

Chapter-1

INTRODUCTION

1.1 Background of the Study:

1.1.1 Historical Background of the Study:

Nepal is least developed and land locked country which is situated between two giant countries, China in the north and India in the remaining three sides. Nepal lies between the latitude 26022' north to 30027' North and 8004' to 88012' East longitude. Rugged hill and mountain out of 147,181 square kilometer has covered more than 83 percent land. It is 885km. long and 193km. wide. The country is divided administratively into 5 development regions, 14 zones, 75 district, 58 municipality and 3915 village development committees. Geographically, Nepal is divided into three regions called Terai, Mountain and Himalayan each covered 17 percent, 68 percent and 15 percent respectively. More than 80% people are engaged directly or indirectly in agricultural sector and it also has contributed more than 43% of National GDP and 75% of foreign trade. ¹

As per the result of population census 2001, the total population of the country had, 2,31,51,423 with an annual growth rate 2.24. Geographical distribution of population is uneven. The census of 2001 counted 49.06 percent of Terai region, 43.97 percent in Hill region and 6.67 in mountain region. Only 14.97 percent of total population lives in the urban areas and 85.8 percent live in rural areas. The literacy rate is 53.74, population ages 15 years and above.

Nepal's planed economy started from the year 1956 B.S. Till now ninth five year plans have been completed. Ninth five year plan has already passed which also included perspective plan (20 years) and Tenth Five year plan running now. Despite of a series 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

¹ Pant, G.D. & Joshi, Shyam, *Introduction to Quantitative Techniques & Nepalese Economy*, Nabin Prakashan, Kathmandu, 2060, P. 57.

per-capita of US\$ 220, Nepal ranks as one of the poorest countries in the world, while Bangladesh (\$380), India (\$460), Pakistan (\$470), Sri-Lanka (\$870) and Afghanistan (\$) have fairly high GNI per-capita in SAARC region (WDR, 2002).

Nepal, a small land locked country of Asia, with its per-capita income \$220, 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 structural weakness. Due to the lack of irrigation facilities, improved seeds, modern techniques and equipment agriculture productivity are low. Almost 80 percent of the active population is engaged in this sector and producing about 40 percent of GDP.

Both internal and external trades have major role to play in the economic development of a country. In the present changing concept of open liberal market economy, international trade, the backbone of national economy, economic growth and foreign trade are closely related. Economic development and foreign currency rise in the national income generally affects its foreign trade where as the increase in the foreign trade to helps to increase in the National income.

Thus, the foreign trade is a basic means of economic development. No country can achieve rapid economic growth without the quick development of its foreign trade. But, Nepal has to depend on foreign aid largely even today; Just become of it economy has slow growth of trade. Nepal industrial future largely depends on the nature, composition and direction of foreign trade. This shows foreign trade plays a vital role for any country; and even more for developing country like Nepal.

The human wants are unlimited but the means to satisfy those ends are limited. Hence, it is necessary to make a choice as to what to produce, how to produce and how much to produce. Resources are not distributed by nature in all the countries of the world in the same proportion. Some countries are rich in natural resources or technical experts who can export their commodities to other countries and those countries who import commodities who can not produce cheaply at their countries.

1.1.2 Nepal's Ancient Trade History:

Nepal's ancient trade history was almost with Tibet by using barter system at the time of beginning Malla and Licchavi regime. For the detail, it would be categorized in three separate country wise as follows:²

1.1.2.1 With Tibet:

Nepalese trade is ancient as its history. Geographical constraints of Nepal become barrier to expand her trade other than India and Tibet. In the seventeenth century the establishing on an empire in the Tibet coincided with the opening of new Trans-Himalayan trading routes between cities of the Gangetic plains and Chinese cities quickly captured the Trans-Himalayan changes.

Trade relations between Nepal and Tibet have also been going since the time immemorial. Significant growth in Nepal and Tibet trade should be attributed to the commercial policy of Malla rulers, who played a significant role in boosting up trade. New urban trading center like Sankhapur, Palanchok, Dolakha and Nuwakot developed trade market and activated trade traffic through caravan to Kerung and Kuti. Prithivi Narayan Shah also wanted to monopolize enter port trade markets in India and Tibet border to transshipment by the Nepalese merchant also was defused by Tibetans. Who in 1770 closed trade routes to Nepal and suspended all commercial transactions between the two countries.

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 Katmandu 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 only 40 in 1923. Nepal and China signed an arrangement based of 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

² Bhai Kaji Tuladhar, *A case study on Export Trade of Nepal*, Kathmandu, 2025, pp 7-9

expressed the region of Tibet and Nepal would keep continuing. Two governments also allowed each other's people to establish factories.

1.1.2.2 With India:

Trade between Nepal and India has been connecting since ancient period. Due to cultural and social similarities and geographical conditions made closure in trade and other activities. Trading activities between India and Nepal passes through different routes. Butwal was the main route linking Indo-Nepal trade. The communication between Nepal and Tibet and India was radiated through Kuti-Kerong passes connecting Kashmir-Katmandu, Patna and Lhasa routes.

Kashmirean had factories at Lhasa, Patna and Katmandu. 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.

1.1.2.3 With Overseas:

Nepal trade with overseas 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 UK, USA and France. Before the world war, 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 her trade.

Since exports pay imports, the topmost priority should naturally go to the boosting of exports. Generation of a sizable export surplus is a prerequisite for an 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.³

1.1.3 History of International Trade:

Encyclopedia Britannica: actually speaking all trade arises because of differences in costs, but trade also tends to narrow these differences. Accounts of barter of goods or services among different people can be traced back almost as far as the record of human history.⁴

Hence the history of international trade starts from the age of the Barter System, where goods were exchanged for goods or services.

Thus, the international trade has initiated the development of poor countries and then suggested alternatives why their expansion in exports and increased capacity, to import have not been able to realize a more significant 'carry-over' from external trade to international development.⁵

Furthermore, in a under-developed economy, foreign trade can play a significant role in financial as well as physical process of capital formulation.

International trade has importance such as:

- Trade provides material means (capital goods, machinery and raw and semi-finished materials) indispensable for economic development.
- Even more important, trade is the means and vehicle for dissemination of technological progress, the transmission of ideas for the importation of know-how, skills, managerial talents and entrepreneurship.

³ *ibid.*, p9

⁴ *Encyclopedia Britannica*, Vol.18, P. 155

⁵ G.M. Meier, *International Trade and Development*, Harper & Row, New York, P. 153

- Trade is also the vehicle for the international movement of capital especially, from the developed to the developing countries, and
- Free international trade is the best anti-atmosphere of free competition.
- A number of countries, which have introduced export-oriented policies, have been able to exploit their comparative advantage in the world market.

1.1.4 Meaning of Foreign Trade:

The trade may be national or international. So, the national trade is known as domestic trade, which is related within a country, but international trade is known as international or foreign trade which takes place within more than one nation. The terms of foreign trade and international marketing normally have been used in the same meaning but there are some similarities and some differences to these subjects which are mentioned below:

Nations are the business partners in international trade but individual firms and companies are the business partners in international marketing. Goods and services move across the border in foreign trade but they need not move across the border for international marketing. Comparative advantage is the main reason behind the trade between two countries but it is usually profit oriented in international marketing. The main information source of it is the national's balance of payment but it includes individual company records, a country does not involve in marketing research, product development, promoting goods and services and managing distribution channel activities but it involves on its respective (international/foreign trade and international marketing.)

“The transaction of goods and services between different persons within the boundary of a country is known as domestic trade.”⁶

But; international marketing is a board part of the overall marketing system. It is a system of exchanging goods and services between two or more countries of the world.⁷

⁶ G.D Pant and Dr. Shyam Joshi, *Introduction to Qualitative Technique and Nepalese Economy*, Published by Nabin Prakashan, Kathmandu, 2004, P 168

Therefore, international trade is this type of trade, which consists to exchange goods and services more than one nation. In international or foreign trade, goods and services should be crossed from the national border. International trade would be done through national government or private sectors. So, the transaction of goods and services between the people of different countries is called foreign trade.

1.1.5 Development of Trade in World Trade Perspective:

There is no historical data regarding the development of trade in the world. It is believed that trade is as old as human civilization and existed some 5000 years ago in the form of "Inter-city" trade, which means trade between two cities.⁸

"The historical perspective of world trade can be classified into the following five stages."⁹

1. The Ancient trade (up to 1500 AD)
2. The Mercantilism Era (1500-1750 AD)
3. The Industrial Revolution (1750-1820 AD)
4. The twentieth Century Trade (1900-1994 AD)
5. The Age of Global Trade (1995- to date)

1.1.5.1 The Ancient Trade: (up to 1500 AD):

The major trade development during the ancient period includes:

- Trade between two small cities i.e. 'inter-city';
- With an increase in the volume and transaction of trade, big trading cities developed;
- Compass innovated in 1492 and with a help of the compass, many new;

⁷ Dr. Shyam K. Shrestha, *Export Market Management in Nepal*, Published Padma Educational Traders, New Road, Kathmandu, 1994, p 1

⁸ Dr. Shyam K. Shrestha, *International Marketing Decisions Nepalese Perspective*, Published Buddha Academic Publishers Distributors Pvt. Ltd. Kathmandu, 2003. P 10

⁹ *ibid.*, 10-14

- Cities have been discovered and gave a new direction to the trade;
- Ruling power of the world entered into the trade slowly and they began to exercise economic and political power in the world;
- Some countries developed as powerful nation;
- Some facilitating agencies developed to facilitate and launch the foreign trade.
- These tendencies developed the 'Mercantilism Era.'

1.1.5.2 *The Mercantilism Era (1500-1700 AD):*

The main concept of the mercantilism is that a nation should be economically and politically powerful to expand its trade, which can be achieved only through the collection of wealth as much as possible. The doctrine of mercantilism is based on three fundamental principles:

- Nationalism: The people must have the feeling of nationalism.
- Bullionism: People and the nation must collect as much as wealth as possible in the form of coins, gold and silver.
- Favorable Balance of Payment: The country must have a favorable balance of trade and balance of payment situation.

During the mercantilism era, the following developments appeared in trade sectors:

- Many countries introduced tariff system to control imports;
- Many countries introduced subsidies to help or facilitate domestic industries and traders;
- Certain control mercantilism exercised in the production system also;
- The mercantilism concept increased trade restrictions between the nations.

1.1.5.3 *The industrial Revolution Era (1750-1820 AD):*

State participation in trade increased both volume and transactions of trade among the countries. As a result, an industrial revolution took place in Western Europe. The industrial revolution during the period(1770-1820) is popularly known as 'Green Revolution'. The industrial revolution brought the following changes:

- Brought in surplus production, especially in essential products and foods.
- The trade restrictions developed by the countries made difficult to sale their surplus production in foreign markets, so most of the countries involved in the production of non-essential products with a view to maximize their profits.
- New distribution techniques and promotion techniques (including distribution and advertising agencies) developed to sell their surplus productions.
- Few economists argued the 'Laissez-fair' economy i.e. free trade between nations.
- Commercial competition appeared among the countries and such commercial competition converted into political competition.

1.1.5.4 *The Twentieth Century Era (1900-1994AD):*

The political competition developed among the countries converted into military competition, so many countries started to produce war weapons and ammunitions. After all, this situation pushed the western countries into the flame of First World War.

1.1.5.4.1 Trade During the First World War:

- The first world war broke out in Europe in 1914 continued till 1918,
- In 1918 an agreement made between the war participating countries to stop war and involve in economic and reconstruction of the war devastating countries.

1.1.5.4.2 Trading During the Interim Period:

Despite the peace agreement among the war participating countries, they were still afraid of each other-

- So, instead of producing essential goods, they secretly involved the production of war weapons and ammunitions.
- This situation developed scarcity of essential goods in the region.
- The result is that the Great Depression of 1930 appeared and the economy of most of the countries badly affected.
- Economic and political conflicts increased among the nations and this situation again pushed them into the Second World War in 1939 and it continued till 1945.

1.1.5.4.3 Trade during the Post-War:

The Second World War again severely damaged the economic and social structure of the world as well, especially the European countries. The major development and affect are:

- In 1945 an agreement of peace signed between the war participating countries;
- The second world war brought the following changes:
- Division of nations into communism and anti-communism blocks;
- Programs of economic assistance launched between the countries or respective philosophies;
- Many international organizations like GATT, IMF, UNCTAD and WTO established to help the countries in economic terms and liberalizing and expanding trade between them.
- A new direction to trade appeared in the world showing two distinct trades in two blocks,
- Trade gap between the two blocks increased and the gap between the 'have' and 'have-nots' increased alarmingly;

- Many countries realized the importance of free market economy, as a result, political changes began in some major countries of the world since 1980s,
- Some of the economically and politically powerful countries realized the need for globalizing the trade.

1.1.5.5 The Age of Globalization of Trade (1995- to date)

From 1995 to date, the major improvements are as follows:

- Since GATT was unable to bring all the countries, rich and poor as well as communist and non-communist blocks, into the single forum, the World Trade Organization (WTO).
- Created which aims to bring all the nations into the single forum and legal structure.
- On January 1, 1995 GATT converted into WTO, whose main objectives to liberalize trade among all the nations of the world and launch trade globally without discrimination.
- Till now 148 nations have entered the WTO regime as its members, Nepal also has the member of WTO out of them.
- Since some of the provisions of WTO are less favorable to the poor and least developed countries, the WTO has been suffering criticism from such countries these days.
- By the year 2005 all non-member countries need to be restructured their economy to enter into the WTO regime.
- After 2005 the trade of the whole world is expected to be governed by a single regulation as formulated and implemented by the World Trade Organization.

All the countries can't produce all goods and services efficiently. This is the basic reason behind the need of foreign trade. The foreign trade creates specialization in production and provides benefits of specialization.¹⁰

¹⁰ Op. cit. 2

No country can achieve of economic development or rapid economic growth without the quick development of its foreign trade. Nepal's traditional trading partners are India and Tibet, an autonomous region of China. In the past time, the trade percentage with India formed 95% of total trade till 1950 AD. And a small percentage of trade was with Tibet.

The trades with overseas countries were almost nil. But it is not beneficial to concentrate trade with only one country. Nepal has been pursuing the policy of trade diversification from third plan (2022-2027BS.) Nepal has established trade relationship with more than 80 countries and has trade transit agreement with 17 countries till now.

Although Nepal can diversity foreign trade, Nepal suffers from a huge trade deficit due to various reasons i.e. low quality and productivity, small size of domestic market, lack of appropriate technology, lack of entrepreneurship, least attempt an exploiting managerial skills for export management, frequently change in export policy and government of Nepal, lack of infrastructure, etc.

