valuable resource to everyone interested on WTO-related issues pertaining to Nepal.

I would like to take this opportunity to express gratitude to members of the High Level Committee on WTO related matters for providing their invaluable advice and guidance during the course of this study. I would also like to thank all the above-mentioned members and observers of this task force for their contributions despite paucity of time from their official duties and limited resources, as well as to the task force secretariat at the Research Department, Special Studies Division for providing necessary support in a timely manner. There are numerous individuals and experts, both at the Bank and outside, who have contributed to enhancing the quality of this report; while I may not be able to do justice to everybody's support, I would like to give special thanks to Dr. G.B. Thapa, Dr. P.R. Pandey and Mr. P.M. Shrestha for providing suggestions at different stages of this report, with Dr. Thapa having reviewed the draft report thoroughly and Dr. P.R. Pandey and Professor Dr. P. Bajracharya providing comments at a dissemination program of this draft report held on 17 November 2005.

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Executive Summary

1) The fifth Ministerial Conference of the World Trade Organization (WTO) held at Cancun, Mexico on 11 September 2003, had approved the Protocol of Accession of the Kingdom of Nepal. Nepal subsequently ratified the Protocol of Accession on 23 April 2004, and had become the 147th member of the organization. During the negotiation process, Nepal had made a number of commitments for liberalization. While most of those specific commitments are outside the purview of the Nepal Rastra Bank (NRB), the nature of those commitments will have an effect on international trade and payments, with effect on the demand and supply of foreign exchange.

2) As the custodian of the Kingdom's foreign exchange and responsible for providing financial stability, whose responsibility is conferred by the NRB Act of 2002, the implications of WTO related commitments are of intense interest to the Bank. To proactively meet this challenge, a high level committee on WTO-related matters was established at the NRB. The committee had further decided to first study the implication of the commitments on trade in services, with Nepal having committed to liberalize 11 of 12 possible service sectors under the General Agreement on Trade in Services (GATS; specifically 70 of 160 possible service sub-sectors). In this regard, the committee had established an interdepartmental task force with the primary objective of assessing the impact of the service sector commitments on Nepal's balance of payments (BOP) and consequently on the foreign exchange and monetary management.

3) The study begins with an overview of the service sector's contribution to the Nepalese economy. The contribution of the domestic services sector on the national economy is fairly recent. The major contributor to Nepalese national income is the agricultural sector. With the advent of economic liberalization in the early 1990s, the contribution of the services sector in the Nepalese economy has grown.

4) The study has developed a conceptual model to better understand the linkage between the service sector commitments and its implications on the BOP. The model establishes the link between the twelve WTO, GATS service sectors classification with the BOP statistical classifications, connected via the four modes of supply: cross border supply; consumption abroad; commercial presences and movement of natural persons. The model provided a basis to observe the possible impacts of WTO related service sector commitments on BOP and foreign exchange management.

5) The study likewise produces a critical analysis of the domestic laws regarding the service sector. On the whole, it is felt that despite the existence of many service related laws they are not yet harmonized with WTO commitments. However, the legal issues are being addressed through commitment in a time-

bound Legal Action Plan. With regard to expected legal reform, it is felt essential for the Bank to take a proactive interest in the formulation of related rules and regulations dealing with trade and payments.

6) The domestic service sector scenario is likewise taken in context of the WTO commitments. After a brief background of WTO focusing on GATS, along with a review of the official language of service sector commitments, the study focuses on Nepal's WTO service sector commitments. The study finds that the commitments were consistent with the level of domestic economic development. In sum, the study concludes that those service sector commitments were appropriate for the country.

7) The present study utilizes information obtained from structured questionnaire to capture interviewees' impressions of WTO membership. These questionnaires were designed based on the aforementioned analytical model. To compare the impact of WTO membership, three possible scenarios were envisaged viz. base case scenario [i.e. without WTO membership], WTO-high and WTO-low; the latter two scenarios reflect the impacts of WTO under the favorable and unfavorable circumstances. After development of the questionnaire, these were subsequently refined through pre-testing and discussion.

8) For this study the questionnaires were given to the WTO focal points as designated by His Majesty's Government of Nepal including the private sector. In total, there were fifteen in number viz. Ministry of Commerce, Industry and Supplies (MOICS); Ministry of Agriculture and Cooperatives; Ministry of Finance; Ministry of Culture, Civil Aviation and Tourism; (then) Ministry of Health; Ministry of Education and Sports; Ministry of Forestry and Soil Conservation; Ministry of Legal, Justice and Parliamentary Affairs; Ministry of Communication and Information; Ministry of Science and Technology; Attorney General's Office of the Kingdom of Nepal; Nepal Rastra Bank (NRB); Federation of Nepalese Chamber of Commerce and Industry (FNCCI), Nepal Chamber of Commerce (NCC) and Confederation of Nepalese Industries (CNI).

9) The fifteen WTO-Focal Points were further grouped by their representation: such as HMG/N, MOICS, NRB, FNCCI, NCC and CNI for the total service industry for aggregate information, and sectoral organizations such as communication, education, health, tourism and remaining sector for providing disaggregate information. The study had been aimed at providing information at both the aggregate and disaggregates levels.

10) Altogether 11 of 15 persons identified were interviewed and 9 questionnaires were obtained. Since critical disaggregate (sectoral) information was absent, the BOP projection was limited to aggregate projections.

11) An estimation methodology was developed to provide BOP projections for Nepal. This was composed of two parts: first determining the fixed non-service

component credit and debit flows; second the variable service component determining the credit and debit flows. The first part was based on five-year (1999/2000 – 2003/2004) historical non-service related BOP data from NRB and projecting forward at constant growth rates. The second part was based on historical service related BOP data whose growth rates were based on the questionnaire information. As mentioned earlier, three scenarios were produced: a base case, a WTO-low case and a WTO-high case.

12) The empirical projections suggest that Nepal's WTO membership will result in greater service related credit and debit flows. Service flows are expected to be mainly via mode 3 although interviewees expect in the future an increasing share from mode 1 and 2. Further, in the long run, the BOP tends towards equilibrium in all scenarios although having different speeds of reversion. The alternative possible scenarios of BOP suggest that for reaping the benefits from WTO membership, Nepal has to be proactive to determine which scenario will emerge in future. Further, it is shown that a complacency attitude with WTO membership is likely to exacerbate the BOP situation. A particularly worrisome feature of the projections is the spread of BOP projections between "WTO-high" and "WTO-low" indicating the possible volatility of domestic BOP situation.

13) The monetary impact was also examined. The impact on monetary policy of Nepal was assessed using a simple model linking the BOP to monetary survey. Specifically, it was assumed that the BOP position affects domestic money supply via the channels of net foreign assets of banking sector, to the net foreign assets of the NRB and finally to the monetary base. Given the projection of BOP, three scenarios for domestic money supply were produced. The monetary projections showed that the money supply is expected to grow initially by 13 percent then spreading to 11% and 9% in the long term.

14) An analysis of the strengths, weaknesses, opportunities and threats (SWOT) arising from Nepal's membership in WTO was also carried out which showed that the strength of Nepal lies in: the roles of private sectors in different service areas, foreign exchange position, liberal policies and cheap labor; the weakness of Nepal lies in: lack of competitiveness, weak governance, insecure business environment, nascent private sector to face external competition, low labor productivity and lack of business professionalism; the major opportunities include: the expanded market access, flow of foreign investment and technology, predictable legal regulatory and institutional mechanisms; the major threats include: larger flows of trade and payments; possibility of misalignment of exchange rate; and volatile BOP situation

15) The study ends with some recommendations that fall out of the BOP and monetary projections. The increasing volume, volatility and diversified nature of service transactions necessitate enhancing domestic payments system and developing mechanisms for addressing volatility of BOP (such as safeguards and sterilization). Likewise, it was recommended for: identifying inconsistent

legal rules and regulations related to NRB; classification and monitoring of service related flows consistent with GATS as well as BOP category; and evaluating existing monetary and exchange rate in light of changing scenario with Nepal's membership in WTO.

16) On the whole, it is felt that the study was able to attain its prime objective of the implications of WTO membership on BOP and point the direction for future research. The study has highlighted the need to demonstrate the proactiveness of NRB to address the possible volatile BOP situation in future and to conduct a detail study on the emergency safeguard measures in case such situation arises especially in the context of rapid financial innovations taking place. However, the difficult aspect is for appropriate and timely implementation of these recommendations. It is felt this will ensure an efficient payment mechanism and domestic financial stability which will maximize the net benefits of Nepal's WTO membership.

1 Introduction

1.1 Background

The Kingdom of Nepal is a small land-locked, least-developed country in South Asian with a per capita income of 270 US dollar. Agriculture sector is the mainstay of the Nepalese economy which still absorbs 65.6 percent of the total labor of the country. The contribution of the agriculture sector to the GDP is 39 percent. With a population of about 25 million, the average population growth is about 2.24 percent per annum. About 31 percent of the Nepalese people are below the poverty line although human development indicators remain unsatisfactory. Nepal ranked 140 out of 177 countries on the human development index in 2004 - lower than all other South Asian countries except one.

With globalization, the world is presently becoming more integrated. Globalization gives nations the opportunity to increase their productive efficiency and attain their comparative advantage. This reward has been attractive to many nations and can be seen by the ever increasing membership in the World Trading Organization, and advances in technology and communication. In this regard, the Kingdom of Nepal has also pursued membership in this organization for many years.

During the fifth Ministerial Conference at Cancun, Mexico[1] on 11 September 2003 the membership of the Kingdom of Nepal into the World Trade Organization (WTO; WTO, 2003 a) was approved. Nepal subsequently notified the WTO that the process of ratification and acceptance of the Protocol of Accession had been completed in Parliament; on 23 April 2004 become the 147th member of the rule based international organization (WTO, 2004). Membership in WTO entails both general and negotiated commitments, whose aim is for transparency and stability of international trade – for an overall review of the Organization see WTO (2003 b). In a similar vein, Nepal's membership in the WTO entails a whole range of

[1] This took place on 10 – 14 September 2003.

negotiated commitments made during the accession process (see WTO, 2003 c, d). While analyzing the sectoral impacts of those specific commitments are outside the purview of the Nepal Rastra Bank (NRB), the nature of those commitments will have an effect on trade and payments with impact on the demand and supply of foreign exchange.

As NRB is the custodian for the Kingdom's foreign exchange and financial stability (NRB Act, 2002 a), those impacts are of intense interest to the Bank. While WTO commitments cover a whole range of economic activity, this report by the task force[2] limits the analysis to those of services under the General Agreement on Trade in Services (GATS),[3] as there already exists a relatively greater experience with trade in goods.

His Majesty's Government of Nepal (HMG/N) during the accession process for membership in WTO, has committed to liberalize 11 of 12 service sectors (WTO, 2003 a) [specifically, 70 of 160 possible service sub-sectors] under the GATS, although with certain conditions.[4] This report thus aims to understand the impact of those commitments on domestic foreign exchange management and the resulting balance of payments situation, to ensure that the Bank will be prepared for all possible eventualities.

1.2 Rationale for the Study

Nepal has committed to the above service sector liberalization during the accession process for membership in WTO. It is felt that membership will lead to greater flows of trade in services. However, the knowledge based trade in services (versus trade in goods) necessitates a faster and more efficient mechanism for payments. In this regard, an appropriate foreign exchange management regime will facilitate the process of payments and transfers and enhance from external sector transactions; further this will also have an impact on the domestic balance of payments situation. The necessity of more efficient foreign exchange management

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[2] Formed by the decision of the 8th Meeting of the High Level committee on WTO matters at NRB held on 9th December 2003 (23rd of Mangsir 2060) and based on the concept paper of the same name which had been approved by the decision of the 6th Meeting of the High Level committee on WTO matters at NRB held on 5th July 2003 (20th of Srawan 2060). This will be explained in greater detail further on.

[3] Basic Principles of GATS are: All services are covered by GATS; Most favored nation treatment applies to all services, except the one-off temporary exemptions; National treatment applies in the areas where commitments are made; Transparency in regulations, inquiry points; Regulations have to be objective and reasonable; International payments: normally unrestricted; Individual countries' commitments: negotiated and bound; Progressive liberalization: through further negotiations. The full list of these service sectors, which are subdivided into some 160 sub-sectors of separate service activities, is given in the attached 1.1 Appendix.

[4] For examination of the full set of service sector commitments, along with restrictions, see WTO (2003 d), which is attached as 1.2 Appendix.

is essential as Nepal had accepted Article VIII[5] of the International Monetary Fund, on 30 May 1994. Convertibility of the current account requires that there be no restriction on those service related trade and payments.[6]

There are significant costs associated with improper foreign exchange management. Those costs can be categorized as being of short and long term nature. The short term impacts are nuisances to foreign individuals; more dangerously this, may be construed otherwise by the foreign exchange market and may result in speculative attacks. One scenario for a speculative attack is the meltdown of the exchange rate and loss of domestic financial stability – this will have a long term and detrimental impact on Nepal's economic growth and development. There are other considerations as well such as the credibility of the Kingdom of Nepal in meeting its commitments, which will help attract foreign capital to meet the growing savings and investment gap.

1.3 Objective of the Study

The major objective of this report is to provide a study of the impact of those commitments on the foreign exchange management and the resulting balance of payments situation, to ensure that the Bank will be best prepared for all possible eventualities. The specific terms of reference, as decided by the 9th meeting of the high level committee on WTO matters on 2 January 2003 (18 Poush 2060) - with unofficial translation below - are as follows:

- To analyze the different possible impacts of services sector commitments on Nepal's BOP and monetary management.
- To study the steps to be taken for the foreign exchange management to ensure a more effective and healthy payment system and the international trade.
- To recommend the safeguard measure that can be applied consistent with the WTO rules and other accepted practices in case there is a BOP crisis.
- To recommend the amendments or changes that is necessary to meet the above [third] objective.
- To study other relevant matters concerning the impact of opening of services sector on foreign exchange management and BOP situation.

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[5] Specifically, Article VIII, Section 4, requires IMF member, subject to certain conditions, to "purchase balances of their currency from other Fund members, which represent that the balances have been recently acquired as a result of current international transactions or that the conversion is necessary for the purpose of making payments for current transactions."

[6] It should also be mentioned that existing commitments for liberalization only touch on the current account. However, a conceptual possibility for the future is that liberalization may also touch on the capital account. For both cases, efficient and appropriate foreign exchange management is required.

1.4 Methodology of the Study

To achieve the above mentioned objectives the high level committee on WTO matters at the Bank established an interdepartmental task force related to foreign exchange management and BOP situation[7]; this task force worked under the coordinatorship of the Director, Research Department (BOP Division) with participation of Deputy Director, Foreign Exchange Management Department; Deputy Director, Legal Department; Deputy Director, Research Department (BOP Division); Deputy Director, Research Department (Monetary Division) with the Deputy Director of Special Studies Division, Research Department being the member-secretary. Each of the above mentioned departmental representatives were chosen to participate in this study for their essential contributions. While secondary sources will be mainly utilized, questionnaire method for primary data will be mainly applied.

In order to meet the first and second objectives, projections of potential foreign involvement on different relevant sectors and sub-sectors will be produced based on the interview information from WTO-Focal points in ministries of HMG/N as well as from the private sectors. To meet the third, fourth and fifth objectives the relevant documents in Nepal and from WTO will be analyzed. Once a preliminary report is prepared, this will be refined through circulation and discussion.

1.5 Limitations of the Study

This seminal study is mainly based on data obtained from interviews. An effort is made to gather and fully analyze the information however, owing to time constraint and limited resources, some issues may have been left out. Also, a great deal of reliance has to be place on the accuracy of the interviewee information which may be colored by their perception. Despite these possible limitations, it is felt that this ground-breaking report, will provide a basis for further research and analysis.

