

## **Review of Nepal's Commerce Policy in the Wake of LDC Graduation**

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### **Abstract**

Nepal's commerce (trade) policy governs both foreign and domestic trade dynamics within its broader trade and investment ecosystem. Despite adopting a liberal trade regime, which was further expedited through WTO accession in 2004, and implementing three successive commerce policies (1990, 2009, and 2015), and formulating the Commerce Policy 2025 aimed at achieving export-driven growth, Nepal continues to witness a persistent trade deficit, even though LDC-specific special and differential preferences were available. With Nepal's graduation from LDC status scheduled for November 2026, this paper reviews the perspectives of the Commerce Policy 2025 frameworks in preparing for the post-graduation landscape. Utilizing a mixed-methods approach including key informant interviews (KII), content analysis, and quantitative data triangulation the study finds an urgent need for a forward-looking, LDC graduation-centric commerce policy implementation from the mindset of a low-income developing country. Key strategic recommendations include enhancing market access through bilateral and regional FTAs, addressing non-tariff barriers, balancing tariff and non-tariff measures, fostering digital trade including e-commerce, strengthening trade infrastructure and connectivity, implementing sustainable trade facilitation measures, reforming trade finance and incentive mechanisms, advancing economic diplomacy, and investing in multi-level capacity building. These measures are essential to ensure Nepal's resilient and inclusive trade-driven growth in the post-LDC era.

**Keywords:** Commerce policy, trade deficit, LDC graduation, free trade agreements, tariff and non-tariff measures.

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## **Background**

Commerce or trade policy simply refers to how a government manages its trade with the rest of the world. Historically, these policies have evolved from the early days of mercantilism to today's era shaped by globalization, technological advancement, and increasing foreign investment (Pyakuryal et al., 2010). Like many developing countries in the 1980s and 1990s, Nepal opened its economy and introduced major internal and external reforms. It adopted key Commerce Policies in 1992, 2009, and 2015, along with three iterations of the Nepal Trade Integration Strategy (NTIS), all designed to better integrate Nepal into the global economy. These efforts paid off in terms of trade openness, as Nepal's trade-to-GDP ratio increased from 23% in the 1980s to over 40% by the late 1990s, largely driven by manufacturing exports (Chaudhary, 2012).

Nepal's accession to the World Trade Organization (WTO) in 2004 marked a pivotal moment in its economic statecraft. The country committed to binding 99.4% of its tariff lines and opened most service sectors to foreign investment under WTO rules. While the Commerce Policies of 1992, 2009, and 2015 focused largely on diversifying exports and managing imports, Nepal's trade deficit has continued to widen despite rising trade volumes (Department of Customs, 2022/23). For instance, in Fiscal Year 2079/80, the import-to-export ratio reached 10.26:1, resulting in a trade deficit of NPR 1,454.53 billion (TEPC, 2080). This situation raises important questions about the effectiveness of these policies, especially the 2025 Commerce Policy.

As a WTO member, Nepal is required to undergo periodic Trade Policy Reviews (TPRs) under Annex 3 of the Marrakesh Agreement. These reviews help promote transparency and monitor how member countries comply with trade rules (Mavroidis, 1992). Nepal's reviews in 2012 and 2018 pointed to consistent trade deficits, high import dependency—especially on consumer goods and fuel—and stagnant exports. Both reviews called for stronger competitiveness and better utilization of global trade opportunities presented under the multilateral trading regime.

Nepal's upcoming graduation from Least Developed Country (LDC) status in 2026 brings both hope and uncertainty. Graduation represents progress and, in theory, could boost investor confidence. However, it also means losing trade preferences such as duty-free and quota-free access to several markets, as well as concessional loans and grants (World Bank, 2023). Since the 2025 Commerce Policy is also designed for a post-LDC context, it now needs to be supported with a broader plan of action encompassing sectoral strategies for services and intellectual property, in addition to trade in goods, to reflect post-graduation realities. Future policy must focus on protecting export competitiveness, attracting investment, promoting sustainable growth, and embracing new areas such as digital trade, e-commerce, and green trade practices.

Similarly, digitalization and decentralization through federalism are playing an instrumental role in shaping Nepal's trade landscape. Decentralization has the potential to enhance regional trade and empower local governments, but its real impact requires closer examination. This research aims to evaluate the strengths and limitations of the Commerce Policy 2025, particularly in light of LDC graduation, and suggest ways in which Nepal can better navigate emerging global trade challenges and opportunities.

## **Objective of the Research**

The main goal of this research is to answer the following research question: What trade-related policy calibrations are necessary to ensure a smooth graduation and to harness the benefits of trade liberalization? Accordingly, the objective is to recommend how Nepal's trade policies should be adjusted to support a smooth transition from Least Developed Country (LDC) status and to maximize trade and investment opportunities. The study aims to provide evidence-based policy suggestions for the Commerce Policy 2025 so that it better addresses current challenges and prepares the country for the opportunities and risks of the post-LDC era.

The study highlights existing policy gaps, analyzes the impact of losing LDC-specific preferences, and offers practical strategies to maintain market access and strengthen Nepal's trade competitiveness. The findings of this research will be useful for policymakers and will help shape a more resilient and forward-looking trade framework. Additionally, the research will benefit Nepali businesses, especially small and medium enterprises (SMEs), by identifying new trade opportunities, potential risks, and strategies to remain competitive after LDC graduation.

## **Literature Review**

### **Theoretical Framework**

The development of the theory of free trade, grounded in England's achievements in trade and industry, was signaled by two seminal works: Adam Smith's *Wealth of Nations* (1776) and David Ricardo's *Principles of Economics* (1817). Both Smith and Ricardo advocated free trade as a means of achieving global production efficiency, in contrast to mercantilist protectionist policies. According to Ricardo (1817), a nation can benefit from specialization and gain a comparative advantage through international trade, both statically and dynamically, thereby fulfilling the function of international exchange of goods.

Another influential trade theory is the factor endowment theory. As discussed by Bharat et al. (2023), this theory, originating from the work of Heckscher and Ohlin, is widely known as the H-O model. Assuming constant returns to scale, it considers a model of two nations, two commodities, and two factors of production. The factor endowments of each country are central to this theory, distinguishing it from the technology-based explanations of the Ricardian comparative cost model. The Heckscher-Ohlin model assumes that all countries possess the same technology within a given industry and does not account for variations in total productivity across industries.

In the late 1970s, a new trade theory emerged to explain international trade under conditions not addressed by classical models. These models incorporate increasing returns to scale, product differentiation, peripheral economies, and imperfectly competitive market structures. They rely on the concept of comparative advantage and demonstrate that trade occurs even among economies that are equivalent in terms of technological capability and factor endowments (Jeyarajah, 2019). Both liberal and mercantilist trade theories provide valuable insights for nations seeking to safeguard their economic interests. While mercantilist strategies—such as protectionism—continue to be employed by some states to protect domestic industries in the face of international competition, liberal trade theory is widely accepted globally, particularly among developed nations (Khorto, 2014).