After the restoration of multiparty system in Nepal, Nepal took liberal economy policy and before its in 1971, Nepal has already established trade promotion center (TPC) for promoting foreign trade of exportable goods and services. Nepal has also provided the various trades, economic, fiscal, monetary, financial, banking, insurance, member of foreign organizations, policies to facilitate foreign trade after adopting liberal economic policy. Nepal has already been member in UNCTAD, SAFTA, SAARC, IMF, World Bank, UNO, ADB, WTO, BIMST-EC FTA and so on. It has been an agreement between Nepal and India about trade and transit for the renewal period basis of each 7 year and also with Pakistan, Bangladesh and Tibet, China in the same way.

1.1.6 Trends of Foreign Trade:

The trends of foreign trade of Nepal are not extremely good in recent decades. In 1956-57 the rupee value of Nepal's export was Rs. 95.47 million. It increased to Rs. 53910.7 in 2007/08. With the period of 48 years, the total export increased by 565 times. With the same period, the rupee value of total imports increased from Rs. 169.89 to Rs. 136277.1 million i.e. by about 802 times. Through the 48 years

period, Nepal is suffering from a huge trade deficit. During this period, the trade deficit increased by 1107 times. The total share of GDP from export was 10.9% in 2007/08.¹¹

But Nepal can diversify the foreign trade at least country wise as well as commodity wise. The percentage of overseas export, readymade garment and woolen carpet almost covered more than 70 percent and America and Germany were hold maximum export of the overseas export percentage.

1.1.7 Nepal's Recent Major Partners of Foreign Trade:

The major export partners of Nepal are India, USA, Germany, UK, Italy, Japan and France. While the major importers of Nepal are India, Singapore, Malaysia, Saudi Arabia, China, Japan and Korea are the value of proportion export and import in the beginning of the 21st century.

The major export items of Nepal for India are vegetable ghee, jute product, toothpaste, polyester yarn, pulses, timber, copper product while the major export items for third countries includes readymade garment, woolen carpet, woolen and pashmina goods, handicraft, herbal products, Nepali paper etc. Similarly, the major items import in Nepal are petroleum product, electronics and electrical goods, gold and silver, fabric and readymade garments, medical equipment and medicine, constructive product, sophisticated and deluxe items, machinery and equipment, car, bus, trucks, and airplane, and its parts etc.¹²

1.1.8 Importance of Nepal's Foreign Trade:

Nepal policy regime has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been executed. Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the country in improving its international competitiveness.¹³

¹¹ *Economic review*, Occasional paper, April 2005, NRB 2008a and others

¹² *ibid.*

¹³ Dr. Bhuwaneshwor Pant, deputy director, research department, Nepal Rastra Bank. *Economic Review* occasional paper, April 2005, P. 86

Nepal is also land locked country out of 28 countries of the world. Three sides of boarder are covered by India and the north side, the sonny range of Himalayan stands as a transit barrier between China and Nepal. Both country Nepal and India have been agreed to use 22 routes for promoting mutual trade. Although, India restrict to Nepal for some Nepalese product and only allow for exporting as quota system i.e. vegetable ghee, acrylic yarn, copper product and zinc oxide.

The nearest port of Nepal is Calcutta, which is far 300 Kilometers from Nepal border. Nepal has also been transit agreement with Bangladesh. The ports are Fulbari and Chatgaown. Nepal can use them for exporting/importing goods and services. It is not more far about 27 kilometer from Nepal. But this port is not more useful till now. So, Nepal has no alternative transit route for its overseas cargo except India Calcutta port, which provides very poor infrastructure facilities to Nepal traders.

“Nepal may be transit point for neighboring big two countries (India and China). Nepal could also benefit in the long run from the transit point, just as Mexico did after reaching a free trade agreement with the US and Canada.”

“The transit point facility should be used not only for trade expansion but also for technology transfer and investment.”

After entering WTO membership, Nepal has been suffering both challenges and opportunities in foreign trade. Nepal has competitive advantages in agricultural and small and medium scale industries. The approach of private institution would play a vital role in the development of these sectors. Private organizations should give emphasis on the use of modern technologies quality management and hardcore professionalism.

On the foremost objectives of every country to get involved in foreign trade is to accelerate its economic development. Only through trade a country can earn foreign exchange and in return can import goods, which cannot be manufactured by itself. For both developing

and under developed nations, foreign trade in the economic development of a country can be seen in the following perspectives.¹⁴

- Advantage of specialization,
- Technological process,
- Importation of technology know-how,
- Access to raw materials,
- Expansions of market,
- Rising in employment and income level,
- Foster healthy competition,
- Attraction of foreign investment,
- Reducing dependency on domestic market,
- Gaining international market experience,
- Exploiting excess product capacity,
- Expanding research and development,
- Increase sales and profit.

“Foreign trade is universally understood as the business activities of exchanging goods and service among various countries. In others word foreign trade is also the performance of exports and imports of a country with the rest of the world.”¹⁵

1.1.9 Problems of Nepal's Foreign Trade:

The major problems facing by Nepal are as flows:

- Inadequate infrastructure: infrastructures play a vital role for the development of the nation but there are so many problems, which are high transportation cost, inadequate transport service and inadequate and unsatisfactory warehouse facilities.
- Low productivity,
- Ever-widening trade gap,

¹⁴ Gottfried Haberler, *Dynamic Benefits of Trade*, Prentice Hall Inc, USA. 1994, P. 80

¹⁵ Bijendra Man Shakya, (1998), *Basics of Trade and Transit, A Nepalese Perspective Educational Book Centre*, Kathmandu, P 97

- Weak export base,
- Policies related problems: it may be paged exchange rate regime with India, complicated documentation procedure, higher transportation cost, limited freedom on foreign exchanging earning, lack of trained human resources and capacity building, absence of adequate legal provisions, difficulties on procurement of raw material, non-implementation of the announced policy and delayed refund of duty drawback and advanced VATE deposit.
- Lack of innovation desire of entrepreneurs,

Trade policy does have a link in the process of development, but these studies do not indicate how many activities are likely to undertaken nor suggest relative importance of exporting and import competing activities in an optimum allocation or how that allocation would change with growth. Anyway, the finding of the several study support the core fact that trade policy can play a detrimental role in the process of economic growth of any country.¹⁶

Foreign goods have a domination role in the Nepali market. Trade policy has always emphasized balancing trade deficits by means of import-substitution and export promotion. But experience has shown that foreign luxury goods are increasingly flooding the Nepalese market. And in the same ratio domestic manufacturers have surrendered to the competition.

Some people have compared Kathmandu to a “mini-Hong Kong” and the consumers have been waved away from locally goods. Although Nepal’s per capita income is US\$220 dollars only, most Nepalese have been exposed to foreign goods. How do they afford all these things? And how long can this situation continue? These are serious questions for the future.

In many developing countries, however, the import substitution policy is not successful. There are two reasons for this:

- there is comparatively low production of these goods that are imported;

¹⁶ Anneo Kruger, *Trade Policy as an Input to Development*, American Economic Review, May 1980, P 55

- ➔ difficulties are encountered in financing the foreign exchange component of the investment needed for the production of import substitution goods.

Nepal is the second richest country in hydro-electricity in the world. Nepal can sell its hydro-electricity to neighboring countries for earning foreign currency to reduce the existing trade deficit. To produce the hydro-electricity, many foreign investors are interesting to join our projects. In another side, Nepal's green vegetables and fruits are demanding in golf countries, Singapore, Thailand, Malaysia and other countries. The salt trading has just established its branch office in Doha, Qatar for exporting these type products in golf countries.

Now, world has been a small village as the sense of network e-commerce. Nepal can also expand its software business in global market.

1.1.10 Exporting Procedures in Nepal:

Selling the company's products abroad is more complicated than selling them in the local market. Once the firm desires to sell its products in foreign markets, it has to follow up several exporting procedures as an obligation. The export procedure may require some preliminary steps like correspondence with foreign parties and export arrangements. After the confirmation of export orders, a firm should follow up various stages for export execution regarding government regulations, shipment of consignments and obtaining export payments. Prior to the export documents required by the banks, customs offices, forwarding agents, governments etc.

1.1.11 Agreed Routes for Mutual Trade (Between India and Nepal):

India and Nepal have agreed to use 22 routes for mutual trade, which are as follows:

Table No. 1
Agreed Routes for Mutual Trade

1	Pashupatinagar/Sukhia Pokhari	12	Bhairahawa/nautanawa
2	kakarbhitta/Naxalbari	13	Taulihawa/khunwa
3	Bhadrapur/Galgalia	14	Krishnagar/barhni
4	Biratnagar/Jogmani	15	Koilabas/jarwa
5	Setobandha/bhimnagar	16	Nepalgunj/nepalgunj road
6	Rajbiraj/kunauli	17	Rajapur/katerniyaghat
7	Siraha, janakpur/jayanagar	18	Prithvipur/sati(kali) /tikonia
8	Jaleswor/bhitamore-sursand	19	Dhangadhi/gauriphanta
9	Malangawa/sonabarsa	20	Mahendranagar/banbasa
10	Gaur/bairgania	21	Mahakali/jhulaghat(pithoragarh)
11	Birgunj/raxaul	22	Darchula/dharchul

1.2 Statement of the Problem:

Nepal is a developing country. In the development process of less developed country, foreign trade plays vital role for long-term sustainable economic growth. More than 80 percent of population depends on agriculture but the contribution of agriculture remains only 40 percent of total GDP.

Agricultural product is basically primary product and they have a constant demand in the market of Nepal's exporting partners. On the other hand, industrial products are unable to meet even the domestic demand, causes our industrialization is still infant and just creeping onwards.

Nepal is suffering from huge trade deficit for a long time. The volume of trade comparing export imports goods and services are more qualitative as quantitative. So, Nepal is unable to manage balance of trade. Nepal can export only low quality and agricultural raw-based items rather than expensive and sophisticated items are being imported.

It has only 17 countries to where been bilateral agreement for foreign trade of Nepal. Nepal followed very late liberal economic policy i.e. export/import policy of Nepal after restoration of democracy. And Nepal entered into WTO membership only before one year. So Nepal's foreign trade, policies and facilities are still in infant age.

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.

1.3 Objectives of the Study:

The major objective of this study is to "Study Problems and Prospects of Nepalese Foreign Trade". Other objectives are:

- a. To study and identify the major problems being faced by Nepalese foreign trade
- b. To evaluate the various trade policies on foreign trade of Nepal
- c. To study and analyze the benefits and obligations of WTO membership on Nepal's
- d. To suggest Government, Departments and all other concerned agencies in the proper growth and development of Nepalese foreign trade.

1.4 Significance of the Study:

This research study is the analytical as well as descriptive study about "*A Study on Problems and Prospects of Nepalese Foreign Trade*". This thesis will be more beneficial to the foreign traders, policies-markets, 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.

This thesis will provide in brief knowledge about foreign trade, trade direction of Nepal in recent year, policies related to the foreign trade, brief relation with WTO, SAFTA, UNCTAD, BIMST-EC, SAARC, problem facing by Nepal in foreign trade deficit and foreign trade policies which are made by GoN.

Foreign trade plays a significant role in economic development of developing and other countries. Foreign trade provides around 10 percent GDP of overall national income and also provides directly or indirectly employment to the numbers of population.

1.5 Limitations of the Study:

All research study is done to solve a particular research problem. It requires various kinds of data, and other relevant information which may not be sufficient to the researcher. This study cannot escape from the frame of limitations.

The study mainly based on secondary data particularly export/import data provided by concerned department that is not sufficient for the good research study. The limitation of this study is follows:

- a. This study is mainly based on secondary data. So, the limitations of secondary data may exist.
- b. It can't cover all data of trade and policies of foreign trade of Nepal.
- c. It has time frame and resource constraints.

Chapter-2

REVIEW OF LITERATURE

For this research study the related literature survey is done by consulting various journals, articles, newspaper, thesis, reports and other 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.

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 that 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.

2.1 Conceptual Review:

After the restoration democracy in Nepal in 2046, Nepal followed the liberal economic policy. To achieve the goal of liberal economic policy, it might be formulated and changed various existing Acts and policies to facilitate the modern open economic policy. There are many acts and policies, which were reformed after restoration of democratic parliament, but essential Acts and policies are only mentioned in this study such as:

2.1.1 New Trade Policy 2049 (1992)

After the restoration of democracy in Nepal, the first elected government changed the existing trade policy (1982) and gave the name: The trade policy 2049, which would be, categorized the following heads and sub-heads.

2.1.1.1 Objectives of Trade Policy 2049(1992):

The main objectives of new trade policy (2049) are as follows:

- To enhance 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.
- To diversify trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable.
- To expand trade on a sustained basis through gradual reduction in trade imbalances.
- To co-ordinate trade with other sectors by expanding employment-oriented trade.

2.1.1.2 *Basic policy:*

The main features of basic policy are as below.

- The role of public sector will be minimized and used as a catalyst to expand the role of private sector in trade.
- A liberal and dynamic trade policy will be pursued with the objective to improve balance of payment position by promoting exports to increase foreign exchange earning as well as fulfilling internal demand of economic and quality product.
- Production of quality goods and services will be increased for internal consumption as well as for exports through effective and appropriate utilization of economic resources.
- Special efforts will be made to promote and diversify trade both in the range of commodities and countries destinations.
- Liberal procedures will be adopted for encouraging interactions between trade and industry for sustained export promotion and for fulfillment of internal demand through increased domestic production. Emphasis will be given on modernizing management and technology, on promotion 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.

- The public sector trading corporations will gradually be privatized taking into considerations the development and efficiency of the private sector.
- In support to above policy measures, necessary steps-as pre-conditions-relating to foreign exchange, monetary and fiscal policies, will be taken up towards (full) convertibility of the Nepalese currency in trade and service sectors. For this purpose, major changes will be made in the administrative procedures to make them simple, transparent and dynamic.
- Taxation system will be simplified by introducing necessary changes in order to foster competition in trade.
- Emphasis will be laid on institutional development and information network as well as on monitoring system and quality improvement for the promotion of foreign trade.
- The existing trade treaties and agreements with various countries and international agencies will be effectively implemented, and new ones will be concluded, as and when necessary, for the promotion of international trade.

2.1.1.2.1 Export Policy:

In the new trade policy 2049, the first elected government also introduced export policy which main features are mentioned as under.