1.6 Outline of the Study

The report is divided into six chapters. The first chapter gives a brief introduction and the background of the present study highlighting the necessity, methodology and major limitations of the study. The second chapter presents an overview of stylized facts of the Nepal's service sectors including the historical perspective. The third chapter discusses the literature on service sector commitments and also the actual commitments made by Nepal during the negotiation process. The fourth chapter focuses on the impact of service sector commitments based on projections from interviewee data and presents the alternative scenarios on the possible impact on BOP and impact on monetary policy. The fifth chapter puts forward SWOT analysis and some recommendations regarding the foreign exchange management. The final chapter summarizes the report and ends with the concluding observations.

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[7] See earlier footnote.

II

Stylized Facts of Nepal•s Service Sector

The developing economy of Nepal, has been transforming from a traditional and largely agricultural to an economy with significant contribution from the manufacturing and services sectors. Presently, the services sector is the most important contributor to gross domestic product (GDP) - it had contributed approximately a significant portion of national income since 1995/1996 and reached around 40.4 % in 2003/04 (Economic Survey 2003). This reflects that higher long term annual growth of the service sector vis-à-vis other sectors – it had been 5.9 percent for the period of 1974/1975 to 1995/1996, versus 4.4 percent for all other sectors. Further, there has been growing contribution of trade in services to overall trade, which is especially salient over recent years. Because of the inherent potential of the services trade for economic growth and development, there has been an increasing contribution of the service sector and trade in services (both simply called services from now on) to the national income of Nepal. This chapter attempts to (i) provide a description of the service sector from the Nepalese perspective (ii) provide a historical overview of service sector in Nepal along with its contribution in external trade and (iii) an in-depth description of existing scenario of services sector.

2.1 The Service Sector Described from the Nepalese Perspective

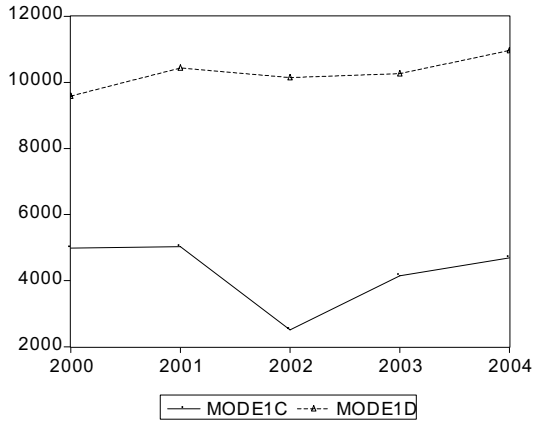
In Nepal, the history of the services sector is relatively new. With the advent of multiparty democracy in 1990 and the resulting economic liberalization, the importance of the services sector in the Nepalese economy has grown. The national income is reflected in the gross domestic product (GDP) as shown below with the service sector simply contributing one portion of the national income; specifically, GDP is an aggregate of nine sectors as provided in the table below, whose total had been estimated at current price for the year 2003/04 to be Rs. 494.8 billion. The focus of this section is on the service sector as defined by HMG/N, Central Bureau of Statistics according to the International Standard Industrial Classification (ISIC)

system in 1968 SNA.[1]

according the four modes of supply based on the current BOP statistics in Nepal.[5] The following are a discussion of aggregate mode wise trends:

Mode 1: The overall trend of service related debit flows through mode 1 (cross-border supply) mainly comprised of transportation, insurance and communication services – these have shown a stable trend over the examined period. The receipts side, however, shows no stable trend. Receipts from Transportation services follow a sluggish trend upto 2002 due to deteriorating law and order situation of the country and shows improvement in 2002/03 due to the favorable situation for Tourists visiting Nepal. Likewise, receipts from communication services shows declining trend upto 2002 while an increase in 2002/03.

Figure 2.2: Trend of Services Through Mode 1



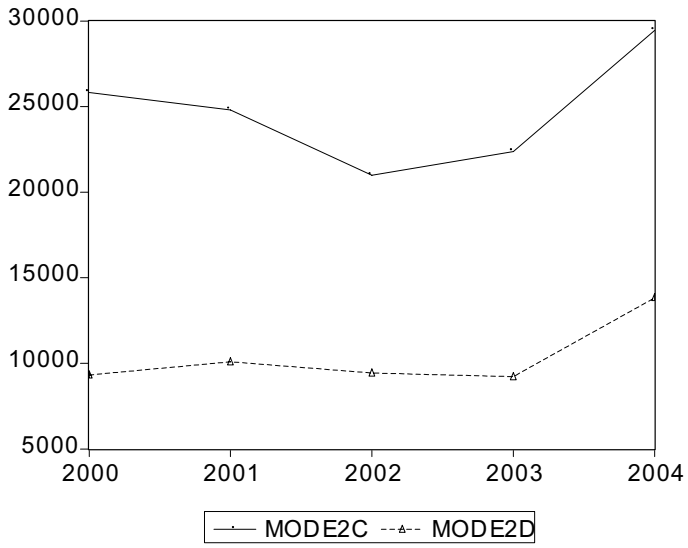
Source: Nepal Rastra Bank, Balance Payments Division, Research Department

Note: Figures are in Rs. Millions; "MODE1C" and "MODE1D" are respectively credit and debit namely communication, insurance and transportation services.

Mode2: The overall trend of services supplied by foreigners through mode 2 (consumption abroad) which mostly comprises of travel, government and other services, show a mixed trend over the last five years. However, trend of services consumed by foreigners in Nepal through this mode shows a decrease from FY 1999/2000 to 2001/2002 while an increase in 2003. This is mainly due to the decline in number of tourists visiting Nepal.

[5] However, due to paucity of data, the trends are presented of available data consistent with BOP manual 5. There is more data available if BOP manual 4 is used, however some aspects of the data are not comparable between both manual.

Figure 2.3: Trend of Services Through Mode 2



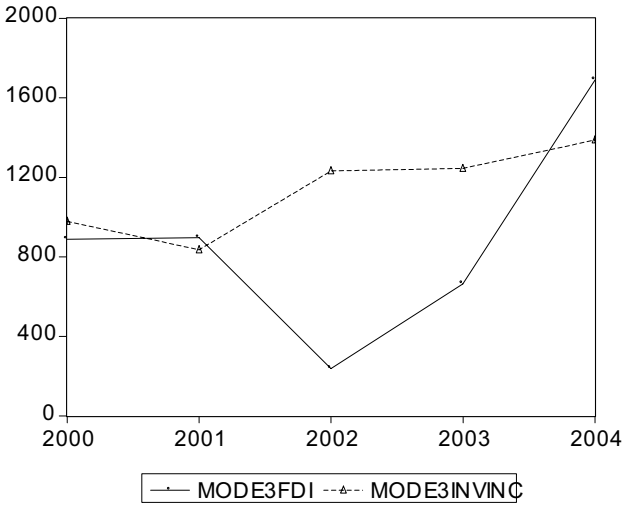
Source: Nepal Rastra Bank, Balance Payments Division, Research Department

Note: Figures are in Rs. Millions; "MODE2C" and "MODE2D" are respectively credit and debit namely travel, government services and other services.

Mode 3: The above trend reflects data for approved FDI for service sector only – aggregate data on approved FDI had been decomposed for manufacturing and service sectors. In this regard, data had been obtained from the Department of Industry, HMG/N on the cumulative FDI from the initial period to particular fiscal year – e.g. up to 2000/2001 etc. The ratio was therefore calculated of service sector FDI in relation to total FDI. Further, data for investment income[6] faces the same problem for decomposing between manufacturing and services sectors. To facilitate this calculation, it is assumed that investment income is related to the afore calculated ratio of service sector FDI to total FDI in the country. This ratio was used as basis to disaggregate total investment income for service sector investment income. For example, data up to 1999/2000 show that 45.2% of FDI is from the service sector; using this ratio on total investment income suggests that Rs. 237.3 (millions?) was attributed to the service sector.

[6] There are not credit's for investment income in Nepal as there is no policy which permits FDI to other countries, thus investment income is mainly debits (i.e. repatriation of profits etc.).

Figure 2.4: Trend of Services Through Mode 3

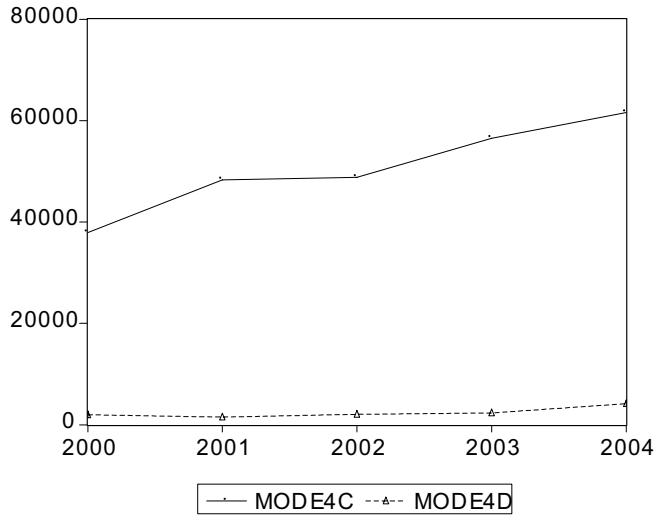


Source: Data for FDI from Department of Industry, His Majesty's Government of Nepal as well as from taskforce calculation as explained below.

Note: Figures are in Rs. Millions; "MODE3FDI" and "MODE3INVINCD" are respectively foreign direct invest flows and investment income (debit).

Mode 4: There is difficulty in classifying presence of natural persons. The GATS covers only those services which are supplied on both a non-permanent basis and of skilled nature e.g. auditor, legal services etc. Moreover, the definition of non-permanent varies from country to country. Under BOP classification, payments to and earnings of non resident workers employed for less than one year are recorded in the home countries BOP under the head 'compensation of employees'. This includes payments and receipts from both skilled and non-skilled services and does not differentiate between manufacturing and services sector. Because of this problem, it can't be used as quantitative measure of the services supplied through this mode. Nonetheless, in case of unavailability of data under the present accounting framework in Nepal. The credit and debit data provides a proxy to analyze this aspect of supply of services. Further, one possible proxy for analyzing the aspect of fourth mode of supply could be workers' remittances. Under BOP classification, it includes money remitted by workers working abroad for one or more than one years. This also includes earnings of workers working in manufacturing and service sectors. As such, and keeping that this is only indicative, the trend is show below:

Figure 2.5: Trend of services through mode 4



Source: Nepal Rastra Bank, Balance Payments Division, Research Department

Note: Figures are in Rs. Millions; "MODE4C" and "MODE4D" are respectively credit and debit namely compensation of employees and workers remittances.

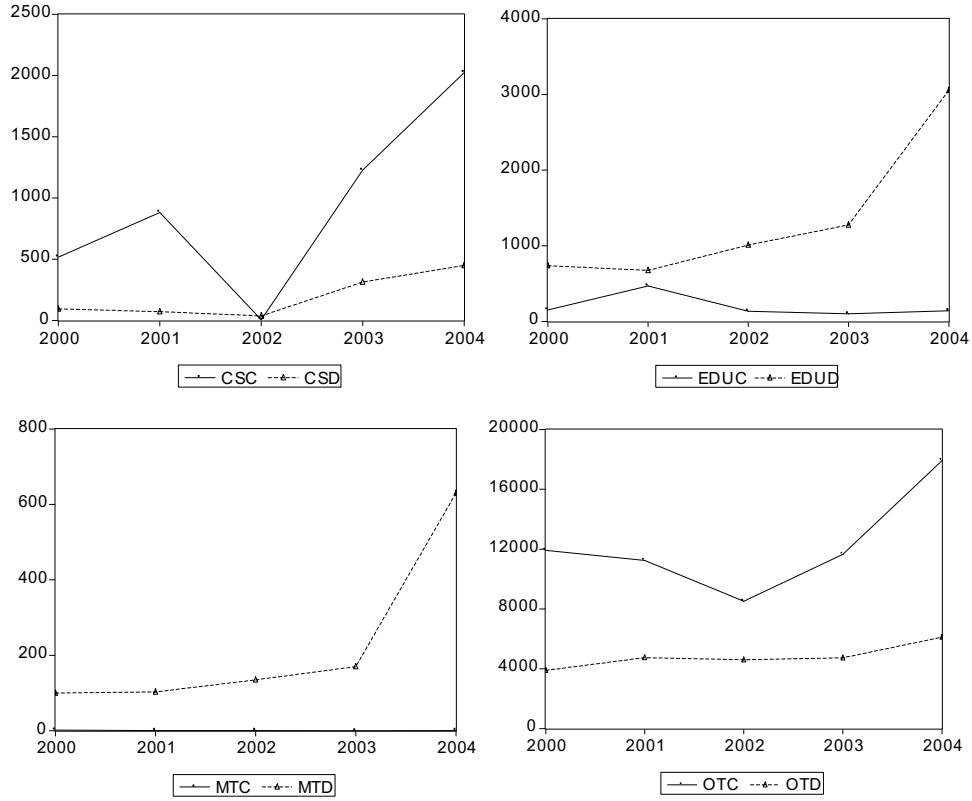
2.3 Sector in Focus: Communication, Education, Health and Tourism

The prior had provided a discussion on aggregate data on trade flows in Nepal, by modes of supply. This sub-section focuses on four major trade service sectors in Nepal: namely Communication, Education, Health and Tourism. Further in the context of sectoral FDI flow there is the possibility of expansion in the future.

The credit and debit of the four sectors are captured in the BOP via communication services; educational services; medical treatment services; and travel services respectively. Presently, tourism is the most important sector capturing one third of the total trade in services and one half of the total FDI flow in services sector. The share of communication in external trade is only 3.3 percent; however it captured a disproportionate amount of FDI flow of 7.5 in FY 2003/04. Likewise, the share of this sector in both trade and FDI flow is on an increasing trend over the last five years suggesting that it will be an area for future expansion. Likewise, the share of health in service trade, while low at 0.8 %, shows an increasing trend for FDI flow which has reached 28.2 percent in FY 2003/04 - this suggests an expanding trend. Lastly, the share of education in service trade has reached about 4.2 percent in FY 2003/04 with the gradual expansion from 1.6 percent of FY 1999/00. These factor have led to special focus on each sector. These are discussed mode wise, based on the data on 1999/2000 – 2003/2004 taken from BOP statistics of Nepal:

Mode 1 and 2: The data for Nepal unfortunately do not allow decomposition by the first and second modes; nonetheless, the aggregate trends of both modes are indicative:

Figure 2.6: Trends of major service sectors through mode 1 and 2



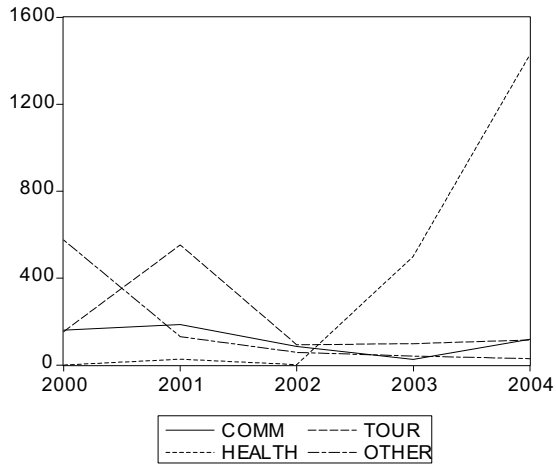
Source: Nepal Rastra Bank, Balance Payments Division, Research Department

Note: Figures are in Rs. Millions; "CSC" and "CSD" are respectively credit and debit of communication services; "EDUC" and "EDUD" are respectively credit and debit of educational services; "MTC" and "MTD" are respectively credit and debit of medical treatment services; and "OTC" and "OTD" are respectively credit and debit of other travel credit services.

The above sectoral graphs suggest that communication sector and travel services were both in surplus while the educational sector and medical treatment services sector were in deficit.

Mode 3: The next graph looks at approved FDI flows within the Communication and Software, Health and Health Education, Tourism and Other service sectors.

Figure 2.7: Trends of major service sectors through mode 3



Source: Department of Industry, His Majesty's Government of Nepal

Note: Figures are in Rs. Millions; "COMM" refers to communication and services sector; "TOUR" refers to Tourism sector; "HEALTH" refers to Health and health education; and "OTHER" refers to the remaining service sectors which are mainly consultancy services, transport services, construction services, advertisement services, repair services etc.

