's partners. A country with trade that is concentrated in a very few markets will have an index value close to 1, while that of the perfectly diversified trade portfolio is 0.

Hirschman-Herfindahl Market Concentration Index			
	2003	2011	2015
AFG	na	0.19	na
BAN	0.12	0.08	na
BHU	na	0.76	na
IND	0.06	0.04	0.07
MAL	0.25	0.11	na
NEP	0.30	0.39	0.39
PAK	0.09	0.05	0.07
SL	0.17	0.08	0.11

Table 1: Hirschman-Herfindahl Index for SAARC Countries (2003-2015)

Nepal has not been able to utilize the market access benefits and has seen its HH Index move towards the unfavorable end of the scale. In the past 12 years, Nepal's trade has been constrained to fewer partners. Nepal, in fact has one of the worst trade diversification figures among the SAARC countries. India and Bangladesh lie way ahead in terms of diversification of trade markets than Nepal.

Index of Export Market Penetration

This index looks at the maximum number of potential export relationships that a country can establish in the world at its current export portfolio and measures the current condition of realization of the export potential. China has the highest value at close to 50%, and the US and Germany are closing in at nearly 40% mark.

Index of Export Market Penetration			
	2003	2011	2015
AFG	na	1.65	na
BAN	4.24	5.55	na
BHU	na	1.15	na
IND	19.60	25.89	19.92
MAL	1.38	1.34	
NEP	2.89	3.56	3.18
PAK	6.25	7.48	6.34
SL	4.29	5.03	4.95

Table 2: Index of Export Market Penetration (2003-2015)

South Asian countries have a gloomy result on this front. India is the only country to have a significant presence at the markets around the world, as illustrated by its Export Market Penetration index of 19.92. Nepal's figure was 2.89 in 2003 and it has remained almost the same during the past decade, peaking to 3.56 in 2011.

Number of Export Partners

Number of Export Partners			
	2003	2011	2015
AFG	na	37	na
BAN	160	187	na
BHU	na	31	na
IND	217	220	220
MAL	28	36	na
NEP	78	133	127
PAK	190	198	198
SL	187	204	199

Table 3: Number of Export Partners

Nepal's exports now reaches to over 127 countries, an increase from 78 in 2003. Despite a significant increase, this is one of the lowest in the SAARC region. Barring Afghanistan, Bhutan and Maldives all other countries have seen their goods shipped to nearly cent percent of the countries around the world. Identification of new markets for Nepali products could help boost the absolute export figures in near future.

iv) Product Diversification

Number of Products exported

Number of Products Exported			
	2003	2011	2015
AFG	na	31	na
BAN	1385	17687	na
BHU	na	257	na
IND	4662	4483	4424
MAL	39	31	na
NEP	1086	1019	897
PAK	2311	2975	2846
SL	2941	2460	2976

Table 4: Number of Products Exported

Nepal's export basket is ever decreasing in terms of number of products being exported. The number of products exported has dropped by close to 20% in the past 12 years. India's figure has stabilized over the years, while Bangladesh has made its export basket more diverse in the same period.

v) Export Composition

The current study analyzes the export performance of three main sectors: Medicinal Herbs and Essential Oil, Handmade Paper, and Garments. Comparing the changing shares of exports by the sectors is useful tool to measure their performance.

HS Code Chapter	Export in 1000 USD		Share of then Total Merchandise Export	
	2003	2014	2003	2014
33	30,094.68	13059.363	4.55%	1.47%
12	3469.84	13321.739	0.52%	1.50%
48	11008.52	7352.6	1.66%	0.82%
61	43619.17	15047.71	6.59%	1.69%
62	178545.09	64315.91	26.98%	7.23%
63	10885.36	37239.65	1.64%	4.18%
64	2328.82	20539.248	0.35%	2.31%
65	2601.03	7331.64	0.39%	0.82%

Table 5: Export Composition

Table 5 illustrates the export value of the sectors in 2003 and 2014, and their share on the total value of national merchandise in the respective years. A degrading export performance of majority of the product sectors is clearly apparent from the table. The

exports of essential oils have gone down 56% in the eleven-year period, from US\$30 million in 2003. Similar is the fate of the handmade paper sector, whose exports have decreased by 33% since 2003. Products belonging to HS 62, Apparel and clothing accessories, comprised of 26.98% of Nepal's merchandise exports in 2003, earning over 178 million dollars for the Nepali economy. The export earnings had dropped to one third by 2014, though still significant, comprising 7% of the country's total merchandise exports.

