

Agriculture Under WTO Provisions in Nepal

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Abstract

This paper aims at examining agriculture under WTO provisions in Nepal. Over the years Nepal's image as a food-surplus country has turned out to be a food-deficit one particularly, after the mid 80s. The people from Hills and Mountains have the least access to the surplus food mainly because the country still lacks intra-regional transportation network system. The population below poverty line comprises mostly landless as well as marginal or small farmers in the Hills and in the Terai. The proportion of marginal farmers and landless households has remarkably increased during the last two and half decades. The high concentration of increasing size of rural labour force in agriculture has been seriously felt in the entire agricultural sector which has not only created the severe problem of underemployment and disguised unemployment but has also reduced the real wage rate of agricultural labourers.

Introduction

Agriculture plays a vital role in the Nepalese economy. Despite the decline of its contribution to the gross domestic product from 47.4 per cent in FY 1990/91 to 39 per cent in 2004/05 (MoF, 2006:10), it is still the largest sector of the economy and the main livelihood based for around 80 per cent of population. During the Ninth plan period agricultural growth had improved by about half a percentage point to 3.3 per cent. Agriculture can deliver the economic growth quickly and in more cost effective way. Given a sizeable contribution to GDP, the growth of the Nepalese economy is determined largely by the growth of the agriculture sector. However, the growth of agriculture sector has been slower than that of non-agricultural GDP despite recent improvements in the relative performance of the sector. The agriculture sector continues to face structural problems such as unfavourable terms of trade vis-à-vis non agricultural sector, high labour intensity, low level of commercialisation, small and declining farm size, skewed pattern of land ownership, low irrigation, and low level of fertilizer use, low productivity and under developed rural credit markets.

Despite substantial investment in the agriculture sector for more than four decades, the performance of agriculture remains dismal. Slow growth rate in the agriculture coupled with

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high population growth rate has turned Nepal from net exporting countries into marginal food importing country. So, there has been massive importation of agricultural commodities from India and third countries to meet shortfall between domestic paradoxical result for agricultural country like Nepal where more four fifth of the total population are engaged on agriculture, should import a sizeable quantity of agricultural commodities. Trade with India and third countries are running with absolute deficit situation. So increasing agricultural products at a faster rate is essential for overall economic development of the nation. Due to narrow research base, agriculture must play a dominant role in the country's future economic development. Importantly agriculture will have to feed growing populations, income more equitably, raise domestic resources for future development and increase foreign exchange earning to import capital and development goods.

At present Nepal's export trade is highly concentrated both product wise and destination wise. While carpet, textiles, and agricultural products represent three notable items exported by Nepal covering more than 70 per cent of total exports, three markets namely USA, Germany, and India are its major market destinations covering more than 80 per cent of Nepalese exports. It shows that the Nepalese exports are extremely vulnerable, under scoring the significance of diversification of export profile. Given the fact that Nepal does not have huge potential to export industrial products, the only possibility of enhancing export income is through the export of agricultural products both in primary as well as value added forms. Since aggregate agricultural exports are robust explanatory variables for agricultural growth (Scandizzo, 1998), their potential needs to be harnessed.

One of the necessary, but in no way sufficient, rural products is the predictability market access in the destination. This is also evident from a stated objective of the Nepalese government behind Nepal's accession to the WTO, which underscored the need to secure improved market access of the Nepalese products particularly agriculture in the world market. After accession in WTO, Nepal should undertake at least few scrutiny studies on the possible implication of WTO provisions in Nepalese economy. The proposed study though not a break through in that attempt is hoped to throw some light on the issue.

There are 148 members of WTO out of which, Nepal is 147th member. Nepal is the first among other LDCs, to have access to WTO membership earned through the process of negotiation. WTO's rule would have significant effects in its economy. Realising this facts, Nepal government has to promote and diversify trade – both commodity wise and countries wise. On one hand WTO membership will confer ample opportunities for export of Nepalese agro-products in the world markets on amount of substantial reduction in tariff, export subsidies and domestic supports, elimination of non-tariff barriers and establishment of minimum market access opportunities at reduced rate by developed and developing countries. On other hand, Nepalese markets could be affected by uncontrolled agricultural imports from developed countries and producer's cost. This study is an attempt to identify the opportunities conferred by agreement on agriculture and other provisions as well of UR agreement and costs impaired by these provisions, which are expected to impact Nepalese agricultural production and to suggest strategies so that Nepal could maximize the gains and minimize the losses.

Impact of WTO on Agriculture and Agricultural Trade

Today, Nepalese economy is on the crossroad and is sceptic about its future under the changed trade environment. Even the developed countries are of the view that the dual presence of abject poverty and unparallel prosperity cannot be marginalized in any trade negotiations leading to globalisation or regional integration of world trade. After the restoration of democratic set up in the country in 1990 several economic reforms were introduced in the Nepalese economy with a view to remove the constraints on its growth. Globalisation was one of the important aspects of the economic reforms. This implies that in the analysis of bilateral trade several studies identified a number of barriers to trade, which need to be removed for a faster economic growth. Besides various studies have been conducted to the analysis of the pure theory of international trade, which determines the size, the commodity composition and welfare effects of the bilateral trade flows.