Recent trade policies have introduced new considerations to make trade more inclusive. For instance, Acharya et al. (2019) note that “the existing GATT rules seem to permit manifold possibilities for WTO Members to use tariffs, tariff-rate quotas (TRQs), taxes, and regulations in a manner that can support sustainable trade incorporating gender considerations.” According to this preliminary legal assessment, WTO agreements provide sufficient policy space to promote inclusive trade in certain areas, provided that such measures are neither de facto nor de jure protectionist (Acharya et al., 2019).

## **Empirical Review**

Nepal has largely adopted liberal trade policies based on comparative advantage, as reflected in its identification of “priority” and “emerging” export products in the Nepal Trade Integration Strategy (NTIS) 2022 and earlier versions. However, Nepal’s trade policy continues to face significant challenges in trade governance, export capacity, infrastructure, connectivity, and economic diplomacy (Pathak, 2024). Despite some progress, gaps persist at strategic, structural, and diplomatic levels, highlighting the need to federalize and localize trade policymaking.

According to a policy research report by Acharya and Adhikari (2021), international support measures (ISMs) for Nepal’s LDC graduation should emphasize a carefully sequenced transition and a post-graduation strategy. The report notes that graduating LDCs, particularly those like Nepal that meet human asset and vulnerability criteria but not income thresholds, require continued and enhanced access to official development assistance (ODA), trade finance, trade preferences, and technical assistance. The study underscores the need for targeted export support, sustained multilateral, regional, and bilateral engagement, technology transfer, climate finance, and coordinated WTO negotiations to ensure a smooth transition, mitigate vulnerabilities, and implement structural reforms.

In a working paper, Razzaque (2020) examines Nepal’s graduation from LDC status and its potential adverse effects on trade preferences, concessional finance, and other international support measures. The study emphasizes that, without targeted adjustment strategies—particularly in trade competitiveness, export diversification, and institutional preparedness—graduation could limit Nepal’s development prospects.

Studies further highlight that effective trade policy requires stronger coordination across federal, provincial, and local governments (SAWTEE, 2022). Provinces must develop export strategies, prioritize products, and align trade with local development plans under federal guidance. Without strategic adjustments, Nepal’s exports are projected to fall by 4.3% after LDC graduation due to rising tariffs, especially in the EU, Chinese, Japanese, and Canadian markets (ITC, 2022). Tariffs on key products such as vegetables and cereals may increase by 27 and 25 percentage points, respectively, negatively affecting export-oriented MSMEs, including handicrafts, and potentially leading to job losses (Sthapit, 2022).

The ongoing Sixteenth Periodic Plan (Fiscal Year 2081/82–2085/86) identifies export promotion and effective import management as central pillars for sustaining growth in the context of LDC graduation. The Plan emphasizes a shift towards an export-centric graduation strategy, highlighting the need for targeted policy responses to address the anticipated erosion of LDC-specific trade

preferences. It further calls for the formulation of separate, sector-specific strategies for export-competitive products and services, as identified in the Nepal Trade Integration Strategy, 2023, aiming to strengthen resilience and mitigate the adverse effects of preference losses following graduation (National Planning Commission [NPC], 2024).

Similarly, Nepal's LDC Graduation Smooth Transition Strategy (NPC, 2023) anticipates that graduation will affect trade in a moderate but uneven manner, primarily by reducing market access for certain export products. Nepal's exports are concentrated in a limited number of goods and heavily rely on LDC-specific tariff preferences, particularly in markets such as the EU, Turkey, and China. Nevertheless, the overall economic impact is expected to be manageable, as exports constitute a relatively small share of GDP and trade with India is likely to remain stable under existing bilateral arrangements. Studies present graduation not as a crisis but as a critical shift exposing long-standing weaknesses in export diversification and competitiveness, underscoring the importance of using the transition period to strengthen productive capacity and trade facilitation (NPC, 2023; ITC, 2022).

Beyond tariffs, Nepal faces the risk of losing policy space to support domestic industries. Following graduation, export subsidies for non-agricultural goods will be prohibited, and agricultural subsidies may face stricter scrutiny (Pandey et al., 2022). This necessitates alternative policy tools, such as shifting from export-based to production-based subsidies to support domestic industries. Furthermore, LDC graduation may reshape foreign direct investment (FDI). For example, industries like textiles, which receive nearly 49% of manufacturing FDI, could be affected by the loss of quota-based trade benefits. Consistent with economists' recommendations, Nepal could implement policies to lower borrowing costs, thereby stimulating investment by reducing the cost of capital for firms and enhancing the financial viability of projects.

## **Research Gap**

Research on the efficacy of Nepal's trade policy in the context of LDC graduation remains limited, particularly with regard to comprehensive policy diagnosis. While the National Planning Commission's Smooth Transition Strategy identifies trade as a priority, it provides limited detailed guidance on policy implementation. Furthermore, existing studies primarily focus on the tariff-related impacts of LDC graduation, often overlooking critical issues such as digital trade, environmental considerations, compliance burdens, and necessary internal policy adjustments. This paper seeks to address these gaps by analyzing Nepal's trade policy from a post-LDC perspective and aims to provide insights for calibrating trade-related policies to ensure a smooth and effective graduation.

## **Methodology**

This study adopts a mixed-methods approach, integrating qualitative and quantitative techniques to provide a comprehensive analysis of Nepal's trade policy and its post-LDC graduation prospects. This approach facilitates a nuanced understanding of policy impacts, challenges, and opportunities.

Qualitative insights were obtained through key informant interviews (KIIs) with policymakers from the Ministry of Industry, Commerce and Supplies, business leaders, trade experts, and representatives of trade associations, including the Federation of Export Entrepreneurs of Nepal (FEEN). These interviews provided valuable perspectives on the effectiveness of trade policies and the challenges encountered in their implementation. In addition, content analysis was conducted on government publications, academic research, and other relevant literature to contextualize and triangulate findings.

On the quantitative side, descriptive statistical analysis was applied to trade data to identify trends, patterns, and outcomes related to trade policy. Data sources included the International Trade Centre (ITC), Department of Customs, Nepal Rastra Bank, Trade and Export Promotion Centre (TEPC), and WTO Trade Policy Review documents. This combination of qualitative and quantitative methods enables a holistic assessment of Nepal's trade policy landscape and its alignment with post-LDC graduation requirements.

## **Results and Discussion**

### ***Policy, strategy and related legislation***

The 2025 Commerce Policy replaced the 2015 policy and is supported by the Nepal Trade Integration Strategy (NTIS) 2023. The NTIS aims to improve Nepal's trade balance by promoting value-added exports, identifying key goods and services with export potential, and emphasizing market diversification and product quality to reduce dependence on a limited set of commodities.

