



NEPAL

What's happening in this economy

Nepal is in a period of relative political stability.

Elections held at all three tiers of government (federal, provincial and local) in 2017 have resulted in formation of governments set to be in place for five-year terms.

Nepal's population is 29.6 million with a per capita annual income of USD 965. The median age is 24 and more than half of the population is under the age of 25. Remittance income forms a significant part of Nepal's economy (25%+ of GDP), with more than 10 per cent of the population working overseas.

Nepal has seen an increase in economic activity and GDP growth is estimated at 6.5 per cent in 2019. Despite this, Nepal remains a Least Developed Country, with approximately a quarter of the population (7 million people) living below the poverty line and earning less than USD1.90 a day.

In the World Bank's latest Ease of Doing Business report (released October 2019) Nepal moved up to 94 place in 2019 (from 110 in 2018), after improving access to government services, lines of credit and cross border trading. On the other hand, it became more difficult to start a business and or register property in the country in 2019.

Corruption is a significant impediment to equitable economic growth in Nepal. The government has announced its intention to rid the country of corruption and foster an open and transparent government and business environment, but there has been limited progress to date.

Market constraints include a lack of (and poor quality) infrastructure throughout the country, challenging topography, an uncertain policy environment, a poorly trained and educated workforce, excessive bureaucracy and an ineffective regulatory environment and rule of law.

The Nepal government officially welcomes FDI and has recently passed laws intended to improve the country's investment climate. In practice however, foreign companies often say that factors—such as the constraints above—make doing business in Nepal difficult. It is unclear whether the new legislation will be implemented over time and if it can in fact improve the climate for foreign investors. A significant negative list of industries protected from FDI competition is included in the legislation, to which the agriculture and fisheries sectors were recently added.

Otherwise, business confidence is improving to some extent with contacts citing more stable government and increased multi-national company interest in the market. However a slower than anticipated decentralisation process and government decision-making that tends towards an economic nationalist streak is cause for a 'wait and see' approach in some sectors.

Despite the constraints and challenges, Nepal's young population, growing middle class and unique geographic location between China and India, mean it should become an increasingly attractive investment market in years to come.

Key facts and figures

- Population: 29.6m (2018)
- GDP growth: 6.5% (2019)
- GDP per capita: USD 3,115 (2019)
- Political system: Federal Parliamentary Republic
- Two-way trade: AUD 2.4b
- Key goods and services traded: education, tourism, fruits/vegetables and pulses, beverages
- Two-way investment/major investments: tourism/hospitality
- Aid relationship: AUD 22.5m (2019–20)



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Nepal is a recipient of Australian development assistance. Total estimated assistance for 2019–20 is AUD 22.5 million.

Trade, investment, and commercial opportunities and activities

- Australia’s primary commercial engagement with the market is to deliver education services:
 - Nepal is Australia’s third largest source country for international students, with more than 50,000 enrolments
 - the government’s interest in delivering vocational education to address skills gaps and ensure school graduates are fit for the Nepali jobs market (particularly in the tourism sector)
 - this presents opportunities for Australian vocational education providers, such as TAFE
 - private sector support is needed to develop curriculum and business engagement models on a commercial basis, and
 - post is supporting the capacity of local institutions to deliver Australian-accredited TAFE hospitality courses through Nepali institutions.
- Australia enjoys a level of brand impact in Nepal, achieved through:
 - the Nepalese diaspora in Australia
 - strong education relationships
 - its recognition and reputation as a tourism service provider, and
 - the presence of Australian premium food and beverage in the market.
- Compared with India, Nepal is outward looking with a transient, trade exposed labour pool and a student cohort that is globally mobile, and open to foreign partnerships, products and knowledge.
- Emerging commercial opportunities include:
 - technical advice for the renewable energy sector (hydro and solar), and
 - commodities including canola oil, pulses and legumes.
- Australia is well positioned as a provider of agriculture expertise—particularly the horticulture sector. It can:
 - support upscaling and quality control for pork and poultry for sale to the Indian market as ‘made to Australian standards’.
- There are growing opportunities for growth in the premium food and beverage market:
 - there is a niche gourmet food community, which features Australian lamb and beef, Tasmanian cheese, KR Castlemaine pork products and Steggles poultry
 - Jacob’s Creek wines are ubiquitous across the major cities and centres of Nepal, with close to 12,000 cases sold every year
 - the Melbourne-based Australian Lamb Company has had a good presence in several high end stores with its branded meat product, *Ambassador*



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- a Sydney-based health and fitness supplement brand ‘Blue Dinosaur’ is also a welcome sight in Nepali supermarkets, and
- in meetings with retailers, importers and distributors of foreign product, there is further interest in ice-cream and other frozen dairy products, branded beef and lamb products, wine as well as products in the wellness and nutrition segment.
- Australian-listed companies have supported infrastructure development in the tourism sector, including a USD 50 million 5-star resort in Bhairahawa (near Lumbini, the birthplace of Buddha) and a USD 150 million 5-star Sheraton hotel in Kathmandu which is currently under construction:
 - wide-scale corruption, protectionism and a poor regulatory environment means however that Nepal remains a highly challenging environment for large-scale infrastructure investment.

Trade policy and negotiations

The 1950 Nepal–India Friendship Treaty established a close strategic relationship between the two countries—including free movement of people, labour and goods—which continues to this day.

Except for some items under quantitative restrictions, Nepal is in a unilateral duty-free trade regime with India, which accounted for 65 per cent of Nepal’s total trade in 2017–18.

Nepal has ratified the SAARC South Asian Free Trade Agreement with India, Bhutan, Bangladesh, Pakistan, Sri Lanka, the Maldives and Afghanistan.

Nepal is a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Other members include Bangladesh, Bhutan, India, Burma, Sri Lanka and Thailand.

Nepal is a member of the World Trade Organization (WTO). It also has bilateral trade treaties with 17 individual countries, including the USA, Russia and China.

Australia–Nepal biennial bilateral consultations began in 2018. These talks provide an opportunity for both parties to identify areas for increased engagement. The next talks will be held in Australia in 2020.

An Air Services Agreement signed in September 2019 between Nepal and Australia now provides direct flights between the two countries. There is significant Nepal government interest in direct commercial flights between Australia and Nepal, but high fuel cost and airport landing fees in Kathmandu—along with the airport’s limited capacity to increase the number of international flights—present a significant barrier.

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