Relationship between International Trade and Development of the Nation: a closer look of Nepal's foreign trade behaviour with India and Other countries

Submitted by

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(In the partial fulfilment of requirments for Masters in Business Studies)

Autumn 2010

ACKNOWLEDGEMENTS

This study is the **Master's Degree** thesis prepared as partial fulfilment of Masters in Business Studies under **Bodo Graduate School of Business (HHB),** University of Nordland, Norway**.** This study is entitled as "*The relationship between International Trade and Development of the Nation; a closer look of Nepal's trade behaviour with India and other countries*".

I would like to express my deep gratitude to my thesis supervisor Prof. Dominique Thon, Bodo Graduate School of Business (HHB), Bodo, Norway for his valuable guidance and suggestions which inspired me to complete this in time. I am thankful to him for the frequent assistance throughout the whole research work.

Furthermore, I am also indebted to Mr, Suman Nepal and Mr, Kewal Pokhrel for assisting me in the various parts of the research work. Finally, I am thankful to my Parents, sister Sarita and my girlfriend Lina, without their continuous encouragement it would be impossible for me to complete this study.

Dec, 2010

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Acronyms

ASEAN : Association of Southeast Asian Nations

BIMSTEC : Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation

BOP : Balance of Payment

CACM : Central American Common Market

CBS : Central Bureau of Statistics

c.i.f : Cost, Insurance and Freight

DER : Dual Exchange Rate

EEE : Exporter's Entitlement Scheme

EEC : European Economic Community

EU : European Union

FDI : Foreign Direct Investment

FNCCI : Federation of Nepal Chambers of Commerce and Industry

f.o.b : Free On Board

FY : Financial Year

GATT : General Agreement on Trade and Tariffs

GDP : Gross Domestic Production

GON : His Majesty's Government of Nepal

ITC : International Trade Centre

IMF : International Monetary Fund

LDC	: Least Developed Country
NAFTA	: North American Free Trade Agreement
NCC	: Nepal Chamber of Commerce
NG	: Nepal Government
OGL	: Open General License
PRGF	: Poverty Reduction Growth Facility
PRSC	: Poverty Reduction Support Credit
SAARC	: South Asian Association for Regional Cooperation
SAFTA	: South Asian Free Trade Arrangement
SAL	: Structural Adjustment Loan
SAP	: Structural Adjustment Program
SAPTA	: South Asian Preferential Trade Agreement
TPC	: Trade Processing Centre
TU	: Tribhuwan University
UN	: United Nation
UNCTAD	: United Nations Conference on Trade and Development
WTO	: World Trade Organization

CHAPTER I

1. INTRODUCTION

1.1 Background of the study

Nepal is situated between two major economic giants of south Asia; China (Tibet) to the north and India to the east, west and south. Nepal is one of the least developed countries in the world. Geographically it is landlocked country where 83 percent of total land is covered with hills and gigantic mountains. The north side of country is surrounded by high peaks (called Himalayan range) where eight of the world's ten highest mountains stand including the summit of the world Mt. Everest. This is how India has a monopoly over the transit of Nepalese export to the overseas. China ports are far from the efficient trade possibilities comparing nearest port in India i.e. Calcutta port, which minimizes Nepal's transit cost regarding overseas trade.

Nepal has diverse geo-ecological setting. It has 147181 sq. km of land with the average length of 885 km; east to west and 201km north to south. On the basis of altitude, Nepal is divided into three divisions; Mountain, Hills, and Terai. Mountains lie on the northern part of the country covering the entire northern border with china. Mountain division is separated on the altitude above 3000 meter and covered with gigantic snow. This division covers 35 percent of total land in which only 7 percent of land is cultivated and 8 percent of total population lives[1]. Most of these places are still without basic development infrastructures including motorways, water supplies, electricity and trade markets. The most popular transportation means are horses and human carriers. Some of the places which are identified as tourists' areas such as Jomsom (close proximity to Annapurna trekking circle), Lukla (base airport to Everest base camp), Jumla(the most rural area of the country) etc. have airports but yet relying on the weather conditions.

The hill area is divided from the altitude of 600 meter to 3000 meter. It covers almost half (42 percent) of total land with 44.5 percent of total population. This division has 37 percent cultivated land which comprises several attractive tourists' places with lakes, valleys, hiking areas, rivers etc.

The Terai division is the southern part of the country ranging from 60 meter of altitude to 600 meter. This division is the gigantic plain of alluvial soil and consists of dense

[1] http://www.ecologicaltreks.com/nepal.html

forest area, national parks, wildlife reserves and conservation areas. The temperature and rainfall differ from place to place. However, this area has limited irrigation facilities which compel farmers to rely on monsoon rainfall. This division is fertile for agriculture comprising 23 percent of total land and 49 percent of population. More than 56 percent of land is cultivated and recognized as the active trade and agricultural area of the country. In the geographic diversity and varied climatic conditions, 25.2 million people of more than 60 caste/ethnic groups are accommodated in the country.

Nepal is the second richest country in natural water resources in the world. The stunning altitude difference from north to south within few kilometers has provided a speedy flow of rivers which created the possibility of enormous (83000 megawatt) Hydro-electricity from it[2]. The geo-ecological structure of Nepal shows the big picture of how and why it has been relying on the India's port for overseas trade. Beside this, it also describes the possibility of Nepal's foreign trade in eco-tourism and hydro-electricity.

Due to the ongoing reformation process regarding economic administration, it is difficult to say in which basis Nepal's land sector are going to categorize. However, administrative sectors were previously divided into 5 development regions, 14 zones and 75 districts. It had 58 municipalities and 3912 village development committees (VDC).[3]

Nepal's planed economy started from the year 1956. Till now ten five-year plans have been completed. Ten Five Year Plan has already passed which also included perspective plan (20 years). Despite of a series of ambitious development plans and assistance from international aid agencies, Nepal's economic growth is very low. Macro economic indicator exhibits Nepal's economic status as extremely vulnerable, with a GNI per-capita of US$ 340, Nepal ranks as one of the poorest countries in the world.

Nepal, a small land locked country of Asia, with its per-capita income $340, is predominantly an agricultural country. Agriculture is still the main industry in Nepal, but performance in the sector is dominated by weather condition and constrained by physical and

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[2] Bhandari R & Sharma O, (2005), "Foreign Trade and Its Effects on Nepalese Economic Development." *The Journal of Nepalese Business Studies, Vol 2, No.1 pp 1-20* .

[3] Before the exclusion of king Gyanandra (the last shah king) from the power(during 2003), the economic administrations of the country were divided in 5 development regions. However, issues have been raised to categorize regions in terms of casts systems and origin of the people with state base which has not got much appreciation from the Nepalese people.

structural weakness. Due to the lack of proper irrigation facilities, improved seeds, modern techniques and equipment, the agricultural productivity are low. Almost 80 percent of the active population is engaged in this sector and producing less than 40 percent of GDP.[4]

To provide more background information, this study includes past and present status of Nepal's foreign trade to illustrate the major issues and prospects of international trade movements. To do so, the introduction is elaborated into further subsections in which, the history of Nepal's foreign trade and present efforts to diversify and accelerate trade behaviors are explained. Further efforts were made in describing some major bilateral and multilateral agreements of Nepal and its major challenges are presented.

1.2 Trade history of Nepal

Nepalese trade is ancient as its history. Geographical constraints of Nepal became barrier to expand the trade other than India and Tibet. For the detail, the trade history is categorized in following 3 aspects (with china, India, and overseas).

1.2.1 Trade with Tibet (China)

Nepal's ancient trade history with Tibet started using barter system at the time of beginning Malla and Lichchhavi regime.[5] In 17th century, the establishment of an empire in the Tibet initiated the new Trans-Himalayan trading routes between the Indian and Chinese cities. Nepal had been transit point for two big countries[6].

Trade relations between Nepal and Tibet had grown with the commercial policy of Malla rulers, who played a significant role in boosting up trade[7]. New urban trading center like *Sankhapur, Palanchok*, *Dolakha* and *Nuwakot* had been developed as trade market and activated trade traffic through caravan to *Kerung* and *Kuti*. Prithivi Narayan Shah (The king who united Nepal) also wanted to monopolize enter-port trade marts in border of India and Tibet to transshipment by the Nepalese merchant which is defused by Tibetans. In 1770,

[4] G.D. Pant & Shyam Joshi (2004), "*Introduction to Quantitative Techniques & Nepalese Economy*", Nabin Prakashan, Kathmandu, Nepal, pp. 57

[5] The period of Malla and lichhavi regime is considered as goldern era of Nepalese history because of active trade policies, currency developments, exchange systems, socio-economic educations, creation of temples and embarking kamasutra (sex education) in the knowledge domain of contemporary society.

[6] Ganesh Prasad Subedi, Unpublished Degree Thesis, *Nepal Foreign Trade: The Changing Scenario of Size, Composition and Direction*, pp. 55-59.

[7,8] Shaha, Rishikesh. *Ancient and Medieval Nepal* (1992), pp. 6-7. Manohar Publications, New Delhi.

Tibet closed trade routes to Nepal and suspended all commercial transaction between two countries.[8]

To promote trade, a treaty was signed up with Tibet after conflagration of 1791 and another after the war of 1856, the treaties, at reviving the Trans-Himalayan trade with Kathmandu as an enter-port center. Tibetan enchanted by the speculation in business with Indian started ignoring Nepalese merchants. As a result it reduced the trade traffic between Nepal and Tibet. The number of Nepalese merchant in Lhasa dropped from 2000 to 500 in 1907 and to 40 in 1923. Nepal and China signed an arrangement based on five principles of peace co-existence and therefore established diplomatic relationship between two countries. This signing was just a prelude to the more comprehensive agreement of 1956, in which both the governments expressed the region of Tibet and Nepal would keep continuing. Two governments also allowed people from both countries to establish factories.[9]

1.2.2 Trade with India

Trade relation between Nepal and India had been established since ancient period. Due to cultural and social similarities along with geographical conditions, India and Nepal had continuous economic activities. Trading activities between India and Nepal pass through different routes. *Butwal* was the main route for Indo-Nepal trade at ancient time. The communication among Nepal, Tibet and India had been through *Kuti-Kerong* passes connecting *Kashmir-Kathmandu*, *Patna* and *Lhasa* routes.

Kashmirean had factories at *Lhasa, Patna* and *Kathmandu.* Before 19th century trade with India was in very limited scale. The main items exported to India were metals, precious stones, species, tobacco etc. Nepal used to import many goods from Tibet, which subsequently were re-exported to India. The endogenous goods mostly exported from Nepal were rice, timber, hides, honey, ghee and some artistic metal. Even today these commodities are the large proportions of export to India. The trade treaties with India greatly developed after 19th century. The fascinated for superior goods developed during 19th century and 20th century led to tremendous increase in imports but export pattern remain same.[10]

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[9] Budathoki N.K (2008) *the study on foreign trade of Nepal*
[10] Bhattarai B. (2006) *Nepal's foreign trade; changing scenario of size, composition and direction*

1.2.3 Trade With other countries

Nepal trade with other countries does not go back into history due to relative backwardness of the economy as well as the political and physical isolation in the country. Before 1951, the foreign trade of Nepal was limited namely in U.K, U.S.A, and France. Before the World War II, Nepal used to import from the countries, such as England, Japan, Singapore and export her agricultural products like jute. Indo-Nepal trade treaty of 1950 required Nepal to follow a common traffic policy with India and with respect to other countries respective of her peculiar condition and requirement. After 1960 Nepalese overseas trade become possible, for the foreign currencies were needed for development. Nepal's export had to be promoted by diversifying its trade.

Since exports pay imports, the topmost priority should naturally go to the boosting of exports. Generation of sizable export surplus is a prerequisite for export drive. It will be attained only through increasing production of traditional oilseeds and raw jute being our major traditional exports; the maximization of their production should be sought for.

1.3 Efforts in the diversifying Nepal's foreign trade

Nepal remained isolated from the rest of the world for 104 years during the *Rana Dynasty*[11] . So, during this period Nepal's trade was mainly confined to India. But after the advent of democracy in 1950, the country entered into a new era and established diplomatic relations with many countries. This helped Nepal to diversify its trade and economic relations.

In 1950s, efforts were made to diversify Nepal's trade. The main thrust of the policy then was towards import substituting industrialization.[12] During this period, Nepal's trade regime was dichotomous in the sense that it was more or less free with India and controlled with the rest of the world. The main objective of the policy was to protect domestic industries from imports of foreign goods. Similarly, the government had taken several measures such as export subsidy, dual exchange rate system and bonus voucher system in order to expand and diversify the exports of Nepal. These measures helped Nepal to diversify her trade to some extent. But when Nepal faced balance of payment crisis in mid 1980s, Nepal approached IMF and the World Bank for support in the wake up BOP crisis. Along with this financial

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[11] Nepal had been in the control of Rana dynasty (1846-1953); king was ceremonial at that period where every military power was in the hands of Rana prime ministers. In total, 9 Rana prime ministers ruled the nation for 104 years also known as dark era of Nepalese history.

[12] Dahal S. (2009) *Trend and structure of foreign trade of Nepal with India*

assistance, the structural adjustment program (SAP) and structural adjustment loan (SAL) programs were introduced in Nepal. These carried packages of conditionality on Nepal in turn for the financial assistance. These institutions pressurized Nepal to speed up economic reforms.

After the restoration of democracy in 1990, economic reform process was accelerated. Nepal started rationalization and simplification of its import tariff structure, bringing both tariff rates and tariff slabs lower. Similarly additional duties were also eliminated. Export duty draw back system and boned warehouse system were introduced. In 1992, new trade policy came into existence, which had made trade more or less free, replacing earlier import substituting industrialization policy. ISI policy was discouraged because the consequent foreign exchange and exchange rate management policies were influenced by this consideration. In that period, imports particularly from overseas countries were restricted through tariff walls and quantitative restrictions and exports were more or less free. Thus the ISI policy was replaced by an export led economic growth strategy.

Over some years, Nepal has followed a liberal and open policy in all sectors. In the trade sector, all trading partners are given equal chance to compete and sell their products in the Nepalese market. With the understanding of market oriented economic reforms in the early 1990s, Nepal increased its integration into the world economy. No country is allowed to monopolize in Nepali market and to create bottleneck further.

An assessment of trade policy of 1992 argues that Nepal has not achieved that much. Specially, Nepal has poor performance in export sector. A few items such as carpet, garments and *Pasmina* play dominant part in overseas export, while primary and agricultural products play dominant role in export to India. There was an increase in the exports of woolen carpets, handicrafts, tanned skin, pulses and silverware and jewel to other countries.

1.3.1 The trade policy (1992)

The trade policy of Nepal envisaged enhancing the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere. It further states to diversify trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable.

The new trade policy was introduced in 1992. In order to materialize following basic policies have been formulated:

- The role of public sector will be minimized and used as a catalyst to expand the role of private sector in trade.
- Improve balance of payments position by promoting exports to increase foreign exchange earnings as well as by fulfilling internal demand of economic and quality products.
- Production of quality goods and services for internal consumption as well as for exports through effective and appropriate utilization of economic resources.
- Modernizing management and technology, on promoting market and on attracting direct foreign investment in order to identify and develop new products as well as raise the production and quality of the traditional products.
- Public sector trading corporations will gradually be privatized taking into considerations the development and efficiency of the private sector.
- Institutional development and information network as well as on monitoring system and quality improvement for the promotion of foreign trade.

Export Policy

The export policy underlines the following fundamental provisions:

- Production and quality of exportable products to make them competitive in the international market
- Increase and diversify exports of goods and services with objective of increasing foreign exchange earnings.
- More emphasis on the export of profitable but processed and finished products. For the export promotion of these products, new markets will be identified.
- Increase service-oriented activities to promote foreign exchange earnings.
- Export of hydro-electricity on a profitable basis.
- Export promotion will be provided on an institutionalized basis

Export Strategy

The export strategy includes:

- Not required licenses for the export of products other than banned or quantitatively restricted items. In the case of quantitatively restricted products, arrangement for issuance of export license will be made in consultations with the private sector. Quantitative restrictions in the export of such products will gradually be removed through appropriate taxation measures
- Transparent, smooth and efficient administrative procedures
- Exports will be free from all charges except the service charge other than specified conditions
- Export Promotion Zone (EPZ) will be established. No duty will be levied on the raw materials and auxiliary imports used by industries established in such EPZ. Industries exporting more than 90 percent of their production will be granted similar facilities as given to the industries established in EPZ.
- Gearing up towards export promotion activities, and trade missions will be opened and institutionalized on the basis of feasibility.
- Export promotion on the basis of an institutionalized basis.