Stakeholder assessments indicate that, although the policy has facilitated a gradual shift toward the services sector, it has been less effective in addressing the persistent trade deficit. Its limited success is attributed to a narrow focus on traditional export products and excessive reliance on the Indian market, which is perceived as subject to policy uncertainty.

A core objective of the 2025 Commerce Policy is to expand Nepal's market access through WTO-plus trading agreements with potential partners. The policy also seeks to increase the value of Nepali exportable items and address challenges related to rules of origin and other non-tariff measures to better utilize available market opportunities, including LDC-specific trade preferences. However, these objectives were largely unmet in previous iterations of Nepal's commerce policies during the WTO era. Past policies lacked concrete strategies to address deeper structural issues, such as import substitution, production inefficiencies, and export diversification.

The 2025 Commerce Policy has been formulated to tackle Nepal's trade imbalance, attract foreign investment, promote industrialization for higher value-added production, and expand and diversify the export base in consideration of the country's LDC graduation scenario. To achieve these objectives, the implementation plan of the Commerce Policy should be aligned with complementary policies, strategies, and relevant trade-related legislation.

## *Nepal Trade Integration Strategy*

The Nepal Trade Integration Strategy (NTIS) 2016 was revised in 2023 to align with the 2015 Commerce Policy and to respond to evolving global trade dynamics. Most of the priority products and services identified in NTIS are also endorsed in the new Commerce Policy 2025. The updated NTIS expands its scope by broadening priority goods and services, emphasizing value-added exports, and incorporating new sectors such as construction and water resource-based services alongside traditional areas like tourism and IT/BPO. It also highlights ten cross-cutting areas, including standards, digital trade, infrastructure, and the investment climate (MoICS, 2023).

Despite these updates, implementation challenges persist. Weak coordination between government agencies and the private sector has hindered progress. Although NTIS-focused efforts have been made, the share of prioritized exports has declined since 2018/19, and Aid for Trade (Aft) initiatives have had limited impact on export growth (Adhikari, 2023). Effective execution of NTIS 2023 requires expeditious resource mobilization, stronger integration of trade-related institutions across all three tiers of government, mainstreaming of trade in key line ministries, translation of NTIS activities into operational targets, and adequate resources to realize the strategy's objectives in a resource-constrained environment.

### *Trade-Related Legislation*

Several laws and regulations influence the implementation of commerce policy. Nepal has formulated most of the legal frameworks necessary to facilitate trade and investment (Table 1); however, the execution of these laws ranges from weak to moderate. For example, the Export and Import Control Act, 1957 (as amended in 2006) and the Customs Act, 2007 have been implemented to a moderate extent, whereas the Safeguards, Anti-dumping, and Countervailing Act, 2019 has yet to be operationalized. As of 2025, Nepal has not initiated any cases under these laws at the WTO. Table 1 demonstrates that, while Nepal has enacted most of the laws related to the Commerce Policy, the effectiveness of their implementation remains limited.

**Table 1:** *Major laws relating to the implementation of the Nepal's Commerce Policy, 2015*

Major areas	Act and Regulation
Customs	Customs Act, 2007 (as amended in 2013) Customs Tariff Act, 2024 Customs Rules, 2007
Export and import licensing	Export and Import Control Act, 1957 (as amended in 2006) Export and Import Rules, 1978
Trade remedies	Safeguards, Anti-dumping and Countervailing Act, 2019
Digital trade	E-Commerce Act, 2025

Major areas	Act and Regulation
Sanitary and phytosanitary measures	Nepal Seeds Act, 1988 Seeds Regulation, 1997 Plant Protection Act, 2007 Plants Protection Rules, 2010 Food Safety and Quality Act, 2024 Food Regulation, 1970 Pesticides Management Act, 2019 Feed Act (Animal Concentrates), 1976 Animal Health and Livestock Services Act, 1998
Technical barriers to trade	Accreditation Act, 2022 Drugs Act, 1978 (as amended in 2000) Drug Registration Rules, 1981 (as amended in 2001) Nepal Standards (Certification Mark) Act, 1980 (as amended) Nepal Standards (Certification Mark) Regulations, 1982 (as amended)
Competition	Competition Promotion and Market Protection Act, 2007 Competition Promotion and Market Protection Regulation, 2007 Consumer Protection Act, 2018 Consumer Protection Regulation, 2000 Direct Sale of Goods (Management and Regulation) Act, 2018 Direct Sale of Goods (Management and Regulation) Regulation, 2018
Investment	Foreign Investment and Technology Transfer Act, 2019 Industrial Enterprises Act, 2016 Public-Private Partnership and Investment Act, 2019 Special Economic Zone Act, 2016
Trade-related intellectual property rights	Patent, Design and Trademark Act, 1965 (as amended in 2016) Copyright Act, 2002 Copyright Regulation, 2004
Government procurement	Public Procurement Act, 2007 (as amended in 2019) Public Procurement Rules, 2007
Trade and environment	Environment Protection Act, 2019

**Note:** This table represents the authors' compilation of major trade- and commerce-related rules and regulations, based on information available on the official websites of various Nepalese government authorities, including the Ministry of Industry, Commerce, and Supplies.

Since trade is inherently crosscutting, it requires aligning legislative arrangements to promote a coherent trade ecosystem. This study finds that the Government of Nepal has enacted and updated trade-related legislation to ensure compatibility with international agreements to which Nepal is a

party. Notably, the government has initiated the enactment of a new e-commerce law to facilitate digital trade through information and communication technologies, particularly the internet. Other major laws relating to trade, export-import, and industrial property are under legislative consideration to address the opportunities and challenges associated with LDC graduation. Additionally, various laws related to investment facilitation have been amended.

While these laws are intended to complement one another, inconsistencies persist, often undermining the business ecosystem. For example, the registration of Collective Marks and Geographical Indications (GI) has not gained momentum, as the prevailing Patent, Design, and Trademark Act, 1965 lacks clear guidelines for registration. This highlights the urgency of enacting an Industrial Property Law that aligns with the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Moreover, compliance with TRIPS post-LDC graduation will pose a major challenge for Nepal if timely actions are not undertaken.