A couple of products have had their share increased in the mean time, and show a lot of promise in the international market in coming years. The export of medicinal and aromatic plants (MAPs) has increase by almost 4 times during the eleven-year period. Products belonging to HS 64, footwear items, have come forward as high potential sector for Nepal. Some of the products in HS 65, headgear, have been listed in the 66 products that have been offered duty free access to markets in the US. The products have almost doubled their export in the last decade, and the recent market access opportunity could aid its growth in exports.

vi) Revealed Comparative Advantage

The revealed comparative advantage shows the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. The measures of revealed comparative advantage (RCA) have been used to assess a country's export potential. The index indicates whether a country is capable of extending the products in which it has a trade potential. The RCA index of a country I for the product j is measured by,

$$RCA_{ij} = (X_{ij}/X_{it}) / (X_{wj}/X_{wt})$$

Where, X_{ij} represents the value of country i's exports of product j and X_{wj} represented the world exports of product j. Similarly, X_{it} refers to the country i's total exports and X_{wt} refers to total world exports.

The RCA value of less than one means that, the country's share of exports in the sector exceeds the global share in the same sector thus the country has a revealed comparative disadvantage in the product. While, the RCA index of greater than one indicates the revealed comparative advantage in the product.

Revealed Comparative Advantage (Export figure in 1000 USD)						
	2003			2014		
HS Code Chapter	Nepal' Export of the product	World Export of product	RCA	Nepal's Export of the product	World Export of product	RCA
12	3470	27,426,234	1.44	13322	100,421,694	2.77
33	30095	47029737	7.31	8238	117897810	1.46
48	11009	117291684	1.07	6692	174124083	0.80
61	43619	100936590	4.94	15048	239349891	1.31
62	178545	121634772	16.78	64316	233435404	5.77
63	10885	25212741	4.93	37240	66293774	11.77
64	2329	54119529	0.49	20539	141830342	3.03
65	2601	3483087	8.53	7332	9094625	16.89

Table 6: Revealed Comparative Advantage- Sectors

Table 6 shows that the absolute value as well as the national and global share of HS 12, HS 63 and HS 65 expanded significantly, while that of HS 33 and HS 48 has gone down significantly. The changing values of RCA in table 6 during the period confirm these changes in fluctuations in the value of exports.

After the sectorial analysis of the products, at HS 2-digit level, the high potential sectors, with the RCA of more than unity and expanding share of exports in the country's exports basket, were picked. Based on the observation of trade pattern over the years and the consultation with the stakeholders, some of the products, at HS-6 level, with high trade potential were analyzed further to observe their comparative advantage.

Revealed Comparative Advantage (Export figure in 1000 USD)						
	2003			2014		
HS Code	Nepal' Export of the product	World Export of product	RCA	Nepal's Export of the product	World Export of product	RCA
121190	2092	878446	27.23	12909	2920750	92.61
330129	16	509627	0.35	1480	1758546	17.69
330190	88	235277	4.27	2	811700	0.051
480210	5225	1250554	47.77	771	2406471	6.71
481420	0	732344	0	937	1822105	10.77
481920	591	4341380	1.55	1410	8948665	3.30
482010	2286	1250554	20.90	1792	2406471	15.60
650500	0	0	-	5153	5036121	21.44
630510	1146	160519	81.63	22798	285611	1672.69
630520	1865	120428	177.08	5380	150585	748.68

Table 7: Revealed Comparative Advantage- Products

The Rank Competitive Analysis reveals that the products with the following HS codes currently have a comparative advantage in the international market: 121190, 330129, The index of HS 630510 is staggering 1672.69, meaning that Nepal's export of the product is far higher than that of the share of the product in the world export. The index of HS 630520 is also very high, at 748.68.

vii) Market Share

The total global export for 2014 was \$18,877,857,434,000, while that of Nepal in the same year was \$900,859,000 i.e. merely 0.0047% of the world export. The latest figure of world export for 2015 is \$16,345,389,118,000; that of Nepal in the same period is \$660,182,000, i.e. 0.0040% of the global export.