- The production and quality of exportable products will be raised to make them competitive in the international market.
- Necessary efforts will be made to increase and diversify exports of goods and services will the objectives of increasing foreign exchange earnings.
- Exports will be promoted by raising the production and quality of traditional as well as new product. Similarly, more emphasis will be placed on the export of profitable but processed and finished products. For the export promotion of these products, new markets will be identified.

- Foreign exchange earnings, will be increased and identifying and increasing the production of new products will create opportunities for gainful employment.
- Service-oriented activities will be promoted to increase foreign exchange earning.
- Encouragement will be given to the export of hydro-electricity on a profitable basis.
- For the effective utilization of manpower, stress will be given to the development of appropriate and potential skills to promote service sector as well as export of skilled manpower in an organized way.
- Appropriate monetary, foreign exchange and fiscal policies will be formulated and necessary changes will be made in the administrative procedures to make them liberal, simple and dynamic in order to implement above policies on an efficient, smooth and transparent basis.

2.1.1.2.2 Export Strategy:

The export strategies in new trade policy are as follows:

- Licenses will not be required for the export of products other than banned or quantitatively restricted items as listed. In the case of quantitatively restricted products, arrangement for issuance of export license will be made in consultation with the private sector. Quantitative restrictions in the export of such products will gradually be removed through appropriate taxation measures.
- For export promotion, improvements will be made in the existing transit transport network and its infrastructure. Administrative procedures will also be made transparent, smooth and efficient.
- For the promotion of export, container service will be introduced and the existing bonded warehousing system will be further expanded and improved.
- The duty drawback scheme for the refund of import duty paid on the importation of raw materials and intermediate goods required for the production of exportable products

will be effectively implemented. In this context, duty on import of raw materials will be fully exempted taking into consideration the needs, or the bonded warehousing system will be introduced for the storage of such materials.

- Exports will be free from all charges except the service charge. However, the provisions of paragraph 1 above will be applicable in respect of the export of essential products.
- For the promotion of exports, 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% of their production will be granted similar facilities as given to the industries established in EPZ.
- As a preparatory step towards full convertibility of the Nepalese currency in trade and services, exporters will have to sell in the stipulated percentage the amount of foreign exchange earned through exports of goods and services to commercial banks at a rate remaining balance to Nepal Rastra Bank at an exchange rate fixed by the government. No license will be required and no quantitative restriction will be imposed on the imports of raw materials (except stipulated) required for the export-oriented and import-substituting industries. But for the import of such materials, foreign exchange rate will be made available by the commercial banks at the rate fixed by market mechanism. Exporters will be allowed to open a foreign exchange account in the banks for the purpose of spending certain percentage of one's foreign exchange earning in trade promotion activities.
- Export Valuation System will gradually be abolished after the full convertibility of the Nepalese currency.
- Quality will be tested from time to time in order to improve the standard of exportable products and necessary information will be made available for this purpose.
- Simple and convenient procedures relating to pre and post shipment credit will be adopted on priority basis.

- Income tax on income from exports will be fully exempted, and income earned from exports to India on the basis of letter of credit or agreed banking document will also be free from income tax.
- Emphasis will be given on the development of packaging technology to maintain the quantity standard of export products.
- Nepalese mission abroad will be geared up towards export promotion activities, and trade missions will be opened and institutionalized on the basis of feasibility.
- No quantitative restrictions will be imposed on the exportable products carried by tourists while returning from Nepal.
- Export procedures and documentation thus be formulated, will be short and simple.
- An annual indicative export plan and program on the basis of feasibility will be formulated with the co-operation of private sector to promote exports.
- Necessary information and training related to technology, marketing and export procedures required for export promotion will be provided on the institutionalized basis and arrangements will also be made for the participation in national and international trade fairs for market promotion.
- Regular monitoring will be made to avoid distortions in exports and imports. Strong actions will be taken in case of misuse of facilities.
- Export promotion, research and development, and training schemes will be developed, on institutional basis, for developing new exportable products and for raising the quality and production of the traditional exportable products.

2.1.1.2.3 Deemed Exports:

If any producer earns foreign exchange by selling one's own products to projects run under bilateral or multilateral aid or if such finished or semi-finished products are sold to EPZ, such sales will be granted facilities at par with exports. Customs duty, sales tax and

excise duty levied on such sales be refunded and the income generated from such sales will be exempted from income tax in addition, foreign exchanges earned from such sales can be sold at the rate fixed by the market mechanism after submitting the stipulated percentage amount to Nepal Rastra Bank at the rate fixed by the Government.

2.1.1.2.4 Import Policy:

Imports will be planned as a medium of export development and promotion to create competitive industrial and trade environment and also to ease the supply of materials required for the country through the optimum utilization of available resources. In this context, quantitative restrictions will be replaced gradually by such a fiscal measure as to encourage competition. Similarly, imports will gradually be tied up with exports.

2.1.1.2.4.1 Import Strategy:

The import strategies in new trade policy are as follows:

- Imports will be gradually tied up with exports with a view to creating an well-organized and sustained foreign trade sector by narrowing the gap between exports and imports.
- The existing import licensing and control system will be simplified. Quantitative restrictions on imports will gradually be replaced through the tariff media.
- Imports of all products other than banned or quantitative restricted items as listed in annexure no. 2 will be made free.
- An annual indicative plan will be formulated to manage imports through auction, to allocate required foreign exchange for it, and to monitor its utilization.
- Import procedures and documentation will be made short and simple.
- Special efforts will be made to reduce transit costs, and also to minimize pilferage and demurrage.

- Import of all goods except some limited items will be allowed through purchases of foreign exchange at the rate fixed by the market mechanism in order to make Nepalese currency fully convertible, and to gradually tie up exports and imports.
- Necessary vigilance will be made to prevent deflections in foreign trade.

2.1.1.2.4.2 Import Licensing Arrangement:

As distortions can be minimized by regulating imports through various policy measures than the made under full control of the government, some items are restricted while some other placed under the auction system requiring licenses, and the imports of the remaining items are made free, in the process of making import trade free. Under the system, imports of raw materials, consumer goods, industrial machinery, and services should have been made free.

Import formalities would as follows:

- Import license will be required for the import of quantitatively restricted products, products in excess of the number of quantity fixed under the personal effects and the products under the auction system for the commercial purposes.
- Imports of all products other than those mentioned in (a) above are made free.

2.1.1.2.5 Foreign Exchange Arrangement:

The following exchange required for import purposes will be made available as follows:

- Nepal Rastra Bank will make foreign exchange available at the rate fixed by the Government for import of goods as per notification issued by His Majesty's Government in the Nepal Gazette, and to meet the Government expenses. Import of such products will be allowed as spelt out under the para (c) in the process of increasing the convertibility percentage of the foreign exchanges.

- Foreign exchange required for the import of goods under auction will be made available by Nepal Rastra Bank. In the process of increasing convertibility percentage of foreign exchange, goods, which are under the auction, will be gradually allowed to be imported under the para (c), and the number of such goods will be gradually reduced and brought under the purview of market mechanism.
- Commercial banks will make foreign exchange available at the rate fixed by the market mechanism for the payment of all imported goods including industrial raw materials, spare parts and services and for payments of foreign loans and interests of the non-government sector. Nepal Rastra Bank will not make a separate foreign exchange provision for this purpose.

2.1.1.2.6 Internal Trade Policy:

A conducive environment will be created for the timely supply and distribution of internally produced and imported products as well. In this context, no restrictions will be imposed on the movement of such products for internal trade. This system will be applicable to the movement of exportable products also.

2.1.1.2.7 Miscellaneous:

- Procedures relating to imports will be made short and simple through improvements in the transportation, custom and go-down procedures.
- Improvements will be made to make the import valuation system relevant. For this purpose, necessary framework will be prepared.
- In line with these policies, necessary improvements or amendments will be made on all relevant laws, regulations and notifications relating to export and import trade.
- Regular monitoring will be done for the smooth and uninterrupted conduct of export and import trade.

2.1.2 Trade Liberalization:

Acknowledging the significance of trade in the economic development process, Nepal has been shifting towards liberal and market-oriented trade policy since the mid-1980s that was accompanied by various reform programs in 1992. The policy makers in Nepal have based their trade liberalization policies on a set of two hypotheses:³

- Liberalization of industrial and trade policies will boost industrial efficiency by providing greater access to imported intermediate inputs, capital goods, and technology, exposing local procedures to both internal and international competition, thereby forcing them to lower costs, and removing curbs on the growth and size of firms so as to exploit the scale economies; and
- Improvement in efficiency and the subsequent reduction in costs will stimulate domestic demand and enable Nepal's industrial goods to compete abroad, there by relaxing demand side constraints on industrial growth.

It was after the balance of payments crisis in mid-1980s, that Nepal initiated the trade liberalization program under the Economic Stabilization Program supported by the 18-month stand-by arrangement reached with the IMF in 1985. The system of import quotas from third countries was dismantled and the import license auction system was introduced in July, 1986. Then, with the completion of Economic Stabilization Program, the country undertook the three years Structural Adjustment Program supported by the IMF and the World Bank in 1987.

Trade reforms were expedited in the early 1990s with the introduction of the partial convertibility in the current account of March 1992. This replaced the system of administrative control over import by the market mechanism. The partial convertibility system attempted to provide a built-in device to bring about a favorable impact of the current account and the BOP position. It also assisted in loosening the grip of bureaucracy on economic activities and promoting open competition in the market.

In order to achieve the full benefits of integrating the Nepalese economy with the world economic system, the government announced

the full convertibility of current account transaction of February 1993. This automatically implied that the entire volume of trade would be conducted on the basis of the market exchange rate. The number of items put under the import auction license system altogether. Keeping only a few items under licensing, the government put all the items under licensing, the government put all the items under OGL. With this, the government completely did away with quantitative restrictions on import.

In the past, long and open border with India restricted the country's flexibility in framing and implementing independent economic policies. Consequently, Nepal had been subjected to negative spillover effects of inward looking and inefficient industrial system in India. But this gradually changed in the early 1990s when India embarked upon bold trade liberalization programs including the drastic lowering of barriers to imports of capital goods and other inputs into production. Subsequently, Nepal also started to capitalize on the opportunity to open up as carried out by India.

One point is clear, the pace of liberalization in India and the geopolitical realities of the country guide the speed of Nepalese, liberalization. Hence, full liberalization of the Nepalese trade regime in a short period may neither be attainable nor be desirable. Nonetheless, policy commitments need to be realized, and for this substantial improvements may be warranted in the bureaucratic and administrative sectors, including removal of impediments and barriers such as procedural delays.

2.1.3 Plan Objectives and patterns:

Although the nine plans (1997-2002) had laid down certain objectives such as:

- Maximum utilization of commerce sector for the overall economic development of the country and expanding the benefits of foreign trade to the rural area. And,
- Diversification of trade and strengthening of backward linkages to make the export trade stable. These objectives were hardly met. 4

According to the tenth plan (2002-2007), the two-fold objectives with regard to foreign trade are:

- To make the commerce sector liberal, competitive and market oriented for the overall growth of the country by extending returns accomplished from external and domestic trade up to the people's level through excessive participation of the private sector and to,
- To increase contribution of commerce sectors to the GDP progressively through imports substitution and export promotion.

The main strategies for attaining these dual objectives are through making the export trade competitive and market-oriented the diversification of both country-wise and commodity-wise trade and the strengthening of the inter linkages between industry, commerce, agriculture and other economic sectors. The core policies are to generate competitiveness in the commerce sector in line with global and regional trade agreements, to ensure easy market access for Nepalese manufactured products, to expand transit facilities, to set up Export Processing Zone (EPZ) and to accord priority to exports of hydropower, software, labor and other services.

The tenth plan has identified the following problems with regard to Nepal's trade sector:

- Dependence on a few commodities and markets.
- Reliance on import of raw and semi-finished materials;
- Weak backward and forward linkages of the production of exportable products; and
- Rising trend in the volume of trade deficit. To tackle these problems, the plan has laid down the following policy measures:
 - ✪ Exports will be augmented through commodity-wise and country-wise diversification through the identification of exportable commodities of comparative advantages.
 - ✪ For generating employment opportunities and rising income of the rural people, stress will be accorded on increasing the production and export

of agro-based industrial products and enhancing their qualities.

- ✪ There will be special arrangements for market, information dissemination, and technology financial support and transport facility. Standardization of the exportable commodities will be made at the international level and their competitiveness in the world market will be enhanced.
- ✪ GoN will provide ample support to the private sector by disseminating information concerning present and prospective export markets, flowing of trade information and intensifying the monitoring and evaluation process.
- ✪ The arrangement of tax-free EPZs together with the provision of necessary acts and laws will be made for promoting the export sector.
- ✪ To make the country's external trade more simplified, economical, reliable, and business-oriented, the existing acts, laws, institutional process and coordinating system will be assessed and reformed.
- ✪ Export of hydropower, computer software and labor and other services will be given due thrust in addition to commodities listed as exportable.
- ✪ In order to acquire advantages from the membership of the WTO, the trade sector will be made competitive in such a way so as to be consistent with various trade agreements.
- ✪ Nepal's trade will be integrated with the global trade regime by developing a multi-modal transport system.

2.1.4 Towards Market-led Economy

During the period of 1980s, the market-led economy policy became popular in the world and it has got world wide acceptance in the recent years in one form or the other. This trend-affected Nepal's economic policy too since the government had no other options than to

surrender to the market. Finally, on March 4, 1992, government as the first step towards the path to market-led economy, introduced '*The convertible Exchange Policy*' with a view to improve the supply system of industrial raw materials in the country and, improve the competitive position of the Nepalese traders in the world market.⁵

The basis feature of this policy was that, under this arrangement, the exporters could sell 65 percent of their total foreign exchange earning at market rate and 35 percent of foreign exchange earnings at Nepal Rastra Bank rate. The government adopted a liberal import policy and gradually removed the position of license.

On July 25, government increased the ratio of partial convertible from 65 to 75 percent. After the announcement of this provision the imports of certain items were controlled for fear of heavy inflow of such items in the country, which some items were placed under the provision of open import license. This provision of partial convertibility contributed additional 12 or 13 percent premium to the export earnings.