The above graph suggests that there is increasing trend for approved FDI for all service sectors examined, with there being a spike for "HEALTH" in 2004 due to a one time large investment.

Mode 4: Sector wise analysis through this mode is not straight forward because of unavailability of data and in some cases it may not be feasible to supply services thorough this mode.

Table No. 2.2 Percentage Contribution to total GDP

Description	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Trade, Restaurant and Hotel	11.11	11.43	11.65	11.74	11.59	11.83	11.33	11.62	11.91	11.71	11.33	10.05	10.14	10.40
Transport, Communication and storage	5.65	5.90	6.54	6.59	6.67	6.64	7.17	7.80	7.46	8.01	8.46	8.54	8.76	9.21
Finance and Real Estate	9.42	9.14	9.49	9.46	9.78	9.83	10.07	10.28	10.06	10.08	10.58	10.82	10.95	10.84
Community and Social Services	8.60	8.13	9.14	8.94	9.01	8.88	8.80	9.60	9.27	9.09	9.91	10.05	10.06	9.91
Total	34.78	34.6	36.82	36.73	37.05	37.18	37.37	39.3	38.7	38.35	40.28	39.46	39.75	40.37

Table No. 2.3 Annual Growth Rates of Service Sector

Description	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	200./04
Trade Restaurant & Hotel	11.48	5.87	6.42	8.47	5.45	4.51	4.07	5.76	3.89	6.76	1.52	-10.09	3.3	6.0
Transport, communication & Storage	13.18	8.68	8.44	8.03	10.61	5.46	7.74	8.08	6.80	7.02	6.19	1.63	4.3	5.3
Finance & Real Estate	10.07	5.25	5.83	6.33	4.30	7.61	4.71	5.87	5.00	5.08	1.72	3.34	3.3	2.1
Community & Social Services	5.36	6.78	9.12	7.83	4.80	6.16	3.61	7.62	6.62	3.97	13.08	1.66	3.1	2.9

III

Service Sector Commitments in the Context of Nepal•s Membership in WTO

The third chapter discusses service sector commitments in the context of Nepal's membership in WTO. To understand the nature of those commitments, it is first important to have a basic understanding of the WTO as well as the language of GATS commitments. This understanding, then, will enrichen discussion on Nepal's service sector commitments made in the context of WTO membership.

3.1 The World Trade Organization with Focus on Services Sector

The World Trade Organization (WTO) was established on 1 January 1995.[1] However, it can trace its genesis to January 1948 when it had been established as the General Agreement on Trade and Tariffs (GATT). During the period up to establishment of WTO, there has been evolution from simply focus on goods (GATT) to multilateral agreements such as: trade in services (GATS); and trade in ideas (Trade-related aspects of Intellectual Property Rights; TRIPS) along with inclusion of both numerous other agreements (such as anti-dumping, subsidies, safeguards: contingencies etc.) and the dispute settlement mechanism (DSM).[2] However the principle of having freer and more predictable trade without discrimination and being more beneficial for less developed countries has remained the same. In this regard the basic principles of the multilateral trading system are:

- Trade without discrimination
- Most-favored nation (MFN): treating other nations equally tariff reduction granted to one country that has to also be extended to all countries in the GATT; this is a multilateralization of the bilateral liberalization.

[1] The full legal documents can be obtained from the WTO webpage.
[2] For a complete description see WTO (2003).

- National treatment: treating foreigners and locals equally – countries should not discriminate between it's own and foreign products once they have crossed the border and entered the market.
- Freer trade: gradually through negotiation – the objective is to gradually reduce trade barriers as one of the most obvious means of encouraging trade.
- Predictability: binding commitments – provide stability and predictability which in turn widens business opportunities; a change in binding has high opportunity costs.
- Promoting fair competition – a system of rules dedicated to open, fair and undistorted competition.
- Encouraging development and economic reform – contributes to development, special assistance and trade concession for developing countries, flexibility in WTO agreements.

However, the focus of the paper is limited to that of the GATS, the first ever set of multilaterally, legally enforceable rules, covering international trade in services. Like the agreement on goods, GATS operate on three levels: the main text containing general principles and obligations; annexes dealing with rules for specific sectors; and individual countries specific commitments to provide access to their markets. Unlike in goods, GATS has a fourth special element: lists showing where countries are temporarily not applying the "most-favored-nation" principle of non-discrimination. These commitments, like tariff schedules under GATT, are an integral part of the agreement as is the temporary withdrawals of the most-favored nation treatment.

The Basic Principles of GATS are:

- All services are covered by GATS
- Most favored nation treatment applies to all services, except the one-off temporary exemptions
- National treatment applies in the areas where commitments are made
- Transparency in regulations, inquiry points
- Regulations have to be objective and reasonable
- International payments: normally unrestricted
- Individual countries' commitments: negotiated and bound
- Progressive liberalization: through further negotiations

The basic principles of GATS apply all trade in services by WTO members. The exception are services supplied in the exercise of governmental authority such as central banking and social security, which are neither supplied on a commercial basis nor in competition with other service suppliers. The GATS schedule largely

follows a classification based on the United Nations Central Product Classification (CPC) system, which identifies 11 basic service sectors plus a twelfth category for miscellaneous service and are subdivided into some 160 sub-sectors or separate service activities.[3]

The most important general obligations in the GATS Agreement are MFN and transparency with respect to all measures affecting trade in services.

There are no general obligations to offer national treatment and market access to foreign suppliers; these obligations are confined to the sectors and sub-sectors specifically included in the individual schedule of commitments of each member, subject to any limitations with respect to each mode of supply. The schedules of commitments are the result of bilateral negotiations on market access and national treatment - based on a process of offer on request - which facilitates the achievement of a balanced package of trade liberalization. Once commitments are made they are binding and cannot be modified or withdrawn without compensating trading partners and thus, even where commitments have not gone beyond guaranteeing the status quo, they have long-term implications. This provides exporters of services, as well as foreign investors, with a greater degree of security and predictability than hereto. With regard to the national treatment obligation, GATS states that in the sectors covered by its schedule and subject to any conditions and qualifications set out in the schedule, each member shall give treatment to foreign services and service supplier's treatment, in measures affecting supply of services, no less favorable than it gives to its own services and suppliers. The basic obligation is limited for GATS to service sectors for which commitments have been given in the schedule of the country concerned.

The developing countries have been slightly more facilitated in WTO in regard to their economic development, improvement and other areas of services and supply. They have been provided certain concessions and some emergency measures to protect their overall economical and service activities in the legal text of GATS; these safeguard measures [i.e. special priority measures; emergency measures; schedule modification measures; security/social measures; negotiation on specific commitment; and additional safeguard measures] are highlighted and described more fully in the attached appendix 3.1. However, the primary focus has been to include basic principles such as non-discrimination, equal treatment and free and fair mode of supply of services.

3.2 Understanding the Language of Service Sector Commitments

This section reviews the WTO schedule format for accurate submission of factual information and is based on WTO (1996). It should be noted that there are two sorts of provisions under the GATS. The first are general obligations, some of which apply to all sectors (e.g. MFN, transparency, etc.). The second are specific commitments which are negotiated undertakings specific to each member. These

[3] This had been mentioned earlier in the first chapter and provided in Appendix 1.1.

commitments can further be broken down into horizontal and specific commitments. Horizontal commitments affect all sectors, and sub-sectors, equally; this is usually found at the top of the Schedule of Service Sector Commitments. Specific commitments, on the other hand, are commitments specific to the sector and are provided for market access and national treatment, which are generally put forward with two separate columns. [4,5]

In the first table for market access, the first column puts forth the various categories under each sub-sector of a particular sector. So, in the case of FSS, the first column includes the sub-sectors of "All insurance and insurance-related services", "Banking and other Financial Services (excluding insurance)" as well as the "Other" sub-sector along with the different categories described earlier. In the second column information relating to market access are included for each category based on the four modes of supply which are: Cross border supply (i.e. the service supplier is typically not present within the territory of the government where the service is delivered with some examples being international transport, the supply of a service through telecommunications or mail, and other such services embodied in exported goods [e.g. a computer diskette, or drawings]); Consumption abroad (i.e. this mode of supply is often referred to as "movement of consumers" whose essential feature is that the service is delivered outside the territory of the government concerned and typically includes crossing for the

[4] For ease of understanding, the general table format for market access, which is also true for national treatment, is presented below in tabular form:

Financial Service Sector – market access	
All insurance and insurance-related services	1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of Natural persons
Banking and other Financial Services (excluding insurance)	1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of Natural persons
Other	1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of Natural persons

[5] An example from WTO (1998) will clarify this "if a government commits itself to allow foreign banks to operate in its domestic market, that is a market access commitment. And if the government limits the number of licenses it will issue, then that is a market access limitation. If it also says foreign banks are allowed one branch while domestic banks are allowed numerous branches, that is an exception to the national treatment principle."

border of the consumer as, for example, in tourism services[6]); Commercial presence (i.e. this mode covers not only the presence of juridical persons in the strict legal sense, but also that of legal entities which share some of the same characteristics includes, inter alia, corporations, joint ventures, partnerships, representative offices and branches); Presence of natural persons (i.e. this mode covers natural persons who are themselves service suppliers, as well as natural persons, who are employees of service suppliers). The four modes of supply are simply stated as Mode 1, 2, 3 and 4 for cross border supply, consumption abroad, commercial presence and presence of natural persons respectively.

Commitments are recorded in the WTO schedule format in the table for market access, through a number of ways. First, as mentioned earlier there are horizontal commitments which apply to trade in services in all scheduled services sectors unless otherwise specified; it is in effect a binding either of measures which constitutes a limitation on market access or national treatment, or of a situation in which there are no such limitations. Second, there are sector specific commitments which apply to trade in services in a particular sector; it is in the context of such a commitment, when a measure is maintained which is contrary to Article XVI or XVII, it must be entered as a limitation in the appropriate column (either market access or national treatment for the relevant sector and modes of supply). Third are recordings of the various levels of commitments; their presentations are extremely important and have to be very precise since the terms used create legally binding commitments indicating the presence or absence of limitations to market access and national treatment. Depending on the extent to which a member has limited market access and national treatment, for each commitment with respect to each mode of supply, four cases can be foreseen:

- Full commitment . Members do not seek in any way to limit market access or national treatment in a given sector and mode of supply through measures inconsistent with Article XVI and XVII. In this situation, the appropriate column is marked with NONE. However, any relevant limitations listed in the horizontal section of the schedule will still apply.
- Commitment with limitations . Where market access or treatment limitations are inscribed, the member must describe in the appropriate column the measure maintained which are inconsistent with Articles XVI or XVII. The entry should describe each measure concisely, indicating the elements which make it inconsistent with Articles XVI or XVII. Further, in some cases, members may choose to partially bind measures affecting a given category of supplier. This may be achieved through an indication in the horizontal section of a schedule with the corresponding sectoral entry under the relevant mode of supply (i.e. it may thus read "Unbound except as indicated in the horizontal section").

[6] Although activities such as ship repair abroad, where only the property of the consumer moves, or is situated abroad, are also covered.

- No Commitment In this case, the Member remains free in a given sector and mode of supply to introduce or maintain measures inconsistent with market access or national treatment. In this situation, the Member must record in the appropriate column the word: UNBOUND. This case is only relevant where a commitment has been made in a sector with respect to at least one mode of supply.[7]
- No commitment technically feasible In some situations, a particular mode of supply may not be technically feasible. An example might be the cross-border supply of hair-dressing services. In these cases, the term UNBOUND* should be used. The asterix should refer to a footnote which states "Unbound due to lack of technical feasibility."

It is in "Commitments with limitations" that acceding government may limit market access horizontally or to any specific service sector. Such limitations for market access[8] may include: Limitations on the number of service suppliers (e.g. ceilings on the total number of banks); Limitations on the total value of transactions on assets (e.g. foreign bank subsidiaries limited to X per cent of total domestic assets of all banks); Limitations on the total number of service operations or on the total quantity of service output (e.g. restrictions on broadcasting time available for foreign firms); Limitations on the total number of natural persons (in particular non-nationals) that may be employed in the sector (or the share of wages paid to foreign labor); Restrictions on, or requirements of, specific types of legal entity through which that service may be supplied (e.g. commercial presence exclude representative offices, foreign companies required to establish subsidiaries, commercial presence must take the form of a partnership); Limitations on the participation of foreign capital. In addition to these limitations it is suggested that clear reference will also have to be made to the relevant laws or regulations.

The second table elaborates on national treatment.[9,10] Following the same format as market access, the first column puts forth the various categories under each sub-sector of a particular sub-sector. The second column puts forward limitations on national treatment which follow a similar format as above where, along with each mode of supply, a detailed description of existing measures

[7] Where all modes of supply are "unbound", and no additional commitments have been undertaken in the sector, the sector should not appear on the schedule.
[8] This is consistent with Article XVI of WTO (1995).
[9] This is consistent with Article XVII of WTO (1995).
[10] The GATS states that "in the sectors covered by its schedule, and subject to any conditions and qualifications set out in the schedule" each member shall give treatment to foreign service and service suppliers treatment, in measures affecting supply of services, no less favorable than it gives its own service and suppliers.

maintained by the acceding governments which may limit market access will be noted as well as the relevant laws or regulations.[11]

3.3 Service Sector Commitments in the Context of Nepal•s WTO Membership (a description)

As mentioned earlier, HMG/N during the accession process for membership in WTO, had committed to liberalize a majority of service sectors (WTO, 2003 a) under the GATS, although with certain conditions. What are those service sector commitments and how consistent are they with the domestic legal framework mentioned above? These are the questions which this section tries to answer.

The service sector commitments, along with restrictions, are fully described in WTO (2003 c) and are put forward in appendix 1.2. On the whole, some observations can be made: first at the horizontal level, the limits involve subsidies and incentive and a prior approval requirement subject to compliance with environment standards. For market access there are important exemptions for postal and audiovisual sub sectors and for wholesale distributions (which is unbound) with there being some limitations in all sub- sectors. Likewise, there is wide use of ownership and control limitations covering almost all of 21 scheduled sub sectors with foreign equity ceiling from 51 to 80 per cent (average 66.7 percent, thus allowing majority foreign control). That is, all commitments require local incorporation. In regard to national treatment, apart from the horizontal restrictions noted above, no further restrictions included and scheduled simply "none" except: (1) Unbound distribution services; and (2) Telecommunications sector subject to joint venture requirements with foreign equity ceiling of 80 percent and majority of board of directors should be Nepalese nationals. There are some MFN exemptions which largely relate to bilateral and multilateral co-operation agreements in audiovisual services (Suav∅, 2005, p. 37)..

A comparative study on those commitments in regard to existing legal provisions [which is described in appendix 3.2], in the areas of related service sectors following doctrinal method by using secondary data. is provided below:

[11] For completeness an additional column is usually provided for additional commitments with respect to measures affecting trade in services not subject to scheduling under market access or national treatment. Thus, additional treatments are expressed in the form of undertakings, not limitations. In the schedule, the additional comments column would only include entries where specific commitments are being undertaken, and need not include those modes of supply where there are not commitments undertaken.