Import Strategies

- Linking import with export
- Reducing transit cost
- Procedural simplification
- De-licensing of imports except for banned or under qualitative restriction items or in the auction system

The trade policy states that imports of all items other than banned or quantitatively restricted are allowed. In this way, the import and export policy have made significant contribution in the trade diversification and modifications. In order to make policy consistent with overall economic reforms, the new trade policy has made trade more of less free. The hydropower sector was opened to private sector and in 1992 trade policy envisages export of hydroelectricity to neighboring countries. The foreign investment and technology transfer Act (1992) opens up foreign investment in all areas except for some industries such as defiance, cigarettes, and alcohol. Foreign investment was also permitted up to 100 percent in large and medium scale industries. GON (Government of Nepal) has made major policy commitments for economic liberalization with a view to adopting with global trends. Full convertibility, privatization- deregulation, de-licensing, export- import liberalization is some of the measure taken into this direction.

1.3.2 Bilateral and multilateral agreements

Country undertakes trade considerations in geographically accessible area in terms of reduce or eliminate trade barriers among the member countries. For example, such markets are SAARC,ASEAN, SAFTA, NAFTA, EEC, EU, CACM, BIMSTEC etc. this study however describes the regional cooperation related to Nepal which is SAARC AND BIMSTEC.

The South Asian Association for Regional Cooperation (SAARC) is a regional organization which is established in December 1985 with an objective to liberate trade and economic activities between member countries for mutual trade and social development. The member countries of SAARC are Nepal, India, Bangladesh, Pakistan, Bhutan, Maldives, Sri-lanka and Afghanistan. The late King Birendra had put forward the offer to facilitate the foreign trade before democracy in Nepal, initiated in the year of 1980 which adversely fail to meet its objective. In the summit of 1991, Srilankan government proposed SAPTA with the view to expand intra-regional trade, where SAPTA (South Asian Preferential Trade Agreement) were proposed for the first time and it was later improved into SAFTA (South Asian Free Trade Area). After a decade of the proposal, the SAFTA agreement was signed at the 12th SAARC summit in Jan 2004. SAFTA enacted in Jan 2006 with following objectives.

i. Enhancing mutual trade and economic cooperation
ii. Promoting fair competition
iii. Eliminating trade barrier between member countries
iv. Building mechanism for resolution of disputes

Nepal started to formulate liberalization policy after the restoration of democracy. Before that, Nepal was only confined with India and Tibet for foreign trade and trade had not been diversifying to overseas.

The other regional cooperation is BIMSTEC. Nepal became a member to the Bay of Bengal Initiative of Multi-Sector Technical and Economic cooperation (BIMSTEC) in February 2004. The six core areas of cooperation according to BIMSTEC are agriculture, energy, fisheries, tourism, trade and transportation. The BIMSTEC agreements however is not merely in trading goods, but also includes investments, services and other economic importance. One of the advantages of BIMSTEC agreement for Nepal is that it can embrace the missing part of SAFTA agreement toward fully liberating economic performance. On the contrary, it has many challenges such as country like Nepal which has poor economic background and limited supplies may not act efficiently in the regional market as the agreement has given opportunity. The zero tariffs may hinder domestic industries which are still infant and less competitive to deal with free trade market competition.

The expiry of the transit treaty with India in 1983 led some misunderstandings between the government of Nepal and India. At that time, India restricted all the economic activities to the Nepal. It compelled Nepal to think on obtaining the membership of GATT which is now WTO. As a result, in 1989 Nepal applied for GATT membership. In 1993 Nepal got the observer status in GATT and Nepal participated as an observer to the time at the concluding sessions of the GATT's Uruguay Round in Maracas, Morocco. Nepal announced full convertibility of exchange that year. As a part of liberalization policy, government brought and passed privatization Act 1994. Till date, 15 public enterprises have been privatized and further 25 public enterprises are listed for privatization.

The 5th ministerial conference of WTO held in Cancoon formally approved Nepal's membership which it has dreamed for more than a decade and became a part of multilateral trading body. Nepal is 148th member of WTO as the least development country. In April 2004, it became the first least developed full-fledged member of WTO. Nepal sought opportunities in becoming member of WTO in following ways.

i. Being land-locked country. Therefore, it will get the facilities of technical assistance.
ii. Broader market opportunities.
iii. Foreign direct investment (FDI) especially in hydro-power and tourism industry for Nepal is expected to increase.
iv. Nepal can expand its market in global network.
v. The trading dispute can be handling peacefully and constructively.
vi. Nepal can improve its competition capacity.
vii. Nepal can establish its trade and transit rights.
viii. Nepal can participate in the on- going issues with WTO.

With the opportunities, Nepal has also many challenges while entering in WTO. There is a time challenge for Nepal that it has to fulfill its commitment within specified period. Considering the fact that Nepal is experiencing immense political turmoil and instability, it is more difficult to do so. If Nepal fails to export qualitative products in competitive market, further burden will be in place through more imports. The record shows that Nepal has worse statistical figure of trade deficit in last 5 decades.

1.4 World Economy at present day

The world output in the year 2009 is accounted negative figure which is first time after the World War II. One of the main reasons is the contraction of both export and import after the global financial crisis. However, it is expected to have growth rate of 4.2 and 4.6 in the year end of 2010 and 2011 respectively. Such indication signals the economic growth is improving from the impact of American Financial Crisis which started from the year 2007.[13] The growth rates in all the groups of Advanced Economies, Emerging and Developing Economies, Developing Asia, Middle East and North Africa, Central and Eastern Europe and newly industrialized Asian economies remained lower comparing to the year 2008. The impact of economic growth rate and inflation reflects in gross real domestic demand and adverse impact on income due to low employment opportunities causing decline in demand for internal and external goods and services for both consumption as well as investment purpose.

Table 1.4
World Economic Growth rate

	2007	2008	2009	Forecast	
				2010	**2011**
World output	5.2	3.0	-0.6	4.2	4.6
Advanced economies	2.8	0.5	-3.2	2.3	2.4
Emerging and developing	8.3	6.1	2.4	6.3	6.5
Developing Asia	10.6	7.9	6.6	8.7	8.7
African countries	5.6	5.1	2.4	4.5	4.8
Middle-East Countries	5.5	3.0	-3.7	2.8	3.4
Newly Industrialized Asian	5.7	1.8	-0.9	5.2	4.9

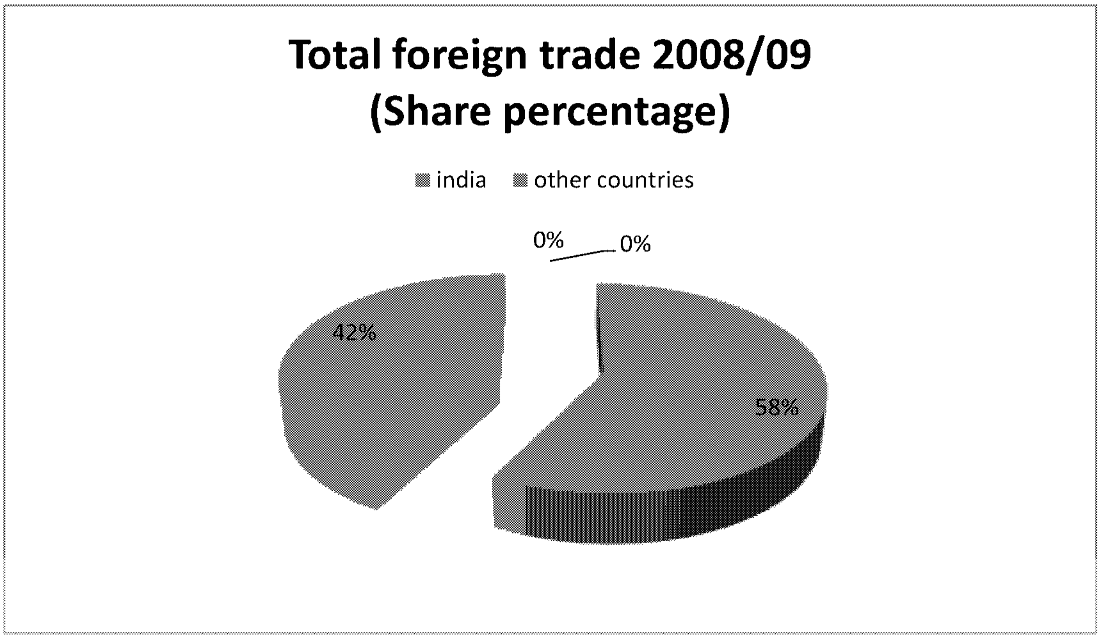
Source: International Monetary Fund (IMF), *World Economic Outlook, 2010*

[13] IMF *World Economic Outlook,* 2010

1.5 Nepal at present

In 2008, Nepal's two neighbor countries; China and India achieved 9.6 and 7.3 percent economic growth rate respectively, which is limited to 8.7 and 5.7 in 2009. However, the growth rate of Nepal in the FY 2009/10 is estimated to decline. In comparison to 4.0 percent GDP growth achieved at producers' prices in FY 2008/09, is estimated to grow only by 3.5 percent in this fiscal year 2009/10. Such slow growth in GDP of Nepal has various underlying factors. One of the major attributable factors to slower growth is the decline in production mainly of *Monsoon* (summer) crops due to unfavorable weather condition and the expansion of economic activities under non-agriculture sector remaining not so favorable. Beside this, the *bandas* (strickes), labor problem, low supply of electricity and the contraction in external market played major role in such poor economic performance.

The following figure shows the total foreign trade in FY 2008/09 in share percentage. India still is the major trade partner of Nepal's foreign trade with 58 percent of total trade volume.



Source: NRB Quarterly (2009)

1.6 Statement of the Problem

During the period of last 5 decades, Nepal is suffering from huge trade deficit. In spite of several development policies and strategies, the trade and commerce has failed to get competitive level. Nepal in current situation can export only agricultural based raw items which mean it has to import all expensive and final products from other countries.

Isolated for a long time from global market, agriculture based country, least developed and landlocked; these are certain facts of Nepal which indicates the importance of foreign trade in order to achieve sustainable economic growth and development. The trade sector remains one of the least attended sectors of the economic various measures like Export Exchange Entitle Scheme, Dual Exchange Rate, direct cash subsidy and frequently change in other procedural aspects such as the licensing system and tariff structure were made amid much fanfare but with little impact. Importers always dominate the nature of trade, export. A developing country, like Nepal depends on foreign trade for the achievements of national target and economic growth in order to afford fast growing import needs.

Since the export trends of Nepal has not perfectly gone as planner's target. The lack of exportable or qualitative goods, Nepal has not able to export in the sufficient quantity in the overseas. The trade of Nepal is only centered to India rather than other countries. The share of exportable main items of Nepal's like *Pashmina*, Garments, Handicrafts, Woolen or Carpets and Goatskins are declining now.

However, the performance of the foreign trade so far shows that the trade has not been able to play the critical role and it has not been able to fulfill the nation expectation. The weak performance of the foreign trade is mainly attributed to the nation is surrounded by its own problem.

This study seeks to measure these mainstream problems in light of significance of foreign trade in the development of the nation. This study however seeks to answer the following question.

1. What is the significance of Nepal's foreign trade in the development of the nation?

1.7 Objectives of the study

This study mainly concentrates on the trade relationship between Nepal and other countries. Therefore, the study has been carried out keeping in view the following objectives.

General Objective:

- To study the status of foreign trade between Nepal and rest of the world.
- To analyze trend of Nepal's foreign trade and its relationship with the development of the nation.

Specific Objective:

- To estimate the determinants of exports and imports.
- To analyze Nepalese foreign trade policies and reform measures.
- To recommend necessary measures for future improvement.

1.8 Significance of the study

This study is entitled as “Relationship between International Trade and Development of the Nation: a closer look of Nepal's foreign trade behaviors with India and overseas”. This thesis will be more beneficial to the foreign traders, polices-makers, industrialist, businessmen, and general public or private sectors as well as public sectors. This thesis is also significant to the management students and important material for library.

Foreign trade plays a significant role in economic development and impacts on various sectors such as Government, non- government sectors, policy maker, industrial enterprises, researchers, traders, businessmen, and foreign investors and so on. This thesis will provide in brief knowledge about foreign trade and its significance in national development, trade direction of Nepal in recent year, policies related to the foreign trade, brief relation with WTO, SAFTA, UNCTAD, BIMST-EC, SAARC, ASEAN, problem facing by Nepal in foreign trade deficit and foreign trade policies formulated by Government of Nepal.

1.9 Focus of the study

This study aims to provide the big picture on Nepal's foreign trade behavior from the period it has been actively engaged in international trade. For this, considering the availability of data, facts and nature of the research, the study is prepared by incorporating data from 1990/91 to 2008/09. The data taken from central controlling bodies like, NRB, CBS and TPC etc. are highly differing. This issue of this study is discussed in the heading; "quality of data". Meanwhile, the data taken from the study duration also has differing figure from each sources which is one of the major difficulties of this study. However, the statistical figures of the various years have been included for the explanatory purpose of the study.

1.10 Limitations of the study

This study has been carried out with an aim to explore foreign trade behaviors of Nepal and its significance in national development. This study constitutes certain limitations.

- Considering the subject area of international business and the given period of the study, it has time limitation and it may not cover the full range of issues that research topic has been gestured in the study area.
- One of the major limitations of this study is that the data which are found inaccurate from the first day and differs to each other even if it is from the same sources. The best attempt to get more accurate data is done with referring two main sources i.e. NRB and CBS.
- During study period, several visits and unstructured interviews were made but the nature of the study finally rests as a quantitative data analysis. However, attempts have been made to incorporate the outputs of formal and informal discussions.
- The study has focused the trade activities after the year 1990 accepting the fact that before 1990, Nepal has not involved significantly in foreign trade excluding India. Thus, the quantitative analysis will be done with time series data that may affect the statistical inference and generalization issues.
- As mentioned above, study has been carried out in limited period of time, thus it couldn't incorporate the opinions of individuals from business sectors, civil society in the sphere of trade related issues.

1.11 Organization of the study

The study is organized in five main chapters which are as follows.

i. Introduction

This chapter contains the background of the study containing the trade history of Nepal with Tibet and India in ancient period, efforts for diversifying Nepal's trade, the regional and bilateral trade agreements and the new trade policy and strategies of 1992 which has significant impact on the Nepal's international trade. Latter part of introduction chapter includes the statement of the problem, objectives of the study and existing limitations on the study.

ii. Review of Literature

This chapter contains the reviews of various literatures and articles related with Nepal's trade behavior. Moreover, this chapter is mainly categorized into three aspect; Conceptual Review, review of literature in Nepalese and review in international context.

iii. Research Methodology

This chapter explains the research methodology used in this study which consists; Research Approach, Research Design, Method of Data collection, Sources of Data, Data processing tools and techniques, Data Analysis, estimation procedure and quality of data.

iv. Empirical Data Presentation and Analysis

This chapter covers an analytical section of the study. In this chapter, data are presented and analyzed with the help of various statistical measures to derive the conclusion of the study. For this, data are presented separately, trade with India and Trade with Overseas and the overall trade volume. The final part consists of Findings of the statistical equations and overall findings of the study.

v. **Summary and Conclusion**

This chapter is the final part of the study. It consist summary of the overall study, Conclusion of the study, and potential recommendations to improve the existing situation of Nepal's foreign trade behavior.

CHAPTER II

2. REVIEW OF LITERATURE

2.1 Introduction

Review of Literature means reviewing the research study or others relevant report in the related area of the study. Scientific research must be based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. The purpose of a literature review is to objectively report the current knowledge on a topic and base this summary on previously published research.[14] A literature review provides the reader with a comprehensive overview and helps place that information into perspective.

For this research study the related literature survey is done by consulting various journals, articles, newspapers, thesis, reports and others more relevant books to foreign trade, concept of foreign trade, trade policies about Nepal and rest of the world have been collected compiled and reviewed. However, literature based on Nepalese foreign trade is not so abundant. Very few are found in the form of Books, Articles, Research Papers, Unpublished Dissertation and some web sites.

Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, other information managing bureaus, and internet and concern commercial banks. This chapter helps to take adequate feed back to broaden the information base and inputs to my study. Conceptual framework given by different authors, research scholars, etc. in this chapter is reviewed from the books research papers, annual reports, and articles etc.

