

Nepal's Ever-Rising Food and Agricultural Imports: Will Tariffs Help?

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Summary

Nepal intends to protect its primary food and agriculture sector from competition from primary Indian food and agricultural imports by imposing higher tariffs. However, Nepal faces constraints in doing this for several reasons. Moreover, as a result of Nepal's high dependence on food imports from India, a reduction in such imports without addressing the varied problems in Nepal's domestic agriculture sector could risk Nepali consumers' welfare.

Agriculture contributes a quarter of Nepal's gross domestic product. Around 60 per cent of the country's economically active population is engaged in the agriculture, forests and fisheries sector. Yet, Nepal is unable to meet its food requirements through domestic agricultural production. Over the past several years, there has been a steady rise in Nepal's imports of food and agricultural items, chiefly from its largest trade partner and immediate neighbour, India. [Nepal's imports](#) of just cereals, vegetables and fruits from India have usually been more than four-fifths of Nepal's total merchandise exports to India!

The [bilateral trade treaty](#) that governs trade between Nepal and India has a special provision on trade in agriculture and primary goods. It stipulates that the two countries will provide exemptions from basic customs duty and not impose quantitative restrictions on imports of primary goods and agricultural products from each other on a reciprocal basis. Such a provision on bilateral trade of primary agricultural products has been viewed by analysts and policymakers in Nepal as creating an [unequal playing field](#) for Nepal's agriculture, particularly in view of India's provision of a substantial amount of direct and indirect subsidies to its agriculture sector. The consequence, it is alleged, is high imports of agricultural products into Nepal from India by undercutting Nepal's agricultural competitiveness. Hence, there are [calls in Nepal](#) to revisit the provision on agricultural trade in the Nepal-India bilateral trade treaty and protect Nepal's agriculture by imposing tariffs on agricultural imports from India.

Although Nepal and India do not impose customs duty on primary agricultural imports from each other as per the bilateral trade treaty, Nepal levies an [Agriculture Reform Fee](#) (ARF) of five per cent and nine per cent, depending on the product, on many agricultural imports from India. Therefore, the bilateral trade between Nepal and India on primary agricultural products is not exactly on fully reciprocal terms. The fact is that the imposition of the ARF has not been enough to check the steady flow of agricultural imports from India into Nepal.

The ARF is not a tariff per se. It falls under the category of 'other duties and charges' (ODCs) in international trade parlance. As per its accession commitments in the World Trade Organization (WTO), Nepal had pledged to phase out its ODCs by 2014. Despite this, Nepal has continued to impose the ARF on agricultural products imported through the land route

from India and Tibet (China). India has been asking Nepal to [eliminate the ARF](#) for a long time but is not seen to have objected to it strongly.

If Nepal seeks to revise the bilateral trade treaty with India with the proposal to annul the provision on reciprocal duty-free market access of primary agricultural products, India might compel Nepal to eliminate the ARF as per its WTO commitment. In that case, to be able to compete with India's agricultural imports, Nepal's customs duty rates on such imports should be higher than the current ARF.

Nepal will not be able to freely determine such customs duty rates. There are constraints that will limit Nepal's latitude in determining the appropriate customs duty rates on primary agricultural imports. The most important of these is the [Agreement on the South Asian Free Trade Area](#) (SAFTA), which is a regional trade agreement among eight members of the South Asian Association for Regional Cooperation, including Nepal and India.

Initially, when the SAFTA was agreed upon, its parties had placed most of their important products, including agricultural items, in the sensitive lists. Products in the sensitive lists were shielded from tariff reductions. During the course of gradually liberalising trade under the SAFTA, all parties shortened the sensitive lists. In this course, Nepal removed most of the food and agricultural items that are its major imports from its sensitive list and has since maintained relatively low tariffs on agricultural imports from the SAFTA parties. This entails that Nepal's proposed imposition of customs duty on primary agricultural imports from India cannot be higher than that under the SAFTA.

Currently, Nepal's ARF on agricultural imports from India is close to Nepal's customs duty rates on agricultural imports from the SAFTA parties. Therefore, eliminating the ARF would simply mean substituting it with a similar level of customs duty. If the current protection through the ARF is not enough, then a similar protection through customs duty will not help achieve Nepal's intended objective of protecting its agriculture from Indian imports. At most, substituting the ARF with customs duty will help keep Nepal's existing protection of its agriculture sector intact through border measures.

Since the reciprocal duty-free provision in bilateral trade of food and agricultural products between Nepal and India has been in existence in the bilateral trade treaty for decades, but the extraordinary rise in agricultural imports have been relatively recent, the provisions in the bilateral trade treaty alone do not fully explain Nepal's astonishingly rising agricultural imports from India. There are [a number of other problems](#) in Nepal's domestic agriculture that the country needs to address. Identifying these problems and taking a holistic view of agricultural development should be the country's priority, along with negotiating for revisions in the bilateral trade treaty and the SAFTA, if that is at all possible. Nepal needs to be cognisant that protecting its agriculture sector by imposing higher import tariffs without addressing the multitude of problems in its agriculture sector, when it has such a high dependence on imports to meet its food requirements, could be counterproductive.

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