Table 3.1: Existing Legal Provisions in Major Service Sectors

Sectors	Commitment	Existing legal provisions
1. Legal	1, 2, 3 = open 4=conditional (Bar Council Examination and Supreme Court's permission)	Bar council Act, 2050, restricts foreigner except for particular case with the permission of Supreme court 25(2). Section-17 allows license only for Nepalese people. FITTA, schedule 14(b) restricts foreigner for legal consultancy.
2. Accounting/ Auditing and Book-Keeping	1, 2 = open 3= condition of incorporation with maximum 51% investment of foreign equity shares.	Company Act is silent in this regard. FITTA, schedule 14(b) restricts foreigner for such service.
3. Education	1, 2 = open 3 = condition of incorporation with maximum 51% investment of foreign equity shares.	No restriction by FITTA. Universities Acts, Higher Sec. council Act, are silent. Education Act, section-3(8) restricts but in case of recommendation by diplomatic agency or in case of contract with HMG, the HMG may grant conditional permission to open school in affiliation with foreign school.
4. Computer and related services	1, 2 = open 3 = condition of incorporation with maximum 80% investment of foreign equity shares.	No specific legal provision in this regard.
5. Research and development	1, 2 = open 3 = condition of incorporation with maximum 51% investment of foreign equity shares.	No specific legal provision in this regard.
6. Communications	a. Telephone: 1, 2 = open 3 = condition of joint venture incorporation with maximum 80% investment of foreign equity shares. b. Courier (multi-modal): 1, 2 = open 3 = condition of incorporation with maximum 80% investment of foreign equity shares.	Dur Sanchar Act, 2053 is silent in this regard. Not restricted by the FITTA. FITTA restricts internal courier service.
7. Environmen	Services [Sewerage, refuse disposal and sanitation services] : 1, 2 = open 3 = condition of incorporation with maximum 51% investment of foreign equity shares and can be increased up to 80 % in five years.	No provision in Environment Protection Act, 2053.
8. Tourism	1, 2 = open 3= condition of incorporation with maximum 51% investment of foreign equity shares and can be increased up to 80 % in five years.	FITTA, schedule 14(b) restricts travel agency, trekking, water rafting, horse riding, tourist residence services for the foreigner.

Sectors	Commitment	Existing legal provisions
9. Recreational, cultural and sporting	1, 2 = open 3 = condition of incorporation with maximum 51% investment of foreign equity shares and can be increased up to 80 % in five years.	Cinema Act, 2026 restricts foreigner for domestic and cinema in national language.
10. Transport Service [Air]	1, 2 = open 3 = condition of incorporation with maximum 51% investment of foreign equity shares and can be increased up to 80 % in five years.	Civil Aviation Act , 2053 is silent in this matter. FITTA has no restriction.
11. Construction	1, 2 = open 3 = condition of incorporation with maximum 51% investment of foreign equity shares and can be increased up to 80 % in five years.	Construction Act, 2055 allows only to the firm registered in foreign country. FITTA has no restriction.
12.Distribution Services	1, 2 = open 3 = condition of incorporation with maximum 51% investment of foreign equity shares and can be increased up to 80 % in five years.	FITTA has no restriction. Agency Act, 2014 allows foreigner also to make agency service with registration in Nepal. Nepali have been given priority in this matter..
13. Engineering	1, 2 = open 3 = condition of incorporation with 66% investment of foreign equity shares.	No specific law. FITTA restricts.
14. Financial	a. Banking: Conditional	FITTA does not restricts. Foreign Banking or financial company both joint venture and subsidiary section 4(3), branch banking 34, are allowed in BFI Ordinance with the approval of concern authority.
	b. Insurance[life/non-life] 1, 2 = open. 3= none except as indicated in general conditions.	FITTA does not restrict. Insurance Act, 2049, allows foreigners to conduct for search services Section [10(2)].
Labor Act, 2048 restricts non-Nepali citizen for any job in Nepal except the in the condition for non-availability of Nepali citizen for the particular technical job. And the period is also limited up to seven years in maximum.		

A number of the above mentioned shortcomings are being addressed in the Legal Action Plan (WTO 2003, Annex 2) - this is attached for reference as Appendix 3.2. [12]

[12]Recommendations: Since cross border supply and consumption abroad are fully opened; commercial presence is conditionally opened (more liberal than existing legal provisions); presence of natural persons is unbound except as per the commitment mentioned in horizontal section, there is a need to amend existing laws in consistency with WTO commitment. The amendment is likely to bring drastic change in the arrival of foreigner in service sectors. So, a further study looks essential to encompass its impact on balance of payment situation. Similarly, the policies of the government in the related sectors are also the subjects of serious concern in regard need to the study. This has also been highlighted in Bajracharya (2004).

The limitations by Nepal share a commonality by including a transitional time component. The most common such limitation of market access is that "foreign equity participation will be increased to 80% [from generally 51%] after 5 years from the date of accession" which is true in the majority of transitional commitments.[13,14] While there are other such date/time bound restrictions [e.g. January 2009 for no limitations for basic and mobile telecommunication services; 1 January 2010 for wholesale bank branches; etc.], the other general type of restriction is at the discretion of the relevant authorities. For example in IV. Distributional Services, 2. Wholesale services except CPC 62244 and 3. Retailing Services, except CPC 63234 it is stated for mode 1, 2 and 3 "unbound except until such time that Nepal grants such rights to any WTO Member in any sub sector, or until Nepal determines the types of foreign entities which may provide these services, or that Nepal authorizes such rights under its laws and regulations, the supply of these services; whichever is earlier"; or in VII. Financial Services, 2. Banking and other financial services where it is stated "for derivative products under sub-sector 'f' and settlement of and clearing services for financial assets including securities, derivative products, and other negotiable instruments under 'j' unbound until HMG/Nepal determines what types of entities can conduct these services, the related laws and regulations are established and such business is authorized by the government or other designated authority."[15]

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[13] These are: I. Business Services, 5. Rental/Leasing Services without operator (e) Leasing and rental services concerning video tape (CPC83202); I. Business Services, 6. Other Business Services (a) Advertising services (CPC 871); III. Construction and related engineering services, 2. General construction work for civil engineering (CPC 513); IV. Distribution Services, 1. Commission agent's services (CPC 621); V. Educational Services, 3. Higher Education services (CPC 923) and 4. Adult Education Services (CPC 924) and Other Education (CPC 929); VI. Environmental services, 1. Sewage Services (CPC 9401) and 2. Refuse disposal services (CPC 9402) and 3. Sanitation and similar services (CPC 9403); X. Recreational, cultural and sporting services, 5. Other entertainment services n.e.c. (CPC 96199): - Cinema theatre services including cinema projection services; XI. Transport Services, 3. Air Transport Service (d) Maintenance and repair of aircraft (CPC 8868) along with Computer reservation system (as defined in the Annex in Air Transport); and XI. Transport Services, 8. Service Auxiliary to all modes of supply (a) storage and warehouse services (CPC 742).

[14] It is important to note that Nepal has committed to fully implementing the Agreement on Trade-Related Investment Measures (TRIMs), waiving the seven-year transition period allowed for LDCs under it. This may be motivated by the absence of any current measures deemed inconsistent with the TRIMs Agreement.

[15] This can be wrapped up by the observation that "Nepal's commitment in services seem designed to protest incumbents by favoring the entry of foreign companies only through the establishment of new business (favoring greenfield investment over merges and acquisitions) in particularly all service sectors. The conditions set for such investment include the participation of Nepalese nationals and domestic businesses. Foreign control is allowed, but care has been taken to ensure that Nepalese citizens benefit from new technologies introduced by foreign investors." Further "It is significant that environmental protection has been introduces as an important part of the investment screening process. The general investment environment in Nepal is otherwise fare from restrictive. Only distribution and telecommunication services remain subject to significant protection, while restrictions in the financial sector aim primarily at ensuring quality, soundness and prudential standard among operators." (Suavø, 2005, p. 38).

IV

Implications of Service Sector Commitments on BOP

The last two chapters have discussed the past and present experience of Nepal, this chapter discusses the future potential implications to Nepal's BOP of WTO membership. These projections are based on the expectations from WTO designated focal points by HMG/N and the private sector. The first section is devoted to explaining the survey process and projection methodology based on the conceptual model developed with different scenarios of BOP impact; with the following section looks at the impact on domestic monetary policy.

4.1 Scenarios of Possible Impact on Nepal•s BOP

TF2 is cognizant of the necessity for obtaining data to assess and determine projections for implications of service sector commitments. This primary data is obtained through survey methodology which identified and interviewed, through structured questionnaires, related experts for necessary information - this will be explained in the next sub-section, followed by development of an estimation analytical framework, some empirical results along with discussion.

4.1.1 Methodology

The questionnaire is based on the conceptual (mode base) model developed in the second chapter which will be targeted to be given to identified HMG/N Focal points[1], Ministry of Science and Technology (MOST) of HMG/N and umbrella organizations such as Nepal Rastra Bank (NRB), Federation of National Chamber of Commerce and Industry (FNCCI), Nepal Chamber of Commerce (NCC) and Confederation of Nepalese Industries (CNI) along with already mentioned Ministry

[1] Ministry of Industry Commerce and Supplies; Ministry of Agriculture and Cooperatives; Ministry of Finance; Ministry of Culture, Civil Aviation and Tourism; Ministry of Health; Ministry of Education and Sports; Ministry of Forestry and Soil Conservation; Ministry of Legal, Justice and Parliamentary Affairs; and Ministry of Communication and Information.

of Industry, Commerce and Supplies of HMG/N; all together this suggests that there are 15 possible persons to interview.

The survey questionnaire was first developed on the basis of the mode-wise conceptual model as presented in the second chapter. Given the past trend for the last five years on each mode of supply for credit and debit flows of services, respondents were asked to give their opinion about the possible trend in short term (ST), medium term (MT) and long term (LT) being respectively up to 2005/2006, 2010/2011 and 2015/2016, under the two situations with membership into the Organization viz. 'WTO-low' and 'WTO-high'. The 'WTO high' represents the overall favorable and optimistic scenario while the 'WTO low' represents the unfavorable and pessimistic scenario. The possible responses for each term had six possible choices; three for increasing growth rate with there being three for decreasing growth rates – for example for the short term, interviewees were asked whether membership would result in an increase of 0-5, 5-10, 10-15% or a decrease of 0-5, 5-10, 10-15% vis-à-vis trend growth rates. In addition, they were also asked to provide qualitative information such as the positive and negative impacts of WTO membership on the service sector and to suggest appropriate measures to reap the benefits of membership and to minimize negative impact of WTO membership.

This developed draft questionnaire had been refined based on pre-testing from three WTO experts namely: Dr. GB Thapa, then Senior Economic Adviser, Ministry of Finance, HMG/N; Mr. PM Shrestha, Joint Secretary, Ministry of Industry Commerce and Supplies, HMG/N; and Dr. PR Pandey, National Program Manager, Multilateral Trade Integration and Human Development in Nepal. Based on the suggestion and feedback it was finally determined that there should be three versions of the questionnaire – these are attached in the 4.1 – 4.6 appendices – with those targeted to three categories: the first being those of umbrella organizations; the second being WTO Focal Points in identified sectors of communication, education, health and tourism as identified by HMG/N; the last are those remaining WTO Focal Points – residuals - in those ministries as identified by HMG/N, as well as MOST of HMG/N.

Prior to commencing the actual survey, an interaction program was hosted by NRB for those above identified interviewees as well as WTO experts and individuals from the Bank. Encouragingly there had been participation from most of the HMG/N designated focal points as well as representative from MOST of HMG/N. The primary purpose of the interaction program was to convey the matter of the study as well as the importance of this work. It was felt that the purpose of the interaction program was largely met, shown by the active discussion session.

The actual survey took place over the month of December 2004 and January 2005 with 11 of possible 15 persons, interviewed:

4.12. Estimation Analytical Framework

The study objective is for producing BOP projections through information captured in the surveys. The methodology is presented below:

- Nepal's BOP over the period 1999/2000 – 2003/2004 were first examined using actual data, paying specific attention to overall credit and debit flows. The aggregate flows were broken down into service related and non-service related flows; the growth rates were determined with the non-service related growth rates to be held constant in projections for ST, MT and LT. Further, 2004/2005 was utilized as foundation for projection, based on the most recent BOP projections as provided by NRB.
- Variable projections, on the other hand, was produced from the service related credit and debit projections information based on information from survey questionnaires - these include information on modes of supply.
    - At a broad level, information from umbrella organizations will provide a flavor of the traded service portion of the economy, along with their modes of supply.
    - It is also hoped that the overall BOP projections will be further enriched through decomposition into mentioned major sectors of communication, education, health, tourism and residual, by each mode of supply.
- The result of both service related and non-service related flows was put together to facilitate production of overall BOP projections for Nepal as WTO-low and WTO-high scenarios.
- In addition to those two scenarios, a base case projection was produced to facilitate comparison for providing information on service sector growth absent WTO membership – this growth was simple projection in ST, MT and LT of constant growth rate for both the service and non-service sector. Baseline projection of credit and debit flows for mode 1 and mode 2 was based on the last four years average growth rate, while baseline projection of credit flow of mode 3 is based on actual flow of total FDI. In case of debit flow the initial year growth rate is taken to be the average of the subsequent three year average growth rates.

The above discussion for credit and debit flows is produced in formula form below:

$$proj, BOP_{i|\,ST,MT,LT} \mid \overline{proj, non4\,service} 2\; proj, service \left(\frac{\sum_{n|1}^{5} \sum_{m|1}^{4} SS_m}{TM_n} \right)$$

Note: "ST, MT, LT" is respectively one year, five years and ten years projections; "n" refers to the fives sectors of communication, education, health, tourism and residual; "m" refers to the four modes of supply.

To sum up, there shall be three scenarios of BOP determined by service sector projection: a base case reflecting the scenario of no WTO membership; a WTO-low case; and a WTO-high case; of course, all periods are examined in the ST, MT and LT.

4.1.3 Empirical Results

Empirical result are based on information from completed questionnaires - nine of the fifteen expected questionnaire had been completed. Unfortunately, two major sectors - education and tourism – unfortunately were not completed. Because of this situation of lack of full sectoral information,led to inability for sector wise projection. Focus was thus limited to the umbrella organizations for an overall perspective – e.g. from FNCCI; HMG/N, MOICS; and NRB. The information collected from WTO designated focal point of communication and health are provided in a box as a case study vis-à-vis service sector, to be discussed further below.

The projection proceeded as aforementioned in three parts: first determining the fixed traded non-service component; second the variable traded service component; lastly combining these together for three different scenarios: the base case, the WTO-low case and the WTO-high case; these projections are produced below:

First, credit and debit flows of the tradable portion of non-service sector, was determined from their average growth rate from the Nepal BOP statistics for the last five years (1999/2000 – 2003/2004); the non-service flows were divided into major components of BOP viz. merchandise exports, merchandise imports, income (except equity earning on services), current transfers, capital transfers and others. The growth rates of thes components are provided below:

Table 4.1: Average Growth Rates of Traded Non-services for 1999/2000 … 2003/2004 Periods

Non service	
Merchandise export	7.7
Merchandise import	8.9
Income, credit	3.7
Income(other),debit	12.2
Current transfers	10.2
Capital transfers	-27.0
Others	-0.7

Source: NRB

Second the tradable portion of service sector growth, the variable component, was calculated. This was based on the information obtained via questionnaires given to umbrella organizations focal points whose summary statistics are provided below:

Table 4.2: Summary Statistics from Umbrella Organization Questionnaires

Mode	Service	ST		MT		LT	
		WTO-low	WTO-high	WTO-low	WTO-high	WTO-low	WTO-high
Mode 1	Credit	2.5	5.8	1.7	8.3	2.5	12.5
	Debit	0.8	4.2	-1.7	5.0	-2.5	7.5
Mode 2	Credit	5.8	5.8	11.7	13.3	12.5	17.5
	Debit	2.5	2.5	5.0	1.7	7.5	2.5
Mode 3	Credit	-0.8	5.8	-1.7	11.7	-2.5	12.5
	Debit	0.8	-2.5	1.7	-5.0	7.5	-7.5

Note: Average information from umbrella organizations; namely FNCCI, MOICS of HMG/N and NRB.