This chapter mostly consists of two types of review i.e. conceptual review and review of previous research work. Conceptual review provides the concept of foreign trade and its policies with the theoretical proposition of foreign trade of Nepal. Review of previous research work includes those thesis and reports, dissertation and articles of government and non-government sectors as well as domestic and international organization or institutions, which are related to foreign trade and policies of world and especially of Nepal. Due to the various constraints only important and relevant literatures are reviewed which are categorized as conceptual and review of previous related studies i.e. trade policy, books, papers, articles and thesis prepared by various academics as well as researchers.

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[14] Zhilin Yang, X. W. (2006). A review of research methodologies in. *International Business Review* , 601-617.

2.2 Conceptual Review

2.2.1 *Major trade policies of Nepal*

Old Trade Policy of Nepal (1982)

Trade policy of 1982 was based on an integrated form for the first time covering export, import and internal supply arrangement the major guidelines of the export trade policy 1982 can be consider for future reference. Main objective of the trade policy (1982) was:

- To regulate the supply of necessities;
- To improve economic position of the people and
- To provide balanced approach to trade activities to arrive at development needs of the country. [15]

Main features of export policy under the trade policy of 1982 were:

1. The provision of developing annual export plans with specific export targets for major exportable products.
2. The importance of private sector and strengthening of export promotion, public sector organization.
3. Streamlining export licensing and other procedures.
4. Arrangement of framework for foreign exchange rates, taxation and credit policies and other monetary measures keeping in view the objectives of promoting investment in the export sector, increasing production of exportable items and expansion of export trade emphasizing on processed and semi-processed goods.
5. Consideration of increasing productivity and improvement of product quality to compete in export markets.
6. Strengthening of the existing export infrastructure for creation of new support systems.
7. Product and country wise export trade diversification.
8. Emphasis on the production of high value/low weight products to increase the production of exportable agricultural and industrial products in processed and semi-processed form.

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[15] Suman Kumar Regmi, Unpublished Ph. D. thesis, *Management of Export Trade in Nepal,* 1993, TU, PP.101-102.

9. And formulation of an integrated product development programs for selected exportable products from production to marketing.

The seventh plan (1985/86 to 1989/90) included the export policy taking as one of the national level policies by stressing on the export trade development. The export policy of the seventh plan had expanded activities taking steps in the export standardization and more quantity production through reward schemes, transport cost minimization and foreign exchange rate adjustment.

Due to political disturbance in the country, the plan was not implemented in the years 1990/91 and 1991/92. The eighth plan (1992/93 to 1996/97) provides priority to export promotion and diversification. During the plan period, trade deficit and expansion of traditional and non-traditional products and market will be considered for export growth taking into account the quality maintenance by introducing clear cut export policies based on "Product equated to market" strategy. It seems that periodic policy and program formulation has targeted on export sector of the national economy with the private sector involvement.

Policy for Encouraging Export Trade

The industrial enterprises Act (1992) has the provision of refunding the customs duties, if any an excise duty levied upon raw material used by any industry in connection with its products for export. Industries producing intermediate goods that are utilized in the production of exportable goods are entitling to reimbursement of duties and tax levied on raw materials. Export for a few banned items, all goods fail in the free export product category Nepal. Nepal has considered the treaties of transit and trade as well as agreement of cooperation with India to control on authorized trade signed in 1991 (as amended) to provide goods basis for the development and diversification of trade.

Export Entitlement Scheme (EES)

Nepal's foreign trade policies are basically opened from the very beginning; prior to 1960 Nepal had virtually no trade with countries other than India, except a small scale of trade with Tibet. Nepalese planners ever first place emphasis in export promotion policy introducing the Export Entitlement Scheme (EES) to exporters. The EES, which was popularly known as "Bonus System", operated for a period of eighteen years (1961-1978) covering from second plan to the second year of fifth plan. This scheme made foreign exchange available to exporters on varying percent of their earnings to import raw materials and other components for export promotion.

Although some trade diversification in terms of countries was achieved, no substantial progress was made in export trade from the above system. Available evidence suggests that the scheme did not really succeed in increasing a viable, strong, and dynamic export sector capable of supporting the economy on a basis. The reason behind this is the instability to identify new exportable items and the lack of positive measures towards increasing the production of already being export, with the continued increase in imports as compared to exports. There also appeared some distortion in the system itself (NPC, 8th Plan). This scheme could not contribute much to the foreign trade of Nepal.

Dual Exchange Rate System

Realizing the adverse impact the EES was replaced by dual exchange rate system in 1978. Under this system two rate were fixed for convertible currency. One was the basis (official) rate fixed at US$ 1= RS12 and second rate fixed at US$ 1= RS 16. The dual exchange rate system provided 33 percent incentives minus 19 to 20 percent transit cost and thus 13 percent effective profit to exporters. Import from third countries were categorized under two headings; a specified list of goods which could be imported under basic exchange rates and rest of the other goods which had to be paid at second exchange rate. Except for some specified items whose imports were banned and also for some items were under quantitative restriction, all other imports were made open. The first rate was left untouched, second rate was brought down from RS 16 to 14.

This system also could not serve the basic objective of the country because exporters did not pay any attention to the question of creating basic and favorable infrastructure for the expansion of the country export trade. They confined their attention merely to expand their profit margin through the system. The government abolished the dual exchange rate system, and introduced the multiple exchange system with a view to adjust foreign rate according to the demand for and supply of foreign exchange and essential commodities in the country.

Exchange Convertibility System

From the early 1980s the global economic and political situation had been changed. Nepal had not been exception to this development. Nepal adopted stabilization program in December 1985, supported by 18 months stand-by arrangement-with International Monetary Fund (IMF). Impact of this stabilization program was encouraging specially in adjusting the internal and external imbalances of the economy. Following this improvement Nepal entered into a Structural Adjustment Program (SAP) in FY 1987/88 supported by the IMF and World Bank. Main objectives of the program were to maintain GDP growth range of 4-5 percent per annum, to reduce inflation to an annual rate of 9 percent and to strengthening the balance of payment.

Nepal adopted the liberalization openness policy in external sector, foreign exchange have been greatly eased. Nepalese currency was made convertible partially with convertible currencies in current account effective from March 4, 1992. Under this system, Nepal Rastra Bank on the basket system of currencies determined the official rate and market rate was determined by the demand and supply factors. Of the total foreign earned from exports of goods and services including remittance, 65 percent had to sale at market exchange rate and remaining 35 percent had to be surrounded to NRB at official rate. In July, 1992 the ratio of 65:35 was changed to 75:25 and effective from February, 1993 the full convertibility of Nepalese currencies in the current account was achieved.

2.2.2 *International trade treaties and Memberships*

Nepal's Entry into the WTO and BIMST-EC:

Nepal officially became the 147th member of the WTO on April 23, 2004. By joining the WTO, Nepal can fully enjoy the rights that all members have under the WTO agreements, such as non-discrimination by other WTO members and the ability to use the WTO's dispute settlement procedure. Board commitments were made in 11 services sectors and 70 sub-sectors out of a total of 170 classified by the WTO. Nepal accepted an average tariff binding of 42 percent in agricultural products and around 24 percent in industrial goods.[16]

Among the commitments on legislation with respect to the trade regime, Nepal agreed to amend or enact 38 various acts and regulations to become compatible with WTO provision. For instance, the countries are required to implement fully the provisions of the Agreement on Sanitary Measures and Agreement of Technical Barriers to Trade (TBT) by January1, 2007. With respect to the Agreement on Trade –Related Intellectual Property Right (TRIPs), as a LDC, Nepal need to develop a new Industrial Property Act, which will include all the substantive provisions of the TRIPs agreement. It would encompass all categories of industrial property and would incorporate the basis for an adequate enforcement and be

[16] Economic Review, Occasional Paper, NRB, 2005, P.97

promulgated no later than January 1, 2006. The country has to introduce legislation on anti-dumping, countervailing duties and safeguard measures within one year from the date of accession, in order to safeguard its local industries against unfair trading practices by the exporting countries.

Thus, there are various challenges that Nepal will face. The country needs to seek alternative revenue avenues to finance developments gradually, changing laws and regulations to make laws compatible with WTO commitments and obligations, developing transparent mechanisms and creating institutions and financing the cost of negotiations coupled with resource to legal measures and implementation.

Nepal became a member to the Bay of Bengal Initiative for Multi-sectored Technical and Economic Cooperation (BIMST-EC) in February 2004. The other members of this regional trading group are Bangladesh, Bhutan, India, Myanmar, Sri Lanka and Thailand. BIMST-EC's six core areas of cooperation, *inter alia*, are agriculture, energy, fisheries, tourism, trade and transportation.

The Framework Agreement on BIMST-EC FTA was signed on February 8, 2004 at Bangkok during the 5th BIMST-EC Economic Ministers' Meeting. The FTA agreement would first start on trade in Asia, South –East Asia and South Asia. This FTA could act as a link between the AFTA (ASEAN Free Trade Area) and the SAFTA.

2.3 Review of Literature (Nepalese Context)

Nepal has been facing a persistent deficit in the merchandise trade balance due to the rapid growth of imports and lagging growth in exports. As an important aspect of National accounting measures, the foreign trade should be developed as a main source of investment to attainment and maintenance the goal of industrialization, adequate expansion of employment opportunities, and stability of prices and minimum level of living standard for the weaker section of the country. So, this section tries to examine empirical literature in Nepalese context.

2.3.1 *Review of Journals, Books and Research papers*

Bhaikaji Shrestha has pointed out about ancient trade history of India and China with our country Nepal, which is noted as below.

***Nepal and India**:* The first commercial treaty to be signed between the two countries dates as far back as 1792 when India was under the British rule. In accordance with this treaty, a British resident was stationed at Kathmandu in order to promote trade and commerce between the two countries. But the resident was called back two years later as a result of war between Nepal and British India. With the treaty of *Sughauli*, the state of hostilities ended and a British envoy was allowed to be stationed at Kathmandu.

***Nepal and China**:* There was a series of wars between Nepal and Tibet and finally the war came to an end after the treaty of 1850. According to this treaty, Tibet had to pay an annual tribute of Rs.10000 to Nepal and Tibet had to give up her extra-territorial right and concessions to Nepal. But with the signing of 1956 treaty with the People's Republic of China, Nepal's relation with Tibet entered a new phase.[17]

Nepal Rastra Bank had attempted a quantitative analysis entitled as "Import and Export Function in Nepal." In this study it has tried to explain interrelationship between foreign trade and other economic parameters. This study has used quantitative technique to analyze the marginal propensity to import, elasticity of exports with respect to output. This study has used mathematical technique to analyze the behavior of imports and exports and to examine the factors affecting them. In this study imports exhibit a macro relationship with gross domestic product, availability of foreign exchange and exchange rate vis-a-vis US dollar. As in the case of imports, econometric result of export indicated that GDP and exchange rate vis-a-vis US dollar play an important role in determining the Nepalese export. According to the study the elasticity of per capita exports with respect to per capita GDP was 0.96, which means 10 percent increase in per capita GDP will result in an increase of per capita export by 9.6 percent.[18]

Dr. Hari Bansha Jha has performed a study in Nepal's foreign trade in a wider perspective. The objective of this study was to analyze the problems and prospects of trade with India, third countries and Tibet. Major findings of his study was that the policy measures adopted during the period for export promotion and diversification and import management were less effective; as a result economy could not achieve anticipated result. He found that low rate of economic growth resulted a low export surplus. Besides this, large volume of primary commodities in the total exports, massive destruction of forest, liberal import policy were

[17] Bhaikaji Shrestha, Unpublished Case Study, *Export Trade of Nepal*, TU, 2005, PP. 24-27

[18] NRB (1987), *"import and export function of Nepal"*

main reasons for widening unfavorable trade gap. Dr. Jha put some recommendations to correct the trade imbalances with India and with other countries. For export promotion and diversification he has emphasized on the establishment of export import bank, set up of export processing zone, encouragement to the foreign investment in export related industries, favorable interest rate and proper management of imports through quantitative restrictions.

Y.P. Pant in his book entitled, "Economic Development of Nepal" thins that even though, in recent years, trade diversification process is taking place in Nepal but most of Nepal's trade is still with India. He further adds that it will take quite some time to increase trade with Tibet of China and trade with other neighbors like Bangladesh which has just bar started. Lastly, he concludes that the process of diversification will be dependent on the development of adequate transport facilities in Nepal and also on the establishment of trade route with different countries. He further adds that the pace of economic development and the inflow of aid have changed the direction of Nepal's foreign trade to some extent.

Rajeshwar Acharya, in his research paper, "Foreign Trade and Industrialization in Nepal" has argued that Nepal's foreign trade is basically concentrated upon her southern neighbor, India due to topographical reasons and easily accessible markets. During 1956-57, 98 percent of Nepal's exports and imports were concentrated to India and the share of other countries accounted for only 2 percent of her foreign trade. In that period of time Nepal's share of exports to and imports from India accounted for 99 percent and 88 percent respectively. Lastly, he adds, data after 1970-71, although the percent of both export and import trades with India have significantly come down but India has remained to be the single largest trade partner among South Asian countries.

P.R. Reejal in his research paper, "Nepal's Foreign Trade and Economic Development 1956/57-1979/80" has tried to study the size, growth rate, direction, and gross barter terms of trade and import function of Nepalese international trade. He has compared the share of export, import and total trade with gross domestic product in the period between 1964/65 and 1978/79. Whereas he has found the share of export, import and total trade decreased. In the analysis of import function he has tried to derive relationship between imports and GDP at current market price. He has used simple regression technique and used the least square method to compute effective rate of protection of manufacturing between import and export items. Comparing the data for the last five years of his study he has found that the foreign trade multiplier for Nepal to be 1.54.

Dr. P.P. Timilsina in his paper, "Nepal's Trade Scenario: Its Lapses and Success for Economic Development", has tried to analyze the existing situation regarding the development, composition, direction and balance of payment (BOP) with the help of secondary data. He has made an extensive encompassing over the trade policies adopted by the government to let trade work as a engine of growth. According to him, the tariff structure has been changed regularly to enhance revenue. He has also indicated that non-tariff barriers exist due to policies originated within the country and the government of India. He has concluded that the foreign trade of Nepal instead of working as an engine of growth culminated various problems like high export import ratio, import of non essential commodities, change in pattern of consumption, movement of hot money etc. He has also highlighted on some of the challenges like import payments, growing development expenditure, less marketable supplies, development of foreign raw material based industries, growth pattern of neighboring countries, open border etc., which are being faced by the economy. The author has suggested some alternative arrangements like exporting national product, stoking a balance between export and import policy, comprehensive planning of trade etc..

Kishore Dahal, in his book titled, "Indo-Nepal Trade, Problems and Prospects" mirrors the fact that because of the limited exportable items, low quality and high prices of the products, lack of sufficient enquiry about foreign markets, Nepal's share in world trade is very negligible and her share is declining from year to year. In 1956 per share in world export was 0.01501 percent which declined to 0.00533 percent in 1979. On import side, her share in world import was 0.02587 percent in 1956 which come down to 0.01915 percent in 1979. In this way Nepal's share in world trade is very negligible. In order to use, "Trade as an engine of economic growth", Nepal has to increase her share in world trade by expanding exports through various measures.

Dr. S.R. Poudyal in his book, "Foreign Trade, Aid and Development in Nepal" observes: "Nepal has excessive concentration of export on primary products and imports on manufactured products, chiefly consumer goods. The trend equations fitted by him to principle export commodities for the period 1974-1975 to 1982-1983 shows that except for hides, readymade garments and carpets, there is no upward trend of statistical significance with regard to export performance of other commodities. And in the case of rice, raw jute and timber the growth trend is negative. The stagnant and more recently falling trend in export growth combined with continuously growing imports has resulted in a large and persistent deficit in the current account balance."

Bhubanesh Pant in his book, "Trade and Development Nepal's Experiences" argues a little bit differently. According to him, the crucial problem of Nepal is not to select an export promotion or import substitution strategy alone, but rather to procure the right amalgam of the two strategies. He further adds domestic policies for trade promotion should be to deploy resources efficiently to internal and external opportunities.

Dr. Shaym K. Shrestha in his research report, "Direction of Nepal's Foreign Trade" has analyzed the real situation of Nepal's foreign trade and has identified a right direction for the promotion of export trade. In this study, the fiscal year 1973-74 is selected as the 'base year'. By using the formula of Net Barter terms of trade (N) he has found N for the year 1991/92 as 26.2. His study of 10 years period from 1982/83 to 1991/92 shows that import value increased by 12 times, while during the same period export value increased by 5 times only. In his study he has found trade deficit increased to 19,011.9 million rupees in 1991-92.

