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DAILY EDITORIAL ANALYSIS

TOPIC

NEPAL'S LDC GRADUATION & INDIA-NEPAL RELATIONS

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Context

- **Nepal** is scheduled to graduate from the **UN's Least Developed Country (LDC) category** on November 24, but has **sought a three-year deferral** to better prepare for a smooth and sustainable transition.
    - This moment is also an opportunity to rethink Nepal's growth model, and to reset **India-Nepal economic engagement.**

About Least Developed Countries (LDCs)

- The **Least Developed Countries (LDCs)** category was created by the **United Nation General Assembly in 1971** to identify countries facing severe structural impediments to sustainable development.
    - The UN defines LDCs as countries that have low levels of income and face severe structural impediments to sustainable development.
- LDC status provides benefits such as **preferential market access, special trade treatment, technical assistance and concessional finance**.

LDC Graduation Criteria

- The UN Committee for Development Policy reviews LDC status based on **three broad criteria:**
    - **Gross National Income (GNI) per capita**;
    - **Human Assets Index (HAI)**, covering health and education outcomes; and
    - **Economic and Environmental Vulnerability Index (EVI)**, reflecting structural vulnerability and exposure to shocks.
- A country **must satisfy all three criteria** and agree to the classification to be classified as an LDC.
    - Presently, 44 countries are classified as LDCs.

LDCs Graduation

- Graduation aims to **gradual withdrawal of preferential tariffs and concessional support.**
    - Labour-intensive export sectors such as **garments, synthetic textiles and carpets** could be particularly affected.
- A country needs to **reach thresholds in two of the three criteria** in two consecutive triennial reviews by the Committee for Development Policy to be eligible for graduation.
- The recently adopted **Doha Programme of Action** set an ambitious **target of 15 additional LDCs** meeting the graduation criteria **by 2031.**
- The list of countries categorized as LDCs is **reviewed by the UN every three years** based on specific procedures.
- There are **currently 14 LDCs in various stages of the graduation process**; four will graduate from the category by 2027.
    - **Bangladesh** is due to graduate on 24 November 2026;
    - **Lao PDR** is due to graduate on 24 November 2026;
    - **Nepal** is due to graduate on 24 November 2026;
    - **Solomon Islands** is due to graduate on 13 December 2027;

Nepal LDC Graduation & Concerns

- Nepal has adopted a **Smooth Transition Strategy (STS) in 2024**, aiming to **ensure sustainable graduation by 2030.**

- Nepal's relatively strong macroeconomic buffers, substantial foreign-exchange reserves and large remittance inflows have supported stability.
  - The **NPR-INR exchange-rate arrangement and deep economic linkages with India** have provided an anchor during global shocks.
- The central challenge is to convert Nepal's remittance-supported economic stability into **productive investment, industrialisation and export competitiveness**.
- The larger **structural concern is Nepal's low-investment trap**. Remittances sustain consumption, imports and reserves, but insufficiently flow into productive sectors.
- LDC graduation could expose the limitations of a **remittance-led growth model** without stronger domestic and foreign investment.

Economic Integration of Nepal

- Nepal has sought to diversify its economic relationships, including through engagement with **China's Belt and Road Initiative (BRI).**
  - But Himalayan geography makes **northern connectivity expensive and vulnerable to weather** and **terrain-related disruptions.**
- Nepal's geography and economic structure make **multiple partnerships desirable**, but its closest and most consequential economic integration will **inevitably remain with India.**

India-Nepal Economic Integration

- India and Nepal share an exceptional relationship marked by an **open border, deep people-to-people ties and extensive commercial interdependence**.
  - Their relationship should increasingly be understood through **shared river basins, power grids, transport corridors and digital flows**.
- The long-term ambition should be to deepen economic integration, from freer trade towards more seamless movement of goods, capital and services, while respecting Nepal's sovereignty and development choices.
- **India needs to address** concerns about **unequal dependence with sensitivity, predictability and mutual benefit.**

The India Opportunity: Two-Hand, Ten-Finger Strategy

- A practical framework for **Nepal's post-LDC transition** could rest on two complementary hands:
  - **Economic Hand:** Stable and predictable rules for bilateral commerce; secure, efficient supply chains and modern customs systems; easier access to private equity and venture capital; balanced public and private joint ventures; development of Nepal's capital markets and productive investment ecosystem.
  - **Technology Hand:** Expanded optical-fibre connectivity; interoperable digital public infrastructure and payment systems; cross-border power transmission and hydropower cooperation; space technology and data applications; joint disaster-risk reduction and climate resilience.
- **Addressing the Persistent Risks:**
  - **Avoid Over-securitising Open Border:** Legitimate trade and mobility should not be unnecessarily obstructed. Technology-enabled surveillance and intelligence-led enforcement can improve security without undermining economic openness.
  - **Reverse Perceptions of Asymmetric Dependence:** Greater connectivity in tourism, education, culture and digital services need to be accompanied by trust and respect, rather than the perception that dependence can become a strategic vulnerability.
  - **Overcome 'Death by Process':** Delays caused by bureaucratic procedures have long undermined bilateral potential. Time-bound implementation, empowered institutional mechanisms and continuity across political changes are essential.

Conclusion

- Nepal's LDC graduation is both a challenge and an opportunity for structural transformation. A deferral, if granted, should be used not to postpone reform but to accelerate it.
- **India and Nepal** can jointly transform geographical intimacy into economic dynamism through deeper investment, technology and connectivity.

Daily Mains Practice Question	
[Q]	**Examine the challenges and opportunities associated with Nepal's Least Developed Countries (LDC) graduation. How can deeper economic and technological cooperation with India support Nepal's sustainable transition?**

Source: IE

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