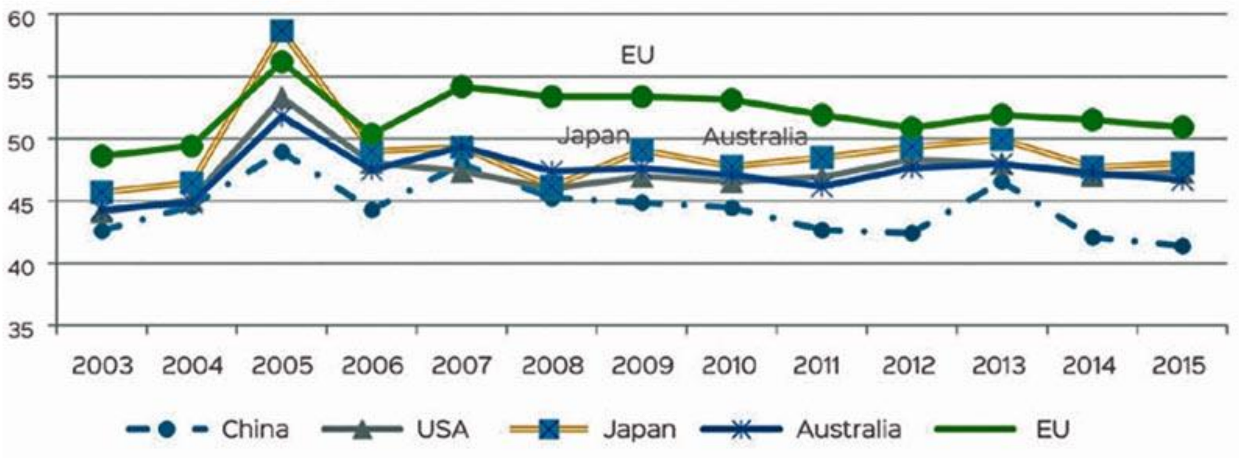
WB recommends measures to tap GSP facility



Source: World Bank calculations based on UN Comtrade.
Note: the figure plots complementarity indices that range from 0 (no complementarity) to 100 (perfect complementarity).

The World Bank Group has recommended some policy measures to tap the unutilised potential to reap benefits from Nepali goods being exported to the markets of GSP (generalised system of preferences) granting countries that include the United States of America, European Union, Japan, Australia and other developed countries.

GSP is a preferential tariff system, which provides a formal system of exemption from the more general rules of the World Trade Organisation (WTO), especially by the developed countries to the least developed countries (LDCs) like Nepal, to support the latter achieve sustainable economic growth through exports.

Nepal has been exporting goods under the GSP facility to various countries, including the European Union and the United States. However, utilisation rates of GSP related export opportunities by Nepali firms is low. “Firms exporting products that are in principle eligible to receive preferential treatment under GSP may not be using the preference. This is likely related to challenges complying with rules of origin,” said the World Bank’s recent case study of Nepal titled ‘Trade Policy Reforms for the 21st Century’.

“While there is little that Nepal can do to make rules of origin more user-friendly, the government can support exporters in complying with them by building firms’ capabilities around book-keeping, and management of input certification as requested by border agencies in the United States, EU, and other GSP-granting countries.”

The case study recommends the Ministry of Commerce to work together with the different trade representatives of each GSP-granting country or bloc.

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It has suggested the government and exporting firms to diversify the market and use better-designed export promotion instruments.

It has also recommended redesigning the cash incentive to exporters by allocating the subsidy to new rather than existing flows, by implementing the fast track system for certification of domestic value added products, and by introducing clear rules of allocation of funds, such as a lottery. Allocating funds to provision of export intelligence services for high-potential markets and products as identified in this report and subject to strict monitoring and evaluation mechanisms could be an effective way to support exporters.

Citing that foreign direct investment (FDI) and trade are complementary to each other, the study stressed that Nepali export firms need to participate in global value chain (GVC) as well as regional value chain and attract FDI to participate in the global production network.

The study has recommended some of the steps to streamline the FDI flows. It has suggested to simplify the processes for repatriation of funds of multinationals, introducing automatic notification systems; re-evaluating the rationale of low equity limits for foreign ownership in selected business and professional services (legal, accounting and engineering) as well as banking and finance; reconsidering long negative list in the new foreign investment policy; removing restrictions on non-equity modes of investment for franchising and increasing transparency in firms' approval, registrations, and trademark registration processes.

To improve the overall export climate, the study recommends continuing efforts to attract investments in hydropower to ensure behind the border long-run supply of electricity at competitive costs.

The study also suggested promoting competition in key backbone services markets, specifically in transport and logistics, as well as in finance as the some of the service sectors have high potential to grow in Nepal. There is also recommendation for minimising rigidities in the labour market, and ensure access to qualified labour.

Source: The Himalayan Times, 26th December 2017