### ***Market Access***

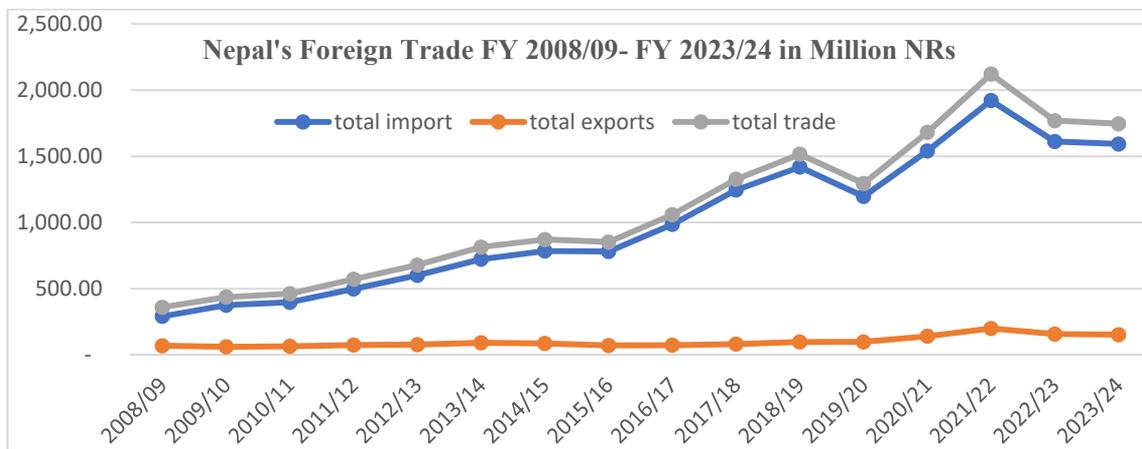
The Commerce Policy 2025 aims to diversify Nepal's exports by products and destinations. Although Nepal benefits from preferential market access as a least developed country (LDC), these advantages remain underutilized due to a narrow export base, limited productive capacity, and challenges in meeting non-tariff requirements in global markets (WTO, 2019). To address these gaps, Nepal has pursued bilateral, regional, and multilateral trade agreements to expand market access and strengthen trade cooperation.

Nepal currently maintains 17 bilateral trade agreements, primarily with India, including the Treaty of Transit, Trade Treaty, Rail Services Agreement, and an agreement on preventing unauthorized trade (WTO, 2019). These agreements facilitate access to Indian ports such as Kolkata, Haldia, and Visakhapatnam. Regionally, Nepal participates in SAFTA and BIMSTEC, and globally, it has ratified the Trade Facilitation Agreement and the TRIPS Amendment. Ongoing negotiations aim to establish FTAs with Bangladesh, Bhutan, and the Republic of Korea, while Trade and Investment Framework Agreements (TIFAs) have been concluded with the United States, Australia, Korea, and Cambodia (MoICS, 2023). Nepal has also benefited from the U.S. Nepal Trade Preferences Program (NTTP) and Duty-Free Quota-Free (DFQF) schemes, although strict rules of origin and other non-tariff measures have limited the full utilization of these preferences.

With slow progress in multilateral negotiations and increasing reliance on regional and bilateral agreements, frameworks such as SAFTA and BIMSTEC offer practical pathways for boosting Nepal's exports. Reducing tariffs, easing non-tariff barriers, investing in cross-border infrastructure, and expanding trade with ASEAN countries—particularly post-LDC graduation—could enhance competitiveness. Nepal should also conduct cost-benefit analyses for potential FTAs, especially with China and Bangladesh, while advancing agreements such as BIPPA, DTAA, CEPA, and pursuing accession to RCEP to improve integration into Asia-Pacific value chains. Sector-specific agreements in digital and sustainable trade, alongside investment treaties and simplified customs procedures under the TFA, are crucial for attracting FDI and diversifying export markets.

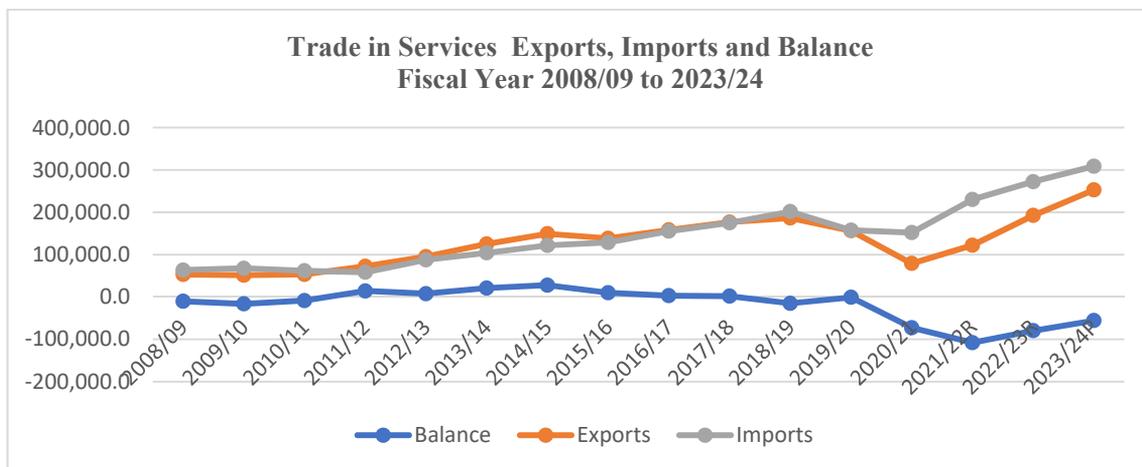
**Trade Flows and Scenarios**

**Figure 1:** Trends of Nepal’s International Trade Fiscal Year 2008/09 to Fiscal Year 2023/24



Note. This chart uses the data of the Trade and Export Promotion Centre and depicts the trend of Nepal’s total exports, imports, and total trade volume in different Commerce Policy implementation periods from the Fiscal Year 2008/09 to the Fiscal Year 2023/24.

**Figure 2:** Trends of Nepal’s International Services Trade Fiscal Year 2008/09 to Fiscal Year 2023/24

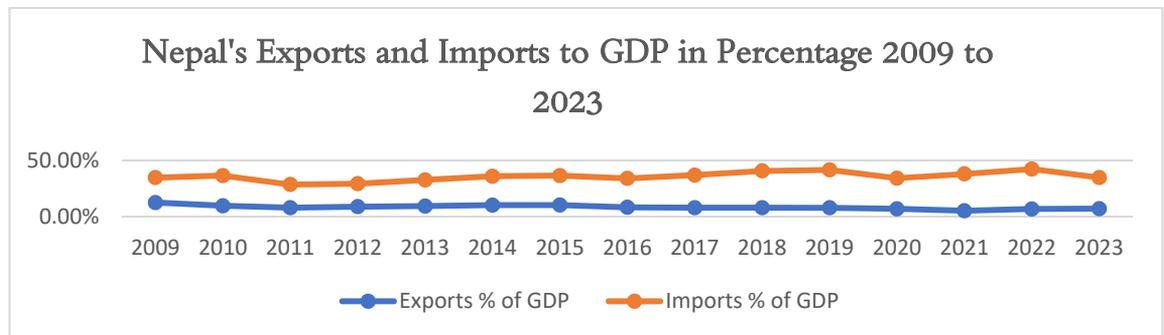


Note. This chart uses the data of the Nepal Rastra Bank and depicts the trend of Nepal’s total exports, imports, and total services trade volume in different Commerce Policy implementation periods from the Fiscal Year 2008/09 to the Fiscal Year 2023/24.

periods from the Fiscal Year 2008/09 to the Fiscal Year 2023/24. The data for 2023/24 is provisional.