As a small economy with limited resources, Nepal has all the reasons to worry about its accession to a multilateral organization. The strong-arm tactics that are usually exercised by big negotiating partners is an ever-looming threat to our long-term interests. It is, therefore, a matter of utmost importance that we strongly apprise ourselves on our country's areas of strengths and weakness, and subsequently, come up with an effective roadmap/action plan that, if properly implemented, will in fact transform our economy to a higher level. Nepal's benefits and costs, its rights and obligations, its opportunities and challenges from becoming full-fledged member of the WTO, of course are the areas of our concern.

The main questions Nepal has to ask itself about the WTO are: can Nepal continue to remain isolated as the winds of change sweep through the global economy? What are the advantages and disadvantages of integration into the global economy? How can the risks of multilateral trading system be minimized? What are the most important lessons Nepal can learn from the crises and growth experiences of the East Asian countries like South Korea; Hong Kong; China; Malaysia; Singapore; and Thailand so that it can more successfully manage the unavoidable difficulties of globalization? To what extent is Nepal already integrated into the global economy, judging from the various indicators at our disposal, and how can it improve its competitiveness in international trade? What policy measures must put in the place to derive maximum from WTO accession?

Subsidy in the Agriculture

In the early 70s, the then HMG/N initiated the subsidy policy in Nepal. Subsidies in the agriculture can be classified into two groups- producer subsidy and consumer subsidy. Producer subsidy is generally given to reduce production cost of the agricultural commodities where as consumer subsidy is provided to safeguard the poor consumers especially dwelling in the remote food deficit regions of the country. Subsidies are mainly provided either to support the equity consideration or growth or growth in some instances both. In Nepal, the rationale of subsidies happens to the growth in the case of the producer subsidy and equity in the case of the consumer subsidies. Fertilizer subsidy remained one of the largest shares in the agriculture subsidies followed by credit subsidy and food subsidy. But in the recent years, there are no more subsidies in the agriculture.

Fertilizer Subsidy

In Nepal, AIC was established in 1965, for importation, storage, procurement, and distribution of the agriculture inputs including fertilizers, seeds and pesticides. Price subsidy which was directly allocated to AIC gained monopoly on the fertilizer importation and distribution. With a passage of time, government could not expand the fertilizer subsidies as uses of fertilizer increased. The lack of timely availability of fertilizers during the planting season has been chronic problem in Nepal causing decrease in the agriculture production. After implementation of market oriented liberal economy policy in 1990, the popularly elected government with due subsidies from all fertilizers except urea and lifted the restriction in the fertilizer operation. Since 1999 all price subsidies were phased out. Only on remote places transportation subsidy is available in the current year.

The key features of the new policy are:

Phase-wise Reduction of Fertilizer Price Subsidy

After the implementation of liberalization policy in fertilizer, the government had eliminated price subsidies from all fertilizers, except urea. In urea also, government began to reduce subsidy in a phase wise manner to eliminate the subsidy by the end of 1999. The government had converted the total cost subsidy into a fixed cost subsidy and lowered in three times. The government had already reduced the subsidy rate on urea thrice and prevailing subsidy rate was Rs 1500 per mt., which was remained effective until Nov 16, 1999. An arrangement had been made by the government to distribute subsidy to all importers including AIC and private sectors. The fertilizer subsidy was phased out in Dec 1999.

Deregulation of Fertilizer Prices at Wholesale and Retail Level

After the implementation of liberalisation policy in fertilizer, AIC had abolished the dealerships, and dealership regulations. At present, any one can buy fertilizers at wholesale price with fixed commission rate. At retail level, government has deregulated the price of fertilizers. Under new policy, Government of Nepal has been providing transportation costs for fertilizer only in 26 districts, which lack basic infrastructure facilities.

Food Subsidies

The government has been constantly providing subsidies to transport food grains in the food deficit regions. In order to provide incentive to Nepalese farmers, Nepal Food Corporation (NFC) purchases a substantial portion of food grain (rice and wheat) from mills and farmers at a price that is announced in advance (known as minimum price support) and which is generally lower than the market price. Thus these procured food-grains are sold in the remote food deficit area, below the purchased prices. For this activity the government needs huge budget, which is generally financed every year through budgetary provisions? NFC has been providing price and transportation subsidies to distribute these procured food-grains in the hilly areas (especially remote areas). NFC is not only engaged in the distribution of food-grains in remote areas, but also is engaged in the other food deficit areas as to stabilize food grain prices.

Total subsidies provided by the then HMG/N to the NFC from 1990 to 1998 lie in the range of Rs 120 to 340 million. The food subsidy per MT has increased from 1489.3 in 1994 to 9625.7 in 1998. The table depicts that the subsidies per Mt. of food grains have increasing trend up to 1998. In the recent past the total subsidies provided to the NFC has demonstrated fluctuation trends during the last decade and maximum subsidies provided to NFC was recorded in 1998 and stand at Rs. 300 million.