On April 13, 1993 government once more made exchange adjustment. According to this provision Nepalese currency once more devalued with US dollar and revalued against the Indian currency and established their exchange rate at 1 IC=1.60NC. Along with this adjustment program the government announced '*Full Convertible Exchange System.*'

2.1.5 Nepal-India Trade and Transit Treaty and Trade Integration in South Asia.

The Nepal-India trade treaty was first signed in 1991 and later was modified in 1996 guides the trade between India and Nepal. The treaty was further renewed on March 3, 2002. Unlike the treaty signed in 1996, several new restrictions were introduced such as stricter rules of Origin (RoO) and incorporation of safeguard clauses. Moreover, four Nepalese items would now be permitted to enter free of basis customs duty into the Indian market on a fixed quota basis.⁶

The ten-year trade figures depicts that India's share in Nepal's trade has been gradually rising. The total share in foreign trade, India covered around 60 percent during the last four years. With regard to the Nepal-India transit treaty signed between the two countries on January

5, 1999. There is the provision of the automatic renewable of the transit treaty every seven years. Under this treaty, India provides port facilities at Calcutta and Haldia for the country's trade with overseas countries. Fifteen transit routes to Calcutta/Haldia are specified.

Nepal can also utilize the facilities at Mumbai port (including the Jawarharlal Nehru port trust) and Kandla port for third country trade. Moreover, import insurance is needed only for the sensitive goods. Nepali importers to hand over the original copy of customs transit declaration at the Indian customs should ease the import and export of goods.

Nepalese manufactured articles allowed entry into India free of customs duties on a fixed quota basis, which are given as below table:

Table No. 2
Nepalese Manufactured Articles
Allowed Entry into India Free of Custom Duties

S.No.	Nepalese Article	Quantity in MT per Year
1	Vegetable fat (vanaspati)	100000 (one hundred thousands)
2	Acrylic Yarn	10000 (ten thousands)
3	Copper products under chapter 74 & heading 85. of the H.S. code	7500 (seven thousands five hundred)
4	Zinc oxide	2500 (two thousands five hundred)

Nepalese manufactured articles allowed entry into India free of customs duties on a fixed quota basis, which are given as above table.

SAARC was setup when the heads of state or government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka formally adopted its charter on December 8, 1985. The agreement on SAPTA took off only in December 1995. The SAPTA accord attempted to reduce tariffs and non-tariff barriers among the SAARC member countries.

The SAFTA agreement was signed at the 12th SAARC summit in January 2004. It is to come into force on January 1, 2006. The main aims of SAFTA are as follows:

- Enhancing mutual trade and economic cooperation;
- Eliminating trade barriers,
- Promoting conditions of fair competition;
- Building effective mechanism for implementation and resolution of disputes;
- Furthering regional cooperation.

Under the treaty, the non-LDCs are required to bring down their tariffs to 0-5 percent by 2013, except Sri Lanka which is required to do so by 2014. However, non-LDCs need to bring their tariff to 0-5 percent for the products of LDCs by 2009 with regard to products of export interest to the later. The LDCs on the other hand, need to bring down their tariffs to 0-5 percent by 2016.

2.1.6 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.¹⁷

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 and Phytosanitary Measures and Agreement of Technical Barriers to Trade (TBT) by January 1, 2007. With respect to the Agreement on Trade-Related Intellectual Property Right (TRIPs), as 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 promulgated no later than January 1, 2006. The country has to introduce legislation on anti-dumping, countervailing duties and safeguard measures within one year

¹⁷ *ibid.* P. 97.

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-sectoral 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 minister's meeting. The FTA agreement would first start on trade in goods from 2006, while the FTA on trade in services and investment would begin from 2007.

BIMST-EC FTA is a step to free trade among countries in two of the fastest growing sub-regions of Asia, South East Asia and South Asia. This FTA could act as a link between the AFTA (ASEAN Free Trade Area) and the SAFTA.

2.1.7 World Trade Organization (WTO):

The world trade organization (WTO) was established and it came into force from 1 January 1995. The WTO is international body dealing with the rules of trade between nations. As its heart is the WTO agreements negotiated and signed by the legal ground rules for international commerce. They are essentially contract, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments the goal is to help producers of goods and services, exporters, and importers conducts their business.

The apex body of the WTO is ministerial conference. It can take decisions on all matters under any of the multilateral trade agreements. It is expected to meet every two years. The first WTO ministerial

conference was held in Singapore in 1996, the second in Geneva in May 1998. The third in Seattle but it was totally failed and the last (fourth) in Quarter at Doha in 9-12 Nov. 2001. There were 142 members and other many observer country involved Doha meeting. China and Taiwan got membership in that meeting. Now there are 144 member countries in WTO.

Three bodies handle the day to day work in between ministerial conferences the general council, the dispute settlement body and the trade policy review body. The council for trade in goods (goods council) assists the general council in its work, the council for trade in services rights (TRIPS) councils. Besides these councils, there are other comities that have been established for detail work.

2.1.7.1 Main Purposes of WTO:

The WTO has three main purposes:

- To help trade flow as freely as possible by way of gradually removing trade obstacles and making the rules more transparent and predictable to ensure the individuals, companies and governments about the trade rules around the world and give them confidence that there will be no sudden changes of policy.
- To serve as a forum for trade negotiations. Because the agreements are drafted and signed by the community of trading nations, often after considerable debate and controversy, they have to negotiate it.
- To settle disputes among the conflicting parties regarding conflicting foundation, written into the WTO agreements.

2.1.7.2 Main Activities of WTO:

- To facilitate the implementation of the results of Uruguay round,
- To provide a forum for multilateral trade negotiations and a framework for the implementation of their results,
- To settle dispute amongst its member countries,

- To carry out periodic reviews of the trade policies of its member countries and,
- To cooperate with other multilateral institutions like the IMF and the World Bank with a view to achieving greater coherence in global economic policy making.

2.1.7.3 *Principles of the Trading System:*

The main principles of the trading system are as follows:

- Trade without discrimination;
- Free trade;
- Predictability;
- Promoting fair competition;
- Encouraging development and economic reforms.

2.1.7.4 *WTO and Developing Countries:*

About 100 of the WTO around, 144 members are developing countries. They are expected to play an increasingly important role in the WTO because of their numbers. The WTO deals with the special needs of developing countries in three ways:

- The WTO agreements contain special provisions on developing countries.
- The committee on trade and development oversee working in this area in the WTO and,
- The WTO secretariat technical assistance (mainly training of various kinds) for developing countries.

The WTO agreements include numerous provisions dealing with developing and least developing and least developed countries (LDCs) which include:

- The General Agreement on Tariff and Trade (GATT which deals with trade in goods) has special section (part 4) on trade and development which includes provisions on the concept of non-reciprocity in trade negotiations

between developed and developing countries. It also enables countries to grant special concessions to developing countries without having to do the same for the entire membership, known as “special and differential treatment.”

- The General Agreement of Trade in services (GATs) similarly allows developing countries some preferential treatment under the heading “economic integration” (part 5 of GATs)
- Extra time for developing countries to fulfill their commitments (in most of the WTO agreements)
- Provisions designed to increase developing countries trading opportunities through greater market access (eg. In textiles, services and technical barriers to trade)
- Provisions requiring WTO members to safe guard the interests of developing countries when adopting some domestic international measures (eg. Antidumping, safe guards and technical-barrios to trade)
- Provisions for various means of supporting developing countries (eg. In helping them deal with commitments on animal and plant health standards, technical standard, and assisting them in strengthen their domestic telecommunication sectors (WTO, 1998, Page 15)

2.1.7.5 WTO and Nepal:

There are altogether 48 Least Developed Countries (LSCs) in world today. Their population makes up more than 10 percent of the world population, where as their share in global trade, taken as a group, accounts for less than 1 percent. The volume of the external trade of LDCs is significantly low. This shows that they are already outside the mainstream of the global economy. There are only 29 LDCs member of WTO. Nepal is also member of LDCs (Chhetri Nabin K. 1999). Nepal is not member of GATT or newly established organization WTO. It has applied for membership in the GATT secretariat in May 1989 when gamut between Nepal and India started and Nepal’s external trade was badly suffered. WTO working party was established on December 1995 and in the same year Nepal enjoyed the status of observer in the WTO. Memorandum on foreign trade regime was submitted on July 1998 for full membership in WTO.

Memorandum on foreign trade regime was its membership. Nepal got only status of observation Doha conference. In SAARC region, Nepal and Bhutan is not member of WTO.

2.1.7.5.1 Implication of WTO Membership for Nepal

Nepal's membership of WTO is not matter of choice, Nepal can not avoid the consequences; whether good or bad, gain or loss and has to abide by rules sooner or later whether she is permitted WTO membership or not. It depends on it's donors agency. In order to promote international trade and diversify if both commodity-wise and geographically, Nepal has entered into bilateral trade agreements with other countries. Nepal has trade relations with more than 50 countries, including the European community and bilateral agreement containing most favored nation treatment have been signed with 17 countries. In 1991, Nepal signed with India a treaty of transit and treaty of under which Nepal receives preferential treatment on the exports of goods based on the certificate of origin and the transit facility. Nepal is an active member of the South Asian Association for Regional cooperation (SAARC) which concluded the South Asian preferential trading agreement a regional trade agreement in Dec. 1995.

While continuing to attach great importance to developing bilateral relations with its trading partners, given the typical text book case of two country (Germany and the USA), two commodity (carpet and readymade garments). It is necessary for Nepal to pursue the strategy of integrating itself into the multilateral trading system based in the WTO not only to expand export volume but also to diversity its structure and mitigate the risks of volatile export earning. However, membership in the WTO is like joining a club. Like all clubs, the WTO bestow benefits on members, but there are some costs as well it offers rights but with them come obligation, it provides new opportunities but also some challengers (Anderson, 1998, Pg. 22). There are some advantages and challenges from WTO.

2.1.7.5.2 Advantages of WTO to Nepal:

- By the liberal policy of the member status, there will be more chances of increase in the export business.
- It will help to reduce economic risks by diversifying.

- The strategies of the organization will help to create an environment of safe and sure business.
- The possibilities of the export of industrial production will increase by the constant and convenient receipt of the raw materials.
- It will provide an opportunity to affiliate Nepalese economy, with the international economy system for the interest of the nation.
- By the identification of the areas of competitive benefit create by the environment of international business competition. Nepalese economy will probably be more dynamic.
- The liberal policy upon service attracts more investment resulting in employment generation and economic growth.
- International business competition will enhance the capacity and productivity of Nepalese industries.
- The special strategy and probable assistance for the least developed countries support Nepalese economic development.
- The multinational business system will help to eradicate the problems arising from the bilateral business with the neighboring countries.
- The one state one vote policy of the WTO disregarding small or big and developed or least developed will emphasize the,
- Interest of small and least developed country, like Nepal.

2.1.7.5.3 Challenges of WTO to Nepal:

- Nepal can obtain the advantages of the membership to the WTO only after a long term.
- The enhancement of the capacity and productivity of Nepalese industry and business required immediately coping up with the competitive situation in the international level.
- There are adequate possibilities of negative impact if we can not evaluate the future opportunity and the hazards.

- Continuous adjustment between the governmental and private agencies is necessary.
- Various existing legal provisions, administrative system and process and institutional management are needed to be changed according the commitment with the WTO strategy in the designed time schedule.
- We need to develop expertise manpower capable to adopt in the organization's strategy, rules and regulations for the sustainable existence in the government and non-governmental sectors.
- We have not developed the informed manpower for the dispute settlement mechanism and dispute procedure of the WTO.
- We have not been able to convey our positive attitude to the cynics who say that the Ingo's often advocate for the developed countries and this is also an organ of the developed countries to dominate small countries.
- Administrative changes, political instability and the irregularity in the rules and regulations can hinder the process of activating WTO.

The WTO membership allows countries to design development strategies and trade policies in a more predicable and stable trading environment. It offers an expansion of trading opportunities because of low tariffs and elimination of non-tariff barriers in member states. The multilateral discipline of greater stringency ensures a more secure and predictable trading environment and provides more certainty in trade policies and practices of riding partners, enhances the security if such relations. Nepal would also have access to the WTO dispute settlement mechanism to defend its trade interests. Not the least, membership provides an instrument to advance the trade and economic interests through effective participation in the WTO multilateral negotiations.

Nepal is facing a number of structural or supply side constraints including weak technological adaptability, lack of entrepreneurial managerial, marketing and technical skills (including those for quality control); weak financial intermediation and expensive credit, weak corrupt and inefficient bureaucracy and ineffective regularity legal and institutional framework, poor infrastructure (along

with landlocked) poor human capital stock and communication network. These supply side actors turn the opportunities into unrealized dreams, where the anticipated costs are not merely nightmares but real losses (Gurugharana, 2000, Pg. 12)

There is nothing as such that the WTO membership can offer Nepal on a 'golden plate.' Benefits do not derive automatically but depend on her ability to identify and take advantages of trading opportunities: fulfill multilateral trade obligations, formulate and pursue development strategies within the framework of those obligations and above all, defend her economic, finance and trade needs. Thus we need not delude ourselves into thinking that the world order will be benevolent to us even as we ourselves can not do that favor for us (Pandey, 2001, Pg 16). The problem is that benefits are in future, long-term and potentials(requiring a lot of efforts) while costs are immediate.

The Uruguay Round Agreement on Textile and Clothing: from the Multi-fiber Arrangement (MFA) to the Agreement on Textile and Clothing (ATC)

2.1.8 The Multi-Fiber Arrangement (MFA)

Textile and clothing slipped out of the GATT in the early 1960's when the United States and other clothing developed countries faced pressure to protect their domestic textile and clothing industries. Led by the United States, developed countries negotiated a separate instrument to allow developed importing countries to impose qualitative restriction of imports from low cost exporting countries. The managed trade agreement in textiles and clothing severely deviated from GATT principles. The first-term long-term arrangement (LTA) is regarding international trade in cotton textile (LTA) in 1962. the LTA lasted for more than 10 years and was succeeded by the multi-fiber arrangement (MFA) in 1974.

The MFA was separate agreement on international trade in textile and clothing negotiated under the auspices of the GATT in 1974. the MFA was intended to provide "temporary" protection to domestic textile and clothing producers in developed countries from increased competition from exporters in developing countries and at the same time to make "orderly" arrangements for developing country exporter to enter the market of developed countries. The basic objectives of the

MFA were said in 1974 to be achieving the progress liberalization of world trade in textile products. While at the same time ensuring orderly, equable development of this trade by a avoiding disruptive effects in individual markets and on individual lines of production in both importing and exporting countries. Encouraging the growth of the textile and clothing industries of developing countries was one of the main stated aims of the arrangements. Developed countries imposing restriction were required to pursue policies to encourage structural adjustment, i.e. to encourage non-viable textile and clothing firms to move out of the industry.

