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## THE EUROPEAN COMMUNITY AND NEPAL

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## THE EUROPEAN COMMUNITY AND NEPAL

### INTRODUCTION

Geography plays an important part in the economics - and politics - of many countries. This is certainly true of the Kingdom of Nepal, sandwiched between China and India in the Eastern Himalayas.

With an area slightly larger than that of Greece (140,000 square miles), and a population of around 17 million, Nepal has a density of 115 persons per square kilometre. But much of the land is mountainous, so that population density in relation to arable land is one of the world's highest at nearly 400 per square kilometre (as compared to 347 per square kilometre in the Netherlands, the most densely populated of the Community's Member States).

Nepal is also a very poor country, officially classified by the U.N. as one of 36 least developed countries. It has a per capita income of under \$200. Economic growth has kept ahead of population growth, but by the very narrow margin of 0.5% over the last decade or so.

Growth in agricultural production has fallen well behind population growth, however. The situation could worsen in the absence of remedial action, given the removal of the forest cover, partly in order to provide additional land for cultivation, has led to soil erosion, landslides and floods.

The threat is all the more serious as agriculture is the basis of Nepal's economy; it accounts for around 60% of the country's Gross Domestic Product (GDP), 75% of its exports and 90% of employment. Industry's contribution to GDP is about 10%. However, while exports of food grains may well fall because of domestic needs, exports of manufactured goods, especially carpets and ready-made garments, are expected to grow by 8% and 6% a year respectively.

Tourism plays an important role in Nepal's economy. The tourist industry has been growing rapidly, helped along by foreign aid, and now accounts for some 20% of the country's foreign exchange earnings. Income from tourism is expected to rise by 6.5% a year in real terms.

Politically, Nepal is evolving towards a modern, participatory system of government. Its key institutions are a Council of Ministers, chaired by the King; a palace secretariat and a panchayat, which groups representatives of six social groups (youth, workers, peasants, women, ex-servicemen and elders).

Nepal's external relations are aimed at maintaining good relations with India and China. The country attaches considerable importance to regional cooperation and is an active member of the South Asian Association for Regional Cooperation (SAARC). The Association's permanent secretariat is in the capital city, Kathmandu.

**EEC-NEPAL RELATIONS**  
**AN OVERVIEW**

Nepal established diplomatic relations with the EEC in 1975, when it accredited its ambassador to the Federal Republic of Germany to the Community also. The first visit to the Community at ministerial level took place in 1980, when the Finance Minister, Dr. Pant, called on the European Commission in Brussels, to urge the Community to play a more active role in his country's economic development.

This resulted in a fact-finding mission to Nepal in 1982, to identify projects the Community could finance. Nepal's relations with the EEC are relatively recent, therefore. This is not surprising, given that what has initially prompted many Asian countries to establish a formal relationship with the Community has been the felt need to expand their trade. But in 1976 Nepal's exports to the EEC amounted to no more than 7 million ECUs and its imports to 9 million ECUs.

Since Nepal established diplomatic relations with the Community the latter has financed a number of projects aimed at increasing the country's exports to the EEC. The latest of these is a GSP seminar in Kathmandu on February 9 and 10. Aimed at the country's export trade, the seminar will be led by Commission officials. They will explain the operation of a major Community instrument for encouraging imports from developing countries, its Generalized System of Preferences, or GSP scheme.

Another important strand in EEC/Nepal relations is a programme of development aid, whose components include rural development projects, training schemes and financial support for small projects carried out by European Non-Governmental Organisations (NGOs). A project to promote tourism is under preparation. Nepal has also received food aid, but on an exceptional basis for it normally is a net exporter of cereals.

While the conduct of EEC/Nepal relations is largely in the hands of officials from the two sides, ministers have provided the necessary political impetus at regular intervals. Nepal's Minister of State for Finance and Industry, Bharat Bahadur Pradha, visited the European Commission in October 1986, when he met the European Commissioner for North-South relations, Claude Cheysson. His predecessor, Dr. Lohani, met the Commission in 1984. Gaston Thorn, the then President of the European Commission, visited Nepal in 1982.

The European Commission has been able to promote relations with Nepal more effectively since it opened a regional office for South Asia in New Delhi in 1983. Manfredo Maciotti, the Head of the Commission's Delegation, as the office is formally known, has made several visits to Nepal, as have other members of the Delegation.