M.P. Shing and V.S Sing in their article "Nepal's Foreign Trade: The Changing Scenario of commodity Composition and Direction" stresses the role of foreign trade in economic development of developing country which provided indispensable raw materials for development, technical know-how, foreign capital and competition conductive to economic development. According to them, Nepal is primary product producing country and her term of trade remains unfavorable. Under these circumstances production productivity and efficiency are to be generated which possible by foreign trade in the short run. They also suggest that under the economic reform at global level i.e. liberalization and globalization, Nepalese economy is to be made compatible with these changes, hence cost of production is to be reduced, efficiency and competitiveness are to be generated.

The main objective of their study is to examine the commodity composition and direction of Nepal's foreign trade and make some constructive suggestions under changing world conditions. They focused another important issue of foreign trade, which is the pattern of commodity composition where import commodity composition is more diversify than export commodity composition.

They dealt briefly the direction of Nepalese foreign trade, because a study of direction of trade indicates country's international relations, facilities for trade and linking of Nepal. They examined Nepalese trade direction in terms of destination-wise export and import. They found that region-wise export indicate that Nepal is confined to limited markets, such as North and center America and Western Europe while export of SAARC and other regions are limited. On the other hand, Nepal has also been concentrated on ESCAP region for import.

Finally, they concluded by providing suggestion to improve Nepalese foreign trade. They suggest that to improve BOP, Nepal should increase export and reduce import. Export can be encouraged by improving the quality of products, reducing cost of production, generating export surpluses, encouraging research and development while to reduce import substitutes should be encouraged by adopting improved indigenous technology curving non-essential and luxury imports, controlling growth of population and diversify its export and import market. At last they recommended a suggestion in order to expand and diversify Nepalese foreign trade. It is inevitable to have control over smuggling practices across the borders especially with India.[19]

Om Sharma and Raj Bhandari (2005) in their paper entitled, "Foreign trade and Its Effect on Nepalese Development" presented the effects of foreign trade on the economic development process of Nepal, and they attempted to deal the role of export and import along with other pertinent factors. They assumed GDP, PCI and growth rate of GDP as development indices. They also introduced various macroeconomic variables with the help of several econometric models. They studied Nepal's trade activities from the year 1974/75 to 2002/03. With the help of different linear and log-linear models, they justified that exports growth leads to economic growth. Furthermore, they suggested the enhancement of export promotion and import substitution policies.[20]

2.3.2 *Review of Academic thesis and dissertations*

R.B. Thapa in his unpublished Ph.D. Thesis, "Historical Background of Nepalese Foreign Trade and Its Diversification" has viewed problems of transit and limited resources are hindering the development of Nepalese foreign trade. He has analyzed the trade routes, trade arrangements, incentives for trade diversification and other things that help in the development of trade. He has also given the glimpses of Nepalese foreign trade prior to

[19] Sing M.P and Singh V.S, "Nepal's Foreign Trade; the Changing Scenario of Commodity Composition and direction", *the economic journal of Nepal*, vol.22, no.2, TU Kirtipur.

[20] Bhandari R & Sharma O, (2005), "Foreign Trade and Its Effects on Nepalese Economic Development." *The Journal of Nepalese Business Studies, Vol 2, No.1 pp 1-20*

1961/62 by using secondary data. This study has concluded that the export promotion by identification of importable items, setting up export oriented industries, import control by planned strategical imports and the establishments of import substituting industries are very essential (Thapa, 1986).

Supria Shah in her unpublished M.A. dissertation, "The Study of Nepal's Foreign Trade" has focused on estimating the volume, composition and export and import instability with the help of different statistical tools. She has used secondary data. She has found commodity and geographic concentration ratio as the main causes of export instability. Similarly, income and foreign aid are taken as main determinants of Nepal's import trade. She has also found export multiplier as 10.72. The result of multiple regression analysis shows that the import is explained by income and foreign aid. Her study also shows that the import does not depend upon previous income but depends only on current income (Shah, 1999).

Suman Kumar Regmi has categorized product wise export by taking 20 years trade data of export side only from 1971 to 1990. He has also included the trade policies i.e. 1982 and 1992 and other related policies about industries and trade. It has 231 pages thesis of Degree of Doctor of Philosophy in management, T.U, 1993. The main objectives of this thesis were:

1. To measure the export performance of Nepal between 1971-1990
2. To examine Nepal's export policy management in the different plan period,
3. To evaluate the role played by export related institutions in the country in the field of export management,
4. To assess the export supply management in Nepal and to evaluate Nepal's export markets and their management and
5. To suggest export management model for Nepal.[21]

This thesis has been studied in depth about the foreign trade of export side and also included all trade and industry policies, which will be fruitful for this type of research and thesis study

[21] Regmi, Suman Kumar, Thesis of Doctor of Philosophy, *Management of Export Trade in Nepal*, TU, Kathmandu, 1993

Santosh Dahal Thesis on "A Study on Nepalese Foreign Trade and its Changing Scenario, 2001", it has I to VI chapters and has been taken 10 years export/import data from 1990/91 to 1998/99 only country wise like India and Overseas. It has no any footnote. He did not show any charts and diagrams and it has only 69 pages. The main objectives of this study are: to analyze the trends of Nepalese foreign trade, to show the structure of the composition of trade between Nepalese and other countries (India and Overseas) and to recommend suggestion for follow-up section. [22]

Ganesh Prasad Subedi has written another thesis about Nepal foreign trade: the Changing Scenario of Size, Composition and Direction. The study was for the partial fulfillment of Degree of Master's of Art, TU.[23] He also did not mention footnote. It has V and I to VII chapters in this thesis but chapters IV, he categorized its sub-topic according to extra style. He has also pointed the trade trends as plan-wise from first plan to eight plans for the imports/exports, total trade and balance of trade. He has also provided information about history of Nepalese foreign from the time of beginning *Malla* and *Lichchhavi* regime which is the most beneficial for conducting this thesis. The valuable information about the trade and trade trends has been included for making of this thesis more subjective.

2.4 Review of Literature (International Context)

The relationship between foreign trade and economic growth has been discussed for a long period in the trade history. Several researches suggested many macroeconomic models to explain the causal relationship between international trade and economic growth. In order to relate those research works in this study, only the research conducted in terms of international trade and economic growth in the context of developing or LDC (least developed countries) has been included.

Michael MICHAELY (1977) conducted a research entitled as "Exports and Growth". His study is confined to less developed countries. He analyzed the cross-country data from 41 countries. He analyzed the ratio of growth rate of GNP and per capita GNP from the selected countries. Through regression of the equation using least square method, he found positive

[22] Dahal Santosh, Unpublished Degree Thesis, *A study on Nepalese Foreign Trade and it's Changing Scenario*, T.U,2001, P.6

[23] Ganesh Prasad Subedi, Unpublished Degree Thesis, *Nepal Foreign Trade: The Changing Scenario of Size, Composition and Direction*, Kathmandu, 2003, T.U, PP, 55-59.

association of growth with export expansion. Furthermore, he suggested that, the countries differ from each other in their export proportions due to a variety of factors such as size of the economy, proximity to large markets etc. hence, it is necessary to include those variables and in the study.[24]

Bela Balassa (1978) conducted study on "Export and Economic Growth" to put further evidence. In his study, he investigated the relationship between exports and economic growth in the cross-country comparisons between 11 developing countries which has established the industrial base. He suggested the incremental export-GNP ratio could be the solution for the problem of positive auto correlation between the GNP and other dependent variables with the foreign trade estimates. He compared the variables of GNP and Per capita GNP in terms of export growth and his own hypothetical incremental export-GNP ratio. He found that the income has been increasing in countries that have followed a consistent policy of export orientation. To conclude, he explained that export growth favorably affects the rate of economic growth.[25]

William G. Tyler (1981) in his paper analyzed the empirical relationship between economic growth and export expansion in developing countries with the help of inter-country cross-section analysis. He conducted bi-variate tests which revealed the positive associations between growth and various other economic variables including manufacturing output, investment, total exports and manufacturing exports. [26]

Feder(1983) provided the formal model to show significant relationship between export and growth of the economy. In his work entitled as "On exports and Economic Growth" he provided a mathematical model representing GDP as dependent variable with independent variables of export and non-exports. He further classified non-export variables into labor and capital. Through analysis of the marginal productivity of labor and capital and the growth rate of export he found that there is a positive association between the export and growth. [27]

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[24] Michaely (1977), "Exports and Growth", *Journal of Development Economics,* Vol 4, pp. 49-53.

[25] Bela Balassa (1978), "Exports and Economic Growth" *Journal of Development Economics,* vol 5, pp 181-189

[26] Tyler, William (1981), "Growth and Export expansion in Developing Countries" *Journal of Development Economics vol. 9, pp. 121-130.*

[27] Feder, Gershon (1983), "On Exports and Economic Growth", *Journal of Development Economics, pp.* 59-73.

CHAPTER III

3. RESEARCH METHODOLOGY

3.1 Introduction

A research design is systematic arrangements of conditions and analysis of the data for the study. Thus the main purpose of research methodology is to combine those conditions to and relevant factors to the research aims and objectives in procedure.[28] It is more focused in the quantification of data through numerical expressions and causal relations between variables. It is more or less related with the deduction theory where observation departs from existent theory, positivism theory where it adapts the processes used in natural sciences to test the validity of a theory and the social reality that the observed phenomenon is external factor for the observer.[29]

It is known fact that the macroeconomic analysis of the Nepalese economy is severely encountered by broad scientific data deficiencies. As *in many developing countries but probably even more in Nepal, planning is severely handicapped by the dependable data in sufficient quantity.*[30] Referring this poor database, quantitative analysis of the relationship between these macro economic variables for the Nepalese economy may not be feasible and even justified. However, not sufficient but yet as an alternative in the Nepalese context, the dependent variables for the export function is determined as GNP and Per Capita GNP indicators. Various studies of the macroeconomic analysis in developing countries are reviewed and the study found that the condition of data viability, source reliability, consistent time-series data are still the big challenge to conduct the more efficient measures.[31]

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[28] Selltitz, C., L.S. Writsman and S.W. Cook (1976), *"Research Methods in Social Sciences"*

[29] Bryman, A. & Bell, E. (2003) *Business Research Methods*, Oxford : Oxford University Press, pp. 11

[30] Barkey, R. M. (1982), "National Accounting with Limited Data. Lessons from Nepal", *Review of Income and Wealth Series. pp.* 395-405.

[31] Marshall J. P & Jung S. W (1985), "Exports, Growth and causality in developing countries", *Journal of Development Economics* Vol. 18, pp. 1-12.

3.2 Research Approach

This study includes both descriptive as well as statistical inference process to the research as it will often progress in a series of steps where the emphasis moves gradually from description to inference.[32] This study will consist of both analytical as well as descriptive approach to make the study more fruitful and effective. The research methodology simply provides the process adopted in the research process, tools and data collection methods, analysis of data and its techniques. It is the most important part of conducting any research. It provides the valuable information and data about the concerned study and also helps for presenting and analyzing the collected information and data.

The study starts with a description of the development of foreign trade in the historical perspective. It is a descriptive chapter based on secondary sources. Description of such a historical scenario helps to understand the past performances and make a comparison with the present for future policy prescriptions.

The trade dynamics that the study basically concentrates are the exposures, some analysis comparisons and calculation of some new dimensions. The study aims at exploring the effect made by foreign trade sector in national development. The study which incorporates flow of goods into different destinations, volume, composition, analysis of terms of trade distortions, examination of the relations of trade with national income, policy judgments etc. are the enclaves of the whole scenario of Nepalese trade for which explanatory as well as analytical research design has been followed.

3.3 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy and procedure.[33] The study generally follows analytical quantitative approach to discuss the statistical inference in explanations. However, qualitative techniques also have been employed to discuss the behavioral aspect of the outcomes. Whereas; statistical inference will be applied in order to validate the inference from both ways of data analyzing procedure. The

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[32] Upton, G., Cook, I. (2008) *Oxford Dictionary of Statistics*

[33] Selltiz Claire and Others, *Research Method of Social Science*, (New York: Rinehart and Winston, 1962), pp. 50.

evaluation of statistical procedures will be followed by using the criteria from numerical analysis of the given statistical figures.[34]

This study mainly focuses on the Nepal's foreign trade behaviors and its significance in the development of the Nation. For the data collection, the statistical sampling method has been adopted. For this, data has been collected from various governmental, non-governmental bodies of Nepal. Comparative data of various years about foreign trade composition and strength and weakness in Nepal, are presented in such a way, so as to make the research informative to the readers. Before conducting research, research design makes easy to identify the problem to report writing with the help of collection, tabulation, analysis and interpretation of data.

3.4 Methods Of Data Collection

In this study, data has been collected through secondary sources. The data which are related with foreign trade of Nepal are collected through the sampling of statistical data. The data is related about Nepalese trade in the sense of export/import. There are so many data about related studies but only required data has been collected, tabulated, categorized, and interpreted according to the sampling method of data collection. In order to achieve the good grasp of Nepalese foreign trade behavior and it's imminent as well as long term significance in national development, data from 1990/91 to 2008/09 has been considered in the study. For this, data are mostly collected from NRB, and CBS.

3.5 Sources of Data

In this study, data have been collected from secondary sources such as books articles, bulletins, reports, thesis reports, manual from government and non-government sources and national as well as international organizations or institutions. The necessary data and material are compiled from books; research paper, various journals, magazines, articles etc. The data have been collected from various sources by making a comprehensive and detail study of the above mentioned literatures. The secondary source of statistical data can be broadly categorized into two sources viz. national and international sources.

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[34] Lenhard, Johannes (2006). "Models and Statistical Inference: The Controversy between Fisher and Neyman—Pearson," *British Journal for the Philosophy of Science*, Vol. 57 Issue 1, pp. 69–91

3.5.1 National Sources:

3.5.1 National Sources: The main sources of data in National level are publications from central bank of Nepal i.e. Nepal Rastra Bank (NRB) and Statistical books of Nepal published by Central Bureau of Statistics (CBS) Nepal.

Nepal Rastra Bank (NRB):

NRB was established in 1956 under the Nepal Rastra Bank Act, 1995. The purpose of establishing the bank was to discharge the central banking responsibilities including the promotion in the development of the domestic financial sector. The new NRB act 2002 revised the previous functions and objectives with some new features and responsibilities. The primary functions of the bank are:

- To formulate necessary monetary and foreign exchange policies for maintaining the stability in price and balance of payments for sustainable development of the country's economy.
- To develop efficient financial systems.
- To conduct appropriate supervision of the banking and financial system

With the vision of becoming *"A modern, dynamic, credible and effective Central Bank"* NRB has published several statistical data, executes quarterly economic bulletins regarding financial achievements and movements of Nepal's economy. Some of the readily available publications of NRB are; Economic Reports, Economic Bulletins and Indicators, NRB working papers, Special publications, Study reports, NRB Newsletters etc.[35] However, due to the insufficient tools and expertise in grass root level for collecting statistical data, the NRB publication also suffers from inadequate data, distortion of data from some sectors, partial data availability etc. Such issues are also being more complex and affecting at national level. It is further affected by the political condition of the country, strikes and conflicts between political parties. Nevertheless, NRB publications are considered the most reliable sources of the economic information in the country.

Central Bureau of Statistics (CBS)

CBS is a central statistical organization of Nepal which is regulated by Statistical Act 1958. According to the statistical Act, CBS is responsible body for the collection and

[35] http://nrb.org.np

dissemination of various socio-economic statistics in the country. Due to the data deficiencies, CBS has been engaged in the compilation of various data and publication of National accounts since more than four decades. CBS started compiling from early 1960's under the 1953 UNSNA recommendations. Since then, it has been publishing national accounts statistics in regular basis. As an attempt to improve the estimates, revisions of the data and base years were shifted as appropriate. The shift in base year from 1964/65 to 1974/75 was first in the history of Nepalese national accounts.[36] Furthermore, to update the level and structure of the national accounts, CBS continuously collected data from major statistical operations and surveys such as Population Census 2001, Agriculture Census 2001, Manufacturing Census 2002, Nepal Labor Force Survey 1999, and Nepal Living Standard Measurement Survey (NLSS) 2003 are used intensively. In order to implement the new system of SNA 1993 the methodology and data sources of Nepal system of National Accounts (NSNA) compilation have been reviewed and updated to the extent possible following the SNA 1993 guidelines. Similarly, concepts, definitions and classifications recommended by the SNA 1993(System of National Accounts) have been followed. CBS has published various publications regarding National accounts aggregates. For the purpose of this study, data from CBS also carries high importance in the study of Nepalese economy. Therefore, the various national accounts aggregates published by CBS are included in this study as appropriate.