Observing the market share of the specific sectors or products provides a good measure of performance of country's exports over time. Reis & Farole (2012) suggest that looking at relative performance against a specific competitor is one way to analyze a country's market share performance.

Figure 4 analyzes Nepal's market share performances versus China in Nepal's major destination markets of HS 482010- Registers, notebooks, letter pads etc. The graph is split in four quadrants: the points in the first quadrant indicate market gains for both Nepal and China while those on the second quadrant indicate market gain for china but loss for Nepal. The figure illustrates that China has not had decrease in market share in any of the Nepal's major export destination for HS482010. In fact, since 2003 China's export of paper products has grown by about 500% in most of the markets.

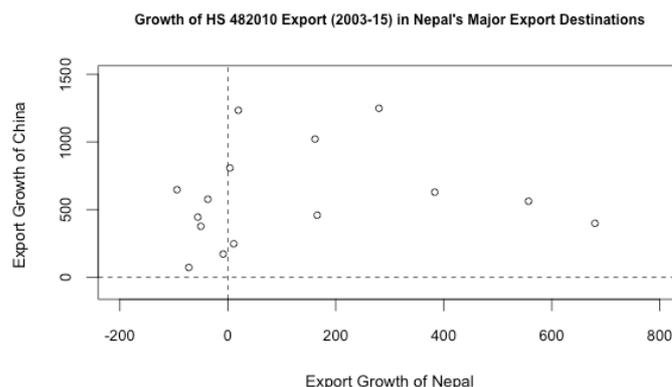


Figure 4: Growth of HS 482010 Export (2003-15) in Nepal's Major Export Destinations

The United States, France, United Kingdom and Germany were Nepal's major export destinations for the product in 2015. China's exports to these three countries have risen by 170.91%, 576.28%, 561.48% and 458.12.56% respectively during the past decade. Huge surge in China's export of HS 480210 is correlated with drop in Nepal's

export in most of these countries. Export of the product to United States dropped by 8.6% in the past decade while, that to France has gone down by 37.06%. The rate of increase in the product's export to the United Kingdom seems competitive in percentage terms to that of China's, at 556.96%, but the dollar figure of export of the product by China to the UK is 165 times higher than that of Nepal.

The United States, United Kingdom, France, Germany and Canada are the leading importers of the product, with the former two sharing majority of the world imports. Nepal has had market entry to these regions, but stiff competition from China and other products has affected the export growth in these countries.

Per ton value of Nepal's export to US, UK, France and Germany are \$6598, \$9436, \$8267 and \$3567 respectively, while that of China in the same countries are \$3420, \$2588, \$3959 and \$3214. Such stark difference in the price of the product is among the major reasons for Nepal's inability to face the competition from China thus, leading to a shrink in the market share for HS 482010.

viii) Market Study of high potential products

HS 482010 - Registers, account books, notebooks, order books, receipt books, letter pads, memorandum pads

Hong Kong was the world's largest exporter (17% of the total world exports) of the product until the turn of the century. It exported nearly 1.5 times more than China (11% of the total world exports) did back then. Italy, Indonesia, United States and France were among the other major exporters. These six countries shared 61% of the total world exports of the product.

The world export of HS 482010 reached almost \$2.5 billion in 2015, more than double the figure in 2001. The composition of exports has changed significantly by then. China now covers over 46% of the world exports, while the second largest exporter Italy exports merely 5% of the global exports.

But there has been very little change in the export destination for the product over the years. The United States now shares 29% of the global imports while, United Kingdom and Germany share nearly 11% together.