Credit Subsidies

Government has been providing a scheme of capital and in subsidies from 1982 to finance the various activities, relating to irrigation, bio-gas, insurance, poverty alleviation programmes, rural electrification, SFDP training and small farmer's interest subsidies. Government and different donor agencies has been constantly supporting for a capitals and interest subsidies. These credit subsidies are provided to farmer through the Agriculture Development Bank (ADB/N). In case of irrigation subsidies are provided for digging wells, tube well roar pumps and artisan boring. Total budget allocated for capital and interest subsidies in 2002/03 by the then HMG/N and different donor agencies to ADB/N were about 500000 thousand. During this period, the share of bio-gas is highest (60%) followed by interest subsidies (5.2%), total forest development (1.5%), Terai poverty alleviation (1.38%), small farmer fertilizer subsidies (1.04%), Gulmi Argakhanchi development project (9%) and livestock insurance (0.635). Now in recent past, due to Maoist conflict the regular expenditure is in heavily increasing trend. So government is not able to provide heavy subsidies. A subsidy in the recent past is in decreasing trend.

Possible Implications of WTO Provision on Agriculture

Under the UR negotiations, WTO members concentrate to liberalise farm trade by making commitments to reduce border protection, including the assurance of discouraging trade distorting agricultural subsidies and government support. Accordingly they agree to reduce tariffs, substitute non-tariff barriers under tariffication, and cut subsidies and government support (Nepal's agricultural bound tariff is at 51 percent to be reduced to 42 percent by 2006). The impacts of UR agreement on Nepalese agriculture will be maximum because of the sectors dominance in the economy. This sector contributes 40 percent of GDP and more than 70 percent of employment. Trade in agriculture commodities both exports and imports occupy important position in the total Nepalese trade structure. WTO provisions are likely to have significant effects on Nepalese economy. Only option left for Nepal is to maximize the gains and mitigate the losses from the change contemplated in the agreements. Implication from provisions in agriculture can be observed in the following ways-

Access to Market

Tariffication has been major focus of the government economic policy particularly after implementation of SAP in 1984/85. There has been progressive reduction in tariffs rates and

simplification in its structures. In general the export / import tariffs on the major agriculture products are negligible. After accession to WTO, agriculture products will face intense competition from other agriculture exporting countries in both domestic and international markets, as result of free trade (low tariff rates). Nepal's tariff structure has remained a liberal one. The government should initiate the process of tariff adjustment (both downward and upward adjustment) for the protection of domestic agro products. The government should increase import tariff rate on the different agricultural products, to protect domestic farmers from the efficient foreign producers. Nepal cannot impose a bigger import tariff due to bilateral trade agreements. The WTO rules do not find bilateral and regional and treaty at all. Hence, the provision in the bilateral trade treaty will continue. Nepal could not impose non-tariff barriers because non tariff barriers are prohibited under WTO rules. But, it price fall due to maximum importation of agricultural products, ultimate instrument that the Nepal could use is safe guard measure (which invoked in the event of depressed price and surges in imports).

Nepal needs not to be threatened by free trade because under WTO rules, member countries can declare their own tariff rates stating that it will not increase beyond certain percentages. Nepal can find its high import tariff rates and it will not have to undertake into reduction commitments being least developed country. Binding high import rate means, imported agro products will be much more expensive in the domestic market so that domestic farmers can compete with more efficient overseas producers. This way Nepalese farmer could be saved from intense competition from efficient overseas producers.

In Nepal, exports of raw wool and hides and skins are prohibited. Export of major cereals (rice, wheat, maize) pulses (gram, lentils, pigeon pea, black gram) and oil seeds (mustard, rapeseed, rayo) are restricted for food security reason. Export of these restricted items requires a license from MoA. But under new WTO rules, these non tariff barriers are to be dismantled and converted into tariff. Discrimination against particular commodities simply reduces their profitability, which encourages farmers to switch to produce non essentials, which can be sold without restriction. Ironically a reduction in food security is the most likely outcome of a policy of restricting and licensing export of essential food stuff (Gill, 1996). Almost all restricted items in Nepal are major export items and contribute significantly in the total export. Implication of converting restriction in tariff on these ten restricted items will be positive because it will definitely stimulate Nepalese farmers to produce more. Since these products are export oriented, conversion into tariff will increase government tax revenue, exports and raise farmers' income.

However, according to domestic tannery-owners Nepal has a comparative advantage in exporting dry salted hides and skins, but no competitive edge in the export of finished leather products. Hence a prohibition has eliminated a profitable export business. Hides and skins are major exportable Nepalese agro products and contribute significantly in export earning. Converting prohibition into tariff will increase export of dry salted hides and skins and there by increase government revenue. Regarding prohibition on wool, most affected commodities appears to be Angora rabbit wool. Banning exports at this stage simply reduces the number of market outlets for the raw was produced and that is likely to reduce or even eliminated

profits, thus discouraging expanded or even continued production. Converting into tariff will increase the export of Angora rabbit wool. Hence, it will contribute significantly in the export earning in the near future.