3.5.2 International Sources: The international source of the information for this study is mainly focused in the publications of IMF. Beside this, the Reserve Bank of India, world bulletins and World Development Report published by United Nations are referred to provide more information in the study. Since this study doesn't constitute the cross-country analysis, the statistical figures of the world economy have been used for the explanatory purpose of the study only.

3.6 Data Processing and Analysis

As GNP growth rate is important indicator of economic development, this study has tried to measure the foreign trade and economic development through the measurement of the contribution of foreign trade on GNP. Various economists (Kuznets (1995), Meier and Baldwin (1960), Meade (1972), Balassa (1978), Feder (1984) etc.) have used NI as an appropriate measure of economic development, since per-capita income depends upon the

[36] CBS: *National Accounts of Nepal 2000-2007*, Government of Nepal

national income. Morris D. Morris (1979) too asserts GNP as the most widely accepted measure of progress. Modern economists however started to consider the non-income indicators like *physical quality of life index* (PQLI), HDI etc. However, such non-income indicators are out of the scope of this study due to unavailability of the time-series data.

Hence, this part of this study constitutes quantitative estimation of the role of foreign trade on Nepalese economic development. Facts are arranged systematically as obtained through secondary sources with the help of ratios, percentage and graphs to make them comparable and explanatory. The analysis is based on time series data of 20 years covering the period 1990/91 to 2008/09. The compiled data have been processed with the help of computer for analysis. Nepal's trade with India and other countries are presented in chronological order. Data were presented in simple and complex tables in attaining general and special objectives of this study.

After collecting data from different sources, data are arranged in systematic way and tabulated in accordance with the need for the study. The first part of the study consists of plan wise scenario and major trade policies of Nepalese foreign trade. The major objective of this study is to analyze the relationship between foreign trade and development of Nepalese economy. In this respect it is more suitable to study the impact of export trade on Nepalese economic development. Thus, this study has used simple as well as multiple regression models to test the significance of the chosen development indicators.

3.7 Data analysis tools

Being agro-based economy, Nepal has more than 80 percent of people engaged on agriculture and contribution of the agriculture sector to the total GDP constitutes about 40 percent (CBS 1999). Since, Nepal is in the list of least developed countries, it has not developed in industrial raw materials and highly sophisticated machineries, neither could it afford to outsource because of the scarcity on the skilled manpower too, there is minimum chance of cost-effectiveness. Small domestic market seems to be an obstacle to economic growth. The world market is the only readily available way to exploit resources.

The past evidence shows that the selection of Macroeconomic models to measure economic growth with respect to foreign trade has been experiencing huge debate. However, researchers suggested that it depends on the context and the magnitude of the country in terms of development and overall social welfare.[37]

This study covers the period from FY 1990/91 to FY 2008/09. One of the main reasons for analyzing data from the year back to 1990 is to describe the achievements of various foreign trade policies of Nepal including The New Trade Policy 1992 till present day with the help of mathematical evidence. The historical evidence shows that, the quantifiable variables and recently discussed macroeconomic indicators such as PQLI, Basic need, HDI can be efficient measure of development and growth process of a country, but unfortunately, data are unavailable in accordance. Accordingly, GNP and per capita GNP figure are widely accepted as feasible dependent variables for measuring the economic development process in Nepalese context.[38] For this purpose, two mathematical models have been developed. Model I presents the relationship between the size of the ratio of trade volumes to GNP, and Model II shows the relationship between per capita GNP with respect to the total exports. If the hypothesis that the more rapid the change in exports the more rapid the economy's growth is correct, hence this two series should be positively correlated.

Mathematically,

$Y = a_0 + a_1 V_I + a_2 V_O$... (i)

Where,

Y = GNP of Nepal

V_I = Trade volume with India

V_O = Trade volume with Overseas Countries

The theoretical statement of the equation I is that, the GNP can be explained by the country's foreign trade volume. The study adopted the simplest measures of trade orientation based on the actual trade flows, such as import and export. The equation is referred from the export promotion hypothesis of Balassa(1978) and Feder (1983) in which with GDP as the dependent variable, export enters with the production function along with labour and

[37] Harrison A, (1996), "Openness and Growth: A time-series cross-country analysis for developing countries",*Journal of development economics,*vol 48, pp. 419-447

[38] Sharma O. & Bhandari R, (2005). "Foreign trade and its effects on Nepalese economic development", *journal of Nepalese Business studies,* Vol 1, no. 1, pp. 1-20

capital.[39] The economic growth according to Feder, is related with two main sectors; export and non-export sectors. He further classified non-export sectors into labour and capital used in these sectors. A significant positive coefficient for the export variable is interpreted as evidence of the gains from shifting resources into export production. The two other factors that influence the GNP and GDP of the country are the labour and capital used in the production process.[40] However, this study is mainly focused in export part of the production function hence; the other factors (labour and capital) are not included in the mathematical model. The trade volume of Nepal is classified in two aspects; trade with India and trade with other countries.

And,

$PCY= a_0+ b_1FX$.. (ii)

Where,

PCY = Per capita GNP

FX = Total Foreign Exports

The model assumes that the per capita GNP can be determined by the volume of the total foreign exports. The equation II measures the growth level of GNP per capita with respect to the total foreign export. The correlation between export growth and GNP growth will provide an indication of the total (direct and indirect) effects of exports on economic growth. This measure attempts to analyze the possible links between the total exports to the welfare of people. However, the per capita GNP has been criticized in several grounds to measure the welfare of people. For example, Ahluwalia et al., (1976) states "*growth rate of GNP in itself is a misleading indicator of development since it is heavily weighted by the income shares of the rich.*"[41] Nevertheless, this measure is justifiable in the context of Nepalese economy where data can be hardly achieved in conducting measures such as HDI, HQLI etc.

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29 Feder, Gershon. (1983). "On exports and economic growth." *Journal of Development Economics,* Vol 12, No. I-2, pp. *59-73.*

40 Bela Balassa,(1978), "Exports and economic growth: Further evidence." *Journal of Development Economics,* Vol. 5. No. *2* pp. 181-189.

41 Ahluwalia, M. S., Nicholas G. Carter, and Hollis B. Chenery (1979), "Growth & Poverty in Developing Countries", *Journal of Development Economics*. pp. 298-323.

3.8 Estimation Procedure

In this study foreign trade was considered as the main sources of economic growth and development. The volume of any economy's gross exports depends on (i) the labour incentives and capital formation and their prices in the domestic economy relative to the prices of the same or substitute goods in other economies, (ii) tariff and trade policies existing between the domestic and other economies, (iii) the level of income in other countries, (iv) the level of the domestic economies imports and (v) various other less significant factors. Model I, Y is the value of Nepal Gross National Product (GNP). GNP estimate enables to analyze the overall performance of an economy. Both the values of coefficients a_1 and a_2 are expected to be positive. Hence, Model I estimate the relationship between GNP and economy's trade volumes. For this, the total trade is further divided into two variables; trade with India and trade with other countries. In Model II, it measures the relationship between GNP growths with the total export of the economy. The coefficient of b_1 is expected to be positive.

The model presented in this study describes the one of the aspects of country's economy. In this sense, it may be considered as incomplete mathematical argument. However, it cannot be denied that the country's economy in the globalized world is not untouched and unaffected by foreign trade behaviors. In fact, foreign trade is considered the engine of the economic growth in modern economy and regarded as the major influencing factor in the overall economy of the country. Thus, this study attempts to shed lights on the foreign trade and its role in economic growth of developing economies such as Nepal.

The following measures are conducted to test the significance of the mathematical equations.

Coefficient of Determination (R^2): The squared R (R^2) measures the success of the regression in predicting the values of the dependent variable of the sample. It is the fraction of the variance in which dependent variable is explained by the independent variables. The more closer the squared R to 1, the more the regression fits into the model.

Adjusted Coefficient of Determination ($\overline{R}^2$): This measure will assure the goodness of fit. The main constraint of squared R is that, it never decreases as more regressions are added. Hence, in the extreme case, we can always obtain an R^2 of one if we include as many independent regressions as there are sample observations. The adjusted coefficient of determination penalizes the R^2 for the addition of regressions, which do not contribute to the explanatory power of the model.

T-Test: T-test is used to test the hypothesis about any individual partial regression coefficient. In compute T value, the standard errors for each independent variable are computed separately. The t-ratio is the significant test of the regression coefficient of the hypothesis. In general, a test of significance is the procedure by which sample results are used to verify the truth or falsify of a null hypothesis. The decision to accept or reject null hypothesis is made on the basis of the value of the test statistic obtained from the data at hand. The t-statistic, which is computed as the ratio of an estimated coefficient to its standard error, is used to test the hypothesis that a coefficient is equal to zero or not. To interpret the t-statistic, we should examine the probability of observing the t-statistic given that the coefficient is equal to zero.

F-Test: To test the linear relationship between the dependent and independent variables included in the regression equations F-test is conducted. Five percent is chosen as the level of significance. It is also called variance ratio test which is applied to test whether the two samples are taken from a normal population having same variance or not.

DW-Test: The dependent variables in this study are GNP and Per capita GNP (denoted by Y and PCY respectively) of Nepal. The analysis is based on time-series data from 1990/91 to 2008/09. The test compares the empirical d value, calculated from the regression residuals, with the dl and du in the D-W tables, and with their transforms (4-dl) and (4-du). The comparison using dl and du investigates the possibility of positive auto correlation, the comparison with (4-dl) and (4-du) investigates the possibility of negative auto correlation.

- If d<dl, we reject the null hypothesis of an autocorrelation and accept that there is positive auto correlation of the first order.
- If d > (4-dl), we reject the null hypothesis of no auto correlation and accept that there is negative auto correlation of the first order.
- If du < d < (4-du), we accept the null hypothesis of no auto correlation.
- If dl < d < du or if (4-du) < d < (4-dl), the test is inconclusive.

Where, dl = lower bound of the critical value

du = upper bound of the critical value

As the rule of the thumb, if d is found to be two in an application, one may assume that there is no first order auto correlation, either positive or negative. The closer d is to zero, the greater the evidence of positive auto correlation and the closer is to four, the greater the evidence of negative serial correlation.

3.9 Quality Of Data

The statistics of foreign trade has no long history in Nepal. Only after the adoption of development plan, statistics of foreign trade are published by various institutions and started to keep systematically. The Central Bureau of Statistics (CBS) started to publish data on foreign trade by commodity classification from 1955-56 to 1962/63. But publishing data on trade was stopped by CBS after 1970/71. Quarterly Economic Bulletin of Nepal Rastra Bank also stopped compiling data and publishing from 1971 to 1974 and restarted publishing it from 1974/75 and has continued to data. Total exports and imports of Nepal including export to and import from overseas countries are included in the data provided by NRB. But there is no similarity between the data of NRB and the data published by TPC from 1973/74 and Department of Custom (DC) from 1980/81, although the source of data mentioned by these institutions are the same. The published data of the Department of Custom (DC) after 1980/81 also do not match with those of NRB and TPC. The variation in data is one of the difficulties in using and providing correct information, hence, this study has mainly used data published by NRB and CBS.

There is no complete record of values and quantities on a country wise basis in the foreign trade statistics of CBS. The data from the customs offices were prepared mostly for the assessment of tariff duties. Imports consisted mainly of duty free goods under the commodity aid belonging to foreign mission and these were responsible for inflating the figured. Imports from India under the 'ARI' form and from third countries under the 'B' form were to be recorded. Exports and imports carried on along the 500 miles of Nepal. India open boarder had the less chance of being recorded also. In developing countries illegal international transaction are encouraged by foreign trade taxes, exchange rate over valuation, or quantitative restrictions on international trade and the existence of illegal trade mislead policy makers.

However, attempt to get the empirical evidence on the statistical figures is done through cross references of the data with main source.

CHAPTER IV

4. EMPIRICAL DATA PRESENTATION AND ANALYSIS

This chapter of this study contains the vital information regarding the research work. The data are arranged systematically to show the trends and direction of foreign trade of Nepal. Furthermore, attempts are made to provide more information regarding the prior policies and reform measures through brief descriptions on the major economic policies of Nepal. The presentation of such policies will provide the conceptual review of the development of Nepalese economy. Furthermore it also indicates how various issues have been embraced and revised in different time intervals to entail the policy measures and benchmarking from international practices. This chapter starts with providing the plan wise scenario of Nepal’s foreign trade and outlines the major trade policies of Nepal afterwards. Then the chapter moves toward the subject matter of the research work and analyzes the foreign trade behavior through various statistical data. Such data mainly contains the foreign trade behavior of Nepal with India and Other countries. To make the data more informative, tables and figures are presented in ratios and percentage as appropriate.

4.1 Plan wise Scenario of Nepal's Foreign Trade

Before 1950s, Nepal remained isolated from the global market. So, during those periods, Nepal's trade was entirely confined to India. But after the advent of democracy in 1950, the country opened the door for outside world, and diplomatic relations was established with many countries. Nepal's development efforts have been guided by long-term development plan since 1956. The process of planned development started only after 1956 when the country launched its first five year plan. The country has completed nine five year plan and one three year plan over the past five decades. Various policies and strategies were adopted in various plans. But the foreign trade balance was never been in favor of Nepal. Following table shows the plan wise import and export figure of Nepal.

Table No. 4.1

Plan wise Scenario of Nepal's Foreign Trade

(Rs. in Millions)

Plan	Export	Import	Total Trade	Balance
First Plan (1956/57-1960/61)	628.1	1237.2	1865.3	-609.1
Annual Average	125.6	247.4	373.1	-121.8
Plan Gap Year (1961/62)	256.2	444.4	700.6	-188.2
Second Plan (1962/63-1964/65)	1019.5	2027.4	3046.9	-1007.9
Annual Average	339.8	675.8	1015.6	-336
Third Plan (1965/66-1969/70)	2256.1	3353.0	5609.1	-1096.9
Annual Average	451.2	670.6	1121.8	-219.4
Fourth Plan (1970/71-1974/75)	3127.1	5549.0	8676.1	-2421.9
Annual Average	625.4	1109.8	1735.2	-484.84
Fifth Plan (1975/76-1979/80)	5844.0	12824.1	18668.1	-6980.1
Annual Average	1168.8	2564.8	3733.6	-1396.0
Sixth Plan (1980/81-1984/85)	8676.7	29928.9	38605.6	-21252.2
Annual Average	1735.3	5985.9	7721.1	-4250.4
Seventh Plan (1985/86-1989/90)	19535.5	68704.6	88240.1	-49169.1
Annual Average	3907.1	13740.9	17648.0	-9833.8
Plan Gap year (1990/91-1991/92)	21094.0	55166.5	76260.5	-34072.5
Annual Average	10547.0	27583.25	38130.25	-17036.25
Eighth Plan (1992/93-1996-97)	96716.7	322463.8	419180.5	-225747.1
Annual Average	19343.4	64492.8	83836.2	-45149.42
Ninth Plan (1997/98-2001-02)	215611.4	508108.4	723719.8	-292497.0
Annual Average	43122.3	101621.68	144743.9	-58499.38

Source: NRB; Quarterly Economic Bulletin, Mid July 2005, and Economic Survey 2006

Table No. 4.2

Plan wise Scenario of Foreign Trade

(In Percentage)

Plan	Total Export	Total Import	Total Trade	Percentage of Export	Percentage of Import	Total
First Plan	628.1	1237.2	1865.3	33.67	66.33	100.00
Second Plan	1019.5	2027.4	3046.9	33.46	66.54	100.00
Third Plan	2256.1	3353.0	5609.1	40.22	59.78	100.00
Fourth Plan	3127.1	5549.0	8676.1	36.04	63.96	100.00
Fifth Plan	5844.0	12824.1	18668.1	31.30	68.70	100.00
Sixth Plan	8676.7	29928.9	38605.6	22.48	77.52	100.00
Seventh Plan	19535.5	68704.6	88240.1	22.14	77.86	100.00
Eight Plan	96716.5	322463.8	419180.5	23.07	76.93	100.00
Ninth Plan	215611.4	508108.4	723719.4	29.79	70.21	100.00

* Calculated from Table No. 4.1.

The figure of foreign trade shows a steady growth. In first five-year plan in foreign trade sector, "Gift Parcel Scheme" was introduced in 1957 to motivate indigenous trades. It suffered from under invoicing and as a result the government had to discontinue it. The whole period of first five year plan is known as a period of deteriorating trade balance. Table 4.1 shows that total trade has been Rs. 1865.3 million where as the share of export and import were 33.67 and 66.33 percent respectively. The average annual export and import have been Rs. 125.6 and Rs. 247.4 million respectively. It shows the huge trade deficit of Rs. 609.1 million. Over the plan periods, Nepalese foreign trade has subsequently increased along with the growth of trade. The trade deficit has always been in an increasing trend. The total trade of third plan is more than three times in the first plan. In this period of time exports as well as but import have increased very significantly. However, the percentage of exports in the 3rd plan period is more than that in the 1st plan period. That is to say, in this period of time, exports increased more than imports.