HS 480210 - Handmade paper and paperboard of any size or shape

Nepal exported \$5,225,000 worth of HS 480210 in 2003 while the figure in 2014 was merely \$771,000. In 2003, 91% of the export of this product was to India, but that was only 0.46% in 2015. Export of the United States has also dropped significantly during the past decade. France has emerged as a favorable destination for Nepalese Handmade Paper since the past two years and is now, the largest export destination for the product from Nepal.

Despite decreasing export dollar value, Nepal is the 24th largest exporter of the HS 480210 in the world. Nepali handmade paper has a very high unit value in the international market. Its per ton value in France is \$14,724 while that in US and Japan is \$29,000 and \$23,667 respectively.

The export market of handmade paper was worth \$68,187,000 in 2001 and peaked to \$125,061 in 2006, but it has decreased ever since. HS 480210 worth only \$73,207 was exported in 2014. The United States was the largest exporter of the product in 2001 but, since then it has become a net importer. China covers nearly 26% of the global exports while, India is at the second position with nearly 13% of global exports. India had made huge progress during the could of years starting 2005, exporting 10 times more than China did, but has seen a drop in its export value ever since.

The per ton value of HS 480210 in the global market is \$2303 while that for the handmade paper exported from Nepal is \$14724. The per ton value of Chinese handmade paper is \$6064 and that of India is \$1675.

The Netherlands, France and Japan are amongst the largest importers of the handmade paper. They cover nearly 45% of the global import of the product. The market in the Netherlands seems to be increasing despite the decrease in global demand of the product. This could be a potential market for Nepali exporters of handmade paper to target.

But a cause of concern for the Nepali exporters could be the sharp decline in imports of handmade paper by France in recent times. The import value, which remained around \$50,000,000 for much of the past first decade of the twenty first century, is now under \$16,000. The average per ton import of France is \$1523, which is much lower than Nepal's average export per ton of the same product (\$14724).

Japan's average per ton import value is \$11,803- with majority of the products coming in from China, Taiwan and Thailand. This could a potential market for Nepal to compete on.

481420 - Wallpaper and similar wall coverings of paper

This is a new and high potential area for Nepali entrepreneurs to work on. It has not been long since Nepal started exporting HS 481420 in significant amount. United States imports almost all of Nepal's exports of the product. Wallpapers worth \$937,000 were exported in 2014.

The global market of this product is sharply rising in recent times. The global export of this figure doubled to nearly two billion dollars in 2014, twice as much as that in 2007. China and Germany share 40% of the global exports of the product. Ukraine is the other largest exporter in recent years.

The per ton values of exports of the product from China, Germany and Ukraine are \$4,521, \$5,107 and \$3,142 respectively. The same for Nepal is staggeringly high at \$39,684.

121190 - Plants, parts of plants, incl. seeds and fruits, used primarily in perfumery, in pharmacy

Nepal exported \$12,909,000 worth of HS 121190 products in 2014. The product is being exported consistently at high level for sometime now. Nepal exported HS 121190 worth \$9.5 million in 2009. China is the major market for Nepali medicinal plants, while India acts as the secondary market.

The export of medicinal plants has been consistently growing in the world market. Nearly \$3 trillion worth of HS 121190 was exported in global market in 2014. China is the largest exporter in the globe, followed by India, Germany and Egypt. Nepal is among the top 30 countries exporting the highest value of the product.

The per ton export value of the product is \$5,161 for China and \$2,709 for India. Germany and United States' per ton export value is around \$6,500, while that of Hong Kong fifth largest exporter in 2015, is \$11,624. Nepal's per ton value of exports is \$1,542.

Nepal's export market concentration of this product is less diversified, as indicated by the Concentration figure of 0.46, and is too high than that of China (0.18) and India (0.12). The average distance of importing countries for Nepali medicinal plants is 1874 km, which is quite low as compared to the world average for the product of 4,059km and India's average of 7897km.