The MFA was renewed four times in its history MFA I (1974-77), MFA II (1977-81), MFA III (1981-86), and MFA IV (1986-1994). As the Uruguay round failed to conclude in 1990 as originally envisioned, MFA IV we extended twice before the ATC (Arrangement on Textile and Clothing) entered into force in January 1, 1995. At the end of 1994, MFA membership stood at about 40 members, including some non-GATT countries such as Chins. The MFA covered more than 80 percent of international trade in textile and clothing. The participating developed importing countries and developing exporting countries signed more than 100 bilateral agreements to imposed quotas on textiles and clothing exports from developing countries thus effectively restricting market access of developing countries to developed country market. Restriction on trade in textiles and clothing also included high tariffs, tariff escalation and other restrictions (sec Box for a chronology of managed trade in textile and clothing.)

Table of 3
A Chronology of Managed Trade in Textile and Clothing

Dates	Description
1955	Japan introduced "voluntary export restraints" in cotton textile to the USA, at the request of the USA, the restraints continued to 1956.
1959-60	UK introduced "voluntary" restrictions on import of cotton textile from Hong Kong, India and Pakistan
1960-61	The concept of "Market Disruption" was introduced in the GATT. The shorter term arrangement on cotton textile was negotiated in July 1961.
1962	The long-term arrangement regarding international trade in cotton textile (LTA) was negotiated and 5 percent growth

	limit on imports of cotton products was imposed under the managed trade regime.
1967	The LTA was extended for the next three year.
1970	The LTA was extended for another three year.
1973	In order to win he support of the textile and clothing industries for the 1974 trade act, the US administration proposed to negotiate MFA under the GATT
1974	The MFA was negotiated under the arrangement the growth of textile and clothing imports was limited to 6 percent per annum.
1977	MFA III was negotiated to include a provision for “jointly agreed reasonable departures” from MFA rules under special circumstance. The MFA II lasted for five years.
1982	MFA III was negotiated, extending the arrangement for five more years. The “reasonable departure clause” is dropped, but replaced by other restrictive features.
1985	Exporting developing countries covered by the MFA established an international textile and clothing Bureau (ITCB) to promote the elimination of the MFA and the integration of textile trade into the GATT.
1986	MFA IV was negotiated extending the arrangement until 1991. It covered almost all fibers.
1991	MFA IV was extended to 1994 when the UR was concluded.
1995	The WTO, of which the ATC is an integral part, entered into force.

(Source: Bernard and Michel Kostechi, *The political economy of the World Trading System from GATT to WTO*)

Since some exporting countries did not participate in the MFA and some products were not covered by the MFA, developed importing countries also negotiated bilateral agreements to cover these countries and products. Therefore, the combination of MFA and non- MFA restriction made textiles and clothing the most protected sector in developed countries. As the MFA derogated from the fundamental GATT principle of non-discrimination and was designed to discriminate primarily against developing countries, textiles and clothing trade become a major issue between developing and developed countries during the UR of multilateral trade negotiations. Developing countries were united in their demand for the end if the MFA and the full

integration of the textile and clothing sector into the normal GATT trading system.

Due partly to the firm position on textiles and clothing trade adopted by the developing countries, from the beginning until the end of the UR negotiations, and partly due to developing countries' acceptance of the so-called 'new issues' (services and intellectual property rights) in the negotiations, the arrangement on textiles and clothing (ATC) was finally reached at the end of the UR, it was one of many agreements under the WTO covering the range of trade in goods, services and intellectual property right protection, like other agreements under the WTO, the ATC entered into force on 1 January 1995.

2.1.9 The Agreement on Textiles and Clothing (ATC):

Unlike other WTO agreements, the ATC is a transitional arrangement with a finite lifespan of ten years. By the end of the 10-year transition period, the ATC will be terminated. There shall be no extension of the ATC as stipulated progressive phase-out of all MFA quotas and rather non-MFA restrictions and the four-stage integration of textiles and clothing sectors into the GATT 1994 starting from 1 January 1995. It should be emphasized that the ATC is not merely a plan for the phase-out of the MFA, but also an integral part of the single undertaking of the WTO agreement. It applies to all WTO members, whether or not they are MFA signatories. It does not apply to those MFA signatories that are not members of the WTO. For example, the ATC applies to the state of Kuwait, which is a member of the WTO. In this regard, unlike the MFA that had approximately only 40 signatories, the ATC applies to all 144 WTO members. The major elements of the ATC can be summarized as follows:

The ATC requires the products covered by the annex to the agreement, including those subjects to MFA and other restrictions shall be integrated into GATT 1994 in four stages. Such integration is expressed in terms of certain percentages of the total volume of the country's 1990 imports of the products covered by the annex. In stage one, at least 16 percent of the total import volumes in 1990 were to be integrated by 1 January 1995. In stage two, a further minimum 17 percent shall be integrated by 1 January 1998. In stage three another 18 percent shall be integrated by 1 January 2002. Finally, in stage four,

the remaining portion potentially a maximum 49 percent of total 1990 imports volumes must be integrated into GATT 1994 by 1 January 2005. Thus at the end of the 10 year transition period, textiles and clothing must be treated equally as other industrial sector under GATT 1994. The ATC must be terminated by 1 January 2005.

The above integration ratios constitute minimum obligations. Nothing in the ATC prevents members from completing the integration program at an earlier date or from integration products at higher rates. However, it is up to the importing country, rather than the exporting countries, to decide which products shall be integrated, although the ATC requires that the integration in each stage must include products from each of the four products groups, namely tops and yarns, fabrics, made up textile products (also called made ups), and clothing. One of the principle criticisms of the ATC is the “back-locking” of the integration program. Almost half of the products (49 percent) may not be integrated until the end of the 10 years transition periods.

Another element of the ATC is the obligation of WTO members to increase the growth rates of MFA quotas during the transition period. The quota restrains under the previous MFA are to be phased out through gradual expansion and ultimate elimination of quotas. During the first stage from January 1, 1995 to December 31, 1997, the annual growth rate will be 16 percent higher than the quota growth rate that prevailed in 1994 before the entry into force of the ATC. During second stage from 1 January 1998 to 31 December 2001, the growth rate will be increased by 25 percent of the quota growth rate prevailing in 1997. The same taken during the third stage from 1 January 2002 to 30 December 2004 will increase the growth rate increased by at least 17 percent of the quota growth rate in 2001. All quotas should end on 1 January 2005.

The quota expansion scheme under the ATC can be illustrated as follows: if the annual growth rate for a quota product in December 31, 1994 was set at 6 percent, it needed to be increased by 16 percent in 1995 to 6.96 percent and applied at that rate through 1997. This rate must be increased a further 25 percent in 1998 to 8.70 percent and applied at this higher rate through 2001. In 2002, the growth rate must be increased by another 27 percent to 11.05 percent, which would be applied until quotas are removed at the beginning of 2005. In this

example, one million pieces of a quota product in 1994 would increase to almost 2.34 million pieces by 2004.

Table No 4
Integration Program for Textile and Clothing under the ATC

Stage & Time period	Product integration (base: 1990 import volume of the product listed in the annex of the ATC)	Quota expansion (Base: previously agreed MFA growth rates of quota)
Stage_1, Jan.1, 1995- Dec.30, 1997	Minimum 16 Percent	16 percent higher annual growth rate that the previous quota growth rate (for example, from 6 percent in 1994 to 6.96 percent in 1995, 1996 and 1997)
Stage_2, Jan.1, 1998- Dec.30, 1001	Further 17 percent (total 33 percent)	25 percent increase of quota growth rate (for example, from 6.96 percent in 1997 to 8.70 percent in 1998, 1999, 2000 and 2001)
Stage_3, Jan.1, 2002- Dec.30, 2004	Another 18 percent (total 51 percent)	27 percent increase of quota growth rate (for example, from 8.70 percent in 2001 to 11.05 percent in 2002, 2003 and 2004)
Stage_4, Jan.1, 2005	Remaining 49 percent (total 100 percent)	All the quotas are removed

(Source: WTO (1998), Trading into the future. Geneva, WTO publication)

The ATC also address other non-MFA restriction on textile and clothing products, the end of 1994 there were 29 non-MFA restraint agreements or unilateral measures in place that restricted textiles and clothing imports in developed counties. The ATC requires that all GATT-inconsistent non-MFA restrictions either be brought into conformity with GATT 1994 within one year following the entry into force of the WTO agreement or phased out progressively under a program before 2005.

During the 10 year transition period, all WTO members are allowed to impose new quantitative restrictions on a discriminatory basis for up to three years under the so-called transitional safeguards mechanism. Transitional safeguards enable importing countries to temporarily restrict the surge of textile and clothing imports that may cause serious damages or pose actual threats to their domestic producers. Even those WTO members, which previously did not maintain MFA restriction may use the traditional safeguards if they formally notify the textiles monitoring body of their rights. If they choose not to so, their textiles trade will be deemed to have been already integrated into deemed completely outside of GATT 1994 under the 10 year integration program. The ATC also sets up detailed procedures and disciplines for the invocation of transitional safeguards.

As the result of the single undertaking of the WTO agreement of the WTO member are required to fulfill their commitments under other UR agreement which would apply to textile and clothing trade. In particular, WTO members are required to:

- Provide improved market access for textile and clothing products through tariff reduction and bindings, or through removal of cover non-tariff barriers;
- Strengthen the rules and disciplines with respect to antidumping practices, subsidies and countervailing measures and protection of intellectual property rights and,
- Avoid discrimination against textiles and clothing imports when taking general trade policy measures.

The ATC also deals with the problem of “circumvention” of quotas such as by transshipment rerouting, false declaration of place of origin and falsification of official documents. The ATC requires the establishment of a national legal framework for dealing with circumvention. WTO members are obliged to take appropriate and cooperative actions against circumvention.

The ATC also provides special treatment for certain categories of WTO members. For example, small supplies, whose quotas represented 1.2 percent or less of the total quotas advanced by one stage. That means their growth rates will be increased by 25 percent at the first stage (instead of 10 percent by 27 percent at the second stage and 27

percent at the third stage. The ATC further states that least developed countries, wool producing developing countries and countries relying on outward processing trade shall be provided special treatment.

In order to survive the implementation of the ATC, a Textiles Monitoring Body (TMB) was established to report directly to the council for trade in goods in the WTO. The TMB consists of a chairperson plus ten member's form among the WTO members. These individuals act in their personal capacity. The TMB examines all measures taken under the ATC make observations and formulate recommendations to member concerned. Five months before the end of each stage of the integration process, the TMB will prepare a comprehensive report on the implementation of the ATC. The overall responsibilities of the TMB are more or less similar to those of the Textile Surveillance Body (TSB) under the MFA.

Overall, the decision to dismantle the MFA and the implementation of the ATC after the UR constitute progressive trade liberalization after more than three decades of managed trade in textiles and clothing sector under MFA and other discriminatory trade regime. The eventual restoration of market principles to trade in textile and clothing will enhance specialization of production based on comparative advantage. Low cost developing countries producers and exporter of textiles and clothing will benefit from the liberalization process. At the same time, consumer in both developed and developing countries should also reap the benefit of reduced prices and production selection.

Although the economic impact of the elimination of the MFA and the implementation of the ATC have been extensively reviewed in recent years, it is still difficult, if not impossible, to quantify the net welfare gains of textiles and clothing trade liberalization under the ATC depends in several factors, including the extent of the implementation of the ATC, the effects on production and investment decision and tariff reduction on textiles and clothing products. Many of these factors are still unknown. At the first WTO ministerial conference held in Singapore in December 1996, many developing countries expressed concern whether developed countries would faithfully implement the ATC during the 10 years transition period. They worry that if pressure build up from domestic producers and textile workers, developed countries may change the course of the trade liberalization process in the sector.

Therefore, they are watching very carefully the first stage integration process of the ATC implementation.

2.2 Review of Related Previous Studies:

In this section, it would be reviewed about various previous dissertations, books, booklets, journals, articles and others related studies about Nepal's foreign trade. It would be required in depth study and logic analysis. The previous studies are the essential and valuable materials for conducting thesis writing. Because of the has time and resource limitations, some important literature reviews are only reviewed in this studies which are as follows:

2.2.1 Review of Previous Studies:

Some previous thesis, books, journals etc are reviewed as follows:

Ms. Supriya Shah has written in her Degree thesis about the study of Nepal foreign trade 1965-66, Kathmandu in 1999, submitted to the faculty of economic department, T.U. for partial fulfillment for the Degree of Master's of Arts.

This thesis has only 69 pages and only secondary data has been used to analyze the research but not based on commodity wise and country wise. SITC group takes the information of foreign trade. The relevant statistical data was processed in lotus relevance 5 spreadsheet for window in this research; she used mathematical terms, foreign trade multiplier, and linear equation and regression analysis. In this thesis, it would be helped in the side of analyzing data.¹⁸

She has summarized her study giving some theme, the structure of Nepal's foreign trade is non-uniform with trade in GDP, Nepal's export to India declined and went up to 9.39% in 1992/93. Among the various methods to estimate linear and non-linear functional form the adopted ordinary least square method. The export multiplier is 10.72 and categorized primary 22.31 and manufactured goods explained 80.87. The multiple regression analysis result shows those total

¹⁸ Shah, Supriya, Unpublished Degree Thesis, *Nepal Foreign Trade 1965/66 to 2000/01*, Kathmandu, T.U., 1999, P.33-60.

imports and categorized by income and foreign aid. The marginal propensity to import and saving on average are 0.3143 and 0.1413. The import multiplier is 2.19.

She estimated annual exponential growth rate of the specified macro economic variables, which are varied from 10% to 21%. The growth rate of GDP at constant price (1974/75=100) is only 3%- the lowest, while that of the imports of investment goods is 220%. She also raised some recommendation. The sensitivity of analysis should be conducted to compare with other findings. The direction of non-stationery time's series data and accordingly choosing at functional form, specification of the variable to analyze the structural changes caused by the help of dummy variable analysis, generating primary data from ministry of finance concerning various tariff rates. The study can be more rigorous and advance. At last she has given her conclusion saying that the estimate should be used with precaution because of equality of data presence of auto correlation.

There are many theses and other books that have been conducted about foreign trade and its policy. In this part, these types of literature would be reviewed for the purpose of making this thesis study fruitful and effective. The related export's opinion would also be reviewed which have published in newspaper and other articles.

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 2002/03 only country-wise like India and Overseas. It has no any footnote.