Figure 1 illustrates the trend of trade in Nepal in recent years. It shows that while export figures have largely stagnated, import bills have steadily increased, indicating that the objectives of past Commerce Policies regarding export growth and trade balance have not been fully achieved. In contrast, as shown in Figure 2, Nepal's trade in services has experienced significant growth in recent years, reflecting a relatively more favorable trade balance in services compared to goods trade. This expansion is largely driven by increased exports in IT and business process outsourcing (BPO) services, as well as a rise in tourist arrivals. However, the services trade balance has been partially offset by substantial outflows related to education and travel expenditures. Notably, Nepal achieved a positive trade balance in electricity exports for the first time in fiscal year 2023/24. The continued development of the hydroelectric sector, together with power trade agreements with India and Bangladesh, is expected to further strengthen Nepal's services trade balance in the coming years.

**Figure 3 :** Nepal's total exports, imports, and their relationship with the Nepal's GDP during the two Commerce Policy period



Note. This chart uses the data obtained from the <https://www.macrotrends.net> and depicts the trend of Nepal's total exports, imports, and their relationship with the Nepalese GDP in different Commerce Policy implementation periods from the Year 2009 to the Year 2023.

Figure 3 illustrates that, during the examined period, Nepal's goods trade has experienced a notable discrepancy between import growth and export performance. Historical data indicate a steady decline in the contribution of exports to GDP: exports accounted for 12.42% of GDP in 2009, declining to 10.21% by 2015 and further to a single-digit level of 6.96% in 2023.

Natural and human-induced disasters have also impacted Nepalese trade. For instance, the COVID-19 pandemic negatively affected trade flows. According to the Economic Survey (2021), during the first nationwide shutdown (March–July 2020), imports decreased by approximately 32.8%, while exports fell by 25.6% compared to pre-pandemic levels. By mid-2020, exports began to rebound; however, imports remained below the previous year's levels due to supply chain disruptions and reduced demand for capital goods and industrial supplies. As a result of these adverse effects, exports continued their downward trajectory, reaching 5.12% of GDP in 2021 before slightly

recovering to 6.92% in 2023. In contrast, the import-to-GDP ratio continued to rise, intensifying Nepal's declining terms of trade.

### ***Tariff and Non-Tariff Measures as Trade Policy Tools***

Nepal's Commerce Policies have largely failed to reduce the trade deficit. One contributing factor is the challenge of balancing tariff and non-tariff measures (NTMs). Tariffs protect domestic infant industries and help address trade imbalances, while NTMs safeguard human, animal, and plant life. However, high tariffs or stringent NTMs can increase the cost of goods, reduce access to essential commodities, and encourage informal trade. Conversely, lowering tariffs or relaxing NTMs may harm domestic SMEs and reduce customs-based government revenue.

### **Redemptions and Remissions**

Nepal's trade and fiscal policies are not fully harmonized. Export industries receive limited tax incentives, and many commitments outlined in trade and industrial policies are not reflected in tax implementation. Trade finance remains underdeveloped compared to neighboring countries, and blended finance is still a nascent concept in Nepal.

To support the Commerce Policy 2015, the government introduced cash export incentives of up to 8%; however, exporters rarely received the full benefit. The scheme applied only to products with at least 30% value addition and did not effectively cover services. Although NTIS recommends extending incentives to service exports, this may not be feasible post-LDC graduation in 2026. The Commerce Policy 2025 shifts focus toward rule-based and production-linked incentives, replacing cash incentives in the coming years. During the COVID-19 pandemic, the government provided tax relief on essential medical imports and concessional loans to affected sectors such as SMEs and tourism. Nevertheless, these measures were modest compared to support provided by India and China.

Given that export subsidies are discouraged under WTO rules, Nepal should revise its approach by promoting non-distorting incentives within the green and development boxes. This includes broadening product coverage, improving productivity, and strengthening the production base to enhance the effectiveness of export support.

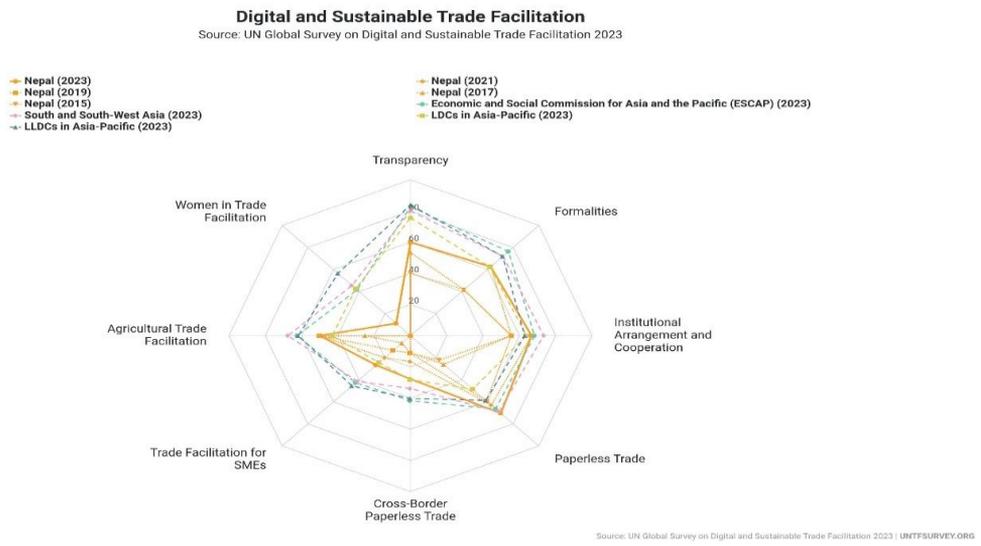
### ***Trade Facilitation***

As a landlocked country, Nepal faces persistently high trade costs due to geographic constraints and procedural inefficiencies. Trade facilitation—rooted in GATT Articles V, VIII, and X—aims to reduce these costs by simplifying and harmonizing cross-border procedures (Hoekman, 2016). With the establishment of the WTO and subsequent negotiations, the Trade Facilitation Agreement (TFA) shifted the global agenda toward modernizing customs procedures, enhancing transparency, and lowering transaction costs (Moisé & Sorescu, 2013; World Trade Organization, 2015). The TFA entered into force in 2017 and has since become a key instrument in improving global supply chain efficiency.