Those above information are provided in adjusting the traded portion of credit and debit service sector baseline growth rates as provided below, and shown graphically in the second chapter; for example the base growth rate of mode 1 credit services is 7.2%, information from interviewees suggest that there is greater expected growth rate by 2.5% which is ensuring adjusted to reflect 7.4 % growth rate. Those adjusted information in existing and improved scenarios are given below:

Table 4.3: Sector Growth Rates

Service	Baseline growth rate	ST		MT		LT	
		WTO-low	WTO-high	WTO-low	WTO-high	WTO-low	WTO-high
Mode 1							
Credit	7.2	7.4	7.6	7.3	7.8	7.4	8.1
Debit	3.6	3.6	3.7	3.5	3.8	3.5	3.9
Mode 2							
Credit	4.7	5.0	5.0	5.3	5.3	5.3	5.5
Debit	12.4	12.8	12.8	13.1	12.7	13.4	12.8
Mode 3							
Credit	25.2	25.0	26.6	24.8	28.1	24.6	28.3
Debit	20.0	20.2	19.5	20.3	19.0	21.5	18.5

Lastly, putting together both service and non-service sector projections is provided in the table below on credit and debit flows results in the below.[2]

Table 4.4: Aggregate Credit and Debit Flows

(Rs. in millions)

	Baseline		WTO-low		WTO-high	
	Credit	Debit	Credit	Debit	Credit	Debit
1999/00	157725.9	-142285.9	157725.9	-142285.9	157725.9	-142285.9
2000/01	177745.6	-172524.2	177745.6	-172524.2	177745.6	-172524.2
2001/02	159906.0	-163248.9	159906.0	-163248.9	159906.0	-163248.9
2002/03	163357.5	-158993.9	163357.5	-158993.9	163357.5	-158993.9
2003/04	181416.5	-165415.5	181416.5	-165415.5	181416.5	-165415.5
2004/05	194007.7	-186507.7	194007.7	-186507.7	194007.7	-186507.7
2005/06	209802.6	-202421.5	209895.5	-202476.4	209915.0	-202482.6
2006/07	227161.2	-219877.9	227442.3	-220048.7	227533.9	-219989.4
2007/08	246192.4	-239034.1	246680.4	-239354.0	246861.2	-239201.9
2008/09	267027.6	-260064.5	267742.2	-260573.8	268033.9	-260294.8
2009/10	289819.6	-283162.8	290781.7	-283910.2	291212.1	-283461.8
2010/11	314743.3	-308544.1	315974.9	-309588.4	316579.7	-308917.8
2011/12	341996.6	-336447.4	343537.7	-338012.9	344458.9	-336929.4
2012/13	371801.9	-367139.2	373676.9	-369362.3	374989.7	-367736.9
2013/14	404408.5	-400915.9	406641.7	-403963.0	408442.3	-401635.5
2014/15	440095.2	-438108.4	442710.5	-442182.2	445122.4	-438953.5
2015/16	479174.2	-479086.2	482193.9	-484433.1	485376.4	-480056.8

Source: TF2 calculations

[2] It is important to note that the base for projections is from 2004/2005, which is based on the most recent official projections of Nepal Rastra Bank.

Further, the overall effect on BOP is shown in the table below and subsequently in the following graphic:

Table 4.5: BOP Projections

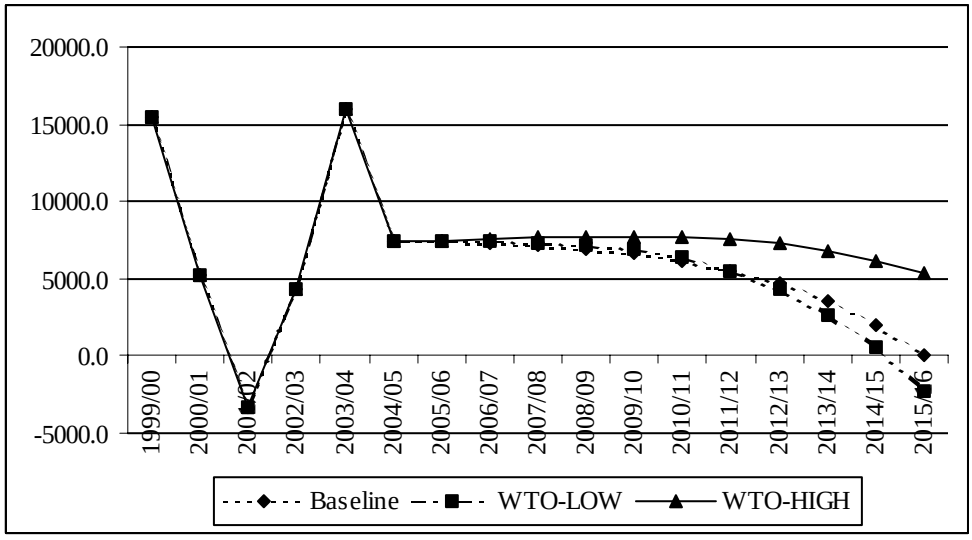
(Rs. in Millions)

	Baseline	WTO-low	WTO-high
1999/00	15440.0	15440.0	15440.0
2000/01	5221.4	5221.4	5221.4
2001/02	-3342.9	-3342.9	-3342.9
2002/03	4363.6	4363.6	4363.6
2003/04	16001.0	16001.0	16001.0
2004/05	7500.0	7500.0	7500.0
2005/06	7381.1	7419.1	7432.4
2006/07	7283.3	7393.6	7544.5
2007/08	7158.4	7326.4	7659.3
2008/09	6963.1	7168.4	7739.1
2009/10	6656.8	6871.5	7750.3
2010/11	6199.2	6386.5	7661.9
2011/12	5549.1	5524.8	7529.6
2012/13	4662.7	4314.6	7252.8
2013/14	3492.6	2678.7	6806.8
2014/15	1986.8	528.3	6168.9
2015/16	88.0	-2239.1	5319.6

Source: TF2 calculations

The above figures are shown graphically below:

Figure 4.1: BOP Projections



Source: TF2 calculations

4.1.4 Discussion

According to the above results from projections, some observation and discussions are in order:

- Projection of BOP suggests that WTO membership will result in greater credit and debit flow of services. For example from 2004/2005 to 2015/2016 credit flows are expected to increase on average by 150% while debit flows increase on average by 155%! This suggests that the economy, regardless of the scenario which puts forward some upward or downward adjustment, will benefit largely due to the significant increase in volume of transactions generating employment and other business opportunities.

- The growth in services can also be examined mode-wise where there is vast growth in mode 3 credit supply – about 25.2 % vis-à-vis 7.2% and 4.7% in mode 1 and mode 2 credit supply respectively. The lower growth of mode 1 and mode 2 is attributed to historical growth rates in these sectors being low; however discussion with health and communication sectors suggests that the introduction of newer technology may have greater impact on Nepal's trade and payments.

- WTO-low and baseline BOP projections are equilibrium reverting in the LT with no significant positive or negative trend in the BOP – this suggests that the exchange rate policy of Nepal is appropriate. Specifically BOP projections which had commenced at a surplus of Rs. 7,500 million in 2004/2005, had ended at Rs. 88 million; Rs. -2,239 million and 5,319.8 million for the baseline, WTO-low and WTO-high case respectively.

- The WTO-high and WTO-low case suggest that Nepal has to be pro-active to benefit from membership; specifically, the WTO-low case is slightly below that of the baseline case of no WTO-membership, suggesting that membership in WTO may results in even more unfavorable situation that without membership in WTO, especially if the challenges are not proactively addressed.

- The ever increasing spread between WTO-low and WTO-high cases indicates the possibility of greater volatility with the pace of time. Specifically in 2005/2006 this was only 0.1% of average projections which increased to over 490% of average projections in 2015/2016.[3] While this does not seem the case it the ST, this become quite distinctive in the MT and LT.

[3] Volatility is calculated simply by the difference of the WTO-high and WTO-low case divided by their average.

Box 4.1: Case Study on Communication and Health Sectors

Under the aegis of WTO, Nepal has committed to open the "hospital services and direct ownership and management by contract of such facilities on a 'for fee' basis" in all modes of supply except mode 4. In mode 3, i.e. commercial presence, Nepal has allowed to open the service only through incorporation in Nepal and with maximum foreign equity capital of 51 percent. Mode 4, however, is 'unbound' with the exception that medical experts can work with the permission of Nepal Medical Council.

Health sector is one of the emerging sectors of Nepalese economy. With the advent of technology health services are becoming more and more specialized. However, the increasing expenditure on foreign medical treatment suggest that there is still a preference to go abroad for medical treatment. According to the survey done on the WTO designated Focal Point at then MOH of HMG/N, this trend is likely to continue in the low scenario. In the short run, if the situation remains the same, credit flow is expected to grow by lower rate, in comparison with debit flow in mode 1 and 2. However, this trend is likely to be reversed in some five or ten years in the WTO-high scenario. For example, credit flow is expected to grow at a higher rate than debit flows provided the situation normalizes. Similarly, in mode 3, the FDI is expected to increase in the long run.

Another potential sector that is likely to benefit the most from WTO is the communication and information technology. According to the experts, the communication sector is likely to expand faster than other sectors. The sector is expected to grow at higher rate in medium and long term with compared to the present situation provided the situation improves. The receipts and payments, however, are expected to expand at the same rate in both cases (existing and improved). The survey indicated that FDI flow will increase only in the improved situation. Further, there was indication of growth in the first and second modes of supply.

4.2 Impact on Domestic Monetary Policy

The prior section determined the BOP implications of WTO service sector commitments. It is clear that changes will gradually emerge in the economic and financial structures in the country that would exert both positive and negative influences on the effectiveness of monetary policy via its various transmission channels. To successfully attain the primary objectives of monetary policy in Nepal such as (a) domestic price stability, (b) a reasonable level of surplus in the balance of payments, and (c) an adequate level of liquidity to support a high, sustained and broad-based economic growth as enshrined in the Nepal Rastra Bank Act, 2002, the NRB authorities need to be certain that the impact of monetary policy are transmitted to the economy as a whole in the right direction. Thus, with Nepal joining the WTO, it is crucial for the NRB to conduct monetary policy in an appropriate way for addressing the impacts of both internal and external changes. A clearer understanding of the effectiveness of the transmission mechanism in Nepal would assist the domestic monetary authority to interpret the movements in financial aggregates more precisely. This micro-study attempts to put forward the necessary information.

4.2.1 The possible channels and limitations

There are a number of conceptual channels of monetary policy transmission, for example Kuttner and Mosser (2002) highlight: quantum channel, interest rate channel, asset price channel, exchange rate channel; Reddy (2002) the 'expectations' channel etc.. For this paper and consistent in large part with an ongoing NRB Study conducted by the Monetary Division and the Special Study Division, three major channels will be highlighted: the interest rate, credit and exchange rate channels. It is felt that the interest rate channel can be eliminated outright in Nepal, as there is absence of a well developed domestic financial market. The remaining two, the credit channel and the exchange rate are clearly possible channels by which the balance of payments (BOP) affects the monetary policy. However, the situation existing in Nepal with a pegged exchange rate vis-à-vis the Indian Currency, suggests that the credit channel may be more appropriate to focus for now, as the transmitter of external sector pressures on monetary policy (also suggested by a number of authors such as Thapa (2002)). Mention should be made that this highlighted channel is also consistent with the above task force objective.

4.2.2 The Credit Channel in Detail – a Conceptual Framework for Analysis

The credit channel concerns money supply and policy impulses which have an impact on real sector and prices through the change in reserve money, credit growth and eventually money supply. Specifically, a BOP surplus results in an increase in the net foreign assets (NFA)[4] which result in growth in monetary base, given a constant level of net domestic assets (NDA)[5] and, given a stable money multiplier [credit growth], and growth in money supply [which in this case is taken to be that of narrow money]. In other words, the credit channel suggests that the BOP is tied to a country's monetary survey. This broad relationship is shown schematically below:

BOP ⇓ NFA ⇓ Monetary Base (MB) ⇓ Money Supply (M1)

4.2.3 Methodology and Empirical Results

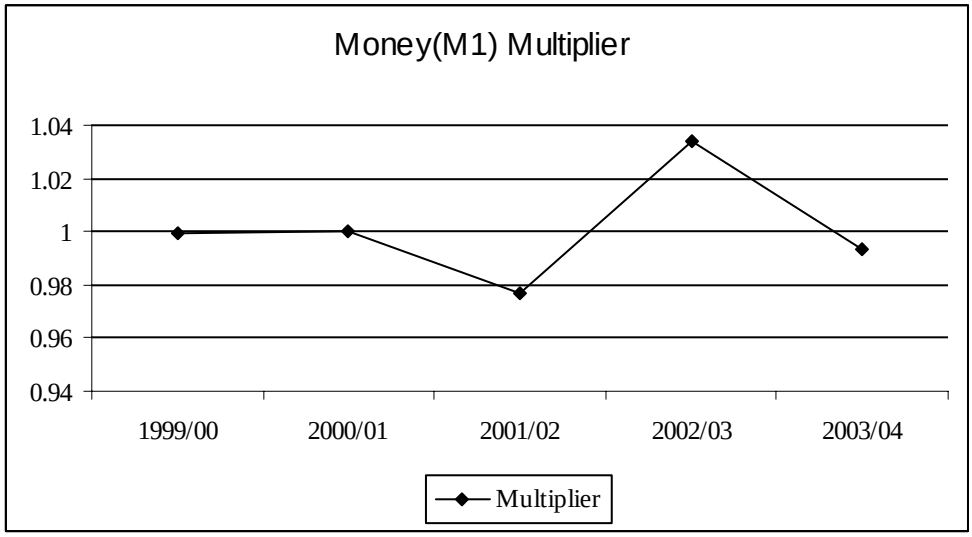
The first step is to grasp the existing scenarios regarding the domestic money situation – e.g. trends money multiplier in Nepal. This relationship is shown

[4] NFA (Net Foreign Assets): Total foreign assets minus total foreign liabilities of the monetary sector; in Nepal NFA includes foreign assets [Gold, SDR holdings, Reserve Position in the Fund and Foreign Exchange]; Foreign Currency Deposits [deposits of the banking system mainly NRB and commercial banks]; and other liabilities.

[5] NDA (Net Domestic Assets): Total domestic credit (sum of net claims on government, claims on government enterprises, claims on financial institutions claims on private sector) minus net non monetary liabilities of the monetary sector.

graphically, below for the five year period of 1999/2000 – 2003/2004, taken from the monetary survey of Nepal.

Figure 4.2: Money (M_1) multiplier



Source: NRB

The average of the money multiplier is 1.0008 with standard deviation of 0.02, suggesting that movements of the narrow money multiplier have been in a tight and stable band.

The BOP estimates from the service sectors help determine the various scenarios of domestic monetary policy. However, for determination some ceteris paribus assumptions are used, regarding the relationship of BOP to gross NFA, from gross NFA to NFA of the NRB,[6] from NFA of the NRB to MB and MB to M1 – that is BOP projections accurately reflect asset and liability flows of foreign assets, represented by changes in gross NFA; for the second, there is a constant relation from gross NFA to NFA of the NRB; third, the growth rate of NDA is stable with impulses coming mainly from NFA[7] leading to projected level of MB; and that there is a stable money multiplier in Nepal (the product of MB and the money multiplier result in M1). Specifically the relationship is:

$$BOP \propto^{1} \Downarrow NFA \propto^{NRBNDA} \propto^{2} \propto^{NRBNFA} \Downarrow MB \propto^{multiplier} \Downarrow M1$$

It is important to point out that the money multiplier coefficients are calculated from the above presented data; with the final coefficient being the standard money multiplier. With these information's, it is straight forward to calculate the

[6] NFA of the NRB is estimated to be about 90.72 percent (average of last five years) of total NFA of the Banking system.

[7] Recall that MB is the sum of NFA and NDA of the NRB.

alternative scenarios of monetary impact from BOP projections shown in the below table:

Table 4.6: Money Supply (M_1) Growth

Fiscal Years	Baseline	WTO-low	WTO-high
2004/05	13.56	13.56	13.56
2005/06	12.08	12.10	12.19
2006/07	11.98	12.00	12.22
2007/08	11.82	11.90	12.15
2008/09	11.61	11.60	12.07
2009/10	11.32	11.30	11.97
2010/11	10.92	10.90	11.87
2011/12	10.35	10.00	11.92
2012/13	10.15	9.90	11.95
2013/14	9.75	9.60	11.4
2014/15	9.50	9.40	11.22
2015/16	9.25	9.00	11.64

Source: Taskforce calculations;

4.2.4 Discussion

There are clear impacts on monetary policy in Nepal. The above table provides the different impacts on money supply depending on three different scenario of BOP projection. Since money multiplier is assumed to remain constant and NRB's NFA is considered as residual, the money supply growth tends to follow the trend of BOP projection. It is estimated that money supply growth will be higher in the improved situation compared to the other two situations. Based on the BOP situation, ignoring situation of NDA, the money supply growth will be less than 10 percent in later years in baseline and unimproved situations.