Santosh Dahal did not show any charts and diagrams and it has only 69 pages. The main objectives of this study are: to analyze the trend of Nepalese foreign trade, to show the structure of the composition of trade between Nepalese and rest of world (India and Overseas) and to recommend suggestion for follow-up section."¹⁹

For this thesis, the above thesis would provide the valuable information about the analyzing and presentation data, summary, conclusion and recommendation. The data were gathered in this thesis

¹⁹ Dahal, Santosh, Unpublished Degree Thesis, *A study on Nepalese Foreign Trade and its Changing Scenario*, T.U., 2001, P.6.

by using country-wise data such as India and Overseas, which is also fruitful, the guideline for preparing this type of thesis.

Ganesh Prasad Neupane has written another thesis about Nepalese foreign trade: the Changing Scenario of Size, Composition and Direction for the partial fulfillment of Degree of Master's of Art, T.U.²⁰

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.

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 are:

- To measure the export performance of Nepal between 1971-90.
- To examine Nepal's export policy management in the different plan period.
- To evaluate the role played by export related institutions in the country in the field of export management.
- To assess the export supply management in Nepal and to evaluate Nepal's export markets and their management and
- To suggest export management model for Nepal.²¹

²⁰ Subedi, Ganesh Prasad, Unpublished Degree Thesis, *Nepal Foreign Trade: The Changing Scenario of Size, Composition and Direction*, Kathmandu, 2003, T.U., PP. 25, 55-59.

²¹ Regmi, Suman Kumar, Thesis of Doctor of Philosophy, *Management of Export Trade in Nepal*, T.U. P.

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.

R.B. Thapa pointed out transit problem, limited resources hindering the development of Nepalese foreign trade. He dealt with the trade routes, trade agreements, incentives for trade diversification and others institutional in the development of foreign trade and gives the glimpse of Nepalese foreign trade from 1961/62 to 1982/83 by using only secondary data information.²²

His study dealt with the trade routes, trade agreements, incentives for trade diversification and others institutional in the development of foreign trade and gives the glimpse of Nepalese foreign trade. From above these studies area, it would be more beneficial for conducting this thesis.

Bijaya Kumar Rana, in this thesis, foreign trade data was used from 1973/74 to 1982/83 and through table seems GDP ratio 5.4% of Gross Domestic Production, export to import ratio with the given period was 43%. Only simple statistical tools and mathematical tools were used to analyze the collected secondary data.²³

This thesis study has been more studied in previous research as the view of review of literature. But, I found they mostly concentrated in any one or two goods or particular specified time frame. Such as garment, carpet, jute, rice or limited time frame. So, they could not cover all data, policies related foreign trade in one thesis study.

In this study, I would gather all information about foreign trade and also about trade policies. Nepal has already entered into WTO membership and others foreign trade related organization. So, this thesis would be comprehensive study about this topic and also be more useful than other. This study will be up to date by in the side of latest time, data, policies, transit agreement and commitment of WTO.

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

²² Thapa, R.B., Unpublished Ph.D. dissertation, *Historical Background of Nepalese Foreign Trade and its Diversification (1961/62-1982/83)*, Kathmandu, T.U., 1984, P. 12-40)

²³ Rana, Bijaya Kumar, Unpublished Degree Thesis, *Export Performance of Nepal*, T.U., 1985, P. 42.

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 1859. According to this treaty, Tibet had to pay an annual tribute of Rs. 10,000 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.²⁴

Basis of Trade and Transit: A Nepalese Perspective has illustrated that selling the company's products abroad is more complicated than selling them in the local market. Once the firm desires to sell its products in foreign markets, it has to follow up several exports procedures as an obligation.²⁵

The export procedure may require some preliminary steps like correspondence with foreign parties and export arrangements. After the confirmation of export orders, a firm should follow up various stages for export execution regarding government regulations, shipment of consignments and obtaining export payments. Prior to the export documents required by the banks, customs offices, forwarding agents, government etc.

Nepal policy regime has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been executed. Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the country in improving its international competitiveness.

²⁴ Shrestha, Bhaikaji, Unpublished Case Study, *Export Trade of Nepal*, T.U., 2025, P. 24-27.

²⁵ Sakya, Bijendra Man, *Basics of Trade and Transit: A Nepalese Perspective*, Kathmandu and P. 97.

2.2.2 Second South Summit of G-77 nations in Doha of Qatar:

The Second South Summit opened at Doha, in Qatar, on June 16, 2005 with a heads of state and government and senior officials of 132 countries participating in the conference.

In the address, His Majesty King Gyanendra Bir Bikram Shah Dev said that South-South cooperation must today focus on new dimensions-fostering of private sector cooperation and cooperation between communities living on the borders of two or more nations, as people-to-people interaction ensures a powerful basis for regional peace and security.²⁶

He said that Nepal was fortunate to be at the thresholds of two of the fastest growing economies in the world—India and China— which have seen tremendous economic progress in the last decades, lifting a sizeable mass of their population from economic deprivation.

Saying that both India and China have opened up their economies and trade far and wide, yet trade between them is minuscule compared to their global trade?

"In this context, taking advantage of the opportunities of this historic economic dynamism of the Asian continent, we envision a land-locked Nepal as a transit economy between India and China, and are willing to extend all possible assistance to facilitate and further this process," He told the conference.

He said that this would contribute to realizing the largest potential synergy in Asia benefiting not only the trading and transit nations but also, hopefully, transform the region into an engine of growth in the days ahead.

Nepal as one of the first least developed countries to accede to the WTO after its coming into force in 1995, earnestly hopes that the Doha development round of the WTO trade talks would come to fruition creating vast opportunities for enhanced global trade, growth and employment, especially in small, fragile and vulnerable countries. Throwing open the markets of the North and promoting greater trade

²⁶ *Nepal Trade Bulletin*, Trade Promotion Center, Year 33, No. 3, Dec. 14, 2008.

between the North and South will go a long way in achieving such an enabling environment. Yet, one cannot gloss over the fact that, over the years, exports from the developing countries have been steadily declining and their share hovers around just half of one percent.

We perceive that mountain societies provide a vast scope for the contribution of traditional medicines towards securing the Millennium Development Goals' health targets; and this should receive greater attention from all of us assembled here, Nepal appeals to, the international community for adequate research and development, and science and technology resources for medicinal purposes by contributing generously to a Hindu Kush Himalayas fund established for this very purpose. This commitment will go a long way towards integrated development of mountain habits.

South-South cooperation must today focus on new dimensions—namely the fostering of private sector cooperation. Equally so, cooperation between communities living on the borders of two or more nations, as people-to-people interaction grows.

The objective of the exhibition was not only to promote the sales of the goods kept there but also to explore the long-term market for Nepalese products, and since customers have been found for different goods, the participants of the trade fair have become very enthusiastic, Nepal Chamber of Commerce stated. The first trade fair by Nepalese in Qatar, promote Nepal-2005 is being organized by Nepal Chamber of Commerce, Salt Trading Cooperation Ltd. (STCL) and Nepal Pavilion Company in association with the Royal Nepalese Embassy in Qatar.

Kriti Nidhi Bista (Vice Chairman of the Council of Ministers) said that the government would focus on strong economic diplomacy to attract more foreign investment and technological expertise and provide bigger market access to Nepalese products. Vice Chairman Bista also said the government was initiating to bring new industry, commerce and foreign investment policy as well as existing policies to increase investment in the business sector. He hoped that the government's attempts to Establish especial Economic Zone (SEZs), bring competition law, new company act, infrastructure development in

the customs points, export promotion house and dry port would contribute to create favorable business environment.²⁷

Dinesh Chandra Pyakurel, Secretary at Ministry for Industry, Commerce and Supply released a book titled 'Nepal Export Procedures and Documentation,' published jointly by Lalitpur chambers of Commerce and Industry and GTZ/SEQUA Private Sector Promotion Project, during the program.

With the liberalization policy of World Trade Organization (WTO), BIMSTEC, SAFTA and Nepal becoming a member a member organization of these august bodies, goods from Nepal have been able to compete in the international arena, Pyakurel said. But we still have not been able to tap the potential such associations offer. For this, Nepal needs to diversify its market focus as well as diversify its product range, he added. The government is working to simplify policies and ease rules for increasing exports. To simplify technical barriers, special economic zones and export processing houses are in the offing, Pyakurel added.²⁸

2.2.3 Nepal can be the Transit Point for India and China:

Nepal is land-locked country, which is situated between two-giant countries India and China. IN an opportunity the experts focused that Nepal can be the transit point for India and China whom vies as given below.²⁹

Experts and businessmen have underlined the need to have a transit service agreement with China in order to develop Nepal as a transit point for Sino-Indian trade. They also suggested that Nepal could be one of the best transit points to link the world's two largest and fastest growing economies. However, they emphasized the need for comprehensive homework and preparations before entering into a tripartite agreement to open the transit facilities.

Necessary infrastructure like road, airports, terminals and dry ports should be constructed, since they are basic facilities to become a transit point. We should also look into developing air transit points, said

²⁷ News & News, July-August 2005. [///www.fncci.org](http://www.fncci.org).

²⁸ The Kathmandu Post, Dec. 25, 2008

²⁹ The Kathmandu Post, Dec, 25, 2008

Shrestha. Once the volume of trade and transportation movement increases. Nepal should also consider opening new routes. Kimathanka and Raswagadhi points are most probable transit points, where construction of necessary infrastructure should be started, he said.

Purushottam Ojha, acting secretary at the Ministry of Labor and Transport Management said that Nepal would have multifaceted benefits, if the transit point concept were properly developed. There is a high-level political commitment for developing Nepal as a transit point for India and China, even king Gyanendra mentioned it following his return from Afro-Asia and BOA Conference last month, he said.

Ojha also pointed out the need to address several issues regarding customs, simplification of documentation, legal implication as well as physical infrastructure before entering into a transit hub. Developing a transit transport network is crucial to boost trade and other activities, he said.

Chapter-3

RESEARCH METHODOLOGY

3.1 Introduction:

The term 'Research Methodology' is combined term of 'Research' and 'Methodology'. Simply, research refers investigation or, careful, study, especially in order to discover new facts or information. On the other hand, a set of methods used in particular area of activity is known as methodology.

Research generates new knowledge, which can be used for different purposes, in other word it is a systematic effort to gain new knowledge. Furthermore, the research is used to build a theory, develops policies, support decision-making and solve problems.

Methodology is the research method used to test the hypothesis. It refers to the systematic method causing the problem, formatting the hypothesis, collecting the data, and analyzing the facts to reach the certain conclusion.

Research is a systematic and organized effort to investigate a specific problem that needs a solution (Sekarame, 1992). This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to the problem. Thus the entire process by which we attempt to solve problems is called research (Wolf and pant, 2004:P.203).

Therefore research methodology refers to the method or procedure of research process and it is a way to solve research problem systematically. It facilitates the research work and provides reliability and validity to research. Simply methodology reveals analysis and systematic applications of procedures use in scientific investigation or in a particular research project.

The main objective of research methodology is to develop the sophisticated research strategy. So it is impossible to complete a research work without research methodology. So this study also employed the research methodology which is presented below.

3.2 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.

This studies mainly focus on the "A study on foreign trade scenario of Nepal's". For this purpose, the research design of the study is used for analytical as well as descriptive method of data collection. 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.

3.3 Source of Data:

Data may be primary or secondary for any research. In this research only secondary data has been collected through books, articles, bulletins, reports, thesis reports, trade journals, manual from government and non-government sources and national as well as international organizations or institutions. In other words, data has been collected through NRB reports, TPC reports, MoICS reports, MoF reports and others government and non-government reports etc.

3.4. Methods of Data Collection:

In this study, data has been collected through secondary sources. The data would be related with foreign trade and policies of foreign trade of Nepal critically collected through the sampling method of data collection.

In other word, data will be collected from NRB, TPC, MoICS, FNCCI, NCC, IMF, WTO, SAFTA etc. reports or bulletins. In this study, data has been also collected through primary data collection method if needed. The data is related about Nepalese trade and Nepalese trade policies in the sense of export/import. There are so many data about related studies but only required data has been collected, tabulated, categorized, Interpreted according to the sampling method of data collection.

3.5 Data Collection Procedure:

Data has been collected through sampling method of secondary sources. The secondary source has been export/import trade data as country wise and commodity wise. The data has been taken for ten years i.e. from 1998/99 to 2007/08, which would be collected from NRB, TPC, MoICS, MoF and other public as well as private sectors.

3.6 Organization of the Study:

The present study has been divided into five main chapters. The contents of each chapter are given in brief as follows:

- Chapter-1 : The first chapter is an introduction to the various aspects of the study. It acts as a platform for the entire research work.
- Chapter-2 : The second chapter will include the review of literature that was done by previous researchers in related field and the review of the work done by authors in the discipline of related area of study within Nepal
- Chapter-3 : It deals with the research methodology which explains the methods used in the study.
- Chapter-4 : In this chapter includes data presentation and analysis of relevant data and information. This includes data collection, data tabulation, data presentation and analysis.
- Chapter-5 : Finally, this chapter pulls the study together with the summary, conclusion and recommendation of the entire research work.

Chapter-4

DATA PRESENTATION AND ANALYSIS

After collecting various data about the concerned study, it is essential to show the collected data in tables and graphs. The collected data has been presented in table and graphs and analyzed with taking various statistical and mathematical tools, financial and accounting tools. In this research study, the data has been presented and analyzed in tables, graphs and simple statistical and mathematical tools, which are shown below.

4.1 Method of Analysis:

Data has been analyzed through quantitative as well as qualitative techniques. For analysis of the data, various statistical and mathematical techniques would be used. The collective data has been categorized, edited, coded, classified, tabulated, processed and analyzed by using different methods. The financial, accounting and others necessary tool have been used.

4.2 Presentation of Data:

Various information and collected data through secondary and primary sources have been tabulated. In the course of this research, various statistical and mathematical tools have been used to present, interpret and analyze the data to search conclusion.

Different diagrams and graphic tools have been used for the presentation and analyzing information that is one, two, three dimensional diagrams and histogram, frequency polygon/curve, pie chart etc. of graphic presentation would be used in required place. The presentation and analysis of data, both topics have been presented under in one edge. It provides valuable information and has helped to recommend of research study through the collected data. The collected data has been tabulated, categorized, coded, analyzed in simple statistical and mathematical tools such as percentage, average, ratio etc.

4.3. Volume, Composition, Direction and Trends of Nepal Foreign Trade:

4.3.1 Volume of Foreign Trade:

The rise in the volume of foreign trade is a fair indication towards development of the nation. The balance of payment should be controlled through exporting more than importing the goods and services to a nation. The volume of foreign trade is known as the total foreign trade (import and export) of a nation given in the specific time likewise value of the total foreign trade.