Under WTO provision, member countries are obliged to import 3 percent of agro products from the agro exporting countries and later to extend the 5 percent of domestic consumption over a six year periods. Nepal will be obliged to import the agriculture products from exporting countries. Prices may fall due to increase in import of agricultural products. But Nepal could use SSP measures (which invoked in the event of depressed price and surges in ports). On the other hand, Nepal will gain market access not only in India but also in overseas countries by the establishment of minimum access opportunities under WTO rules.

It will definitely stimulate Nepalese farmers to produce more. Every economy has comparative advantage in some products and no countries have comparative advantage in every product. Future strategies should encompass the infrastructure development to enhance comparative advantage from agro production so that the country could be beneficially of compulsion provision under WTO by exporting comparative advantage agro products in the lucrative global markets.

Domestic Supports

The government substantially phased out subsidies under the conditionality of big multilateral donors like WB, IMF, after implementation of SAP in 1984/85. The government has already phased out subsidies in fertilizers from 1999, but it has been providing a scheme of capital interest subsidies to finance the various activities relating to irrigation, bio-gas plant, animals insurance, rural poverty alleviation, rural electrification, SFDP training, small farmers interest subsidies, agriculture extension and research and environment conservation. These types of domestic supports are allowable under WTO rules and also excluded while calculating AMS. In Nepal total subsidies on agriculture sector estimated about Rs 110.94 million in 2002/03 (ADB/N), which is less than WTO limits. Even if Nepal is raise from LDC to developing country status, it can provide direct subsidy up to Rs 1100 million. Since the limit of agriculture subsidy as granted by WTO is much higher than that prevailing in Nepal, so it does not have to reduce subsidies on agriculture. Hence burden of agricultural subsidies does not depend upon GATT limits, but depend on the capacity of country's fiscal system to pay. Nepal can provide subsidies to marginal and small farmers because these types of subsidies are permitted under GATT rules and also excluded while calculating AMS.

But reduction in subsidies by developed and developing countries will raise world agriculture price. It has been estimated that the price rise of food stuff will be in the range of 2.3 percent to 8.6 percent depending upon the study and assumptions, which will not only results in high import bill, impairing the capacity to devote scarce resources to other areas of economic development but also risks nutrition status of the general masses (Pandey, 1999). Nepal could be benefited from rise in the world prices agricultural productivity increased. Agriculture Perspective Plan (APP, 1995) has clearly emphasized the production food-grains with the export potential. If this happens in reality, Nepal will turn from marginal importing country

into net exporting country and thereby a beneficiary of rising world food prices. Not only export of food-grains could be increased but also increase in the export of horticulture, floriculture, sericulture may occur. Angora rabbit wool, apple, citrus fruits, tea, yak cheese in which, Nepal seems to have a comparative advantage as results of UR agreement. Nepal could be benefited by exporting these high valued agricultural commodities in the world markets: however a full exploitation on Nepal's export potential for these high valued agro-products would require considerable stream lining in the area infrastructure development, storage capacity, transportation and special package which most confirm developing countries standard. The subsidy reduction commitments required under GATT 1994 will have positive effects in the productions as well as exports of high valued agricultural commodities as well as food grains.

The cost of imports of agricultural commodities rise significantly because of withdraws of subsidies in producing countries. Nepal has been importing large volume of agro products from India but the amount of agro-subsidies in India is only 2.5 percent which is below the WTO's limits for developing countries. This means that neither the export subsidies issue nor the input subsidy question could apply Nepal's agricultural import from India, so their price would be unaffected by India's WTO commitments (Gill, 1996). So prices of the imported agro products from India will not increase in the Nepalese markets.

In 1993 Nepal could not export lentil to Sri Lanka because of subsidized export from Turkey. UR agreement will definitely eliminate these types of unfair competition. Developing countries are to reduce volume of export subsidies by 21 percent and quantity of subsidised export by 14 percent over ten year's period. Whereas developed countries are to reduce volume of export subsidies by 36 percent and quantity of subsidised export by 20 percent over 6 year's period. Hence this reduction commitments require under WTO will improve Nepal's competitive edge in the world market.

Nepal receives occasional emergency food aid (milk, milk powder) as a grant from different donor countries and international food agencies. These types of food aids are not covered by the UR agreements. So food aid will not decrease in the future. Domestic food aid to needy area is excluded while calculating AMS under WTO rules Nepal can continue its system of subsidised food distribution under NFC.

Export Subsidies

Nepal government does not provide export subsidy. But Nepal has not made any commitment at the WTO on exports subsidy in the future. As an LDC, Agreement on Agriculture (AoA) allows Nepal to give subsidy to reduce the cost of marketing of agricultural product, including the cost of internal and international transport.