Likewise, so long as there is continued maintenance of the existing exchange rate policy, the flows of BOP have a direct impact on the money supply. To maintain required liquidity in the economy to facilitate non-inflationary growth, domestic monetary policy needs to be conducted by greater coordination between sterilized and open market operations. Moreover with the possibility of volatility in BOP flows, the current anchoring mechanism of monetary policy may need to be changed.

V

Recommendations Regarding Service Sector Commitments

The previous chapter had provided some projections of BOP and impact on domestic monetary policy. This chapter takes all information in the preceding chapter viz. second, third and fourth – and provides analysis based on the qualitative information obtained from interviewees as well as puts forth some recommendations.

5.1 SWOT Analysis on BOP Implications

While the SWOT analysis can be generalized, this is limited to the prior projections and from the view point of the NRB.

Table 5.1: SWOT analysis

1.	Strength	⇐ Liberal policies already in place: Industrial, technology transfer, telecom, Airlines and tourism related Acts and regulation are in place. ⇐ Private sector coming up strongly in most service areas: Most services including travel, transport, telecom, computing, information technology etc. already in private sector, services under govt. also being privatized. Airline, telecomm and Transport Corporation are some examples of privatization initiatives. Even education and Health services emerging under private sector. ⇐ Strong Foreign Exchange Reserve Position: Foreign Exchange Reserves sufficient to cover 10 months of goods and services imports. ⇐ Low cost of doing business: Cheap Labor, low cost of living etc. ⇐ Competitive service sector: Banking, telecom and air lines services in the private emerging as competitive sectors
2.	Weakness	⇐ Lack of competitiveness: Most services promoted under govt. protection or monopolized (some commercial banks, Development banks, Insurance Company, Transportation etc.), lack of efficiency and cost effectiveness.

		⊄# Weak governance: Lack of sufficient legal and regulatory framework (no competition law, no proper intellectual property rights protection, weak consumer's protection etc.), Lethargic bureaucracy, slow decision making process and implementation and corruption, weak monitoring system of the central bank. ⊄# Insecure business environment: Business insecurity due to conflict. ⊄# Family dominated business environment ⊄# Nascent Private sector to face external competition: Private sector history is very short. It lacks sufficient experience; it lacks entrepreneurship skills and technology to compete with external business services. ⊄# Low labor productivity and high transportation cost ⊄# Lack of Business Professionalism: No corporate culture, family houses dominated business system, lack of management professionals.
3.	Opportunity	⊄# Expanded Market: More integration with world economy to promote service exports. Rising income of the neighboring countries like Chine and India to create demand for services (tourism, labor, education, health etc.) ⊄# Emerging business friendly, legal, regulatory and institutional environment: Encouraging atmosphere for foreign investment, local private sector coming up in new services. ⊄# Expanding financial, information technology and physical infrastructure: Financial deepening taking place with more financial services at place, e-banking emerging, cyber high way constructed, IT park completed, private sector coming up in infrastructure with the enactment of BOOT. ⊄# Inflow of foreign investment and technology: Opening of service sector will invite more foreign investment and new technology.
4.	Threat	⊄# Incompetence: Possibility of domestic business not becoming competitive with external sector because of lack of innovation, obsolete technology, unskilled labor. ⊄# Larger net imports: Possibility of service exports to fall short of imports leading to BOP deficit and depletion of foreign exchange reserves. ⊄# Volatile BOP Situation: Exports confined to a few products, large trade deficit, and service income from remittance vulnerable to external shocks, etc. ⊄# Exchange Rate Regime: Any external shock will make peg difficult to sustain, floating Nepalese rupee with Indian currency to invite new problems like volatility in foreign exchange market, risk of inflation, etc.

5.2 Recommendations

Based on the study and the above SWOT analysis, a number of recommendations fall out:

Table 5.2 : Recommendations

	Description	Objective	Recommendation
1.	Increased volume (credit and debit) and diversified nature (such as e-commerce etc.) of service transactions.	⁄# Appropriate supervision and regulation of new methods of payments (such as e-commerce etc.) to productively harness the potential for enhancing international transactions	⁄# Enhance supervision and regulation of service related transactions, to keep pace with financial innovation possibly through formation of a taskforce on Foreign Exchange Management Department and Legal Division.
2.	Increasing probability of short-term volatility in BOP [reflected in greater spread between 'WTO-high' and 'WTO-low' BOP projected situations].	⁄# Strengthening short-term domestic monetary and exchange rate policy for smoothing out the probable volatile foreign exchange situation via enhancing service related safeguards and methods of foreign exchange sterilization.	⁄# Formation of a legal unit coordinated with the HLC secretariat, to continuously monitor external developments regarding service safeguards; understand and prepare NRB stance in GATS on this regard, in a timely manner. ⁄# Enhancement of timely coordination between foreign exchange intervention and domestic open market operation, for effective sterilization.
3	Inconsistency of existing laws and regulations between WTO (and that of NRB regulations) regarding payments of foreign service related transactions	⁄# Identify and amend domestic laws or regulations of NRB for compatibility to WTO commitments related to service transactions. ⁄# Identify other laws (such as Cyber Act etc.) and coordinate with HMG/N for necessary amendments and development of rules and regulations.	⁄# Formation of a legal mechanism [possibly in coordination with HMG/N] to review existing laws and regulations and make necessary recommendations for implementation.
4	Growing complexity of WTO service sector classifications and inter-linkage with BOP, leading to diversified foreign exchange flows	⁄# Importance for BOP compilation to capture services related flows consistent with WTO classification to facilitate effective monitoring of mode-wise foreign exchange transactions [such as e-commerce]	⁄# Enhancing inter-linkage of the service related flows, for a continuous monitoring and evaluation system possibly though formation of a technical taskforce at

		e-commerce] ⊄# Necessity for effective and timely monitoring of service related international transactions	Research Department.
5	Potentially magnified impact on domestic monetary and exchange rate policy	⊄# Minimize this effect through proactive monetary and exchange rate policy (evaluation of the exchange rate policy, assessment of stance regarding capital account etc.).	⊄# Establishment of an institutional mechanism to evaluate the existing monetary and exchange rate policy in light of changing scenario with Nepal's WTO membership.
6	Growing economic trade inter-linkages and growing necessity for domestic stakeholder awareness.	⊄# Convey information on rights and commitments with membership in WTO, specifically related to NRB.	⊄# A permanent body at NRB which is interlinked and coordinated with both domestic and international stakeholders.

VI

Summary and Conclusion

The contribution of the service sector plays an important part for the development of a nation. The experiences of different countries have shown that the contribution and role of the service sector increases with the development of the economy. Nepal has not escaped this trend where the service sector is also growing rapidly vis-à-vis other sectors, and presently contributes more than 40 percent of GDP. Nepal's membership in WTO and it commitments for liberalization of the service sector under GATS presents both serious challenges and great opportunities to this emerging traded sector and to domestic economic development as a whole. The present study by NRB attempts to paint the scenarios of the impact of those commitments on the foreign exchange management and the resulting BOP situation. .

In this regard, the present study examined the past and present situation of trade in services and analyzed the possible impacts of WTO related service sector

(e) Engineering services (CPC 8672) - Engineering design services for the construction of civil engineering works (CPC 86724) - Engineering design services for industrial processes and production (CPC86725) - Other engineering services during the construction and installation phase (CPC 86727) - Other engineering services (CPC 86729)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 66 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(f) Integrated engineering Services (CPC 8673)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 66 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(g) Urban planning and landscape architectural services (CPC 8674)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 66 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(i) Veterinary services (CPC 932)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(a) Consultation services related to the installation of computer hardware (CPC 841) (b) Software implementation services (CPC 842) (c) Data processing services (CPC 843) (d) Data base services (CPC 844) (e) Maintenance and repair service of office machinery and equipment including computers (CPC 845) (f) Other computer services	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 80 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as provided under horizontal section	

- Data preparation services (8491) - Other computer services (CPC 8499)			
2. Computer and Related Services			
3. Research and Development Services			
(a) R&D services on natural science - Heat, light, electromagnetism, astronomy but excluding atomic energy and related matters (CPC 85101) - Engineering and technology, including applied science and technology for casting, metal, machinery, electricity, communications, vessels, aircrafts, civil engineering, construction, information etc. (CPC 85103)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
5. Rental/Leasing Services without Operators			
(e) Other Leasing and rental services concerning video tape (CPC83202)	(1) None (2) None (3) None except only through incorporation in Nepal and with maximum foreign equity of 51 percent. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in the horizontal section.	
6. Other Business Services			
(a) Advertising services (CPC 871)	(1) None (2) None (3) Unbound until 31 December 2008. Thereafter none, except only through incorporation in Nepal and with maximum foreign equity capital of 67 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(b) Market research and public opinion	(1) None	(1) None	

polling services (CPC 864)	(2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(c) Management consulting service (CPC 865)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(e) Technical testing and analysis services (CPC 8676)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(h) Services incidental to mining (CPC 883+5115)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(m) Related scientific and technical consulting services (CPC 8675)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(q) Packaging services (CPC 876)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(r) Printing, publishing (CPC 88442)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
(s) Convention Services (CPC 87909)	(1) None	(1) None	

	(2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(2) None (3) None (4) Unbound, except as indicated in horizontal section.	
II. COMMUNICATION SERVICES			
2. Courier services - Multi-modal courier services (CPC 75121)	(1) None (2) None (3) For courier services supplied from a foreign territory to Nepal or from Nepal to a foreign territory none except only through incorporation in Nepal and with maximum foreign equity capital of 80 per cent. (4) Unbound, except as indicated in horizontal section and in accordance with Nepal's mode3 commitments for courier services.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
3. Telecommunication Services Commitments are taken consistent with "Notes for Scheduling Basic Telecom Services Commitments" (S/GBT/W/2/Rev.1) and Market Access Limitations on Spectrum Availability" (S/GBT/W/3).			
Basic Telecommunications			
(a) Local telephone service (b) Domestic telephone service (c) International telephone services (d) Telex service (e) Domestic and international telegraph service	(1) None (2) None (3) None, except: No limitation on number of service providers will exist on January 2009. However, foreign participation permitted through a joint venture with up to 80% equity participation. (4) Unbound, except as indicated in the horizontal section. Consultants not available in Nepal may enter to work for 90 days.	(1) None (2) None (3) None, except the majority of the members of the Board of Directors of a joint venture should be Nepalese nationals. (4) Unbound, except as indicated in horizontal section.	Nepal undertakes additional commitments as contained in the Telecommunication Reference Paper attached to this Schedule of specific Commitments
Mobile Telecommunications Services	(1) None (2) None (3) None, except: - By 2004 two mobile operators will be licensed - No limitation on number of service providers will exist on January 2009, However, foreign participation permitted through a joint venture with up to 80% equity participation.	(1) None (2) None (3) None	Nepal undertakes additional commitments as contained in the Telecommunication Reference Paper attached to this Schedule of specific Commitments

	- Mobile technology will not be prescribed but will be left to the choice of the operator upon the date of accession. (4) Unbound, except as indicated in horizontal section.	 (4) Unbound, except as indicated in horizontal section.	
Value-added telecommunications			
(a) Internet including e-mail (b) E.mail (c) Voice mail (d) Video text (e) Fax mail (f) VSAT (g) Audio Conference (h) Pay phone (i) Pre-paid calling card (j) Local, long distance and international data communication (k) Radio paging (l) Trunked mobile	(1) None (2) None (3) None, except: Foreign participation permitted through a joint venture with up to 80% equity participation. (4) Unbound, except as indicated in the horizontal section	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
III. CONSTRUCTION AND RELATED ENGINEERING SERVICES			
2. General construction work for civil engineering (CPC 513)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession. (4) Unbound, except as indicated in horizontal section	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section	
5. Other (CPC 511+515+ 518)	(1) None (2) None (2) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
IV. DISTRIBUTION SERVICES			
1. Commission agent's services (CPC 621)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession.	(1) None (2) None (3) None	

	(4) Unbound, except as indicated in horizontal section.	(4) Unbound, except as indicated in horizontal section.	
2. Wholesale Services, except CPC 62244	1) 2) 3) and 4) Unbound except as indicated in the horizontal section. In addition, unbound except until such time that Nepal grants such rights to any WTO Member in any subsector, or until Nepal determines the types of foreign entities which may provide these services, or that Nepal authorizes such rights under its laws and regulations, the supply of these services; whichever is earlier.	1) 2) 3) and 4) Unbound except as indicated in the horizontal section. In addition, unbound except until such time that Nepal grants such rights to any WTO Member in any subsector, or until Nepal determines the types of foreign entities which may provide these services, or that Nepal authorizes such rights under its laws and regulations, the supply of these services; whichever is earlier.	
Wholesale trade services of radio and television equipment, musical instruments, and records, music scores and tapes. (CPC 62244)	(1) None (2) None (3) None except only through incorporation in Nepal and with maximum foreign equity of 80 percent (4) Unbound, except as indicated in the horizontal section	(1) None (2) None (3) None (4) Unbound, except as indicated in the horizontal section.	
3. Retailing Services, except CPC 63234	1) 2) 3) and 4) Unbound except as indicated in the horizontal section. In addition, unbound except until such time that Nepal grants such rights to any WTO Member in any subsector, or until Nepal determines the types of foreign entities which may provide these services, or that Nepal authorizes such rights under its laws and regulations, the supply of these services; whichever is earlier.	1) 2) 3) and 4) Unbound except as indicated in the horizontal section. In addition, unbound except until such time that Nepal grants such rights to any WTO Member in any subsector, or until Nepal determines the types of foreign entities which may provide these services, or that Nepal authorizes such rights under its laws and regulations, the supply of these services; whichever is earlier.	
Retailing Services Retail sales of radio and television equipment, musical instruments, and records, music scores and tapes. (CPC 63234)	(1) None (2) None (3) None except only through incorporation in Nepal and with maximum foreign equity of 80 percent (4) Unbound except as indicated in the horizontal section	(1) None (2) None (3) None (4) Unbound except as indicated in the horizontal section.	
4. Franchising (CPC 8929)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in horizontal section.	(1) None (2) None (3) None (4) Unbound except as indicated in horizontal	

		section.	
V. EDUCATIONAL SERVICES			
3. Higher Education services (CPC 923) 4. Adult Education Services (CPC 924) 5. Other Education (CPC 929)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent and except for education services funded from state resources. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None, except for education services funded from state resources (4) Unbound, except as indicated in horizontal section.	
VI. ENVIRONMENTAL SERVICES			
1. Sewage Services (CPC 9401) 2. Refuse disposal services (CPC 9402) 3. Sanitation and similar Services (CPC 9403)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
VII. FINANCIAL SERVICES			
General Conditions The commitments in financial services are made in accordance with the General Agreement on Trade in Services and the Annex on Financial Services. All the commitments are subject to entry requirements, domestic laws, rules and regulations and the terms and conditions of the Nepal Rastra Bank (the central bank of Nepal), Insurance Board and any other competent authority in Nepal, as the case may be, which are consistent with Article VI of the GATS and paragraph 2 of the Annex on Financial Services. The commitments in Insurance Services are given to the nationals and financial institutions of the Members whose law and policies do not bar the provision of similar commitments to the Nepalese nationals and financial institutions. No such limitation will exist as of 1 March 2004.			
Financial Services in the form of operations identified below in the Schedule can be carried out in Nepal through a locally incorporated company. Branches will be allowed for insurance services and wholesale banking as of 1 January 2010. Only a licensed commercial bank, a licensed specialized bank or a registered finance company may accept deposits. Only a licensed commercial bank may accept deposits, which are repayable upon demand. Only financial institutions with rating of at least 'B' by Credit Rating Agency e.g. MOODI, Standard & Poor can have commercial presence in Nepal. The total foreign shareholding in any institution providing financial services is limited to 67 per cent of the issued share capital. It has, nevertheless, been bound for the existing foreign financial service providers as to their scope of operation and equity structure. The shares held by foreign nationals and foreign financial institutions in their locally incorporated companies are not transferable without the prior written approval of the Nepal Rastra Bank (the central bank) or any other competent authority as the case may be. Representative offices may not be engaged in commercial business. The members of the Board of Directors of a financial service supplier will be in proportion to equity representation of that financial service supplier.			