**TRADE**

A relatively remote, landlocked country with few natural resources and facing rapid population growth, Nepal is not especially well placed for trade with distant partners. And yet its trade with the EEC has picked up quite sharply in recent years, as the following table shows:

**The EEC's Trade with Nepal, 1973 and 1983-86**  
(in million ECU)

	<u>1973</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986*</u>
EEC EXPORTS	7	29	54	47	32
EEC IMPORTS	3	30	38	36	33

\* 10 months

Source: Statistical Office of the European Communities.

Nepal's main exports to the EEC consist of hand-knotted carpets and rugs, and leather. Together they accounted for 88% of the country's total exports in 1985 and 91% the year before. Other exports include food products, handicrafts and clothing.

While the Community's exports are more diversified, some two-thirds of them fall into two broad categories: machinery and transport equipment and chemicals, especially fertilizers.

**GENERALIZED SYSTEM OF PREFERENCES (GSP)**

The EEC was the first among the industrialized countries to implement the resolution of the 1968 United Nations Conference on Trade and Development (UNCTAD), which defined the principles and objectives of the GSP, as an instrument to help developing countries increase their export earnings, industrialize faster and generally speed up their rate of economic growth.

Under its scheme, which came into operation in 1971, the EEC offers duty-free entry for all otherwise dutiable semi-manufactured and manufactured products covered by chapters 25 to 99 of the Brussels' Tariff Nomenclature (BTN), including textiles.

For most beneficiary countries, this preferential entry can be subject to annual limits as regards sensitive industrial products. However, since 1977 the Community has totally liberalized its GSP scheme for all least developed countries, as defined by the U.N. Their exports are exempt from both quotas and ceilings, even in the case of textiles.

Least developed countries like Nepal are treated even more generously than the other beneficiary countries as regards agricultural products, both in the raw and processed state (chapters 1 to 24 of the BTN). Broadly speaking, their exports are treated almost on a par with those of the 66 developing countries linked to the EEC through the Lomé Convention.

Product coverage is much greater for the least developed countries: it runs to some 750 products, which is twice the number other beneficiary countries are entitled to. Their exports enter duty-free in all cases, whereas exports of other beneficiary countries are subject to tariffs, if at reduced rates, for a large number of products.

But the Community's import statistics suggest a limited use of the GSP by Nepal. In 1985 the EEC's total imports from Nepal amounted to 36 million ECUs, of which 10 million ECUs (or just over 25%) entered duty-free because they consisted of products which can enter the Community duty-free under its normal tariff regime.

Imports worth 26 million ECUs (or 72% of the total) were entitled to preferential entry under the GSP. Those which actually benefited from the GSP scheme amounted to 19 million ECUs in 1985, giving a utilization rate of just over 70%. Some 30% of Nepal's exports therefore did not benefit from the duty-free entry they were entitled to, insofar as the EEC's rules of origin had been met. In point of fact, a single product group, hand-knotted carpets and rugs, accounted for almost 90% of all GSP imports. Nepal's export trade probably could take greater advantage of the Community's GSP scheme. The session organized by the European Commission in Kathmandu in February 1987, was planned with a view to helping them do just this.

#### TRADE PROMOTION

Experience has shown that tariff preferences by themselves are not enough. The EEC has therefore expanded its trade promotion programme, under which it provides technical and financial aid to developing countries, to help them produce and market goods suited to European markets.

Between 1980 and 1986 the Community allocated 757,000 ECUs to Nepal under its trade promotion programme. These funds made possible Nepalese participation in European trade fairs, a trade mission to the EEC countries and the services of a resident adviser on trade promotion.

But 220,000 ECUs of the total was allocated in 1986 for a project in the field of tourism. Given the growing role of services in international trade, the Community's decision to help Nepal develop the service for which it is very well placed - tourism - was not surprising. Under this project the Community was making available to Nepal the services of two experts for a year.

#### DEVELOPMENT AID: INTRODUCTION

The EEC has its own programme of aid to developing countries, separate from that of its individual Member States. Financed out of the Community's own resources, it is administered by the European Commission in Brussels. This aid is in grant form, so as not to add to the debt burden of the beneficiary countries.

The Community's aid programme in Nepal takes into account its special status as a least developed country; in fact following the 1981 U.N. Conference on the least developed countries, held in Paris, the EEC made a special allocation for Nepal, which otherwise has been a beneficiary of Community aid since 1978.

As there were no direct contacts between the European Commission and Kathmandu at that time, the Community's first contribution, of 3 million ECUs, went towards co-financing an integrated rural development project with the Asian Development Bank. This was followed in 1980 by a further contribution of 2.2 million ECUs for a livestock project, co-financed as before with the ADB. The Community is prepared to step up its development aid to Nepal, especially in view of its status as a least developed country. But Nepal's very poverty inevitably limits its capacity to absorb development aid. For example, training programmes outside Kathmandu are handicapped by the high rate of illiteracy.