Sanitary and Phyto-sanitary Measures

Agreement on Sanitary and Phytosanitary Measure (SPM) under WTO rules could affect

significantly in the Nepalese export of agricultural products. SPM recognises the right of member countries to design majors to protect the health and safety of human, animal and plant life. When this agreement becomes reality then Nepal has to cover a lot of ground to adjust itself on these agreements. For example pesticides and fertilizers contamination produce problems with some high value agricultural products produced with high levels of pesticide/fertilizer residue would not pass the health standards of many developed countries. This could pose problem while exporting such agro products in developed countries' markets. In 1994, exports of Niger seed to US markets decline due to Niger seed processing in Nepal, does not meet the 99 percent purity requirement enforced in US markets. Similarly in recent past exports of tea to European countries declined due to tea processing in Nepal (by the cause of using chemical fertilizer and finding Nicotine). Nepal might bear similar consequence in future while exporting agro products in developed countries' markets.

Exports of agriculture products may potentially come under close scrutiny. Being a least developed country Nepal has not position to ensure that food products produced within the country to meet such requirements under WTO rules. Nepal should take the advantage of technical and other assistance from developed countries and other international agencies such as FAO. The UR agreement on agriculture does not have significant adverse effects on Nepalese economy after accession to WTO.

Agreement on Trade Related Aspects of Intellectual Property Rights, TRIPS

TRIPS and particularly Article 27.3 (b), which requires that members allow patenting of plants and animals that have been produced through "non biological" or "microbiological" processes can have a significant affect on the livelihood and food security of Nepalese farmers. Even if a farmer can prove that he has developed a new plant variety, he/she might not be able to get a license on the patent due to exorbitant costs associated with patenting. For example in the early 1990s preparation of patent application in the US cost around \$20,000. A patent application in the EU could cost up to \$40,000. As patents applicants must apply for patents in every country where they want them, pay an annual fee to maintain the patent and pay for patent agents; the cost of filing patents become very high and beyond the reach of the farmers in the developing world as well as Nepal (Ghimire and Dahal, 2004).

The use of patents in plants genetic resource in the developing world could jeopardize food security because large section of the population lives below the poverty line and are engaged in agriculture. For these people anything that increases the costs of agricultural seed or the inputs could be damaging. The restriction of farmers' rights to retain the seeds on which the following year's harvest is dependent is also detrimental to the interest of poor farmers. Traditionally, farmers save their seeds after each harvest and replant then in the following year. Many farmers in the developing world trade exchange seeds with other farmers such as practices of on - farm experimentation and conservation from the basis of food security and livelihoods for communities throughout the developing world. Legal mechanism such as Article 27.3 (b) of TRIPS could force farmers to purchase seed every year and ultimately displace them from their farms.

Impact of biodiversity, bio piracy, farmers' rights and plant variety protection is complicated in Nepal because WTO provisions true on one hand and the farmers' rights to save reuse an exchange seed is at the heart of the agricultural system in Nepal on the other hand. In addition, it has been the farmers who saved the rich biodiversity through generations.

General Agreement on Trade in Services, GATS

This agreement opens the door for foreign investment in the particular services to agriculture. These two sectors are related to veterinary Nepal has opened 74 services sectors/sub-sectors when took the membership of WTO in which two sectors are related service and soil and food experimentation. In these sectors foreigners as well as Nepalese investors have to invest jointly so Nepalese farmers and entrepreneurs can be benefited.

Possible Benefits from WTO Membership

The Potential Benefits from WTO Membership

WTO membership will confer equal level of new trading operations for all member countries. Benefit do not drive automatically but it depends on the ability to identify and take advantage of trading opportunities, fulfilled multilateral trading obligation, pursue and formulate development strategies, within the frame work of those obligation and above all depend in its economic finance and trade need.

Neither WTO membership will drastically change Nepalese present grim agricultural performance nor make Nepalese export highly competitive and profitable in the international markets. In fact WTO membership will confer greater export opportunities to Nepal, which will help in the trade diversification, both commodities wise and destination wise. But it has greater challenges ahead to take advantages of new trading opportunities conferred by WTO membership.

Since Nepal is not a major player in the global trade, it will unrealistic to expect maximum gain from the WTO membership within existing countries economic status, agriculture performance, export performance and resource based. To gain maximum benefit conferred by WTO membership, Nepal has to formulate and conduct sound agriculture policies and strategies within frame work of WTO obligation, which will be capable of transforming present grim agricultural performances. It is therefore not a panacea. Integration with the global economy is a necessary but not a sufficient condition for growth. WTO offers rights but with them some obligations. It provides opportunities but also some challenge. The specific potential benefits for Nepal after accession to WTO can be seen on the following grounds:

Country Status

As per WTO provision LDCs are exempted from reduction commitments i.e. tariff rates, export subsidies, domestic support. Nepal being a least developed country will secure important

exemption from tariff reduction, elimination and reduction of subsidies and other supports to agriculture (because this facility is not provided to developing countries) which will indeed improve Nepal's competitive edges in the markets of neighbouring countries.