Nepal has made measurable progress in implementing TFA commitments under Categories A, B, and C but continues to require technical and financial support, particularly for more complex Category C measures (WTO, 2020). The government has established a National Trade Facilitation Committee, led by the Ministry of Industry, Commerce, and Supplies, to coordinate implementation across agencies in accordance with Article 23.2 of the TFA. Effective execution, however, requires dedicated working groups led by relevant bodies, such as customs and infrastructure authorities.

To strengthen compliance, Nepal has notified the WTO of its need for assistance in 13 Category C measures. With LDC graduation approaching, securing timely support from development partners has become urgent (WTO, 2020). Since ratifying the TFA in 2017, Nepal has introduced key trade facilitation tools, including the Nepal National Single Window, an electronic customs payment system, and the expansion of ASYCUDA. Although implementation timelines have been established, full execution of all commitments requires additional resources, identification of donors for Category C measures, stronger interagency coordination, and capacity building (MoICS, 2023).

**Figure 4 :** *Nepal’s Digital and Sustainable Trade Facilitation Score: A Comparative Perspective*



*Note. This figure is adapted from the UN Global Survey on Digital and Sustainable Trade Facilitation and depicts the situation of Nepal in the emerging aspects of trade facilitation as compared to other regions and the progress from 2015 to 2023.*

**Trade Facilitation and Digital Trade**

According to the UN Global Survey on Digital and Sustainable Trade Facilitation (2023), Nepal has made moderate progress in the overall trade facilitation index, increasing its score from 31.18 in 2015 to 58.06 in 2023. However, trade facilitation measures for SMEs remain underdeveloped, and

insufficient attention has been given to women in trade facilitation initiatives. Cross-border paperless trade is still weak, highlighting the need for policymakers to focus on strengthening digital trade infrastructure to improve the trade ecosystem.

Efforts to adopt a WTO TFA-plus approach in different regions are ongoing. Research by Duval et al. (2019) indicates that trade costs in the Asia-Pacific region remain high despite significant progress in trade facilitation measures. Next-generation digital solutions, such as cross-border paperless trade, have been limited. The recently established UN Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific may accelerate progress in this area.

### ***Trade Infrastructure and Logistics***

Nepal's trade competitiveness is constrained by weak infrastructure, including inadequate transport networks, limited digital systems, and inefficient logistics services (Trade Logistics Policy, 2023). Insufficient intergovernmental coordination and limited data sharing in customs further increase trade costs. Compared to neighboring countries, Nepal's trade infrastructure remains underdeveloped, as reflected in its low Logistics Performance Index (World Bank, 2023).

The 2023 Trade Logistics Policy aims to modernize supply chains, enhance governance, and develop integrated logistics infrastructure, including inland container depots (ICDs) and integrated check posts (ICPs) such as Biratnagar, Nepalgunj, Tatopani, and Chovar (The Kathmandu Post, 2023). The policy also emphasizes leveraging modern technology to support entrepreneurs and MSMEs. However, implementation is still in its early stages, and the Ministry of Industry, Commerce, and Supplies faces resource constraints and project limitations. Strengthening trade finance mechanisms, simplifying service procurement, and aligning logistics policy with broader Commerce Policy objectives are essential for improving Nepal's logistics performance, reducing trade costs, enhancing supply chain efficiency, and boosting overall trade competitiveness (MoICS, 2023).

### ***Digital Trade Landscape***

The Commerce Policy envisions using ICT to facilitate trade and promote digital trade, but its modalities and operational direction remain unclear. Key provisions for e-commerce, digital infrastructure, and paperless trade are limited. Nepal has implemented the Nepal National Single Window (NNSW) and upgraded to ASYCUDA WORLD to streamline imports and exports. Additionally, the Digital Nepal Framework aims to apply e-governance across public service delivery institutions, and a web-based One Stop Service Center (OSSC) has been established under the Investment Board of Nepal to facilitate foreign investment.

While some services are now available online, inadequate digital infrastructure, capacity constraints, and limited access to modern technologies—including gaps in digital literacy—continue to hinder progress. To fully harness the benefits of digital trade systems, all partner government agencies (PGAs), including Customs, the Postal Service, the Department of Food Technology and Quality Control (DFTQC), Nepal Bureau of Standards and Metrology (NBSM), Office of the Company Registrar, Department of Commerce, Supplies and Consumer Protection, Inland Revenue Department, Department of Immigration, and various security agencies, must be seamlessly

integrated into the NNSW. Comprehensive digital upgrades and strong collaboration among government, private sector, and development partners are essential for building a robust and sustainable digital trade ecosystem.

The enactment of the E-Commerce Law (2025) represents a major step toward promoting digital trade in Nepal. It facilitates “digitally ordered and digitally delivered” transactions with consumer protection provisions. Effective promotion and implementation of this law are vital for reducing trade costs and advancing Nepal toward a digitally enabled economy. LDC graduation underscores the need for policy calibration of digital business ecosystems, encompassing both goods and services sectors of international trade.

### ***Institutional Arrangements, Coordination, and Resource Mobilization***

Trade policy is inherently cross-cutting and requires targeted coordination for effective implementation. The Commerce Policy 2015 established the Board of Trade, Trade Advisory Committee, and Trade and Export Promotion Center (TEPC), among others. DFTQC and NBSM have managed SPS and TBT-related matters. For improved trade policymaking and implementation, stakeholder engagement at all levels is crucial, and the Board of Trade should enhance effectiveness through regular meetings and systematic follow-ups.

Nepal’s governance structure comprises three tiers: federal, provincial (seven provinces), and local (753 municipalities and rural municipalities). While the federal government holds exclusive authority over international trade, provincial and local governments oversee various industrial and commercial activities. Effective trade operations require coordination across these levels, and MSMEs, cooperatives, and other stakeholders play pivotal roles in production, value chain enhancement, and the development of both soft and hard infrastructure.

For example, Koshi Pradesh has strengthened value chains for key agricultural products, such as cardamom, ginger, dog chew, tea, coffee, and dairy. Such initiatives facilitate collaboration between federal and local governments to enhance global and local value chains while improving the supply-side capacity of Nepalese exports. However, the current Commerce Policy lacks detailed provisions for multi-level coordination, which is critical for enhancing competitiveness post-LDC graduation. The revised Action Plan should clearly outline mechanisms for integrated efforts among all tiers of government and stakeholders to ensure sustainable trade growth and economic resilience.

Establishing inter-agency task forces, conducting regular policy reviews, and implementing centralized digital platforms will streamline coordination and data sharing. Digitizing services and developing trade and investment cadres within technical agencies are essential for retaining institutional knowledge. Economic diplomacy should be prioritized, with investment in mobilizing diplomats to strengthen bilateral, regional, and global ties.