The export in each and every plan period has remained quite low and less effective in speeding up the total volume of trade. The total export has increased over the various plans ranging from Rs. 628.1 million in first plan to Rs. 215611.4 million in the ninth plan. Total import has steady growth in the subsequent plan till ninth plan. Trade deficit has also increasing trend but annual trade deficit improved in third plan over second plan.

The share of export and import in total trade were 33.7 percent and 66.3 percent respectively in first plan. The total share of export tends to decrease from fourth plan to seventh plan but it started to increase from eighth plan. Ninth plan has its wide vision as compared to preceding plans for the development of trade. It has begun the outward looking industrial strategy and is making the economy as competitive and market oriented. In the ninth plan, total share of export and import were 29.79% and 70.21% respectively. The effectiveness of the various provisions in the plans and the trade schemes provided for in the past have been far less strong in generating rising trend of export and contributing to greater product diversification.

4.2 Nepal's Major Trade Reformations

Nepal started to diversify its trade since 1960's and adopted Import Substituting Industrialization (ISI) policy. The consequent foreign exchange and exchange rate management policies were influenced by this consideration. During this period, imports particularly from overseas countries were restricted through tariff walls and quantitative restrictions and exports were more or less free. After 1990, Nepal accelerated the process of economic globalization and trade policy was changed. The ISI policy was replaced by an export led economic growth strategy. Most of the imports were made free to assist exports. The following were some of the major policies implemented in the trade sector.

Trade Policy of 1982

A new trade policy was introduced in June 1982. This policy aimed at: (i) to expand the scope of foreign trade and increased the level of foreign exchange earning to satisfy the growing import needs and to service external debts (ii) to generate employment opportunities by enhancing the production, productivity and qualitative standards of exportable goods and (iii) to establish a wide international market for indigenous products instead of confining them to domestic market.

To fulfill the above objectives, some of the major policies were as follows: (i) formulation of liberal policy towards the imports of capital goods, construction materials, industrial raw materials, production of inputs and articles of daily consumption (ii) protection to agricultural and industrial commodities from foreign competition, which could be produced within the country (iii) exemption of local taxes and no restriction on the entry of import goods into the country (iv) simplification of all administrative procedure.[42]

The Nine Point Export Promotion Program

In consonance with the objectives of new trade policy, the government brought nine-point export promotion program in November 1, 1983. The salient features of the program were:

i) Constitution of a 14 member export product and export promotion council
ii) Granting of 10 percent cash subsidy on f.o.b. value of exports
iii) Provision to utilize 15 percent of total earnings for the import of raw materials and capital goods for industries procuring foreign exchange through exports to overseas countries
iv) Reduction on custom duties on goods exported to third countries to only 1 percent
v) Exemption from customs and sales tax to industries exporting their own products
vi) Permission to exporters to borrow a pre export loan up to Rs. 2.5 million against letters of credit opened by importers
vii) Granting of necessary refinance by the Nepal Rastra Bank to commercial banks and compensation to the banks for the losses emanating from rebate on interest rate.

However both the Trade Policy 1985 and the nine-point program did not bring about satisfactory results as trade data disclose particularly because of administration inefficiency and lack of implementation of the various policies.[43]

Devaluation of Nepalese Currency in 1985

In 1985, Nepal entered into an 18-month standby arrangement with International Monetary Fund (IMF). The government launched an economic stabilization program. The Nepali currency was devalued by 14.7 percent against US dollar in November 30, 1985. An import licence auction system replaced the system of administrative quotas for imports in July 1986. Initially auctioning for import licenses took place for 88 groups of commodities. Following the successful conclusion of the stand- by arrangements, structural Adjustment program (SAP) with the financial support of the IMF and Structural Adjustment Loan (SAL) with the World Bank, were implemented in 1987. Under the both programs, more

[42] Trade policy 1985, Government of Nepal
[43] Pant (1990), *"Economic Development of Nepal",* Nabin prakasan, pp. 15-18

commodities were put under the open general license (OGL). Following the introduction of the structural adjustment and stabilization programmes in mid 1980s, trade reforms aimed at shifting the development strategy from an inward looking import -substitution to export promotion. A number of trade facilitation measures and incentives were introduced, such as introduction of duty drawback and bonded warehouse systems, restructuring and reduction of import duties, abolition of quantitative restrictions and import licensing systems for almost all products and rendering full convertibility of current account transactions. In the process of economic liberalization, started with SAF, Enhanced Structural Adjustment Facility (ESAF) was initiated on October 1992 for three year. This program was launched with the financial assistance of IMF to further reform of Nepalese economy. With effect from July 1993, except for few contraband items, merchandise imports were put under the Open General License (OGL) system. Elimination of quantitative restriction has been one of the major reforms. The structure of tariffs was rationalized by a general reduction of rates and a reduction in the number of rate Slabs. Quantities restrictions on imports were completely eliminated in number of steps implemented between February 1992 and July 1993. The number of rate slabs was reduced from more than 100 in the eighties to five in 1997-1998 with the majority of imports being subject to customs tariff rate ranging between 10 percent and 20 percent. In order to reduce to the poverty GON has developed a Poverty Reduction Strategy Paper (PRSP; which is also the country's tenth plan (2002-2007). This program is supported by Poverty Reduction Growth Facility (PRGF) and Poverty Reduction Support Credit (PRSC) which are funded by IMF and World Bank.

But this measure did not create healthy economic environment. Trade scenario was not bright as trade deficit soared from Rs. 5001.5 million in 1984/85 to Rs. 6263.2 million in 1985/86 and to Rs. 7931.8 million in 1989/90.

The Open General License (OGL) System

The OGL system was introduced in March 1989 to facilitate import of industrial raw materials and essential goods. Under OGL, essential goods for instance petroleum products, coal, medicine, raw materials required for export-promoting industries such as raw wool, cotton yarn and cotton fabric, transport equipment and house gadgets etc. could be imported freely. But from May, 1990, the interim government included all import items in OGL list except raw wool, cotton yarn, petroleum products coal and news prints. Prior to this policy, government used to control all imports, especially from overseas, through quantitative restriction. The main aim of this policy was to protect domestic industry through imports and to facilitate import of raw materials. But from July, 1993, imports were put under the Open General License (OGL) System, except for a few contra banded items.

Dual Exchange Rate System (DER)

In March 1977, Nepal Government introduced Dual Exchange Rate System. The main purpose of DER system was to diversify trade to overseas countries, to control the import of luxurious goods and to improve deteriorating terms of trade. Two exchange rates were fixed; rate was specified as one for buying and one for selling of foreign currencies. One is defined as the official rate and other as the depreciated rate. The basic (official) rate of exchange was fixed at US $ 1 = RS 12 and the depreciated second rate was fixed at US $ 1 = RS. 16. The basic (official) rate was applicable for importation of certain development goods and essential commodities with view to increase the production of exportable items.

The depreciated second rate was only applied for importation of luxurious commodities. All the earning from overseas exports was converted at the second rate to encourage the exports. Under this scheme, incentives were granted to encourage export to the overseas countries and to expand the production base. The purpose of the DER system was the same as EEE (Exporter's Entitlement Scheme) system only difference is that DER system was implemented to control importation of luxurious goods. DER system was successful in the delinking of import from export. Under DER system, unnecessary and unavoidable imports were discouraged. Due to attractive incentive provided by government to overseas exports under DER system, market diversification only changed the direction of export from India to overseas without expanding the production base. Despite several advantage of this scheme, the DER system also carried of the similar defects of the EEE scheme. This system also raised a number of anomalies and trade destructive practice such as:

- Over invoicing of exports and under invoicing of imports.
- Emergence of unscrupulous trade practices.
- Shortage of Indian currency.
- Dependency on India did not decrease.

Various measures adopted by the Nepal Government (GON) in different time period not contribute to positive impact in the trade sector and in the economy as a whole. Only providing lucrative incentive to the exporter was not sufficient to correct problems that existed in the trade sector. To alleviate the serious problem and to foster a sustainable development of the trade sector GON adopted new trade policy in 1992.

Reduction in Tariff

Prior to this reform, Nepal imposed high tariff rate which was as high as 300 percent. Under this policy, Nepal reduced this high tariff rate and brought down to 80 percent. However, such rates are applied only on a few commodities such as luxurious vehicles. Similarly number of tax slabs has also been reduced to 6 categories viz. 5 percent, 10 percent, 20 percent, 30 percent, 40 percent and 80 percent.

Import Cash Margin Rates Left to the Discretion of Commercial Bank

Prior to this policy, the work of fixing the import cash margin was done by the central bank. This was abolished for commercial banks and was allowed to fix the margin rate by them.

The aim was to make imports free from central bank's control. Similarly, importers were required to deposit two percent of the total letter of credit amount at the central bank. This provision was effective from January 1993. In July 12, 1995 the deposit requirement was raised to 10 percent of the import value. The system of mandatory deposit on the letter of credit was introduced for monitoring purposes.

Reforms in Export

Prior to implementing this policy, the government had taken export boosting measures, such as export subsidy, dual exchange rate system and bonus system. However, those measures did not proved effective for export diversification of Nepal with the implementation of Structural Adjustments Program (SAP), these measures were withdrawn and new measures such as, export duty drawback system and bonded ware house system were introduced, these measures were expected in expanding the export of garment and carpet.

Loans in Convertible Currencies to Exports

According to this provision the industrial producers, firms or companies were allowed to obtain loans in convertible foreign currencies for the import of necessary raw materials. This provision was effective from June 17, 1993. The main aim of this provision was to facilitate the imports of raw wool for carpet industry, with a view to boost both the production as well as export of carpet.

Despite the implementation of a number of policy and procedural reforms to promote the trade sector, several problems are still persisting. Concentration of export trade in a few items and destinations, dependence on the import for raw materials, weak forward and backward linkages, widening trade deficit and lack of development of infrastructures are the major challenges in the trade sector. The various provisions provided for trade diversification in the five years plan since 1960's and the different trade policies announced from time to time, were all efforts directed towards export promotion however most of them failed to achieve the target due to various reasons. In spite of the above mentioned policy measures; the expansion of exports of manufactured goods has been given great stimulus by the separable export performance of carpets and garments over the recent past. It is encouraging to see that the share of manufactured items in total export earnings has shoot up from 57.4 percent in 1985/86 to 90.9 percent in 1993/94. But the performance has lopsided. Only carpet and garments were performing well, which constituted more than 92 percent of the total manufactured items exported.

4.3 Trends of Foreign Trade in Nepal

During 1956/57 the exports of Nepal (in rupees) were 95.47 million. It reached to 67697.5 million in 2008/09, which means with in a period of half century its total export increased by about 709 fold. Within the same period the imports increased from 169.89 million to 284,469.6 million i.e. the imports increased by about 1674 folds.

The study of period from 1990/91-2008/09 exhibits that the export value increased by 10 times, while import value increased by more than 12 times. Which means imports value is 1.2 times the export value on average of study duration. The total trade deficit of Nepal in 1990 was 15839 million rupees. During the study period, the trade deficit increased to 73950.6 million rupees. This is nearly 5 times greater than the starting period of study duration. Although the trend of Nepal's foreign trade during the past few years is encouraging, the value of our trade deficit is yet very disappointing. The main reason for the increasing trade deficit of Nepalese trade is higher imports against small exports. The factors causing such huge trade deficit balance are; narrow base of exportable production, infant industrial as well as low production shape, and declined quality on products, agro and forest based exportable goods, high transit and transportation costs, landlocked situation of the country, and unfavorable geographical structure of landscapes, unstable political situation, and lack of effective plan and development policies for foreign trade etc.

4.4 Trade with India

4.4.1 *Review of structure and movement of trade with India*

Indo-Nepal Treaty of Trade and Transit

In order to expand trade between Nepal and India and to encourage collaboration in economic development, Treaty of Trade, 1991 was signed on 6 December 1991, which was followed and refined on December 3, 1996. This Treaty is seen more often as the turning point in the history of Nepal- India trade relations leading to several policy changes. Some of the provisions can be viewed as follows:

- Government of India provided access to the Indian market free of customs duties and quantitative restrictions for all products manufactured in Nepal on the basis of the certificate of origin.
- The negative list of product imported to India were shortened from seven to three items which are alcoholic liquors/beverages and their contents except industrial spirits, perfumes and cosmetics, cigarettes and tobacco.
- Export of Nepalese consignments with the certificate of origin would not be delayed at the Indian customs border/check-post.
- Indian investment in Nepal in for up to 250 million (rupees Indian) would get fast track clearance.
- The governments of the two countries agreed to have open sky policy.
- The government of India opened the transit route to Bangladesh through Phulbari.
- Nepal Government amended its foreign investment policy, company law and transfer of technology act.
- Nepal decided to open Nepali Stock Exchange to overseas investors.
- India and Nepal signed the power trade agreement and allowed private investment in hydropower project.

Again, the treaty was revised in 2002 with the modification of some provisions. The salient features of this Treaty can be viewed as:

- detailed Rules of Origin incorporated to encourage genuine industrialization in Nepal and to provide greater clarity and transparency
- value addition norm - a very low value addition percentage has been agreed to by India of a maximum ceiling for third country inputs fixed at 75 per cent for one year from 6th March, 2002 and 70 per cent thereafter, (i.e. a domestic value addition requirement of only 25 per cent for the first year and 30 per cent thereafter)
- Certain sensitive items will be allowed continued entry into India free of customs duty on the basis of a special and liberal quota.
- Safeguard clause introduced with provision for the affected country to take appropriate remedial measures only if joint consultations on surge do not yield results.

Treaty of Transit

The Treaty of Transit, 1991 came up for renewal in December 1998 and following bilateral talks, a renewed Transit Treaty was signed on January 5, 1999. The renewed Treaty contains liberalized procedures of the transit of the Nepalese goods. The Government of India accepted Nepalese request for "automatic renewal" of the Treaty for further seven-year periods. However, the Protocol and Memorandum to the Treaty, containing modalities and other would be subject to review and modification every seven years or earlier if warranted. The Nepalese request for an additional transit route to Bangladesh via Phulbari was accepted in June 1997. Operating modalities for the transit were accordingly worked out. In addition, the route was opened from 1 September 1997. A review of the working of the route was held in March 1998 at Commerce Secretary-level talks in Delhi when several relaxations of the operating modalities requested by the Nepalese were agreed to. This Indo-Nepal Treaty of Transit provided, as the earlier transit treaties had made, port facilities to Nepal at Calcutta and specified 15 transit routes between Calcutta and the India-Nepal border. In addition 22 entry/exit points along with India-Nepal border for mutual trade and Nepal-Nepal transit have also been provided.

Under the Treaty of Transit and the Protocol to the Treaty of Transit, the Calcutta-Haldia port complex has been specified as port of entry for Nepal's third-country trade by sea. The transit facilities provided by India to Nepal under the Treaty of Trade and Treaty of Transit include the following:

- India allows freedom of transit for Nepalese third-country trade across its territories through routes mutually agreed upon,

- Permission for the movement of Nepalese trucks to and from the merest railway stations to pick up the export and transit cargo to Nepal,
- Traffic in transit is exempted from customs duty and from all transit duties or other charges, except charges for transportation and service charges,
- Facilities are provided for warehousing and for storage of goods in transit awaiting customs clearances before inward transportation to Nepal, through Indian Territory.

The following table shows the overall trade (import/export) between Nepal and India from the year 1990/91 to 2008/09. The outcome of the transit treaty can be noticed in the year 1998/99 onwards where the trade volume with India got increasing growth rate. It represents the favorable outcome of the Indo-Nepal Transit Treaty. As a result, trade volume between these countries has increased after the year 1999/00.