In this review, the foreign trade data have been taken from fiscal years 1998/99 to 2007/08 (ten year). The trade data, which is given below in , table number 1, the value of import is greater than the value of export, and it seems all fiscal year and increasing gradually. The total volume of trade in the fiscal year 1998/99 was RS 81318.7 million that went on increasing in subsequent years, rather than fiscal year decreased to Rs 15433.8 million. Comparing export to import the huge amount is different regularly in fiscal year 1998/99 to 2007/08, which is being suffered huge trade deficits, by Nepal. The growth in the total volume of trade or export and import but the weight of the export and import in the total volume of trade should be taken into consideration.

The total volume of trade in each and every year has remained quite low and less effective in speeding up the volume of trade. The total growth has oscillated over the time running from Rs. 17639.2 million in fiscal year 1998/99 to Rs. 53910.7 million in fiscal year 2007/08. The volume of export has fallen on 2000/01, 2005/06 and 2006/07 compared to the proceeding respective years.

On the other hand, the totals volume of import went up Rs. 636695.5 million from fiscal year 1998/99 to Rs. 136277.1 in fiscal year 2007/08. During the year 1998/99 to Rs.136277.the share of import increased more than two times or in value was 72597.6 million rupees. The study period, Import side shows a steadily increasing from the year fiscal year 1998/99 to 2007/08 except fiscal year 2001/02 and 2002/03 years.

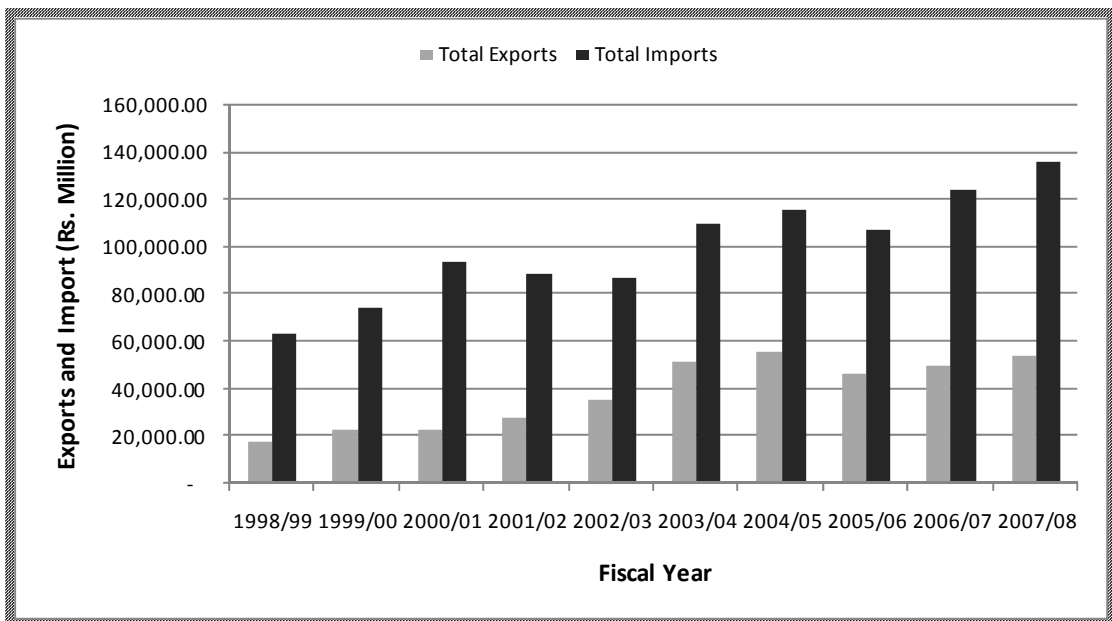
Table No.5
Total Foreign Trade Balance of Nepal
Fiscal year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal year	Total Exports	Total Imports	Grand Total	Trade Deficits
1998/99	17,639.2	63,679.5	81,318.7	(46,040.3)
1999/00	22,881.1	74,454.5	97,335.6	(51,573.4)
2000/01	22,636.5	93,553.4	116,189.9	(70,916.9)
2001/02	27,513.5	89,002.0	116,515.5	(61,488.5)
2002/03	35,676.3	87,525.3	123,201.6	(51,849.0)
2003/04	51,623.0	109,772.9	161,395.9	(58,149.9)
2004/05	55,654.1	115,687.2	171,341.3	(60,033.1)
2005/06	46,944.8	107,389.0	154,333.8	(60,444.2)
2006/07	49,930.6	124,352.1	174,282.7	(74,421.5)
2007/08	53,910.7	136,277.1	190,187.8	(82,366.4)

Source: NRB (2008a)

Figure No.1
Total Foreign Trade Balance of Nepal
Fiscal year 1998/99 to 2007/08



Above table no.5 shows the trade deficit through out the study period. The tendency of trade deficit increased in 2000/01 fiscal year and decreased in last remaining three years and again increased. The minimum trade deficit is 46040.1 million rupees in fiscal year 1998/99

and maximum trade deficit is 82366.4 million rupees in the year 2007/08.

Above figure no. 1, the graph is about total export and import from the year 1998/99 to 2007/08. The share of export, comparing import is less than half. The share of import shows always greater than share of export. Therefore, Nepal's always suffering from trade deficits during study period. But the total volume of both export and import are increasing except the fiscal year 2005/06.

Through above table no. 5, comparing exports and import yearly figure, the share of India's export is increasing steadily except 2006/07 and overseas data are fluctuating (up and down). After 2004/05, the share of export to overseas is decreasing and before 2004/05 the shares overseas was reverse tendency. However, the total foreign trade is increasing steadily through out the study period.

Above figure no. 1 shows the total foreign trade at the side of import. The date has been taken from fiscal year 1998/99 to 2007/08. Trade volume of overseas is greater than India till fiscal year 2004/05 and then the import volume of overseas is less than India. But the total volume is increasing steadily throughout study period.

Table No. 6
Total Foreign Trade Balance of Nepal
Fiscal year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal year	Exports	Percentage	Imports	Percentage	Total Trade
1998/99	17,639.2	21.7%	63,679.5	78.3%	81,318.7
1999/00	22,881.1	23.5%	74,454.5	76.5%	97,335.6
2000/01	22,636.5	19.5%	93,553.4	80.5%	116,189.9
2001/02	27,513.5	23.6%	89,002.0	76.4%	116,515.5
2002/03	35,676.3	29.0%	87,525.3	71.0%	123,201.6
2003/04	51,623.0	32.0%	109,772.9	68.0%	161,395.9
2004/05	55,654.1	32.5%	115,687.2	67.5%	171,341.3
2005/06	46,944.8	30.4%	107,389.0	69.6%	154,333.8
2006/07	49,930.6	28.6%	124,352.1	71.4%	174,282.7
2007/08	53,910.7	28.3%	136,277.1	71.7%	190,187.8

Source: Trade Promotion Center and Nepal Rastra Bank

Above table no. 6 has been shown total import and export in both value and percentage. The export is increasing steadily except fiscal year 2005/06 and 2006/07 but in the side of import, the volume is increasing throughout the study period. The maximum value of export was 55654.1 million Rupees in fiscal year 2004/05 and minimum value of export was 17639.2 million Rupees in fiscal year 2007/08. But import is greater than export in both value and percentage. In the average, the import share is not less than three times throughout the study period. The maximum percentage of export was 2.5 in fiscal year 2004/05 and maximum percentage of import was 8.5 in fiscal year 2000/01. So, above table no. 6 clearly shows Nepal has too trade deficits from foreign trade.

Table No. 7
Total Foreign Trade Balance of Nepal
Fiscal year 1998/99 to 2007/08

Fiscal year	Export Percentage	Imports Percentage	Export to Import Ratio
1998/99	21.7%	78.3%	0.28
1999/00	23.5%	76.5%	0.31
2000/01	19.5%	80.5%	0.24
2001/02	23.6%	76.4%	0.31
2002/03	29.0%	71.0%	0.41
2003/04	32.0%	68.0%	0.47
2004/05	32.5%	67.5%	0.48
2005/06	30.4%	69.6%	0.44
2006/07	28.6%	71.4%	0.40
2007/08	28.3%	71.7%	0.39

Source: Mention as per Table No. 1

Above table no. 7 shows the total export and total import throughout the study period (fiscal year 1998/99 to 2007/08) in percentage. In fiscal year 1998/99 the share of export was 21.7 and import share was 78.3 percent. Comparing above table the maximum export share was 32.5% in fiscal year 2004/05 and minimum percentage of export share was 19.5 in fiscal year 2000/01. And minimum percentage of export share was 19.5% in fiscal year 2000/01. On the other hand, the table shows the ration of export to import. The ratio was always below than 1 or not more than 0.5. The maximum share of ration was 0.36 in fiscal year 2004/05 and minimum share of ratio was 0.25 in fiscal year 2000/01. The ration table also gives us export trade is not satisfactory throughout study period.

Figure No. 2
Total Export and Import in Percentage
Fiscal year 1998/99 to 2007/08

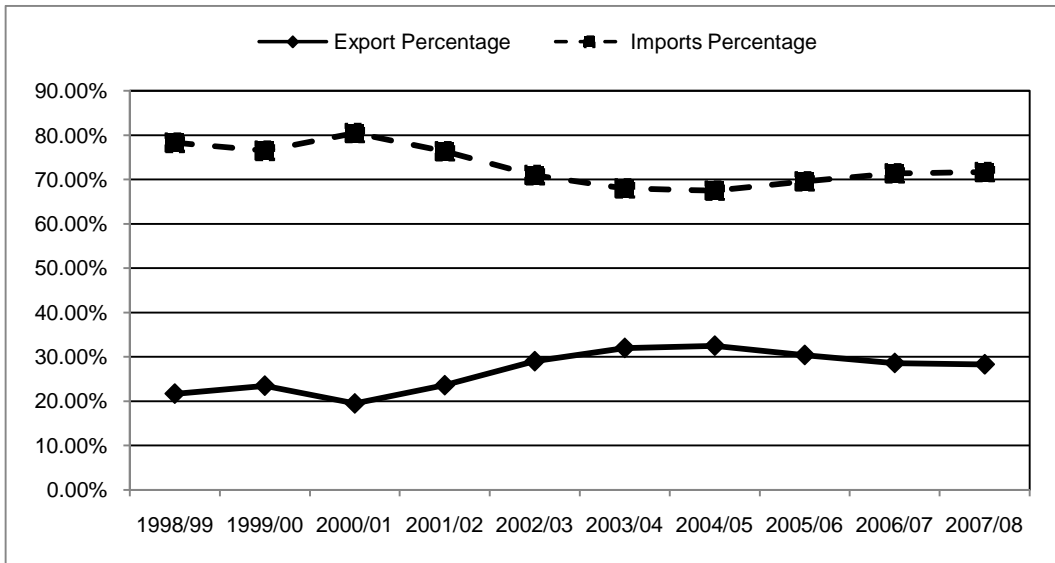


Figure no. 2 shows about the relation of export and import percentage from fiscal year 1998/99-2007/08. Throughout ten years figure, the import covers around 70 to 80 percent and export covers hardly 20 to 30 percent throughout the study period.

Figure No. 3
Export to Import Ratio
Fiscal year 1998/99 to 2007/08

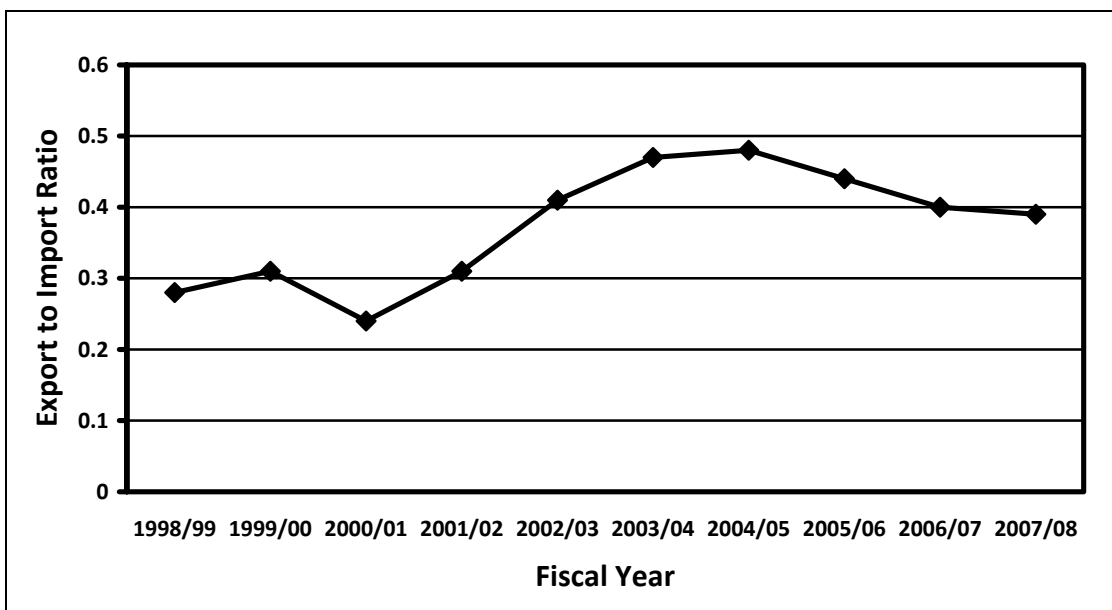


Figure no. 3 gives us export to import ratio from fiscal year 1998/99-2007/08. For the balance of payment, there should be minimum 1: ratio among export and import but the ratio is always below than 0.5 (import to export ratio). In the figure of no. 3, the ratio of study period later years is better than former years. So foreign trade is going to improve the direction but that is not satisfactory. We have to export more for improving our trade balance and for earning more foreign currency.