Mobilizing Aid for Trade through International Support Measures (ISMs) is also crucial for enhancing trade. TEPC has been tasked with organizing trade fairs and operationalizing the Trade Information Portal. However, institutional performance has been average, and implementation of NTIS-related trade action plans has remained below expectations. The Intermodal Transport Development Committee and Nepal Transit and Warehouse Company, responsible for trade

logistics, require operational strengthening. The government's decision to merge these institutions has not yet been implemented. Establishing a single authority with clearly defined powers is recommended to reduce trade logistics costs and improve facilitation.

### ***Key Challenges to Export Promotion***

Nepal faces multiple challenges that impede product, service, and market diversification. These include limitations in production capacity, productivity, infrastructure, digital capabilities, trade facilitation, logistics, supply chain management, entrepreneurship, and innovation. Enterprises struggle with limited market intelligence, difficulty establishing contacts in new markets, and inadequate public incentives for high-value processing. High transport costs, poor air connectivity, and weak digital infrastructure exacerbate these challenges, particularly for small exporters and the tourism sector.

Export-oriented industries confront stringent regulatory processes, insufficient FDI attraction, and unclear tax policies. SMEs face barriers such as inadequate payment gateways, regulatory hurdles for international operations, and slow technology adoption. Exporters' dependence on traditional Indian buyers, coupled with uncertainties in new markets, weak supply chains, and limited economies of scale, further constrains diversification. Additionally, quality assurance, effective marketing, and poor physical and financial connectivity—especially with China—remain significant obstacles to expanding Nepal's export base and entering new markets.

### ***LDC Graduation and Graduation Centric Trade Policy Measures***

Nepal's Commerce Policy 2025 acknowledges LDC graduation as a rationale for its development but focuses primarily on utilizing special and differential treatment for LDCs rather than preparing for post-graduation challenges. While the policy outlines broad objectives, such as improving trade performance, export diversification, and competitiveness, it does not address specific challenges Nepal would face after losing LDC trade preferences. Key areas, such as developing new trade relationships, integrating into global value chains, and supporting industries more likely to be impacted, remain underemphasized. A more proactive approach should include strategies for transitioning to developing country status, preparing for tariff adjustments, negotiating free trade agreements and other economic agreements, and enhancing industry competitiveness and productivity in a post-LDC environment.

According to the KIIs conducted, specific trade policy adjustments are necessary to enhance Nepal's competitiveness in the post-LDC era. The country must focus on building productive capacity, improving infrastructure, enhancing trade facilitation, and adopting digital trade tools. Moreover, key measures include upgrading standards and technical regulations to address non-tariff measures (NTMs) in destination markets, revising subsidy regimes to boost productivity, and conducting effective trade negotiations not limited to preserving market preferences but also involving market access negotiations through sound FTAs with key trading partners. The informants also highlighted that Nepal should prioritize shifting from low-value, traditional products to higher-value goods and services, reducing dependency on India, and leveraging bilateral trade agreements and regional partnerships. Policies promoting industrialization and exports should align with revenue policies to

ensure coherence, while export cash incentives, duty-drawback provisions, and subsidy schemes need streamlining.

The export promotion of NTIS-listed products requires revised legal frameworks, export directives, and improved implementation mechanisms. Strengthening institutions like the National SPS Coordination Committee to address SPS and TBT-related challenges is crucial. Additionally, local supply chains must also be strengthened for greater local value addition. Improving quality, quantity, pricing, and logistics-related competitiveness should be a top priority. In response to the question of how Nepal can enhance value addition in its priority products and integrate into the global value chain, informants suggested multi-pronged approaches. Firstly, Nepal should focus on local processing of raw materials, such as agriculture-based products (e.g., tea, coffee, herbs), and prioritize industries utilizing local raw materials like natural fibers. Secondly, the country should increase investment in skills development and technology, which are essential to improve productivity and product quality. Thirdly, strengthening branding strategies, fostering public-private partnerships, and focusing on capacity building and market access will support industrial growth. Additionally, adopting upgraded technologies and good practices, along with highlighting unique product features, will help create a strong product identity. Nepal should also identify sectors where it can integrate into global value chains.

Cross-border trade costs remain high not only because of Nepal's landlocked status but also due to poor trade facilitation, including soft, hard, logistics, and paper-based systems. Investment in market infrastructure, including physical, financial, and technological infrastructure, along with improved market intelligence, is essential to reduce trade-related costs. Effective government service delivery is crucial in all these areas. Additionally, intervention is needed to dissolve transport syndicates, adopt a multimodal transport system, and reduce tax and interest rates.

Building capacity at micro, meso, and macro levels of trade-related agencies, the Public Government Agencies (PGAs), is paramount to facilitating trade and boosting competitiveness. Capacity-building initiatives are required for policymakers and trade negotiators to advance Nepal's trade ecosystem. To this end, Nepal should focus on offering training on international trade agreements, including WTO and regional pacts, and develop skill-building programs for emerging issues like digital trade and intellectual property. Facilitating exchange programs with countries that have successfully transitioned will enhance policymakers' expertise. Developing and retaining trade and investment cadres is crucial for protecting and advancing Nepal's trade interests. Strengthening trade intelligence capacity is essential, as it is currently a major gap for Nepal's policymakers and trade negotiators. In this context, the Nepal Trade Information Portal must be re-operationalized, making the TEPC a vibrant institution for trade and investment data analysis. Moreover, a think tank institution, similar to the Centre for WTO Studies in India, must be established to conduct key trade and investment policy research that eases the smooth transition of the country through enhanced exports.

## **Summary of the Findings**

Nepal, approaching its graduation from LDC status, is working to diversify exports and expand market access through negotiations with India, Bangladesh, and other partners. While the country has 17 bilateral trade agreements and participates in regional frameworks like SAFTA and

BIMSTEC, many agreements are underutilized. Prioritizing FTAs with key partners and actively implementing regional agreements could strengthen Nepal's export potential.

The 2025 Commerce Policy has taken similar objectives from the Commerce Policies of 2009 and 2015, aiming to reduce the trade deficit. However, limited success achieved so far, due to structural imbalances in tariffs and non-tariff measures, suggests that similar issues will persist in meeting the objectives of Commerce Policy 2025 as well. High tariffs restrict access to goods and fuel informal trade, while lower tariffs negatively affect domestic sectors and revenue. Export incentives under NTIS cover only a few products and are unlikely to continue post-2026 graduation, highlighting the need for revised fiscal strategies aligned with WTO rules and strengthened productivity. Continuous reform of investment laws, entrepreneurship, digitalization of procedures, and well-targeted support to startups and innovation, including governance reform, are major instruments to promote FDI. There is an urgent need to improve aggregate demand for Nepali products and services through FDI and associated technology transfer, including attracting remittance into the MSMEs sector.