1. Insurance and Insurance Related Services			
(i) Direct Insurance			
(a) Life	(1) None (2) None (3) None, except As indicated in general conditions. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None, except as indicated in general conditions and horizontal section. (4) Unbound, except as indicated in horizontal section.	
(b) Non-life	(1) None (2) None (3) None, except as indicated in general conditions. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None, except as indicated in general conditions and horizontal section. (4) Unbound, except as indicated in horizontal section.	
(ii) Re-insurance and Retrocession	(1) and (2) None except, mandatory reinsurance up to USD 25,000 must be placed with domestic insurance company until 31 December 2007. (3) Unbound until 31 December 2007; thereafter none, except as indicated in the general conditions. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in the horizontal section.	
(iv) Services Auxiliary to Insurance Insurance broking and agency services (CPC 81401)	(1) None (2) None (3) None, except as indicated in general condition (4) Unbound, except as indicated in the horizontal section	(1) None (2) None (3) None (4) Unbound except as indicated in the horizontal section.	
2. Banking and Other Financial Services			
(a) Acceptance of deposits and other repayable funds from the public	(1) Unbound, except for (k) provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services and (l) advisory services on all the activities listed above were none (2) Unbound, except for (k) provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services and (l) advisory services on all the activities listed above were none (3) None, except as indicated in general conditions. For derivative products under sub-sector 'f' and settlement of	(1) None (2) None	

(b) Lending of all types, including, inter-alia, consumer credit, mortgage credit, factoring and financing of commercial transactions.	and clearing services for financial assets, including securities, derivative products, and other negotiable instruments under 'j' unbound until HMG/Nepal determines what types of entities can conduct these services, the related laws and regulations are established and such business is authorised by the government or other designated authority.	(3) None, except as specified in the general conditions and horizontal section	

(l) Advisory services on all the activities listed above			
VIII. HEALTH RELATED AND SOCIAL SERVICES			
1. Hospital Services (CPC 9311) and direct ownership and management by contract of such facilities on a 'for fee' basis.	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section. Medical Experts can work with the permission of Nepal Medical Council maximum of one year.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
IX. TOURISM AND TRAVEL RELATED SERVICES			
1. Tourism and restaurants Hotel, lodging services (CPC 6411) (star hotels only); Graded restaurants (CPC 6421-6423)** 2. Travel agency and tour operator (CPC 7471)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent for travel agency and tour operator (CPC 7471) and 80 per cent for hotel, lodging services (CPC 6411) (star hotels only), and graded restaurants (CPC 6421-6423)**. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
X. RECREATIONAL, CULTURAL AND SPORTING SERVICES			
5. Other entertainment services n.e.c (CPC 96199): - Cinema theatre services including cinema projection services	(1) None (2) None. (3) None, except only through incorporation in Nepal and with maximum foreign equity of 51 percent and minimum foreign investment of US $1 million. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in horizontal section.	
XI. TRANSPORT SERVICES			
3. Air Transport Services			
(d) Maintenance and repair of aircraft (CPC 8868)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Foreign	(1) None (2) None (3) None	

	equity participation will be increased to 80 per cent after 5 years from the date of accession (4) Unbound, except as indicated in the horizontal section.	(4) Unbound, except as indicated in the horizontal section.	
Computer reservation system (as defined in the Annex in Air Transport)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in the horizontal section.	
7. Pipeline Transport Services			
(a) Transportation of Fuels (CPC 713(1) (b) Transportation of Other Goods (CPC 7139)	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in the horizontal section.	
8. Services Auxiliary to All Modes of Supply			
(a) Storage and warehouse services CPC 742	(1) None (2) None (3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession (4) Unbound, except as indicated in the horizontal section.	(1) None (2) None (3) None (4) Unbound, except as indicated in the horizontal section.	

TELECOMMUNICATION REFERENCE PAPER

Scope

The following are definitions and principles on the regulatory framework for the basic telecommunications services.

Definitions

Users mean service consumers and service suppliers.

Essential facilities mean facilities of a public telecommunications transport network or service that

a) are exclusively or predominantly provided by a single or limited number of suppliers; and
b) cannot feasible be economically or technically substituted in order to provide a service.

A major supplier is a supplier which has the ability to materially affect the terms of participation (having regard to price and supply) in the relevant market for basic telecommunications services as a result of:

a) control over essential facilities; or
b) use of its position in the market

1. Competitive safeguards

1.1 Prevention of anti-competitive practices in telecommunications

Appropriate measures shall be maintained for the purpose of preventing suppliers who, along or together, are major suppliers from engaging in or continuing anti-competitive practices.

1.2 Safeguards

The anti-competitive practices referred to above shall include in particular:

a) engaging in anti-competitive cross-subsidization;
b) using information obtained from competitors with anti-competitive results; and

c) not making available to other services suppliers on a timely basis technical information about essential facilities and commercially relevant information which are necessary for them to provide services.

2. Interconnection

2.1 This section applies to linking with suppliers providing public telecommunications transport networks or services in order to allow the users of one supplier to communicate with users of another supplier and to access services provided by another supplier, where specific commitments are undertaken.

2.2 Interconnection to be Ensured

Interconnection with a major supplier will be ensured at any technically feasible point in the network. Such interconnection is provided:

a) under non-discriminatory terms, conditions (including technical standards and specifications) and rates and of a quality no less favourable than that provided for its own like services or for like services of non-affiliated service suppliers or for its subsidiaries or other affiliates;

b) in a timely fashion, on terms, conditions (including technical standards and specifications) and cost-oriented rates that are transparent, reasonable, having regard to economic feasibility, and sufficiently unbundled so that the supplier need not pay for network components or facilities that it does not require for the service to be provided; and

c) upon request, at points in addition to the network termination points offered to the majority of users, subject to charges that reflect the cost of construction of necessary additional facilities.

2.3 Public Availability of the Procedures for Interconnection Negotiations

The procedures applicable for interconnection to a major supplier will be made publicly available.

2.4 Transparency of Interconnection Arrangements

It is ensured that a major supplier will make publicly available either its interconnection agreements or a reference interconnection offer.

2.5 Interconnection: Dispute Settlement

A service supplier requesting interconnection with a major supplier will have recourse, either:

a) at any time or

b) after a reasonable period of time which has been made publicly known.

c) to an independent domestic body, which may be a regulatory body as referred to in paragraph 5 below, to resolve disputes regarding appropriate terms, conditions and rates for interconnection within a reasonable period of time, to the extent that these have not been established previously.

3. Universal Service

Any Member has the right to define the kind of universal service obligation it wishes to maintain. Such obligations will not be regarded as anti-competitive per se, provided they are administered in a transparent, non-discriminatory and competitively neutral manner and are not more burdensome that necessary for the kind of universal service defined by the Member.

4. Public Availability of Licensing Criteria

Where a license is required, the following will be made publicly available:

a) all the licensing criteria and the period of time normally required to reach a decision concerning an applicable for a license and

b) the terms and conditions of individual licenses.

The reasons for the denial of a license will be made known to the applicant upon request.

5. Independent Regulators

The regulatory body is separate from, and not accountable to, any supplier of basic telecommunications services. The decisions of and the procedures used by regulators shall be impartial with respect to all market participants.

6. Allocation and Use of Scarce Resources

Any procedures for the allocation and use of scarce resources, including frequencies, number and rights of way, will be carried out in an objective, timely, transparent and non-discriminatory manner. The current state of allocated frequency bands will be made publicly available, but detailed identification of frequencies allocated for specific government uses is not required.

Lists of Article II MFN Exemptions

Sector or Sub-Sector	Description of measure indicating its inconsistency with Article II	Countries to which the measure applies	Intended Duration	Conditions creating the need for the exemption
All Sectors	Allocation of non-convertible currency effected by commercial banks without involvement of Central Bank.	India	Indefinite	To facilitate border traffic and regional integration by providing for full current account convertibility of Nepalese rupees into Indian rupees
Audiovisual Services-Production and distribution of motion picture and television programmes	Measures based upon co-production agreements of audiovisual works, which confer National Treatment to audiovisual works covered by these agreements.	Countries with which such bilateral or multilateral agreements are in force, now or in the future.	Subject to the duration of the agreement concerned.	The aim of these agreements is to promote cultural links between the countries concerned.
Tourism	Higher allocation of convertible currency for travel purposes.	All OECD countries.	Indefinite	To reflect higher board and lodging costs in countries mentioned

Appendix 2.1

Foreign Direct Investment in Nepal

(Rs in Million)

	up to 1999/00	up to 2000/01	up to 2001/02	up to 2002/03	up to 2003/04
Service Sector	7461.4	8358.3	8595.4	9259.4	10949.5
Tourism	3659.0	4211.9	4304.6	4403.0	4518.2
Health and Health Education	1133.3	1159.6	1160.8	1660.8	3087.4
Communication and Software	410.0	597.1	682.2	707.4	826.4
Others	2259.1	2389.8	2447.9	2488.3	2517.5
Other Sectors	9047.8	11253.5	12226.0	13355.8	14421.1
Total	16509.2	19611.8	20821.4	22615.2	25370.6
Percentage Share of Service in Total	45.2	42.6	41.3	40.9	43.2
Investment Income: debit(total)	525.1	1960.4	2985.4	3040.1	3216.3
Investment Income: debit(service)*	237.3	835.5	1232.4	1244.7	1388.1

* Investment income debit for the last four consecutive year has been derived by applying the ratio of service sector FDI to total FDI.

Note: Data on FDI were collected from Department of Industry. To classify the FDI for major sectors, industry wise data were grouped according to the nature of the product of the industries.

Source : Department of Industry, HMG.

Appendix 3.1
Legal provisions of the GATS on safeguard measures

1. Special priority measures: Article – 4 has a special provision of special priority for the least- developed country members in the implementation or for:

   I) the strengthening of domestic services capacity and its efficiency and competitiveness, inter alia through access to technology on a commercial basis;

   II) the improvement of their access to distribution channels and information networks;

   III) the liberalization of market access in sectors and modes of supply of export interest to them; and

   IV) special consideration in accepting negotiated specific commitments in view of their special economic situation and their development, trade and financial needs.

2. Emergency measures (Article X Gats) Similarly Emergency Safeguard Measures based on the principle of non-discrimination on multilateral negotiations not later than three years from the date of entry into force of the WTO Agreement has been provided to developing countries in the Article X of the GATS.

3. Balance of payments measures (Article XII Gats)Any member country in the event of serious balance-of-payments and external financial difficulties may adopt restrictions on trade in services on as it has undertaken specific commitments. The restrictions needs to comply nondiscrimination, consistency with the Articles of Agreement of the International Monetary Fund; avoidance of unnecessary damage to the commercial, economic and financial interests of any other members and of temporary nature. The members may also give priority to the supply of services which are more essential to their economic or development programmes. However, such restrictions can not be adopted or maintained for the purpose of protecting a particular service sector. The restrictions should include factors such as:

   (i) the nature and extent of the balance-of-payments and the external financial difficulties;

   (ii) the external economic and trading environment of the consulting member;

   (iii) alternative corrective measures which may be available.

4. Schedule modification measures (Article XXI Gats): A Member may modify or withdraw any commitment in its Schedule, at any time after three years have elapsed from the date on which that commitment entered into force by following certain prescribed procedures.

5. Security/social measures (Article XIV Gats): Subject to the general principles, the member country is able to make necessary arrangement to protect public morals or to maintain public order; to protect human, animal or plant life or health; to secure compliance with laws or regulations relating to prevention of deceptive and fraudulent practices; to protect of the privacy of individuals; safety; necessary for security interests, military purpose, in time of war or other emergency in international relations; or inconsistent with its obligations under the United Nations Charter for the maintenance of international peace and security.
6. Negotiation of Specific Commitments (Article XIX Gats):In pursuance of the objectives of this Agreement, members shall enter into successive rounds of negotiations for the reduction or elimination of the adverse effects on trade in services of measures as a means of providing effective market access not later than five years from the date of entry into force of the WTO Agreement and periodically thereafter, with a view to achieving a progressively higher level of liberalization.
7. Additional Safeguard Measure (Article XVIII Gats): Members may negotiate commitments with respect to measures affecting trade in services not subject to scheduling under Articles XVI (Market Access) or XVII (National Treatment), including those regarding qualifications, standards or licensing matters. Such commitments shall be inscribed in a member's Schedule.

Annex 1 (attached): World Trade Organization. "Report of the Working Party on the Accession of the Kingdom of Nepal to the World Trade Organization: Addendum – Part II – Schedule of Specific Commitments in Services List of Article II MFN Exemptions". WT/ACC/NPL/16/Add.2. (28 August 2003)

Appendix 3.2

Domestic Legal Provisions Regarding Service Sector[1]

There are a number of legal provisions regarding supply of services in the domestic economy. The Industrial Enterprises Act, (2049) 1992, and the Labour Act, (2048), 1991, prescribe that the manpower required for any industry, including all services, is to be recruited from among Nepali citizens. Nevertheless, foreigners are permitted to work in Nepal on technical grounds, and in accordance with the commitments made in Nepal's GATS schedule of specific commitments. A work permit is to be issued by the HMG/N for foreigners to work in Nepal. A foreigner can not be employed for more than 10 years.[2]

The consultancy services such as management, accounting, engineering and legal services are not open to foreign investment under the Foreign Investment and Technology Transfer Act, (2049) 1992. The Nepal Bar Council Act, (2050) 1993 which regulates legal services, prohibits foreigners from practising law in Nepal except if authorized by the competent Nepalese Court to plead and represent a party to a case. The Nepal Medical Council Act, (2020) 1963 (as amended) is silent over the registration of a foreign medical practitioner in Nepal. The Statistics Act, (2015) 1959 which established the Central Bureau of Statistics provides that foreigners must obtain the authorization from the CBS to collect economic records and statistics for commercial purposes. The Telecommunications Act, (2053) 1997 and the Telecommunications Regulation, (2053) 1997 requires a licence from the Nepal Telecommunications Authority to operate telecommunications services and permits foreign investments in this sector. Licenses are issued for a maximum period of ten years renewable for up to twenty five years. The Foreign Investment and Technology Transfer Act, (2049) 1992 does not limit foreign equity participation in this sector. In accordance with the Nepal Agency Act, (2014) 1958 and Agency (Amendment and Consolidation) Regulation, (2019) 1962 agents, distributors, stockists, nominees or representatives of foreign or local firms must be registered. Nepalese citizens are given preference for getting registered as agents. With respect to financial services, the Insurance Act, (2049) 1992 established an Insurance Board and requires inter alia a licence to operate an insurance business, to set up an office in Nepal and to prove a paid capital of no less than NRs 250 million for life insurance and NRs 100 million for non-life insurance. Insurance services are regulated by the insurance-related legislation, while banking and non-banking institutions were regulated by the Nepal Rastra Bank, the Central Bank of the country, established under the Nepal Rastra Bank Act, (2058) 2002. Approval for establishing a commercial bank is granted in the conditions set out by Nepal

[1] The above study is based on WTO (2003 d) and the study of existing legal provisions prepared by Nepal Rastra Bank, Legal Division.

[2] In actuality, this is for seven years only.

Rastra Bank and in accordance with the Bank and Financial Institutions Ordinance, (2060)[3] and other accompanying legislation. Tourism is regulated by a whole set of general rules, laws, and industrial acts such as the Tourism Act, 2035 (1978) amended in 2053 (1997), by the Hotel, Lodges, Restaurants, Bar and Tourist Guide Regulation, 2038 (1981), the Travel and Trekking Agency Regulation, 2037 (1980), the Trekking and Rafting Regulation, 2044 (1985), and by the Mountaineering Rules, 2036 (1979). As provided by the Foreign Investment and Technology Transfer Act, 1992, no permission is granted for the establishment of foreign companies, or foreign investment in the Travel Agencies, Trekking Agencies, Water Rafting, Pony Trekking, Horse Riding, and Tourist Lodging. Foreign direct investment is permitted in the hotel industry subject to authorization as provided by FITTA, 1992.

