

Evaluating the Impact of WTO Membership on the Agricultural Exports from Developing Countries: A Gravity Model Approach with Evidence from Nepalese Tea

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Abstract:

This study investigates the impact of World Trade Organization (WTO) membership on export performance of developing countries, with Nepal's tea sector as a case study. Although expectations were that WTO membership would raise least-developed countries' access to international markets, there is conflicting empirical evidence. Combining descriptive trend analysis with a gravity econometric model, we examined Nepal's tea exports over the period of 1994-2024. The descriptive findings reflect steady increases in value and quantity of tea exports, but also indicate persistent dependence on the Indian market. The anticipated diversification into other destinations after the WTO accession has been limited, which has raised concerns about the practical benefits from the multilateral trade liberalization. In order to test the causal effect of WTO membership, we employed the Poisson Pseudo-Maximum Likelihood (PPML) estimator, which considers the for zero trade flows and heteroskedasticity. The econometric results show that WTO membership has positive but no statistically significant effect on tea exports, whereas the India-Nepal Trade Treaty of 1996 have significant effects on trade outcomes. These findings support broader literature suggesting that for developing economies, WTO membership is not enough to improve the export performance unless complemented with domestic reforms and sectoral policy for trade facilitation.