Trade facilitation remains critical for reducing cross-border trade costs. Since ratifying the Trade Facilitation Agreement (TFA) in 2017, Nepal has introduced measures like risk management systems, the Nepal National Single Window (NNSW), and paperless commerce. Full implementation of all Category A, B, and C measures, however, requires more resources and institutional coordination. Enhancing digital platforms, stakeholder involvement, and trade information systems is essential, alongside mobilizing Aid for Trade (Aft) support.

The 2025 policy still primarily addresses current LDC flexibility rather than preparing for post-graduation challenges. Key gaps include negotiating new trade agreements, supporting vulnerable industries, and adapting to tariff changes. Respondents emphasized the urgency of increasing productive capacity, modernizing infrastructure, adopting digital technologies, and complying with global standards. Strategic use of FTAs, reduced dependence on India, strengthened negotiation skills, and resilient supply chains are vital for improving competitiveness, especially for NTIS-priority products.

A comprehensive strategy is needed to enhance value addition and integrate Nepal into global value chains. This includes promoting local processing, branding, public-private partnerships, technology adoption, and improving logistics through multimodal transport and infrastructure upgrades. Institutional capacity-building, trade intelligence, and training in international trade, digital commerce, and intellectual property are essential to sustain trade growth and navigate Nepal's post-LDC trajectory successfully.

## **Conclusion and Recommendations**

The Commerce Policy 2025 is attempting to capture recent phenomena in international trade, including digital trade, and is formulated based on five key pillars: securing market access for Nepali products and services, seeking a trade-off between tariff and non-tariff trade policy tools for promoting trade while protecting domestic industries, ensuring productive and rule-based targeted incentives, developing physical and digital trade infrastructure for trade facilitation, and coordinating efforts across the three tiers of government with improved governance mechanisms. The policy demands more resources to work on investment and in the entire value chain of Nepali products and

services. The pathway toward a developing country requires each pillar of the Commerce Policy to be vibrant, with capacity-building to capture trade opportunities.

To achieve a smooth and sustainable transition from LDC status, immediate policy attention should focus on building a coherent, trade-centric graduation pathway, considering that Nepal will no longer remain an LDC. This includes updating the National Trade Integration Strategy to reflect post-graduation realities, strengthening the legal and institutional framework in line with TRIPS flexibilities, and formulating the Industrial Policy within a year. Moreover, modernizing trade and logistics governance through an integrated national logistics authority is essential. Priority should also be given to laying the foundations for a digital trade ecosystem, institutionalizing a central trade and export promotion mechanism, and mobilizing the Non-Resident Nepali community as a source of investment, market access, and knowledge transfer. Revisiting tariff structures to protect emerging domestic industries while controlling informal trade, introducing minimum support prices for key staple crops, and clarifying the roles of federal, provincial, and local governments toward building an investment ecosystem are equally important. Nepal should accelerate selective PTA and FTA negotiations in priority sectors to enhance trade competitiveness and policy coherence. Strategic investments in entrepreneurship, trade infrastructure, logistics implementation, and national product promotion platforms are critical to strengthening Nepal's supply-side capacity in the short term. Over the medium to long term, Nepal's graduation sustainability will depend on its export orientation in the services sector, deepening trade finance, upgrading infrastructure, and investing in SPS and TBT systems, including mutual recognition arrangements with key trading partners, to improve market access and compliance. In this context, future trade agreements should progressively integrate investment, tourism, and services to support economic diversification. In the longer run, carefully sequenced outward investment in competitive sectors, strengthened quality and standards infrastructure, effective use of green and development box agricultural support, and robust trade remedy mechanisms will be essential to protect domestic industries. Achieving these objectives will require effective resource mobilization through domestic financing, well-targeted aid for trade from development partners, and innovative instruments such as blended finance and diaspora investment, alongside strong public-private dialogue and results-based implementation. Embedding sustainability, resilience, and institutional capacity-building across all trade policies will ultimately determine whether Nepal's graduation translates into long-term competitiveness and inclusive growth. Nepal requires a forward-looking implementation of its commerce policy to navigate post-LDC graduation, emphasizing pragmatic strategies across trade, investment, and intellectual property domains. Key priorities include mitigating the loss of preferential market access, balancing tariffs and non-tariff measures, promoting digital and sustainable trade, investing in infrastructure and connectivity, enhancing trade finance, and strengthening economic diplomacy and institutional capacity at all levels. These measures are essential for trade-driven economic growth in the post-graduation era.

As multilateral trade negotiations have made limited progress in advancing the development objectives envisaged under the Doha Development Agenda, and WTO Members are expected to deliver only incremental outcomes at the forthcoming MC14, it may be strategically practical for Nepal to complement its multilateral engagement with a bilateral pathway. Thus, pursuing market access through bilateral and regional instruments, such as free trade agreements (FTAs) and preferential trade agreements (PTAs) with key trading partners, could help secure enhanced and more predictable market access for Nepali goods and services.

While Nepal currently benefits from duty-free and quota-free access to many advanced economies, the utilization of these preferences has remained low due to supply-side constraints, limited productive capacity, and non-tariff barriers such as stringent rules of origin, SPS, and TBT measures. Nepal will lose most of these privileges in the near future, necessitating active efforts to build a sound production base and expand its products and services potential. Hence, embracing monetary, fiscal, and industrial policies that are symbiotic and supportive of the Commerce Policy would generate more employment, which is essential for a sustainable graduation.

Tariff and non-tariff measures must be applied carefully to protect infant industries, manage informal trade, and ensure consumer welfare. Evidence-based approaches should target high tariffs only on sensitive products while strengthening standards to safeguard against substandard imports. Export diversification, value addition, and negotiation of new trade agreements are critical to maintaining competitiveness. Domestic support measures under WTO-compliant green, blue, and development boxes can substitute for prohibited export subsidies, while duty drawback schemes should be carefully managed.

Emerging trade trends, including digital commerce and sustainable practices, offer opportunities to enhance Nepal's trade competitiveness. Harmonizing WTO obligations, such as annual notification requirements under the Agreement on Agriculture and TRIPS compliance, is essential. Nepal must also prioritize Category C commitments under the Trade Facilitation Agreement and adopt modern trade facilitation measures like e-commerce, green trade facilitation, and cross-border paperless trade.

Compliance with GSP+ requirements and alignment of SPS/TBT standards are critical to overcoming non-tariff barriers. The Nepal Trade Integration Strategy (NTIS) 2023 identifies 31 priority products and five service sectors with strong export potential; developing these along value chains is vital to offset the impacts of graduation. Effective coordination among federal, provincial, and local governments is necessary to create a robust trade ecosystem, particularly for MSMEs. Finally, engaging in FTAs, preferential agreements, and WTO-plus initiatives will help compensate for preference erosion, expand markets, and stabilize Nepal's export base.

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