Protection of Dumping

In the past, both developed and developing countries dumped their surplus agricultural commodities in the global markets at the subsidized price. The main aim of this policy was to eliminate competition and thereby gained monopoly in the global market. In 1993, Nepal could not export lentil to Sri Lanka because of subsidized lentil export from Turkey. UR agreement will definitely eliminate this type of unfair competition in the future. The developing countries will have to reduce the volume of export subsidies by 21 percent and the quantity of subsidised export by 14 percent over a ten year period but developed countries have to reduce volume of export subsidies by 36 percent and the quantity of subsidised export by 21 percent over a six year period. Hence this provision under WTO will improve Nepal's competitive edge in the global market.

Increase in Food Grain Price

To correct failure in the agriculture sector, the then HMG formulated the 20-year agricultural perspective plan and has clearly emphasized the production of food grains. The reduction in production subsidies in the major grain producing countries is likely to lead to increase world grain price (FAO, 1995). At present Nepal is a marginal food importing country. If present trend continues, food grain imports will become increasingly important, and Nepal will face a growing import bill, due to a rising volume of imports and expected global price increase (Gill, 1996). But if the targets of APP are achieved in the future, then Nepal will turn from food importing country in food exporting country by the year 2014/15. Thus Nepal could become the beneficiary of rising world price. With low tariff rate and removal of non-tariff barriers by neighbour countries will make Nepalese agricultural countries much more competitive in their markets and it will definitely stimulate Nepalese farmers to produce more.

End of Preferential Trading Arrangement

Nepal has never gained any preferential access of its agricultural products. According to new GATT rule, MFN must be granted to all member countries without discrimination. Dismantling of the preferential trading arrangement will open up new markets for Nepal in the future.

Export Subsidies

Under WTO provisions, Nepal could provide export subsidies. Since Nepal is one of the

list developed countries in the world, cannot afford to provide export subsidies at a significant level, but can target particular products for particular market and subsidize some of the starts of the costs.

Dismantling of non Tariff Barriers

Under UR agreement, all non tariff barriers are to be dismantled and converted into ordinary tariff and reduced in a given time boundary by developed and developing countries. This will open new market opportunities for LDCs. Nepal will gain new markets access in the both developed and developing countries markets.

Tariff Binding

Under WTO provision, member countries could declare their own tariff policy stating that it would not raise tariff rates beyond a creation percentage. Nepal could bind its high import tariff rates. Nepal being LDC would not require undertaking the reduction commitment. Nepalese farmers could be protected, binding high import tariff rate, so that they could compete in the domestic market with more efficient overseas producers.

Access of Market

As per WTO provision a minimum access level has to be established for domestic consumption and has to be increased to 5 percent of domestic consumption over 6 year periods. Under this provision all the member countries will be obliged to import the agricultural products, from agro exporting countries. Nepal will have market access not only in neighbouring countries but also in overseas countries by the establishment of minimum access opportunities under WTO rules.

Rise in the Government Revenue

Lowering export and import tariff will expand trade and converting quantitative restriction into trade tax will increase the government revenue. Lower the tax rate, the greater will be volume of trade, result will be an increase in the government revenue. Simplification in the tariff structure would reduce administration cost and reduce corruption, smuggling and domestic price distortion and there by increase the efficiency of resource use within the import competing and export sectors.

Impact in the LDCs and Developing Countries by SPS

Under the SPS agreement, countries must be based on international standard, guidelines or recommendation, where these exist, except as otherwise provided for in the SPS agreement. Thus transparency and science base standards are encouraged and the SPS major can be

applied in a non-discriminatory manner (UNCTAD, 1998). These measures lead to increase high cost of production in the LDCs due to lack of skills in meeting such standard. WTO provision encourages developed countries to provide technical and other assistance to LDCs like Nepal to meet SPS standards.

High Value Agriculture Commodities Export

Traditionally Nepalese agricultural export constitutes bulk of lower value commodities. But in recent years, the trade of Nepalese agricultural export has been more diversified and as a result, the export of pulses hides and skins, nigerseed, tea and essential oil have come to prominence. Besides these traditional agricultural export items, some new export potential has emerged in the field of citrus fruits, apples, silk, honey, floriculture, vegetables seed, horticulture, angora rabbit wool and yak cheese. WTO membership will confer potential access in the world market for these products.

Reduction in Tariff Escalation

Tariffs have generally been lower in the primary agriculture commodities than on processed agricultural products. Tariff escalation is defined as the wedge between processed commodities (e.g. orange juice) and corresponding primary commodities. It has been major obstacle for primary product exporting countries to establish processed industries. In the case of natural resource base products, the average tariff applied to semi manufacturer have been reduced to the same level (2 %) as for raw materials, and the tariff wedge on finished natural- resource base products has been decrease from a pre-UR level of 9.97 to a past UR level of 3.0 percent (UNCTAD, 1998). The reduction in tariff escalation under the UR agreement will effect positively for the development of value-added industries in Nepal.