Table 4.4
Nepal's Trade with India
(Rupees in Millions)

Fiscal Year	India			Trade Balance	Export share to total volume (in %)	Import share to total volume (in %)	Import and export ratio(in times)
	Export	import	Total volume	India(2-5)			
	1	2	3= (1+2)	4= (1-2)	5= (1/3)*100	6=(2/3)*100	7=(6/5)
1990/91	1,552.2	7,323.1	8,875.30	-5,770.9	17.5	82.5	4.7
1991/92	1,450.0	11,245.5	12,695.50	-9,795.5	11.4	88.5	7.7
1992/93	1,621.7	12,542.1	14,163.80	10,920.4	11.4	88.5	7.7
1993/94	2,408.9	17,035.4	19,444.30	-14,626.5	12.4	87.6	7.0
1994/95	3,124.3	19,615.9	22,740.20	16,491.6	13.7	86.2	6.2
1995/96	3,682.6	24,398.6	28,081.20	-20,716.0	13.1	86.8	6.6
1996/97	5,226.2	24,853.3	30,079.50	-19,627.1	17.4	82.6	4.7
1997/98	8,794.4	27,331.0	36,125.40	-18,536.6	24.3	75.6	3.1
1998/99	12,530.7	32,119.7	44,650.40	-19,589.0	28.1	71.9	2.5
1999/00	21,220.7	39,660.1	60,880.80	-18,439.4	34.8	65.1	1.8
2000/01	26,030.2	54,700.9	80,731.10	-28,670.7	32.2	67.7	2.1
2001/02	27,956.2	56,622.1	84,578.30	-28,665.9	33.1	66.9	2.0
2002/03	26,430.0	70,924.2	97,354.20	-44,494.2	27.1	72.8	2.6
2003/04	30,777.1	78,739.5	109,516.60	-47,962.4	28.1	71.8	2.5
2004/05	38,916.9	88,675.5	127,592.40	-49,758.6	30.5	69.4	2.2
2005/06	40,714.7	107,143.1	147,857.80	-66,428.4	27.5	72.4	2.6
2006/07	41,728.8	115,872.3	157,601.10	-74,143.5	26.4	73.5	2.7
2007/08	38,555.7	142,376.5	180,932.20	-103,820.8	21.3	78.6	3.6
2008/09	41,005.9	62,437.6	203,443.50	-121,431.7	20.1	79.8	3.9

Source: NRB, Economic Bulletin, mid-July 2009

4.4.2 *Analysis of Statistical figures*

Until 1970, almost 99 percent of Nepal's total export and 88 percent of the total imports of Nepal was confined to India alone. It means before 1970, when we talk about foreign trade, we were talking about trade with India. Table 4.4 shows that though the value of export is in increasing each year, the trade deficit with India is quite discouraging. The trade deficit has reached to 121,431.7 million rupees in 2008/09 from 5770.9 million in 1990. This figure shows more than 20 times increment in trade deficit with India alone.

There is tremendous increment in the value of imports. During the 19 year study period; there is 17-fold increment in the total value of trade with India. The share of export to total trade with India seems decreasing from the starting of study period (i.e. 1990/91 to 1993/94). However, the percentage share of export took positive direction from 1995/96 and continuous increment till 1999/00. The year 1999/00 is recorded for the highest export share of total trade with India about 34 percent. After the year 2004/05, the total export share with India started to decline and approached to 20.1 percent in 2008/09. This statistical data indicates how the export growth has been diminishing against imports.

On the import side, the increment of the total imports in the year 2008/09 is accounted more than 8 times from the starting period of year 1990/91. Nevertheless, the share of import on the total volume of trade with India is in decreasing trend which was highest of 88.5 percent in the study year 1991/93 and 1992/93, has about 80 percent at present day. The share of import in 1999/00 remained lowest of 65.1 percent of total volume. However, after 2000/01, due to the shift of petroleum imports to India form other countries, the share of import started to grow till the present day.

The trade deficit with India is quite discouraging for Nepal. The trade deficit with India alone is greater than the deficit with other countries. Throughout the study period the trade deficit has increased more than 20 times, recorded 5770 million in 1990/91 reached to 121431 million in the year 2008/09. From the year 1995/96 to 1999/00, the trade deficit got decreasing trend due to the slight improvements in the export to India which started to increase steadily after the year 2004/05. In 2007/08 the trade deficit figure hyper jumped and continued to grow at present day.

4.5 Trade With Other countries

4.5.1 *Review of structure and movement of trade with other countries*

Nepal diversified its trade with many overseas countries after 1971. Nepal's major overseas supplier countries in present day are Japan, Germany, Singapore, HongKong, Saudi Arabia, United Kingdom, USSR, USA, Italy, South Korea, New Zealand, France, China, Tibet and SAARC member countries. On the other side, the major Export markets for Nepal in overseas countries are Germany, UK, Italy, Japan, and Belgium. On the basis of region, the major export market for Nepal is Asia. European Community is the largest partner of Nepal in foreign trade.

Nepal's foreign trade with other countries has been accelerated with establishment of various regional co-operations such as SAARC, SAFTA, and BIMEST-EC. Nepal is one of the founding members of SAARC, which is established in 1985. The purpose of SAARC is to facilitate the trade between the member countries. The membership of WTO is one of the major achievements of Nepal to enter the global market. In this way, the structure and movement of Nepal's foreign trade with other countries are guided by various regional and multilateral co-operations which provided positive signs in promoting and diversifying the trade of Nepal. The following table presents the structure of Nepal's foreign trade with other countries during the year 1990/91-2008/09.

Table 4.5
Nepal's trade with other Countries

(In Million Rupees)

Fiscal Year	Other countries			Trade balance	Export share to total volume (in %)	Import share to total volume (in %)	Export and import ratio (in times)
	Export s	Imports	Total volume				
	1	2	3=(1+2)	4=(1-2)	5=(1/3)*100	6=(2/3)*100	7=(6/5)
1990/91	5,835.3	15,903.4	21,738.70	-10,068.1	26.8	73.1	2.7
1991/92	12,256.5	20,694.5	32,951.00	-8,438.0	37.1	62.8	1.6
1992/93	15,644.8	26,663.5	42,308.30	-11,018.7	36.9	63.0	1.7
1993/94	16,884.5	34,535.4	51,419.90	-17,650.9	32.8	67.1	2.0
1994/95	14,514.9	44,063.6	58,578.50	29,548.7	24.7	75.2	3.0
1995/96	16,198.5	50,055.9	66,254.40	-33,857.4	24.4	75.5	3.0
1996/97	17,410.3	68,700.1	86,110.40	-51,289.8	20.2	79.7	3.9
1997/98	18,719.1	61,671.0	80,390.10	-42,951.9	23.2	76.7	3.2
1998/99	23,145.6	55,405.6	78,551.20	-32,260.0	29.4	70.5	2.3
1999/00	28,602.0	68,844.8	97,446.80	-40,242.8	29.3	70.6	2.4
2000/01	29,623.9	60,981.3	90,605.20	-31,362.4	32.6	67.3	2.0
2001/02	18,988.6	50,766.9	69,755.50	-31,778.3	27.2	72.7	2.6
2002/03	23,500.6	53,427.9	76,928.50	-29,927.3	30.5	69.4	2.2
2003/04	23,133.6	57,537.6	80,671.20	-34,404.0	28.6	71.3	2.4
2004/05	19,788.8	60,798.1	80,586.90	-41,009.3	24.5	75.4	3.07
2005/06	19,519.4	66,637.2	86,156.60	-47,117.8	22.6	77.3	3.4
2006/07	17,654.3	78,822.3	96,476.60	-61,168.0	18.2	81.7	4.4
2007/08	20,710.8	79,561.2	100,272.00	-58,850.4	20.6	79.3	3.8
2008/09	26,691.6	122,032.0	148,723.60	-95,340.4	17.9	82.0	4.5

Source: NRB, Economic Bulletin, mid-July 2009

4.5.2 *Analysis of statistical figures*

Referring to table 4.5, the total value of export of Nepal has increased more than 4 times in the duration of study period. In 1990/91, the value of export was 5835.8 million rupees which increased to 26691.6 million rupees in 2008/09. On the import side, the increment counts more than 7 times from 15903.4 million rupees in 1990 to 122032 million rupees in 2008/09. This clearly shows that how Nepal has trade deficit in trade with other countries. Trade deficit in 2008/09 has reached about 9.5 times more than the starting period of the study i.e. 1990/91. In addition, the export share to total volume of trade with other countries is accounted highest of 37 percent in 1991/92 and lowest of 17 percent in 2008/09.

On the import side, the import from other countries is highest in the year 2008/09 having 82 percent of total trade volume. Similarly, export to import ratio has steady increment figure from the study duration of year 2004/05 to 2008/09. The volume of trade has increased more than 7 times from the starting period 1990/91 to the year 2008/09. Though, the volume of trade has increased at significant level, the heavy share of import on the total volume of trade with other countries has been found discouraging for the trade balance. The tendency of other countries' trade is found not encouraging throughout the study period.

4.6 The volume of Nepal's foreign trade

The statistical figures of Nepal's foreign trade show the steady incremental growth of the trade volume each year. However, the share of the imports against exports is quite high which provided the negative trade balance for Nepal. India has been the major trade partner for a long period of time. In the year 1990/91, the share of total trade with India and other countries was 29 and 71 percent respectively. This reached to 57 and 43 percent in the year 2008/09. The first six years, the trade with India in total volume (import/export) remained same which accelerated after the year 1997/98. The trade with other countries was high in year 1996/97 covering 74.1 percent of total trade volume. One of the main reasons for incremental figures for India and decreasing figures for other countries with respect to trade volume was the high import dependency of Nepal with India. In the year 2000/01 the petroleum product was shifted to India from other countries, which was another reason for high share of trade volume with India.

Table 4.6

The trade volume of Nepal

(In Million rupees)

Fiscal year	Total volume of trade (imports/exports)		Total trade volume	Percentage share of total volume	
	With India	With other countries		India	Other Countries
1990/91	8,875.30	21,738.70	30,614.00	28.9	71.0
1991/92	12,695.50	32,951.00	45,646.50	27.8	72.1
1992/93	14,163.80	42,308.30	56,472.10	25.0	74.9
1993/94	19,444.30	51,419.90	70,864.20	27.4	72.5
1994/95	22,740.20	58,578.50	81,318.70	27.9	72.0
1995/96	28,081.20	66,254.40	94,335.60	29.7	70.2
1996/97	30,079.50	86,110.40	116,189.90	25.8	74.1
1997/98	36,125.40	80,390.10	116,515.50	31.0	68.9
1998/99	44,650.40	78,551.20	123,201.60	36.2	63.7
1999/00	60,880.80	97,446.80	158,327.60	38.4	61.5
2000/01	80,731.10	90,605.20	171,336.30	47.1	52.8
2001/02	84,578.30	69,755.50	154,333.80	54.8	45.1
2002/03	97,354.20	76,928.50	174,282.70	55.8	44.1
2003/04	109,516.60	80,671.20	190,187.80	57.5	42.4
2004/05	127,592.40	80,586.90	208,179.30	61.2	38.7
2005/06	147,857.80	86,156.60	234,014.40	63.1	36.8
2006/07	157,601.10	96,476.60	254,077.70	62.0	37.9
2007/08	180,932.20	100,272.00	281,204.20	64.3	35.6
2008/09	203,443.50	148,723.60	352,167.10	57.7	42.2

Source:-NRB, *Macroeconomic Indicators 2009 and* CBS, *Statistical year Book 2009*

4.7 Findings of the study

4.7.1 *Findings of the regression equations*

From equation I

$$Y = 47134.5 + 3.3\, V_I + 1.7\, V_O$$

(12258.86) (0.1) (0.22)

(3.84) (32.82) (7.71)

R2 = 0.996
Adjusted R^2 = 0.995
F = 2073.21
DW = 0.65

* *The first parenthesis in above equation represents standard error values*

** *The second parenthesis represents t-values.*

The F-value of the estimated Equation-I is statistically highly significant. Because of this reason, the fitness of the model is good. The significant value of F suggests that the model is efficient enough to explain the relationship between the dependent and independent variables. In other word, it can be said that the dependent variables included in the model are statistically reasonable.

The value of R^2 and adjusted R^2 are 0.996 and 0.995 respectively. These values suggest more than 99 percent variation in the dependent variable is explained by the independent variables, which is very high at any standards.

The t-values of the independent variables are significant at less than one percent. This indicates both of the independent variables included in the model play a significant role to determine the variation of the dependent variable.

The DW-statistics indicates that the estimated equation suffer from positive auto correlation problem. Because of this reason the estimated regression equation may not be as efficient as it should be. Nevertheless, with the help of other statistics, it can be said that the estimated regression equation is reasonable. Hence, the result derived from the model can be relied on.

Other things remaining the same, the value of coefficient a_1 and a_2 are 3.3 and 1.7 respectively, which implies that one million increases in the total volume of trade to India and other countries will have the increase of 3.3 and 1.7 Millions GNP of Nepal. With the help of this result, it can be said that one of the ways to develop Nepalese economy is to increase the foreign trade activities. The total volume (import/export) could be an effective indicator to underpin the trends and foreign trade behavior of the country. The country which has small economy such as Nepal may have comparative advantage in several products to import than produce in own country. However, to reduce the adverse trade balance, it is essential to increase the exports and diversify the trade as much as possible. The less dependency to one country, the more it will accelerate the economic liberation.

From equation II

PCY = 3176.74+0.38 TX

(1568.45) (0.036)

(10.57) (2.02)

R2 = 0.868
Adjusted R^2 = 0.859
F = 111.65
DW = 1.74

The F-value of the estimated equation is significant at one percent, which suggests that the independent variable included in this model is not bogus.

The R^2 and adjusted R^2 of the estimated equation is 0.868 and 0.859 respectively which suggests that more than 85 percent variation in the dependent variable is explained by the independent variable.

The T-value of the independent variable is significant at 5 percent. This indicates that the independent variable is highly relevant variable.

The DW statistics suggest that the regression equation don't suffer from auto-correlation problem. Almost all the statistics suggest that the estimated regression equation is very efficient. Hence the result derived can be relied up on. The estimated equation shows that the coefficient of the total export (TX) is positive as expected in the theory. Other things remaining the same, the value of coefficient of TX is 0.38 implying that one million increase in FX increases 0.38 thousand per capita GNP which is supposed to be reasonable in Nepalese context.

4.7.2 *Overall findings*

The overall findings of the study can be presented as below:

1. The geo-ecological setting of the country is one of the natural barriers for Nepal's foreign trade.
2. The reformation policies of Nepal have not fulfilled the positive outcomes as expected. However, the last few years of the study period has given positive signs in the trade diversification.

3. The regression model estimated in this study exhibits the positive relationship between the GNP and total volume of trade. Hence, this study finds that one of the major factors for economic growth could be the expansion of foreign trade.
4. The per capita GNP may not be a sound measure of the economic growth, but yet is an important indicator for analyzing statistical data in the context of Nepal where other indicators (such as HDI, HQLI etc.) for time-series data are hardly found. In this sense, referring to the estimated equation, the expansion of the export may result on the economic welfare of the people.
5. The Unfavorable environment for industrial development, lack of sound and effective strategic policies, inconsistency of government policies , political instability and a decade more long moist problem are hampering facts for the Nepalese trade expansion. No doubt delay in decision-making and lack of political-will cannot possess a country's progress.
6. Nepal has been facing fundamental trade deficit and no favorable position of terms of trade with both destination India and other countries that might affect the economy adversely in the long-run. The main cause behind trade deficit is high import against small export.
7. The Open border and free flow of goods between Nepal and India also are serious problems for Nepalese products because Indian products are available cheaply in Nepalese market. Owing to smuggling practices, the illegal traders are getting advantage of imports and exports.
8. The Infant industrial shape with narrow base of exportable production having low quality products has been challenging scene of Nepalese trade, though it has already entered into global trade i.e. WTO and bilateral trade arrangements like SAPTA and SAFTA
9. The adoption of liberal economic policy, government levied international trade tax to generate revenue but it has neglected the aspect of import substitution increasing the trade deficit of Nepal
10. There is Lack of diplomatic efforts, India oriented policies, condition imposed by donor agencies, donor driven strategies, poor implementation, not effective monitoring and evaluation mechanism, red tapes on bureaucracy which should be controlled to enhance the foreign trade situation of Nepal.

CHAPTER V

5. SUMMARY AND CONCLUSION

5.1 Summary

The study of foreign trade trend and structure shows that the foreign trade is still unfavorable to Nepalese economy. In other word, high imports against little imports have widening the trade deficit between India and other countries each year. This study provides a clear view regarding the history, plan wise trends, policy review, and review of reform programs, trade with India and overseas. The following information summarizes the picture of Nepalese trade situation and export diversification of Nepalese government in brief.

The total export has increased over the various plans ranging from Rs. 628.1 million in first plan to Rs. 206529.4 million in ninth plans which are about 328 times more than that of first plan. Total import has steady growth in the subsequent plan till ninth plan. The total value of trade in seventh plan was 49464.4 million rupees which increased to 419180.5 million rupees in eighth plan.