The world export of medicinal plants has been sharply increasing since the turn of the century; the value stands at \$2 billion in 2015. The United States, Japan and Germany are the major importers of the product. Germany imports the products from Poland, India and Egypt, while the United States does it from India and China.

330129 – Essential Oils

Nepal exported \$1452 worth of essential oils in 2015. The export has been sharply increasing in the recent years. France, United States, Belgium and India are among the major destinations for Nepali exports.

The world export of essential oils has sharply increased in the last decade. In 2015, the total global exports of the product was \$1,963,658,000. China, France and the United States are the major exporters of the product. India has significantly developed its essential oils exports in recent times and is the 6th largest exporter for 2015.

China's per ton export average is \$14,572. The per ton export average for France is \$77,585 and India is \$41,683. All of these major exporters have a well diversified export destinations, thus have concentration index of well below 0.15.

Nepal has a relatively diversified export destinations for this product and has a export market concentration index of 0.12. The average distance of export destinations of Nepal is 6712 km, which is higher than that of world's largest exporters. Nepal's per ton export average is \$60,500 which is much higher than most of the world's largest exporters of the product.

United States, France, United Kingdom and Germany are the major importers of the product. Hong Kong and Australia has emerged as some of the major export destinations for India in recent times.

4. Discussion

The assessment of product competitiveness, market opportunities and the current inability of Nepali exporters to cash in on the favorable development at the international arena led the study to identification of hindrances and impediments to production and export faced by the producers and exporters in Nepal.

Medicinal and Aromatic Plants (and related sectors)

Nepali exporters need not face the tariff burden while exporting the herbal products and essential oils in the current major export destinations. But, the procedural obstacles within the country and non-tariff barriers imposed by the partner countries have been a hindrance to the growth of the export in this sector.

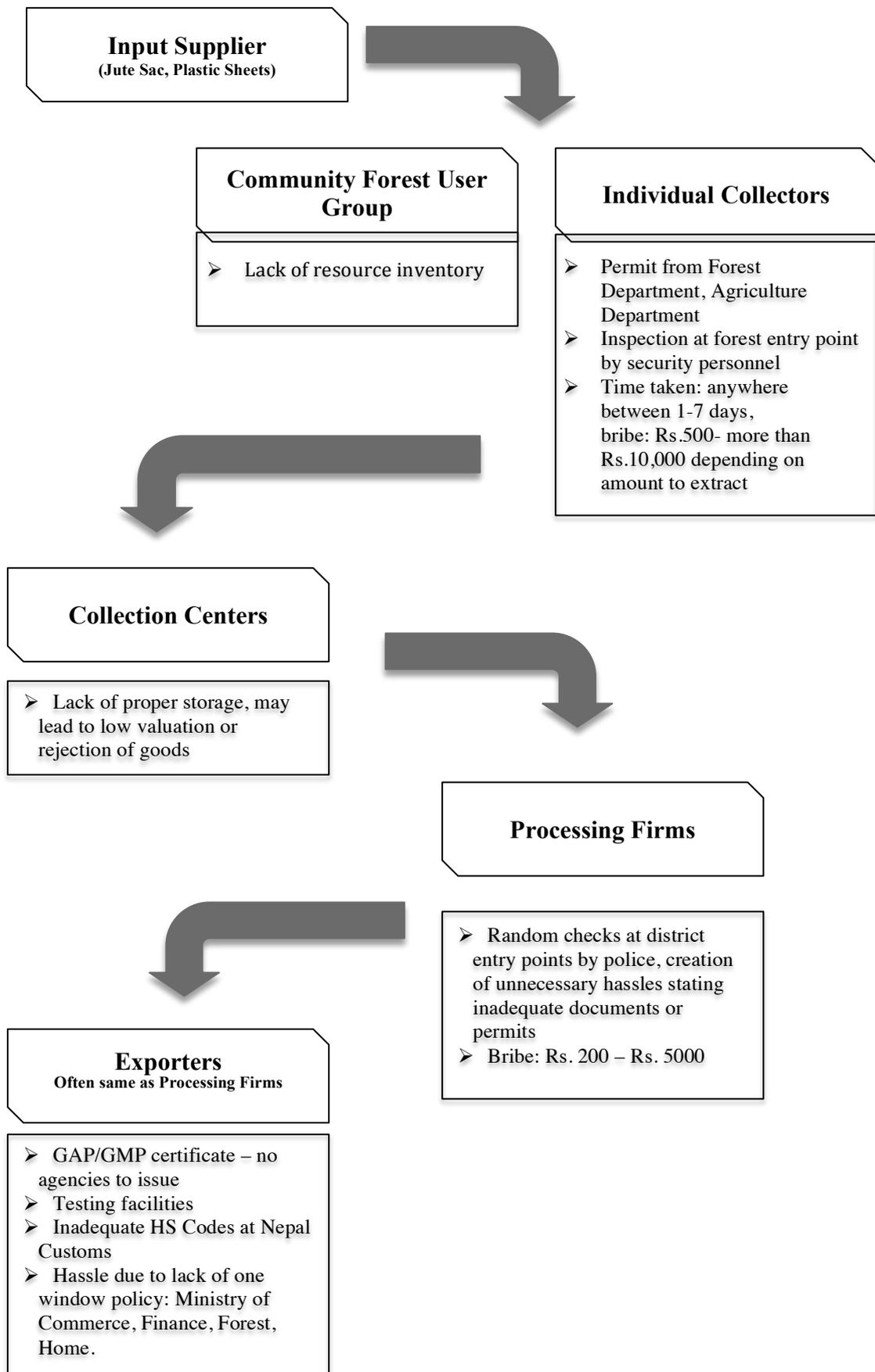
Figure 5 maps the value chain of the sector and presents the major obstacles being faced by the producers and exporters. The Medicinal Plants are often extracted from the community or government owned forests. In some areas the community forest user groups are permitted to extract and sell the non-timber products of the forest.