This is only one of the factors which acts as a brake on the development process in Nepal. The country's public administration is both over-manned and insufficiently trained to manage the growing number of development projects funded by donor countries.

Although the EEC agreed to co-finance a rural water and sanitation project in 1982, the financing agreement was not signed until June 1985. This is only one of several examples of slow project implementation. Of the 29 million ECUs committed by the EEC in the period over 1978-85, only half (14 million ECUs) had been disbursed by September 1986.

#### COMPEX

Nepal should be one of the three or four major beneficiaries, along with Bangladesh and Laos of COMPEX, a system closely modelled on STABEX, which the EEC is introducing in 1987. The aim of STABEX is to help stabilize the earnings of the Lomé Convention countries from their commodity exports.

Under COMPEX, the Community will compensate the least developed countries in Asia and Latin America for any shortfall in their earnings from their exports to the EEC of a wide range of agricultural commodities. Those of export interest to Nepal include hides and skins, bovine cattle leather and raw jute.

#### PROJECT AID: TECHNICAL AND FINANCIAL AID

Since 1976 the EEC has provided developing countries in Asia and Latin America development aid through a programme specially set up for them. Nepal had received a total of 21.01 million ECUs under this programme over the period 1978-1985. Once the European Commission was in direct touch with the authorities in Nepal it tried to intensify its development aid programme as the following list of projects shows:

- 1982 - The EEC undertakes to provide 3.7 million ECUs to co-finance a rural water and sanitation project with UNICEF.
- 1983 - The EEC agrees to finance the supply of fertilizers for 5.3 million ECUs. The counterpart funds generated through the sale of the fertilizers locally are earmarked for the second forestry project, to be co-financed with the World Bank.
- 1984 - The EEC allocates 5 million ECUs for the construction of the Nepal Administrative Staff College, to be co-financed with the UK.
- 1985 - The EEC agrees to (1) provide 1.5 million ECUs for the medium-scale Arjun Khola irrigation project and (2) finance a study on hill and mountain crops for 250,000 ECUs.
- 1986 - A rural development project on hill farming is appraised for eventual co-financing with France.

### SPECIAL EEC PROGRAMME TO COMBAT WORLD HUNGER

Nepal received 7.8 million ECUs in the framework of this special programme in 1983-1984:

- 1983 - 2.8 million ECUs for forestry development;
- 1984 - 5.0 million ECUs towards the cost of the project for soil and water conservation in the Bagmati watershed.

### NON-GOVERNMENTAL ORGANIZATION PROJECTS

The EEC co-finances development projects carried out by European Non-Governmental Organizations (NGOs). The Community's participation averages 50% of the cost of the project. Preference is given to projects which aim at raising the capacity for self-development of the poorer sections of the community, rather than to welfare or relief projects.

The EEC has contributed some 421,000 ECUs to 13 projects between 1978 and 1985.

### TRAINING

The Community has awarded a number of scholarships for advanced professional training on development related subjects, for use in Western Europe or South-East Asia. The value of these scholarships amounted to 85,000 ECUs between 1983 and 1985.

### FOOD AID

As Nepal is a net exporter of cereals, it normally is not a recipient of Community food aid. However, following indications of drought in 1986, the EEC has undertaken to supply 15,000 tonnes of cereals. The counterpart funds will be used, in agreement with the Government of Nepal, to finance measures aimed at improving food security in the country.

The EEC also allocated 8,000 tonnes of wheat in 1980 and 5,000 tonnes of rice in 1982, following crop failures.

In addition to the cereals directly supplied to the authorities in Nepal, the EEC provided the World Food Programme with some 400 tonnes of skimmed milk powder and 1,045 tonnes of butter oil over the period 1980-1985. NGOs operating in Nepal received 110 tonnes of skimmed milk powder between 1981 and 1983.

### CONCLUSIONS

The decade since Nepal established diplomatic relations with the Community has witnessed a fairly steady, if unspectacular, growth in their relationship. Distance, and the fact that only two Member States, the United Kingdom and the Federal Republic of Germany, have substantial links with Nepal - historic and commercial in the first case, commercial in the other - has not helped.

However, through its Delegation based in the region, the European Commission is trying to encourage closer relations with Nepal, whose status as a least developed country entitles it to special consideration by the Community. But it also makes effective cooperation, whether in matters of trade or development, more difficult, because of shortcomings in the country's infrastructure. Both sides seem determined to overcome them however.

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