Agricultural Exports Potential from Nepal

Major exports of agricultural to the third countries constitute pulses, nigerseed, hides and skins, papers and paper products, leather goods, herbs, tea and perfume oil. These agricultural commodities comprised of 5.50 percent of total export to third countries. Nepal's agricultural export can be divided into two groups i.e. traditional export item and new export potential. Major exportable agricultural items from Nepal are summarised below:

Hides and Skins

Hides and skins have demonstrated as one of the most promising feature export items from Nepal. Italy is the major importer of Nepal's hide and skins. Hide and skins are destined for the European countries and US. There are more than one dozen private tanneries in Nepal currently operating almost in full capacity. In 2004/05, hide and skins worth of rupees 235.8 million was exported. The figure recorded in FY 2000/01 was Re 658.40 million.

Pulses

Though Sri Lanka and Bangladesh are two major markets for pulses for Nepalese pulses, but recently it has been exported to developed countries like UK, France, Germany, etc. In 2001/02 20 thousand mt of pulses was exported which contributed 0.46% in the total export earning. 10th plan has targeted to increase productivity of pulses from 7.2 mt/ha of fiscal year 2001/02 to 9 mt / ha at the end of 10th plan.

Niger seed

Main markets for Niger seed of Nepal are America followed by other European countries. In 2004/05 2.5 thousand mt of Niger seed worth of Rs205.3 million was exported. In the mid 90s Trade Promotion Centres (TPC) launched a pilot project for Niger seed farming in Makawanpur and Kavre districts. Surya Tobacco Company has also embarked into large scale farming of Niger seed in the Dang district.

Tea

Orthodox and strong liquoring CTC are the two types of tea production in Nepal, but competitive edge in the global markets lies in orthodox tea. There are nine tea estates in Nepal. Kanchanianga Tea Estate in the Panchthar district produces orthodox tea, which has been certified by the National Association of Sustainable Agriculture of Australia (NASA). In 2001/02, 7.5 thousand mt of tea worth of Rs 27.1 million was exported. The main importer of Nepalese orthodox tea is Germany followed by Hong Kong.

Essential Oil

There has been maximum growing demand for essential oil in the European and US markets. Germany followed by Japan and Sweden are major importers of essential oil. But production of essential oil is very limited. In recent years the export of essential oil is less significant. In 1996/97, 4.5 mt of essential oil worth of Rs 5461 thousand was exported. The export of essential oil has decreased in recent past.

Medical Herbs

Nepal's export of medical herbs has significant role as raw materials for processing in India and in third countries. Demand of medical herbs is increasing for particularly use in alternative medicines, cosmetic and perfumes. Japan, Germany and Sweden are major export markets for medicinal herbs of Nepal. There are about more than 700 spices of important medicine and aromatic plant in Nepal. Worth of Rs 187.1 million of medical herbs was exported in 2004/05.

Nepalese Paper and Paper Products

There are numerous potentials for producing Nepalese papers in the hills and mountain. Spain and Japan is the major market for Nepalese paper and paper products. The export of Nepalese paper was worth of Rs 239.8 million in 2004/05.

New Export Potentials

The potentials for producing comparatively advantageous high value crops in different ecological zones are very high. Horticulture crops like citrus based fruits, apples, vegetables and seeds, sericulture, floriculture, bee keeping and others such as tea, coffee and spices crops are high value crops in Nepal. Though these crops are export oriented but the current production volume of these crops is not sufficient enough to export. In recent years, some new export potentials have emerged in the field of organic vegetable, fruits, honey, silk based products, flowers and coffee. Contribution of this newly emerged high value in the total export earning is not significant. But the farming of such crops will generate five fold more income than that of food crops in mountain areas with road facilities. High value crops help in the environmental conservation, providing security, increase in employment opportunities, promotion of value added industries and food, and impasse the infrastructure development for enhanced production. If the production of these high value crops increase in the future then Nepal's accession membership to WTO will be beneficial.

Horticulture

High value crops account for 8 percent of the total cropped area of the country. The horticulture crops contribute 14 percent of total agriculture GDP. Citrus fruits like orange and lemon could be cultivated in the mid hilly regions and hilly regions. Commercial apple farming could be done in the mid hill, high hill of western, far western and mid western region. Nepal can produce counter seasonally to China and India with fruits and vegetables due to geographical diversity. The exploitation of the horticulture crops could be vital for future Nepalese agriculture growth as well as export growth. In 2001/02 Nepal exported worth of Rs 6.2 million. In the recent years Nepal's main export market is India.

Others

A renowned British mushroom expert has indicated Nepal's significant advantage in the production of mushroom because of its favourable climate (No-Frills, 1990). Production potentiality of flower is greater in Nepal. The coffee farming could be done in different hilly regions and central regions. The climate of this country is suitable for sericulture and there is also potentiality for exporting silk products. Similarly honey is another most potential agro product. To promote the honey different NGOs and government organizations have trained the manpower. To sum up Nepal has the most potentiality of new export items in the international markets such as regional and global markets.