Architects and all types of engineers are required to be registered with Nepal Engineering Council. Lawyers who appear before courts in Nepal are required to be registered with Nepal Bar Council. However, practitioners of third country and international law who do not appear before courts in Nepal are not required to join the Bar Council. Accountants are required to be registered with Nepal Chartered Accountants Institute, with requirements of the same nature as those for architects and engineers. The requirements for membership of these and other professional associations are not onerous and include the possession of professional qualifications from a recognised institution and the payment of a membership fee. There is an open and transparent mechanism for foreign institutions to obtain recognition for this purpose. These same requirements are applicable equally to Nepalese and foreigners and are applied in a fully non-discriminatory manner.

Similarly, the authorities' decision affecting trade in services are subject to judicial review under the provision of each law governing such a service sector. There is also a provision of appeal in such cases under Administration of Justice Act, 1991. Generally the appeal lies with the Appellate Court which is an independent judicial body. Under Section 7 of the Foreign Investment and Technology Transfer Act, 1992 there is a provision for dispute settlement through arbitration in respect to disputes that may arise between a foreign investor, national investor or a concerning industry. The arbitration award may be appealed to the Appellate Court in accordance with the Arbitration Act, 1999.

[3] Presently the mentioned ordinance has been renewed so it should read as: Bank and Financial Institutions Ordinance, (2061).

Appendix 3.3

World Trade Organization. "Report of the Working Party on the Accession of the Kingdom of Nepal to the World Trade Organization". WT/ACC/NPL/16. (28 August 2003) 52 – 60.

ANNEX I

LIST OF LAWS AND LEGAL ACTS

1. Foreign Investment and Technology Transfer Act (1992)
2. Industrial Enterprises Act (1992)
3. Customs Act (1962)
4. Customs Regulation (1970)
5. Nepal Seeds Act, 2045 (1988)
6. The Seeds Regulation, 2054 (1997)
7. Company Act (1997)
8. Plant Protection Act, 2029
9. The Food Act (1966)
10. Export and Import Control Act (1957)
11. Export and Import Rules (1978)
12. Patent, Design and Trade-Mark Act (1965)
13. Food Regulation (1970)
14. Plants Protection Rules 2031 (1975)
15. Customs Act (1962) (amended 1997)
16. Summary Procedure Act (1972)
17. Customs Tariff (electronic format)
18. Treaty of Transit, Treaty of Trade and Agreement of Co-operation to Control Unauthorised Trade between His Majesty's Government of Nepal and the Government of India 1991 (as amended and updated 1999)
19. Schedules to Nepalese commitments in SAARC under SAPTA Agreement
20. Feed Act (Animal Concentrate) (1996)
21. Copyright Act (First Amendment) (1997)
22. Customs Tariff (electronic format)
23. First Amendment 2002 to the Nepal Chartered Accountant Act (1998)
24. Copyright Act (2002)

ANNEX II

LEGISLATIVE ACTION PLAN

The document is divided into three sections. The first section provides the synoptic picture of the progress in adoption of legislation. The second section provides revised agenda for enacting laws and/or adopting regulations/decrees for WTO conformity. The third section provides a calendar plan indicating priorities.

Section I: Progress in Adoption of Legislation

Since the submission of the Legislative Action Plan to the Working Party on the Accession of the Kingdom of Nepal on 21 May 2002, the following progress has taken place in adoption of legislation.

The following acts approved by the Parliament, have received royal seal and are in force:

- Copyright Act 2002;
- Special Court Act 2002;
- Nepal Chartered Accountant Act (First Amendment) 2002;
- Foreign Exchange (Regulation) Act 2002;
- Several Acts relating to Amending Court Management and Judicial Administration Act 2002; and
- Income Tax Act 2002.

The Department/Ministry has completed the following activities:

- Preparation of a preliminary draft of Law on Anti-dumping Measures;
- Preparation of a preliminary draft of Customs Act (Amendment) and Customs Regulation (Amendment);
- Preparation of a preliminary draft of Export Import Act and Export Import Regulations; and
- Preliminary draft of Industrial Policy Law.

The following bills/instruments were endorsed by the Councils of Ministers:

- Health Service (Regulation and Standard) Act 2002;
- Plant Resources Act 2002;
- Seeds (First Amendment) Act 2002; and
- Instruments of International Plant Protection Convention (IPPC).

Section II: Revised Legislative Action Plan

(Present Status of and Agenda for Nepal's Law-Making Process for WTO Conformity)

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
1.	Instrument of Ratification of WTO Agreement	Marrakech Agreement Establishing WTO 1994	Council of Ministers will consider submitting to the Parliament for ratification/accession of/to the WTO Agreement as soon as WTO approves membership to Nepal	
2.	Income Tax Act 2002	General	Approved by the Parliament, April 2002	In force
3.	Bankruptcy/Insolvency Act	General	Preparation of draft of the new Act by Ministry of Finance by December 2004 Endorsement by Council of Ministers by July 2005	September 2005
4.	Foreign Exchange (Regulating) Act 2002 (Amendment)	General	Approved by the Parliament, April 2002	In force
5.	Competition Act	General	Preparation of draft of the new Act by Ministry of Industry, Commerce and Supplies by November 2003 Endorsement by Council of Ministers by February 2004	July 2004

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
6.	Export Import (Control) Act 1957 (Amendment)	General Agreement on Tariffs and Trade 1994 Agreement on Agriculture Agreement on Import Licensing Procedures.	Initial draft being prepared by Department of Commerce by August 2003 Submission by Ministry of Industry Commerce and Supplies to Council of Ministers by September 2003 Endorsement by Council of Ministers by October 2003	December 2003
7.	Export Import (Control) Regulations 1978 (Amendment)	General Agreement on Tariffs and Trade 1994 Agreement on Agriculture Agreement on Import Licensing Procedures.	Initial draft prepared by Department of Commerce in December 2002 Submission by Ministry of Industry Commerce and Supplies to Council of Ministers by October 2003 Adoption by Council of Ministers by December 2003	December 2003
8.	Customs Act, 1962 (Amendment)	Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation) Agreement on Rules of Origin.	Initial draft prepared by Department of Customs in December 2002 Submission by Ministry of Finance to the Council of Ministers by June 2003 Endorsement by Council of Ministers by September 2003	December 2003

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
9.	Customs Regulation, 1969 (Amendment)	Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation) Agreement on Rules of Origin.	Initial draft prepared by Department of Commerce in December 2002 Adoption by Ministry of Finance and submission to Council of Ministers by August 2003 Adoption by Council of Ministers by December 2003	December 2003
10.	Instruments of Ratification For United Nations Convention on Contracts for the International Sale of Goods (Vienna, 1980)	General	Endorsement by Council of Ministers by March 2004	December 2005
11.	Law on Anti-dumping Measures	Agreement of Implementation of Article VI of the GATT 1994 (Anti-dumping)	Preparation of draft legislation by December 2003 Endorsement by Council of Ministers by March 2004	July 2004
12.	Nepal Standards (Certification Mark) Act, 1980 (Amendment)	Agreement on Technical Barriers to Trade	Preparation of draft amendment by June 2004 Endorsement by Council of Ministers by January 2005	April 2005
13.	Nepal Standards (Certification Mark) Regulations, 1982 (Amendment)	Agreement on Technical Barriers to Trade	Preparation of draft amendment by September 2005 Adoption by Council of Ministers by December 2005	December 2005

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
14.	Decision on the establishment of Inquiry Points	Agreement on Technical Barriers to Trade	Submission of proposal by WTO Division, Ministry of Industry, Commerce and Supplies by April 2003 Adoption by Ministry of Industry, Commerce and Supplies by June 2003	June 2003
15.	Plant Protection Act 1972 (Amendment)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Preparation of draft amendment by June 2004 Endorsement by Council of Ministers by January 2005	April 2005
16.	Plant Protection Regulation 1975 (Amendment)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Preparation of draft amendment by September 2005 Adoption by Council of Ministers by December 2005	December 2005
17.	Instrument of International Plant Protection Convention (IPPC)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Endorsed by Council of Ministers in August 2002	December 2005
18.	Seed Act 1998 (First Amendment)	Agreement on the Application of Sanitary and Phyto-Sanitary Measures	Endorsed by Council of Ministers in August 2002	August 2004
19.	Decision on the establishment of Inquiry Points	Agreement on Sanitary and Phyto-Sanitary Measures General Agreement on Tariffs and Trade 1994	Submission of proposal by WTO Division, Ministry of Industry, Commerce and Supplies by April 2003 Adoption by Ministry of Industry, Commerce and Supplies by June 2003	June 2003

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
20.	Environment Act, 1997 (Amendment)	General	Preparation of draft amendment by Ministry of Population and Environment by December 2004 Endorsement by Council of Ministers by July 2005	September 2005
21.	Industrial Property (Protection) Act	Agreement on Trade-Related Aspects of Intellectual Property	Preparation of new draft legislation by the Department of Industry by December 2003 Adoption by Ministry of Industry, Commerce and Supplies by December 2004 Endorsement by Council of Ministers by July 2005	December 2005
22.	Copyright Act 2002 (Amendment)	Agreement on Trade-Related Aspects of Intellectual Property Rights	Approved by the Parliament in August 2002	In force
23.	Instrument of Ratification of Bern Convention for the Protection of Literary and Artistic Works 1971	Agreement on Trade-Related Aspects of Intellectual Property Rights	Endorsement by Council of Ministers by December 2003	December 2005
24.	Plant Resources Act	Agreement on Trade-Related Aspects of Intellectual Property Rights	Endorsed by Council of Ministers in 2002	December 2003

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
25.	Access to Genetic Resources Act	Agreement on Trade-Related Aspects of Intellectual Property Rights	Preparation of draft of the new legislation by Ministry of Forestry and Soil Conservation by June 2003 Endorsement by Council of Ministers by December 2003	April 2004
26.	Pharmaceutical Act, 1978 (Amendment)	General	Preparation of draft amendment by Ministry of Health by December 2004 Endorsement by Council of Minister by April 2005	September 2005
27.	Cyber Act	General	Preparation of draft amendment by Ministry of Science and Technology by December 2004 Endorsement by Council of Ministers by April 2005	September 2005
28.	Foreign Investment and Technology Transfer Act, 1992. (Amendment)	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures.	Preparation of draft bill by Department of Industry by August 2003 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by October 2003 Endorsement by Council of Ministers by December 2003	February 2004

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
29.	Foreign Investment and Technology Transfer Regulations	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures.	Preparation of draft regulation by Department of Industry by March 2004 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by April 2004 Endorsement by Council of Ministers by May 2004	May 2004
30.	Industrial Enterprises Act, 1992 (Amendment)	General Agreement on Trade in Services (GATS); Agreement on Trade Related Investment Measures; and Agreement on Subsidies.	Preparation of draft bill by Department of Industry by June 2003 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by October 2003 Endorsement by Council of Ministers December 2003	February 2004
31.	Industrial Enterprises Regulations	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures Agreement on Subsidies.	Preparation of draft regulations by Department of Industry by March 2004 Submission by Ministry of Industry, Commerce and Supplies to Council of Ministers by April 2004 Adoption by Council of Ministers by May 2004	May 2004

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
32.	Industrial Policy, 1992 (Amendment)	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures Agreement on Subsidies.	Preparation of draft policy by Department of Industry by August 2003 Adoption by Ministry of Industry Commerce and Supplies by September 2003	September 2003
33.	Foreign Investment and One Window Policy, 1992 (Amendments)	General Agreement on Trade in Services (GATS) Agreement on Trade Related Investment Measures.	Preparation of draft Policy by Department of Industry by August 2003 Adoption by Ministry of Industry, Commerce and Supplies by September 2003	September 2003
34.	Labour Act, 1991 (Amendment)	General Agreement on Trade in Services (GATS)	Preparation of draft amendment by Department of Labour by August 2003 Submission by Ministry of Labour by October 2003 Endorsement by Council of Ministers by December 2003	February 2004
35.	Company Act, 1997 (Amendment)	General Agreement on Trade in Services (GATS)	Preparation of draft amendment by the Office of Company Registrar by August 2003 Adoption by Ministry of Industry, Commerce and Supplies by October 2003 Endorsement by Council of Ministers by December 2003	February 2004

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
36.	Nepal Bar Council Act, 1992 (Amendment)	General Agreement on Trade in Services (GATS)	Preparation of draft amendment by Ministry of Law and Justice by October 2003 Endorsement by Council of Ministers by December 2003	February 2004
37.	Nepal Chartered Accountants (First Amendment) Act, 2002	General Agreement on Trade in Services (GATS)	Approved by the Parliament in July 2002	In force
38.	Insurance Act, 1992 (Amendment)	General Agreement on Trade in Services (GATS)	Preparation of draft amendment by Ministry of Finance by October 2003 Endorsement by Council of Ministers by December 2003	February 2004
39.	Securities Exchange Act, 1982 (Amendment)	General Agreement on Trade in Services (GATS)	Preparation of draft bill by Ministry of Finance by October 2003 Endorsement by Council of Ministers by December 2003	February 2004
40.	Bank and Finance Institution Act	General Agreement on Trade in Services (GATS)	Draft already submitted by Central Bank of Nepal to the Ministry of Finance Adoption by Ministry of Finance by October 2003 Endorsement by Council of Ministers by December 2003	February 2004

No.	Laws/Regulations/ Administrative Decisions	WTO Agreement	Status of Draft/Intended Actions	Expected Approval Date
41.	Health Institutions Operating Act	General Agreement on Trade in Services (GATS)	Endorsed by the Council of Ministers in August 2002	September 2003
42.	Decision on the establishment of Inquiry Points	General Agreement on Trade in Services (GATS)	Submission of proposal by WTO Division, Ministry of Industry Commerce and Supplies by April 2003 Adoption by Ministry of Industry, Commerce and Supplies by June 2003	June 2003

Section III: Calendar Plan

2003 – Expected approval date:

- Decision on the Establishment of Inquiry Point on TBT, June;
- Decision on the Establishment of Inquiry Point on SPS, June;
- Decision on the Establishment of Inquiry Point on Services, June;
- Industrial Policy, 1992 (Amendment), September;
- Foreign Investment and One Window Policy, 1992 (Amendment), September;
- Health Institutions Operating Act, September;
- Export Import (Control) Act, 1957 (Amendment), December;
- Export Import (Control) Regulations, 1978 (Amendment), December;
- Customs Act, 1962 (Amendment), December;
- Customs Regulations, 1969 (Amendment), December; and
- Plant Resources Act, December.

2004 – Expected approval date:

- Industrial Enterprises Act, 1992 (Amendment), February;
- Labour Act, 1991 (Amendment), February;
- Company Act, 1997 (Amendment), February;
- Nepal Bar Council Act, 1992 (Amendment), February;
- Insurance Act, 1992 (Amendment), February;
- Securities Exchange Act, 1982 (Amendment), February;
- Bank and Finance Institution Act, February;
- Foreign Investment and Technology Transfer Act, February;
- Access to Genetic Resources Act, April;
- Foreign Investment and Technology Transfer Regulations, May;
- Industrial Enterprises Regulations, May;
- Law on Anti-Dumping Practices, July;
- Competition Act, July; and
- Seed Act, 1998 (First Amendment), August.

2005 – Expected approval date:

- Plant Protection Act, April;
- Nepal Standards (Certification Mark) Act, 1980, April;
- Bankruptcy/Insolvency Act, September;
- Environment Act, September;
- Pharmaceutical Act, 1978 (Amendment), September;
- Cyber Act, September;

- Nepal Standards (Certification Mark) Regulations, 1982, December;
- Plant Protection Regulation, 1975 (Amendment), December;
- Industrial Property (Protection) Act, December;
- Instrument of Ratification of Bern Convention, December;
- Instrument of International Plant Protection Convention (IPPC), December; and
- Instrument of Ratification for the UN Convention on Contracts for the International Sale of Good, December.