SERVICES AT A GLANCE

Nepal’s GDP growth rates are amongst the lowest in the South Asia region. The average annual GDP growth rate since Nepal acceded to the WTO is 3.8% during the period 2004 to 2011.

The services sector share of GDP has increased gradually and is emerging as a robust contributor to the Nepalese economy. **In value added terms, the services sector contributed 58% to GDP in 2013.** up from 52% in 2000. Agriculture contributes 35%, down from 38% in 2000 and manufacturing contributes 7% down from 10% in 2000 (see figure 1).

Trade policy was liberalized during the 1980s and 1990s but Nepal’s geographical location hampers the breadth of its trade activities. India is Nepal’s largest trading partner. Apart from a Trade Treaty with India, Nepal has signed bilateral agreements with China, Bangladesh, Sri Lanka, Pakistan, the United Kingdom, and the United States among others; and joined two regional agreements- SAFTA⁴, which entered into force in 2006 and a Framework Agreement on the BIMST-EC⁵ Free Trade Area in 2004.

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**KEY SERVICES DATA¹, 2013**

- Services² share of industry value added: 58%
- Trade in services³ contribution to GDP: 6%
- Services share of total exports: 13%
- Services export composition: travel (45%), transport (3%), other commercial services (52%)
- Services import composition: travel (44%), transport (39%), other commercial services (17%)
- Services exports: US$ 962 million
- Services imports: US$ 964 million
- Services trade deficit: US$ 2 million

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**Figure 1. Value added by industry, 2013**

- Agriculture, hunting, forestry, fishing: 14%
- Mining and quarrying: 6%
- Manufacturing: 12%
- Energy supply: 7%
- Construction: 15%
- Wholesale, retail trade, repair: 10%
- Transport and storage: 6%
- Financial and business activities: 8%
- Government, human, health and social services: 34%
Nepal had a net services trade surplus of US$ 217 million in 2000 (see figure 2) which diminished steadily and turned to a deficit of US$ 377 million by 2007. From 2007, although services imports increased at an average annual rate of 11% to reach US$ 964.2 million in 2013, services exports recovered even more strongly, growing on average twice as fast at 22% p.a., to reach US$ 962 million in 2013. This reduced the net services trade deficit to US$ 2 million in 2013.

The share of services in total exports increased from 11% in 2012 to 13%. The two biggest sub-sectors are travel and communication services, with communications services exports growing most strongly (see figure 3).

In April 2009, the government introduced a new trade policy, which aims to increase the economic contribution of the traded sector, recognizing trade in services as a potential growth area for the country.

SERVICES SUBSECTORS

Travel services

Travel services tend to reflect tourist arrivals and these have been constrained by Nepal’s long political transition.

Nepal was a net exporter of travel services from 2000 to 2004 (see figure 4) although the actual volume of trade dropped between 2000 to 2002 due to political instability. During the next 2 years of improved political stability, travel services exports grew on average by 54% p.a. but reopening of intense fighting saw travel services exports drop from US$ 230 million in 2004 to US$ 163 million in 2005. In 2006 an agreement was signed to stop armed conflict. Travel services exports volumes have expanded, from US$ 313 million in 2006 to US$ 852 million in 2013, growing an average of 22% annually. 2011 was declared Nepal Tourism Year.

In 2013 and 2014, when another period of cease-fire was proclaimed, the travel sector experienced further
growth. In 2013 Nepal was a net exporter of travel services. Travel services now account for as much as 45% of services exports.

Nepal is rich in natural tourist attractions, where 8 of the 10 highest peaks in the world are located. It’s also called “the land of a thousand temples”, where several temple complexes are entirely protected in a heritage site of the United Nations. Transportation services act as an obstacle to tourism. Other obstacles include weak infrastructure, low investment and unbalanced regional development. Over recent years the government has been aiming to expand and improve the international and regional airports in order to promote this sector. In April 2015, one of the worst earthquakes hit the Himalayan nation followed by another later in May, causing massive destruction, which will be translated into lower tourism activity in the region.

Transport services

Nepal is traditionally a net importer of transport services (see figure 5). Transport vehicles are also among Nepal’s major merchandise imports.

While export volumes have been stationary, import volumes of transport services more than doubled from US$ 186 million in 2006 to US$ 380 million in 2013.

Development and management of transport infrastructure is costly given the constraints of geographical location and terrain. Road and air transport are the major transport sub-sectors. In 2007 the government implemented a Three Year Interim Plan aiming to make the transport sector safe, non-polluting and service-oriented, increasing vehicle and transport services among other goals.

Communication services

Nepal is traditionally a net exporter of communication services. Communication services exports increased from US$ 58 million in 2010 to US$ 355 million in 2013, growing an average of 77% p.a.

In recent years the Government has initiated various efforts to develop this sector including to reap employment opportunities. The Nepal Telecommunication Authority introduced an IT Policy 2010 and Spectrum Policy in 2010 and 2013 respectively. The Information Technology Park was completed in 2003; but has come into operation only in 2014.

 FOREIGN DIRECT INVESTMENT (FDI) 

Net FDI inflows were relatively subdued from 2000 to 2009. In more recent years the government has successfully implemented policies which have attracted inward foreign investment, such as the Industrial Policy 2010 and the Board of Investment Act 2011. The two major investors are India and China.
The 5 areas prioritized for FDI are: hydro electricity, infrastructure development, agro processing and herbs, tourism and other services and minerals and mine-related projects.

In 2011, the government in cooperation with the private sector organized an International Investment Forum. Fiscal Year 2012/13 was declared a National Investment Year and the government formed a High Level Preparatory Committee. Nepal edged 3 points up the World Bank Ease of Doing Business Index in 2012 and another 1 point up in 2013, to achieve a ranking of 109th out of 189 economies.

**FOOTNOTES / SOURCES**

2. The services percentage of industry value added includes construction and utilities.
3. All trade data is for commercial services. Data for all figures derived from Trade Map (ITC, UNCTAD, WTO joint dataset).
4. Agreement on South Asian Free Trade Area
5. Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation

**Figure 7. Foreign direct investment (net inflows)**

![Foreign direct investment (net inflows)](image-url)