Policy Options for Nepal after Accession to WTO

To maximize gain and minimize losses in the Nepalese agriculture trade from the changes contemplated in UR agreements, the following policy options are suggested and they are summarized below:

Privatisation of Public Enterprise

The governments are still actively engaged in production and marketing activities for example, about 42 percent of domestic demand of tea in the country is made by domestic production, of which 33 percent is supplied by the government owned Tea Corporation. These types of government's enterprises should be privatised since they are suffering from poor management and their export performance is not satisfactory. Participation of private sector in these sectors should be encouraged. Jute mill, dairy industries and tobacco related industries should be private.

Marketing Information

Government should be active in providing marketing and technical assistance, trade related information and facilitating the development of entrepreneurs in the country. This type of government activities can help in the migration of market failure. These efforts would help in developing the competitiveness of the economy and in strengthening the economic liberalisation processes. The concerned government department and associate organization should publish international prevailing prices of agro products through, television, magazines, daily newspapers and radio regularly.

High Import Tariff Bindings

Under WTO rules, member countries could declare their own tariffs policies stating that it would not raise tariff rate beyond a certain percentage. Nepal should bind its high tariff rates. Being LDC, should not require undertaking into reduction commitment. Binding high import tariff rate would directly help to control and limit agriculture imports from developed countries and low cost producer. Hence Nepalese farmer could be protected.

Export Subsidies

Under WTO rules, Nepal could provide export subsidies. Being a LDC, Nepal could not provide export subsidies on a significant scale. The government should provide export subsidies on particular agro products for particular markets initially to gain market share in that particular market and must be phase out.

Subsidies to Promote High Value Agro-products

The government should provide subsidies to promote high value agricultural commodities to make Nepalese farmers more co-operative in the international market for that product.

The government can provide subsidies to the selective comparatively advantageous commodities only, schemes subsidies should be introduced only to provide for adoption of technology an initial boost in that agriculture production and most be phase out eventually such as rural electrification, increase irrigation, SFDP training small farmer interest subsidies etc.

Sanitary and Phytosanitary

Pesticides contamination is a major problem with some high value Nepalese agro-products. Being a LDC Nepal is not in position to ensure the agro-products produced within the country meet SPS standard under WTO provision. Nepal should take advantage of technical and other assistance from developed countries and other international agencies.

Domestic Products

The limit of agricultural subsidy as granted by WTO rules is much higher than that prevailing in Nepal. So Nepal does not need to reduce subsidies in agriculture. Nepal can provide scheme of subsidies to finance various activities to increase agricultural production.

Dismantling Prevailing Non Tariff Barriers

Prohibited and restricted agricultural commodities for export should be converted into tariff. Since these products are generally export oriented, converting into tariff would increase government revenue, stimulate the export growth and raise farmer's income.

Keeping the Price of Food Staples such as Rice Low to Assists Poor Consumers

Certainly keeping the domestic price of food relative to other tradable few helps some consumers. However, the vast majority of the poor in Nepal are not seller's rather than net buyers of food and the majority of the net buyers of food enjoy much higher incomes than farm households. The mall minority of households that would suffer from a food price rise can assisted much more cost effectively through more direct means, most obviously by providing an environment that facilitates the growth of unskilled labour intensive activities (Anderson and Tiwari, 1999).

Keeping MFN Tariffs Well Above the Lower Preferential Ones Required Fulfilling SAPTA Commitments

The arguments here might be that Nepal can compete with limited regional competition with South Asia but could not compete with the rest of the world. The fallacy in the argument is that every economy has a comparative advantage in some products, and no economy has a comparative advantage in some products, and no economy has a comparative advantage in every products, so it is only those currently protected industries in which the country as a

strong comparative disadvantage that may find it difficult to compete if SAPTA commitment were multilateralised.

Concluding Remarks

WTO is the most democratic organization among other international organizations. The system of one country one vote in the WTO is the evidence of the fact and it is, therefore, necessary that developing and LDCs should join the WTO in order to influence, control its working system and manage it properly.

As of today the WTO seems to be the only one suitable international forum to discuss and watch the issues related with international trade and negotiate. Otherwise developing and LDCs will be dwarfed further if they depend only on the bilateral relations.

WTO membership will certainly centre greater export opportunities to Nepal. It will help in trade diversification (both destination and commodity wise) in which Nepal has not been achieved successfully in the past in terms of export diversification of high value added crops.

UR agreements will improve Nepal's competitive edge in the global markets on account of low tariff rates, reduction in domestic supports and export subsidies.

Conversion of non tariff barriers into tariff will have positive impact in Nepalese economy because it will increase government revenue, export and raise farmer's income.

Liberalisation measures help to promote agro exports, curtail agro imports an increase production of agricultural products. Since, WTO membership will gain market access in the third countries; Nepal's accession to WTO would be highly beneficial in the neighbouring countries as well as the third countries.

The production of food grains with export potential is very high. Nepal would be beneficiary of raising world price. Not only export of food grains increase, but also increase in the exports of horticulture, floriculture, sericulture, citrus fruits, apple, tea, yak cheese etc. in which Nepal seems to have of comparative advantage in the global markets.

Time has come for Nepal government to initiate the appropriate agriculture reform measures, which are capable of quickly transforming dismal agriculture production, so that it could make significant positive impact.

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