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BEYOND THE BORDER: ENHANCING REGIONAL TRADE FOR ECONOMIC GROWTH*

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Nepal's trade landscape is in a precarious and unpredictable state. Globally, countries face pressing challenges such as protectionism, geopolitical shifts, and trade barriers. Nepal, as a landlocked, low-income country, also has to navigate these challenges in addition to its own deep-seated crises. Our export performance has plummeted from a significant 26-27% of GDP in the 1990s to a mere 6-7% currently. This alarming decline, coupled with a massive trade deficit, not only depletes foreign exchange reserves but also stifles productive capacities, job creation, investment, and economic growth. This isn't merely an economic challenge; it's a testament to a deeply ingrained systemic failure, characterised by a lack of strategic vision, coordination, and, most critically, a problematic mindset across various stakeholders.

The most concerning aspect is Nepal's pervasive import-oriented mindset. Upon critical self-reflection, I have come to the conclusion that Nepali exporters have not stood on their own feet. They have instead relied on external favours like

quotas, without genuinely investing in expertise or innovation. Consider the garment industry, for instance. It was once a significant exporter but instead of fostering indigenous capacity, it has reportedly relied on sourcing materials like buttons, threads, and even machines and labour from India. The garments are then produced under a Nepali name and exported, with the bulk of the profits going to India.

The carpet industry also offers another example. Once globally recognised for its unique Nepali identity, it has in recent years lost its brand. It once commanded a high demand, with a single buyer reportedly purchasing 19,500 square meters per month. Today, the annual production for this buyer is a mere 900 square meters. The industry chose to deviate from its unique "Nepali carpet" identity, which was akin to demand for Persian carpets. It opted instead for fashionable, cheaper imitations. This pursuit of fleeting trends, without the inherent capacity to keep up with their rapid changes in color, motif, and design preferences across generations, led to a loss of distinctiveness and market share.

Similarly, handicrafts, despite their objectively superior craftsmanship compared to Indian counterparts succumbed to shortcuts. To achieve price competitiveness, many have resorted to

* The text is an abridged and translated version of the July 2025 edition of Sambaad @ Samridddhi. Sambaad @ Samridddhi is a monthly discussion on contemporary issues held on the third Friday of each month. In this edition, Rajan Sharma shares his insights on why the Nepal's trade sector is so import dependent and how our own exporters' actions have led to today's concerning export scenario. The discussion was moderated by Akash Shrestha.

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importing goods from India and re-exporting them with Nepali certificates, effectively undermining their own unique value proposition. Taken together, these examples highlight a private sector that, rather than striving for quality and authenticity, has prioritised quick, often manipulative, gains, thus compromising its own long-term viability.

Other promising products face similar issues. Jute, for example, is not directly exported from Nepal but is often brought from Bangladesh, undergoes some value addition, and then re-exported. Cardamom, despite having a strong market, suffers from inconsistent production, making it difficult to assure international buyers of consistent supply. There's a notable lack of a system to forecast production based on factors like rainfall or sunshine, and previous efforts to develop such software have been stalled. The private sector itself, particularly a few dominant players, reportedly resists such transparency and systematisation, preferring to maintain control. Farmers, often financially stressed, are compelled



to accept advance payments from Indian buyers, even for the flowering crop, making them loyal to those who offer early cash, even if it means foregoing better prices later. This indicates a deeply entrenched system of dependency and lack of support for local farmers.

The government's role in this crisis cannot be understated. It finds it easy to generate revenue from imports, and with little public resistance to price increases. This reliance on import duties creates a disincentive to genuinely promote

exports. This is visibly evident from the state of implementation of our trade strategies.

Nepal has a history of creating elaborate trade strategies, such as the Nepal Trade Integration Strategy (NITS), with ambitious targets like increasing exports from 7% to 20% in five to six years. However, these strategies are often described as only created for discussion, printing, and presentation to international donors to solicit funds, rather than for serious implementation. Upon close inspection of these documents, it becomes clear that the documents have been prepared without any analysis. Moreover, trade is a sector with multiple stakeholders any grand strategy must identify the roles of the stakeholders. But this is rarely the case.