Between the years 1990-2004, total volume of export value is increased by 7 times which was 7387.5 million rupees in 1990/91 and it increased to 53910.7 million rupees in 2003/04. It went to 67697.5 million rupees by the end of FY 2008. However, total volume of import in FY 1990/91 was recorded 23226.5 million which was 3 times more than export. Thus, from the starting phase of the study period Nepal suffered from trade deficit. Comparing to the modern figure that has more trade deficit figure with India was less in the starting year of the study duration. Total volume of import was 23226.5 million rupees in 1990/91 which reached to 284,469.6 million rupees in 2008/09. There was more than 12 times increment in import of Nepal during the study period. So yet imports value is more than 4 times of the export value. The total trade deficit of Nepal (India plus other countries) in 1990 was 15839 Million rupees which reached to 216772 million rupees by the end of the study period. It is also important to note that the trade deficit with India (121431 million rupees) alone is larger than the deficit with other countries (95340 million rupees) in the current situation. During 19 years period our trade deficit increment is accounted about 3.2 times the export value. Although the trend of Nepal's foreign trade during the past few years is encouraging, the volume of trade deficit is yet highly disappointing.

Considering the trend and direction of Nepalese foreign trade it started to diversify its trade since 1960's and adopted import substituting Industrialization (ISI) policy with the objective to protect domestic industries and in 1985, Nepal entered into an 18-month standby arrangement with international monetary fund (IMF). The government launched an economic stabilization program. The Nepali currency was devalued by 14.7 percent against US dollar in November 30, 1985. Structural Adjustment Program (SAP) with the financial support of the IMF and structural Adjustment loan (SAL) with the World Bank, were implemented in 1987.

Government of Nepal adopted Exporters' Entitlement Scheme (EEE) in 1961, to promote and diversify export from India to the other countries. The EEE scheme neither helped in expanding the export base nor contributed to reduce the dependency on India. Consequently, in 1977 Dual Exchange Rate System replaced the EEE scheme. A number of trade facilitation measures and incentives were introduced, such as introduction of duty drawback and bonded warehouse systems. Enhanced Structural Adjustment Facility (ESAF) was initiated on October 1992 for three year. The new trade policy has been implementing since 1992 with the basic objective to enhance trade diversification, to promote private sector participation, production of qualitative and competitive good, and establishment of EPZ. In order to reduce to the poverty GON has developed a Poverty Reduction Strategy Paper (PRSP; which is also the country's tenth plan (2002-2007). This program is supported by Poverty Reduction Growth Facility (PRGF) and Poverty Reduction Support Credit (PRSC) which are funded by IMF and World Bank.

In this way, various measures adopted by the Nepal Government in different time period not contribute to positive impact in the trade sector and in the economy as a whole. However, trade deficit has been quite discouraging. The implementation side is being poor. Frequently changed Government, insurgency, not appropriate environment on FDI, lack of long-term vision of policy makers are some of the worst realities on Nepalese foreign trade policies.

The Indo Nepal treaty was revised in 2002 with the modification of some provisions of treaty signed on 1961. This Treaty is seen more often as the turning point in the history of Nepal- India trade relations leading to several policy changes. The Treaty of Transit, 1991 came up for renewal in December 1998 and following bilateral talks, a renewed Transit

Treaty was signed on January 5, 1999. The renewed Treaty contains liberalized procedures of the transit of the Nepalese goods.

Export and import, between Nepal and India has increased from the year 1999/00 onward. Of course, it may be due to the outcome of favorable provisions in the Indo-Nepal Trade Treaty of 1999. The share of India in the total export of Nepal was 23.1 per cent in 1999/00. The trend increased gradually in the successive years and approached to 47.7 per cent in 2003/04 which hyper jumped up to 73.8 % in 2004/05.The share of India in the total import of Nepal was 26.6 per cent in 1996/97, which gradually increased revealing 41.2 per cent in 2003/04. Treaty of Trade 1999 has indeed played a crucial role in the foreign trade structure of Nepal.

During the study period; there is 20-fold increment on total value of import trade with India whereas the total value of export with India increased about 11-fold. The share of export to total trade with India seems decreasing trends form the starting of study period i.e. in 1990/91 to 1998/99. However, the share of export took positive direction from 1999/00 and continuous increment till 2003/04. The share of import with India seems not much fluctuating from the study period 1990/91 till 1999/00 on an average of 33%. But in 2004/05, the % share of import has tremendously increased approached to 72%. Then it started to decline but not less than 50% share with succeeding periods.

In import side, primary goods has maintained its growing tendency in nominal value and share as well. The high share of manufactured items compared to primary goods imports endorses the poor development of the economy. Therefore, it is necessary to build import substitution industries.

The share structure of exports and imports of India and Other countries shows that there is a domination of overseas trade, in the total import and total export trade of Nepal. In the early stages, there was the deep domination of trade with India. If we get closer look on the trends of these imports and exports it is easily noticeable that after the year 2000/01, Nepalese foreign trade has been affected by huge trade deficit with India and overseas countries. One of the main underlying factors for such negative figures is the Maoist activities which adversely affected the trade sector of Nepal. The civil war started to take place which threaten the industrial sector to invest, expand and operate in any kind of production process in the country. The capital investments started to decline due to the rising investment risks caused by instability in political condition. As a result the export couldn't take pace to minimize the trade deficit, rather the import of diversified commodities started to increase because the production severely declined.

The terms of trade of Nepal are unfavorable during the study period. A term of trade is the ratio of the imports vs. the ratio of the export of the country. The main reason for terms of trade always unfavorable is rapidly increased import price than export price. During the study period, the share of export in GNP is found on an average about 10 percent. However, there is domination of share of overseas trade on GNP. The fitted regression equations prove that there is direct relationship between export and GNP. On the total volume of foreign trade, it also has significant and positive association with gross national product.

5.2 Conclusion

Nepal has been suffering vicious circle of poverty and economic backwardness. No doubt, Nepalese foreign trade plays vital role to make economic strength and prosperity of the nation. To give proper direction to our export trade, the government has introduced several policies and efforts have done. Nevertheless, the outcome has not achieved properly. The share of trade on GNP is about 10% but especially export trade has been deteriorating rather than improving. However, this study analyses some of the strengths and weakness of Nepalese trade as follows.

Strength of Nepalese trade:

- Nepal is very much rich on natural resources such as hydropower, mines etc. and there is high potentialities of agro based industries too.
- Being a member of WTO, SAPTA and SAFTA , Nepal can achieve so many benefit and have chance to expand export , to improve trade deficit and to correct BOP situation.
- Development of information technology and introducing of new technology on some industries are encouraging factor to assure quality and competitive products.
- Adequate work force with Low labor cost can easily available throughout the country.

- Various national and international agencies are seeking to invest in Nepal, in the case of proper investment promotional programs; it can achieve high investment funds which excels the economic reformation of the country.
- There is high potential to bring FDI to strengthen export trade oriented industries.
- The political condition of the country is in the stage of transformation. Since, civil war has been ceased; there is high potential for the tourism based industry as it had been serving the Nepalese economy for a long period. The positive direction for fostering tourism industry has been opened with the peace process.
- Democratic system has reestablished and decade long moist insurgency is finally over and the party is reformulated as one of the biggest political party of Nepal at present day. Hence, with the political stability, Nepal can exploit its core competencies such as tourism, hydro-power, herbs and minerals, etc.

Weakness of Nepalese Foreign Trade:

- One of the main reasons for losing foreign market for Nepal's product is the child labor issue and quality of the product itself. The government should facilitate the domestic industry and provide proper subsidies to promote foreign trade and regulate the serious human exploitation issues in grass root level.
- Nepal uses only one transit to (trade route) trade with overseas countries other than India and China. Although Nepal can use other trade routes such as Fulbari Banglaband through Bangladesh but it is yet depends on the transit treaty to India
- Though the agricultural is the fundamental aspect of the Nepalese economy, it has been extremely disappointing. Transit and transportation cost is too high and there is no effective rural- urban linkages practices too.
- Unfavorable environment for industrial development, lack of sound and effective strategic policies, inconsistency of government policies , political instability and a decade more long moist problem are hampering facts for the Nepalese trade expansion.
- Due to the adoption of liberal economic policy, government levied international trade tax to generate revenue but it neglected the aspect of import substitution. So, the trade deficit of Nepal became more acute.

- Export procedure documentation, Quality industrialization and quality mix, Lack of human resources and R & D, Insecure of FDI, Lack of dry port facilities, High transport cost and problems in the seaport are also consider the barrier to expand Nepalese export trade.
- Lack of diplomatic efforts, India oriented policies, condition imposed by donor agencies, donor driven strategies, poor implementation , not effective monitoring and evaluation mechanism, no price and reward system, red tape on bureaucracy can also be consider the challenging scenarios.
- Nepalese domestic industries cannot produce enough goods for Nepalese growing population.

5.3 Further Improvements

In globalize economy, Nepal cannot remain on isolation. Now Nepal has trade relation with more than 100 countries. Nepalese foreign trade trends and structure seems not so satisfactory. Gradually increment of trade deficit problem shows the fact that Nepalese trade is dominated by imports. It also indicates that there are various barriers on Nepalese trade. Although Nepalese government has introduced different policies and measures with regular modification, Nepalese trade cannot take positive direction towards the nation. However, there is future potential to expand export trade. Therefore, government should take immediate action. This study has some suggestions for the promotion and expansion of Nepal's foreign trade especially exports trade and consequent economic growth of the country. The following measures should be considered.

- As soon as possible political settlement must be assured with the coordination of all the stakeholder of the nation. Without Political stability and consistency, nothing can be achieved.
- In favor of country's interest, effective diplomatic efforts with strong political -will and commitment should be taken by the government.
- It is necessary to make export plan having the framework of enhancing strategies of export and discouraging the volume of import that can reduce trade deficit problems. To reduce imports, domestic industries should be encouraged to produce consumer goods, which can be done by increasing tax on imported items.

- Government should have the strategies to protect domestic industries that can be exercised by imposing quantitative restriction on imported items, developing of infant industries and expanding domestic markets.
- Government role should be defined as catalytic in practice not only on paper. Government should empower and attract the private sector involvement by making environment friendly policies.
- Foreign trade should be directed towards export promotion, import substitution and export diversification. Policies must not be influenced by foreigners.
- Diplomatic efforts should be started and search appropriate trade and transit route with overseas trade. Proper action should take towards rethinking about the trade and transit treaties with India.
- Government should invest more on R & D, as well as human resource development. Similarly proper utilization IT, introduced of changing technology on new established industries are essential.
- Implementation of policies should take care in an effective manner as well as monitoring and evaluation of policies is essential.
- There are possibilities of trading activities with SAARC countries. It does not only reduce trade concentration with India, but also work as a milestone towards mutual co-operation. It increases the possibility of joint venture in establishing industries.
- Provision of Surveillance at borders where goods are smuggled can be control smuggling practices across the borders, especially with India. In this regard, public cooperation should also be sought.
- Export should be increased by improving the quality of product, introducing new commodities, reducing cost of production, generating export surpluses, encouraging research and development.
- Imports substitutes should be encouraged by adopting improved indigenous technology curving non-essential and luxury imports and controlling population growth. It should also diversify its imports and exports markets and products via trade agreements and developing friendly relations.
- Open market policy will be beneficial for the country only when Nepalese products should be able to provide opportunities not to taste international products in the country but also to give the taste to others in the same proportion.

- Nepal should give higher priority to remove the nation's deficit problem by adopting long-term measures like penetration to export market and effective application and execution of import substitution regime.
- Trade oriented industries can be strengthen as there is high potentiality of bringing FDI in sectors such as hydro-power, eco-tourism etc. in Nepal.

Overall, Nepalese foreign trade situation suggests that though Nepalese trade has been facing too barriers, it have some potential too. To reduce gradual trade deficit government must immediately take action towards the direction of expanding export.

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APPENDIX 1

BASIC DATA 1

Direction of Nepal's Foreign Trade (In Million Rupees)

Fiscal Year	Exports, f.o.b			Imports c. i. f			Trade Balance		
	Total (2+3)	India	Other countries	Total (5+6)	India	Other countries	Total (1-4)	India(2-5)	Other countries (3-6)
	1	2	3	4	5	6	7	8	9
1990/91	7,387.5	1,552.2	5,835.3	23,226.5	7,323.1	15,903.4	-15,839.0	-5,770.9	-10,068.1
1991/92	13,706.5	1,450.0	12,256.5	31,940.0	11,245.5	20,694.5	-18,233.5	-9,795.5	-8,438.0
1992/93	17,266.5	1,621.7	15,644.8	39,205.6	12,542.1	26,663.5	-21,939.1	10,920.4	-11,018.7
1993/94	19,293.4	2,408.9	16,884.5	51,570.8	17,035.4	34,535.4	-32,277.4	-14,626.5	-17,650.9
1994/95	17,639.2	3,124.3	14,514.9	63,679.5	19,615.9	44,063.6	-46,040.3	16,491.6	29,548.7
1995/96	19,881.1	3,682.6	16,198.5	74,454.5	24,398.6	50,055.9	-54,573.4	-20,716.0	-33,857.4
1996/97	22,636.5	5,226.2	17,410.3	93,553.4	24,853.3	68,700.1	-70,916.9	-19,627.1	-51,289.8
1997/98	27,513.5	8,794.4	18,719.1	89,002.0	27,331.0	61,671.0	-61,488.5	-18,536.6	-42,951.9
1998/99	35,676.3	12,530.7	23,145.6	87,525.3	32,119.7	55,405.6	-51,849.0	-19,589.0	-32,260.0
1999/00	49,822.7	21,220.7	28,602.0	108,504.9	39,660.1	68,844.8	-58,682.2	-18,439.4	-40,242.8
2000/01**	55,654.1	26,030.2	29,623.9	115,687.2	54,700.9	60,981.3	-60,033.1	-28,670.7	-31,362.4
2001/02	46,944.8	27,956.2	18,988.6	107,389.0	56,622.1	50,766.9	-60,444.2	-28,665.9	-31,778.3
2002/03	49,930.6	26,430.0	23,500.6	124,352.1	70,924.2	53,427.9	-74,421.5	-44,494.2	-29,927.3
2003/04	53,910.7	30,777.1	23,133.6	136,277.1	78,739.5	57,537.6	-82,366.4	-47,962.4	-34,404.0
2004/05	58,705.7	38,916.9	19,788.8	149,473.6	88,675.5	60,798.1	-90,767.9	-49,758.6	-41,009.3
2005/06	60,234.1	40,714.7	19,519.4	173,780.3	107,143.1	66,637.2	-113,546.2	-66,428.4	-47,117.8
2006/07	59,383.1	41,728.8	17,654.3	194,694.6	115,872.3	78,822.3	-135,311.5	-74,143.5	-61,168.0
2007/08	59,266.5	38,555.7	20,710.8	221,937.7	142,376.5	79,561.2	-162,671.2	-103,820.8	-58,850.4
2008/09	67,697.5	41,005.9	26,691.6	284,469.6	162,437.6	122,032.0	-216,772.1	-121,431.7	-95,340.4

***Based on custom data**

**** Petroleum imports shifted to India from other countries**

Source: NRB Quarterly Economic Bulletin, Mid Jan 2010 and Economic Survey 1990/91 to 2008/2009

APPENDIX 2

BASIC DATA 2

GNP OF NEPAL
(AT CURRENT PRICE)

Fiscal Year	Total exports (India and other countries) (Rs. Millions)	Total imports(India and other countries) (Rs. Millions)	GNP (at current Price) (Rs. Millions)	GNP Per Capita (Rs. Thousand)
1990/91	7,387.5	23,226.5	122648	6695
1991/92	13,706.5	31,940.0	152200	8147
1992/93	17,266.5	39,205.6	174617	9133
1993/94	19,293.4	51,570.8	203079	10372
1994/95	17,639.2	63,679.5	223992	11170
1995/96	19,881.1	74,454.5	252479	12296
1996/97	22,636.5	93,553.4	285173	13565
1997/98	27,513.5	89,002.0	306817	14256
1998/99	35,676.3	87,525.3	352917	16012
1999/00	49,822.7	108,504.9	392613	17398
2000/01	55,654.1	115,687.2	443,220	19144
2001/02	46,944.8	107,389.0	458,838	19385
2002/03	49,930.6	124,352.1	491,555	20312
2003/04	53,910.7	136,277.1	535065	21626
2004/05	58,705.7	149,473.6	591,048	23365
2005/06	60,234.1	173,780.3	659040	25482
2006/07	59,383.1	194,694.6	735,259	27806
2007/08	59,266.5	221,937.7	823,610	30465
2008/09	67,697.5	284,469.6	1,003,066	36290

Source: CBS *"statistical year book 2009"*