Lack of resource inventory has prevented farmers, entrepreneurs and botanists from identifying the proper level of harvesting that can be done to economically benefit while ensuring the sustainability of the plants. There is a dire need to calculate the inventory of the medicinal plants in Nepal, and find out the quantity of each variety of plants that can be harvested in a specific season.

The collectors (Especially individuals or firms) have to get permit from forest department to collect the specified amount of medicinal plants from the specified area. The process to secure permit is cumbersome. The entrepreneurs complained that the officials at forest department and agriculture department elongate the process for days, seeking bribe. This has had a large impact on the private enterprises. The collection centers, to which the local people take their collections, are poorly equipped. Lack of proper storage of some of the medicinal plants leads to their getting rejected by the processing unit owners, as a proper storage (depending on the plant) is essential for preservation of the medicinal value of a plant.

Shipping of collected herbal plants from deep forests to major cities, where the processing units are located, is a big burden. The numerous random inspections, starting from the exit of forest to the entrance of each district, are a burden for the entrepreneurs. There is chance of unnecessary delay at these places. The security personnel completely disregard the permits obtained. The entrepreneurs believe that these inspections take place for bribes. They are forced to pay bribe to the security personnel, rather than having their shipment delayed.

Figure 5: Procedural Obstacles on MAPs



The exporters of medicinal herbs or their extracts- essential oils- face numerous non-tariff burdens and procedural obstacles. A lack of proper testing facility in the country has prevented them from exploring newer markets abroad. The certificates issued by the Nepali testing laboratory are not valid in most of the countries. Very few can afford to ship their goods to testing laboratory in other countries, to get the verified certificate.

Some countries require Good Manufacturing Practice (GMP), Good Agriculture Practice (GAP) certificates in order to allow herbal products and their extracts into their country. Nepal does not have any agencies that could provide these certificates. Thus, the exporters have not been able to export to various markets, not limited to Japan.

Nepal has thousands of herbs that can be exported, but the “forest act” has only 160 of them listed. This is the same list used by the customs. Herbs that are not listed are usually exported under a false name. Sometimes, thus has been a problem as some countries recognize that the product is being exported with the wrong name and hence, the shipment is rejected.