Beyond government agencies' attitude, there is also a case to be made about coordination failure. Trade involves a complex ecosystem of numerous stakeholders, including producers, processors, transporters, regulators, customs officials, customs brokers, transport companies, terminal operators, banks, and various government ministries. Each of these actors operates under specific rules and regulations, requiring documentation, time, and cost. However, pervasive lack of coordination has led to numerous pain points. Procedures are excessively lengthy, documentation is often unnecessarily high, and there's a striking lack of investment in technology and process improvement. Despite the potential for cost reduction, documentation streamlining, and quality improvisation through process analysis and technological investment, there is little movement in this direction.

Even business support organisations such as the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), the Confederation of Nepalese Industries (CNI), and Freight Forwarders' Association have, if one were to put it candidly, "forgotten their roles". They are perceived as mere platforms for individuals to hold titles, rather than effective advocates for their members. Opportunities often go to those in leadership positions within these organisations, leaving general members without benefit or trust. This creates an environment where such organisations

do not actively help their members improve or navigate the complex trade landscape. There is a call to support intermediary business organisations and brainstorm with their members to identify and address their needs.

While Nepal has invested and even improved connectivity, its management of infrastructure is problematic. Over the years Nepal has invested in Integrated Check Posts (ICPs) and airports, but these facilities are often treated primarily as profit-earning centres. The tendering processes for managing these infrastructures often favour high bidders, which are predominantly Indian companies, due to the limited capacity and financial wherewithal of Nepali firms. These high bidding costs are inevitably passed on to traders, increasing the overall cost of doing business in Nepal. It is suggested that if Nepali companies had a minimum share, perhaps 30%, in joint ventures for such operations, it could enhance local capacity.

Moreover, Nepal's infrastructure often lacks the specialised facilities required for diverse cargo types. There's a shortage of dedicated areas for handling perishable items requiring cold storage, valuable goods needing secure storage, or bulk and break-bulk cargo (like coal or cement clinker) that demand specific handling equipment and processes. The facilities also reportedly lack adequate amenities for a multicultural workforce, such as drivers from India or Bangladesh, who have diverse cultural habits and food preferences. The absence of appropriate equipment like forklifts and reach stackers for efficient loading and unloading further exacerbates delays and increases the risk of damage.

Crucially, Nepal lacks the "right vehicle for the right type of transport". For instance, bringing heavy machinery to Kathmandu often requires Indian vehicles because Nepal lacks its own. The private sector is often unwilling to invest in such specialised vehicles due to irregular demand and high costs, while the government views it as a private sector responsibility. This creates a stalemate, where essential infrastructure and equipment remain underdeveloped.

Despite these systemic challenges, Nepal possesses

inherent competitive advantages in certain niche markets, which remain largely unrealised. Our herbal products, unique fabrics like allo and sallo, quality carpets (especially for the Tibetan Autonomous Region), and specific agricultural products hold significant potential. Nepal is already exporting high volumes of carpets to China (specifically the Tibetan Autonomous Region), often through informal channels where payment is brought back in cash. This trade, if formally accounted for, could significantly impact Nepal's GDP statistics.

The success story of Nepali coffee serves as a potent reminder of what is possible. By identifying its unique specialty, subjecting it to international testing (e.g., by the Specialty Coffee Association of America, which graded it 8+), and developing targeted marketing strategies for roasted beans, Nepali coffee now fetches premium prices. This approach stands in stark contrast to the general weakness in marketing strategies for most Nepali products and the failure to leverage our unique cultural identity and rich history.

Ultimately, the core of Nepal's trade predicament lies in a collective mindset that prioritises short-term gains, self-interest, and bureaucratic inertia over strategic, long-term development. There is a critical lack of investment in research to identify niche markets, understand consumer preferences, and ensure consistent quality and supply. The absence of a robust, government-backed certification system for exportable products further undermines confidence in Nepali goods in international markets. Without reliable certification and consistent quality, even the promising demand from the Nepali diaspora will eventually dwindle. Without fundamental shifts such as coordination issue, resolving bureaucratic inertia, Nepal risks remaining an import-dependent economy, continually struggling to realise its vast, yet currently wasted, trade potential. The time for a serious, collective introspection and decisive action is now.