Handmade Paper

The per unit price of Nepali handmade paper in international market is more than twice that of the world’s largest exporter, China and more than 9 times that of the second largest exporter, India. The future of the sector looks bleak, amidst the increasing global market share of the two mega-exporters. Positioning the Nepali handmade paper as a high value product, and branding and promoting it accordingly in the international market, is probably the best way to compete against Nepal’s counterparts and expand the reach of Nepali products to the international market.

Wallpapers and wall coverings are the luxury items, justifying the high price associated with them. The global market of this product is sharply rising in recent times. Nepali handmade paper entrepreneurs should look into this market that could justify the high unit production cost of the handmade paper with high value of the final products. The two properties need to be ensured though, making it washable and ensuring that the color doesn’t fade away.

Branding of Nepali handmade paper and its products could revolve around the community model of Lokta farming being done in Nepal. At the production hub of handmade paper in Nepal, Baglung, rural farmer community comes together to oversee the whole process. Every penny sales done by such enterprise is distributed

among all the community members. This could have an immense impact in uplifting the livelihood of rural community, with people living below the poverty line.

Garment – Headwear

Almost hundred percent of the raw materials required for making the cotton or woolen headwear items is imported from India. Most of the enterprises interviewed from this sector hired labor from India to make these items. A general calculation suggests that hardly 10% of the sales value is actually earned by the country.

The duty free access to the US market has handed in some positives to the entrepreneurs in this sector. But, there is a big doubt on whether Nepal can reap maximum benefit out of this. The cotton and wool production and processing in the country is almost non-existent after the closure of government owned factory some years back. The production of cotton in Nepal has gone down year-by-year, as farmers of western Terai in Nepal have shifted to other cash crops. The entrepreneurs highlighted acute shortage of well-trained labor in the country, the reason for their hiring labor from neighboring parts of India.

5. Recommendations

- **Resource Inventory:** Knowledge of the amount of raw materials available in the forest is the foremost need of majority of the sectors depending on forests. Knowledge of quantity and types of medicinal plants and lokta plants available in the forests in Nepal helps develop sustainable cultivation and usage practice. If these sectors are to be seriously taken up as major export items of the country, it is high time that resource inventory be identified.
- **Branding:** Branding is very essential for the export growth of Nepali goods. It could help Nepali goods compete against the low cost goods from China and India in the international market. But, proper infrastructure needs to be developed alongside. The body to certifies the brand, the body to regularly conduct the inspection, the standard required to be maintained – all needs to be taken care of. Availability of proper infrastructure to ensure the maintenance of the quality standards of the products that have received the brand name is important.
- **Export Diversification:** Weak institutional capacity to compete in and gain access to foreign markers is deemed as one of the major obstacles to

diversification efforts of Nepal. Movement into the production of higher value-added activities in existing export sector could help. Exploring the possibility of exporting wallpapers rather than handmade paper sheet could be an option to explore in the paper sector.

- **Research and Development:** The product and market research for exports is severely lacking in the country. Nepal boasts innumerable types of plants, from which numerous products ranging from oils to garments can be made. The government should facilitate, and initiate if possible, product development research activities. The demand analysis of various products and its projections should be done and made public. This helps the entrepreneurs plan the amount of farming/production they make.
- **One window policy:** The implementation of much hyped one window policy would help the exporters get rid of all the procedural obstacles and concentrate on the production of quality products. An exporter of Medicinal Herb has to visit at least 6 government agencies: Forest Department, Agriculture Department, Home Ministry, Ministry of Commerce, Finance Ministry and Department of Plant Resources. Completion of all the necessary activities through one window would save cost, and more importantly time of the exporters.
- Nepal has thousands of herbs that can be exported, but the “forest act” has only 160 of them listed. This is the same list used by the customs. Herbs that are not listed are usually exported under a false name. Sometimes, this has been a problem as some countries recognize that the product is being exported with the wrong name and hence, the shipment is rejected. Nepal customs should increase its products list. Detail classification of products through the adoption of 8-digit HS code would benefit all the stakeholders.