Table No. 8
India and Overseas Export and Import Ratios
Fiscal year 1998/99 to 2007/08

Fiscal year	India			Overseas		
	Export (%)	Import (%)	Ratios	Export (%)	Import (%)	Ratios
1998/99	17.7	30.8	0.57	82.3	69.2	1.19
1999/00	16.1	32.8	0.49	83.9	67.2	1.25
2000/01	23.1	26.6	0.87	76.9	73.4	1.05
2001/02	32.0	30.7	1.04	68.0	69.3	0.98
2002/03	35.1	36.7	0.96	64.9	63.3	1.03
2003/04	43.8	37.3	1.17	56.2	62.7	0.90
2004/05	46.8	47.6	0.98	53.2	52.4	1.02
2005/06	59.6	52.7	1.13	40.4	47.3	0.85
2006/07	52.9	57.0	0.93	47.1	43.0	1.10
2007/08	57.1	57.8	0.99	42.9	42.2	1.02

Source: NRB (2008a) and Computation

4.3.2 Plan-wise Foreign Trade composition:

Till 1995, Nepal was kept in a state of virtually isolation from outside world. Nepal's development efforts have been guided by long term development plan since 1956. It was only after 1946 that the country launched its first five-year plan and got into process of development. The country has been completed nine five year plan and three-year plan over five decades. Now, tenth five-year plan is running from fiscal year 2006/07. Various policies and strategies were changing in various plans. But the foreign trade balance is not much favorable. The following table shows the plan wise foreign trade.

The foreign trade shows a steady growth. In first five year-plan total trade has been Rs. 1865.3 million where the share of export and import has 33.7 and 66.3 percent respectively. The average annual export and import has been Fs. 125.6 and 247.4 million respectively. It shows huge trade deficits being Rs. 609.1 million. Over the plan period Nepalese foreign trade has subsequently increased, along the growth of trade the deficit has been in an increasing trend. The total trade in the first plans more than three times in the third plan, export increased but import increased less than three times.

The total export has increased over the various plans ranking from Rs. 628.1 million in first plan to Rs. 217411.7 million in ninth plan. Total import has steady growth in the subsequent plan till ninth plan. Trade balance deficit has also increasing trend but annual trade deficit improved in third plan over second plan. The total trade variation in ninth plan over eighth plan was 82.30 percent.

The share of export and import in total trade are 33.7 percent and 66.3 percent respectively in first plan. The total share of export tends to decrease from fourth plan to eighth plan and slightly increase in ninth plan and tenth plan.

Table No. 9
Plan-wise Scenario of Total Foreign Trade
First Plan to Tenth Plan (in percentage)

(Value in Million Rs.)

Plan	Exports	Imports	Total Trade	Balance of Trade
First Plan (1956/57–1960/61)	628.1	1,237.2	1,865.3	(609.1)
Plan Gap Year (1961/62)	256.2	444.4	700.6	(188.2)
Second Plan (1962/63–1964/65)	1,019.5	2,027.4	3,046.9	(1,007.9)
Third Plan (1965/66–1969/70)	2,256.1	3,353.0	5,609.1	(1,096.9)
Fourth Plan (1970/71–1974/75)	3,127.1	5,549.0	8,676.1	(2,421.9)
Fifth Plan (1976/76–1979/80)	5,844.0	12,824.1	18,668.1	(6,980.1)
Sixth Plan (1980/81–1984/85)	8,676.7	29,928.9	38,605.6	(21,252.2)

Seventh Plan (1985/86–1989/90)	19,535.5	68,704.6	88,240.1	(49,169.1)
Plan Gap Year (1990/91–1991/92)	21,094.0	55,166.5	76,260.5	(34,072.5)
Eighth Plan (1992/93–2000/01)	96,716.7	322,463.8	419,180.5	(225,747.1)
Ninth Plan (1997/98–2001/02)	217,411.7	509,376.4	726,788.1	(291,964.7)
Tenth Plan (2002/03–2006/07)	311,217.4	795,983.7	1,107,201.1	484,766.3

Source: Economic Survey, 2008, TPC

Table No. 10
Plan-wise Scenario of Total Foreign Trade
First Plan to Tenth Plan

(Value in Million Rs.)

Plan	Exports	Imports	Total Trade	Export (%)	Import (%)	Total
First Plan (1956/57–1960/61)	628.1	1,237.2	1,865.3	33.67%	66.33%	100.00
Second Plan (1962/63–1964/65)	1,019.5	2,027.4	3,046.9	33.46%	66.54%	100.00
Third Plan (1965/66–1969/70)	2,256.1	3,353.0	5,609.1	40.22%	59.78%	100.00
Fourth Plan (1970/71–1974/75)	3,127.1	5,549.0	8,676.1	36.04%	63.96%	100.00
Fifth Plan (1976/76–1979/80)	5,844.0	12,824.1	18,668.1	31.30%	68.70%	100.00
Sixth Plan (1980/81–1984/85)	8,676.7	29,928.9	38,605.6	22.48%	77.52%	100.00
Seventh Plan (1985/86–1989/90)	19,535.5	68,704.6	88,240.1	22.14%	77.86%	100.00
Eighth Plan (1992/93–1996/97)	96,716.7	322,463.8	419,180.5	23.07%	76.93%	100.00
Ninth Plan (1997/98–2001/02)	217,411.7	509,376.4	726,788.1	29.91%	70.09%	100.00
Tenth Plan (2002/03–2006/07)	311,217.4	795,983.7	1,107,201.1	28.11%	71.89%	100.00

Source: Economic Survey 2007/08, 2008, TPC

Above table No. 10 have shows plan-wise scenario of total foreign trade from first plan to ninth plan. After completion ninth plan both the export and import figures have increased but comparatively import is more increased than export. The percentage of export only covered one third in the average through out the study period. The value of plan wise is growing steadily the study period both export and import.

**Table No. 11
Trade Indicators
(in percent with GDP)**

Fiscal year	Exports/Import	Export/GDP	Import/GDP	Trade Deficits/GDP	Manufactured Exports/Total Export	Primary Export/Total Export
1998/99	27.7	8.0	29.1	-21.0	87.1	12.9
1999/00	26.7	8.0	29.9	-21.9	85.0	15.0
2000/01	24.2	8.1	33.4	-25.3	83.9	16.1
2001/02	30.9	9.1	29.2	-20.4	79.0	21.1
2002/03	40.8	10.4	25.6	-15.2	78.0	22.0
2003/04	47.6	13.6	28.6	-15.0	83.6	16.4
2004/05	48.1	13.5	28.1	-14.6	82.8	14.4
2005/06	43.7	11.1	25.4	-14.3	71.7	28.3
2006/07	40.2	10.9	27.3	-16.3	77.3	22.7
2007/08	39.6	10.9	27.5	-16.6	80.1	19.9

Source: NRB (2008) and Computation

**Figure No. 6
Manufactured and Primary Export to Total Export
Fiscal year 1998/99 to 2007/08**

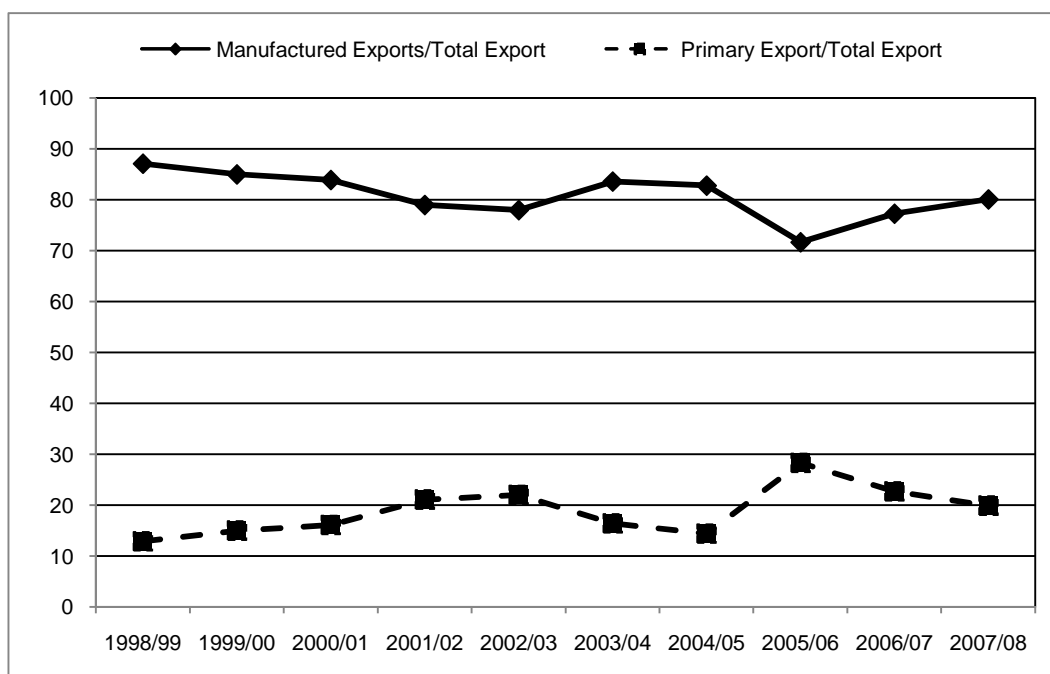


Table no. 11 indicates that there have been some fluctuations in the contribution of exports to the GDP. While exports/GDP stood at 8.0 percent in fiscal year 2007/08. Similarly, the contribution of imports in

GDP was 29.1 percent in fiscal year 1998/99. It rose to 33.4 percent in fiscal year 2000/01 before dropping to 27.5 percent in fiscal year 2007/08. The share of manufactured goods exports in total exports has gone down from 87.1 percent in fiscal year 1998/99 to 80.6 percent in fiscal year 2007/08. Conversely, the share of primary goods exports has climbed up from 12.9 percent in fiscal year 1998/99 to 19.4 percent in fiscal year 2007/08.

4.3.3 Standard International Trade Classification (SITC) Wise Foreign Trade Composition:

The SITC wise trade composition shows the value among one to ten different SITC, which are classified in Table No. 12 and 13. Over the ten years period the share of food and lives animals has shown a stable tendency cause it was RS.4464.0 million in the side of import and RS. 1562.7 million in the side of export in 1998/99. The share of total import and export was 8.9 percent and 7 percent in 1998/99. But, in 2007/08 the share of food and live animals was Rs.6276.9 and Rs. 8554.0 in the side of export and import respectively. In fiscal year 2003/04 share of SITC 1 of the import side has gone to maximum value RS. 10839.0 million and comparing this SITC 1 always import is greater than export.

**Table No. 12
Export Trade by SITC Grouping
Fiscal year 1998/99 to 2007/08**

(Value in Million Rs.)

Fiscal year	1	2	3	4	5	6	7	8	9	10	Total Export
1998/99	1,562.7	11.3	485.5	0.0	214.1	302.3	9260.3	37.1	5765.8	0.1	17639.2
1999/00	1,946.6	9.7	768.7	1.3	251.3	640.4	10455.7	35.2	5772.2	0.0	19881.1
2000/01	2,261.7	14.9	663.5	1.4	312.6	1353.4	11028.6	59.6	6540.3	0.5	22636.5
2001/02	3,123.2	22.8	487.1	20.9	2136.3	1968.5	11637.1	58.0	8059.6	0.0	27513.5
2002/03	3,724.5	50.0	469.9	0.5	3229.7	2804.0	13539.6	97.8	11392.8	0.0	35676.3
2003/04	4,240.5	117.2	561.9	2.2	3597.2	3933.2	15838.7	390.8	21509.2	0.0	49822.7
2004/05	4,776.6	75.6	751.1	1.3	4104.0	4041.7	18909.3	343.6	22650.9	0.0	55654.1
2005/06	5,094.2	145.7	624.5	1.6	7421.4	3308.3	17394.9	364.9	12589.3	0.0	46944.8
2006/07	6,100.9	138.7	800.1	5.5	4278.7	3279.0	17794.7	208.3	17281.5	46.3	49930.6
2007/08	6,276.9	55.2	714.3	14.5	3375.7	3865.9	23601.7	619.5	15380.1	6.9	55910.7

Source: NRB (2008a)

SITC Categories:

1. Foods and live animals
2. Tobacco and beverage
3. Crude materials, inedible except fuel
4. Mineral fuel and lubricants
5. Animals and vegetable oil and fats
6. Chemicals and drugs
7. Manufactured goods classified chiefly by materials
8. Machinery and transport equipment
9. Miscellaneous manufactured articles
10. Commodity and transactions not classified according to kind.

Over the ten years period, the share of food and live animals has shown a stable tendency cause it was Rs. 4464.0 million in the side of import and Rs. 1562.7 million in the side of export was 8.9% and 7% in 1998/99. But, in 2007/08 the share of food and live animals was RS. 6276.9 and R. 8554.0 in the side of export and import side has gone up to maximum value Rs. 10839.0 million and comparing this SITC 1 always import is greater than export.

Tobacco and beverage (SITC 2) has a minimum share. It look less than 1 percent of total import and export in fiscal year 2007/08 but comparing import to export is more than 18 times.

Crude materials, inedible except fuel (SITC 3) has shown declining tendency sharing 2.75% (485.5 million Rs.) in 1998/99 which fall to 1.1% (561.3 Million Rs.) in the export side and same in the import side. Although the amount is increased steadily in terms of money value but fall down in terms of sharing in the total import and total export.

Minerals fuels & lubricants (SITC 4), the share of export is always minimum amount in the total export value. But, in the import side, the share of SITC 4 to total import was between in 5 to 10 percent among the ten years. Although the amount is increasing steadily through out ten years, in regard to the structure of total imports, manufacturing items (SITC6-10) continued to lead the total imports. It was registered 76.3 percent (48593.6 million RS) in 1998/99 and 63 percent (85579.2 million RS.) in 2007/08. In the same way, the structure of total exports. It was registered 87.7 percent (15365.6 million RS) in 1998/99 and 80.6 percent (43474.1 million RS) in 2007/08. So, the manufactures products include SITC 6 to 10 took high share in both imports and exports trade but comparing imports to

exports, the trade deficits balance is increasing by RS 33228.1 million RS in 1998/99 and 42105.1 million RS in 2007/08.

In the scenario of Nepalese external trade, during the recent years, it took an encouraging trend. Total exports staged up significantly and total imports further declined as compared the previous years. Consequently, trade balanced improves further. Market increase in exports offset the decrease in imports and contributed total foreign trade to expand more. Improve trade deficits together with markedly increased transfer net attributed the current account balance to be in surplus breaking the current account balance to be in surplus breaking the record of continuous deficits of past several years. Surplus in the current account coupled with positive capital account balance contributed to attain a comfortable surplus in over all balance of payment.

Table No. 13
Import Trade by SITC Grouping
Fiscal year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal year	1	2	3	4	5	6	7	8	9	10	Total Export
1998/99	4464.0	500.9	3347.9	4717.1	2056.0	7193.0	25300.6	13027.6	3057.2	15.0	63679.3
1999/00	4785.8	508.6	4665.9	5549.3	2830.0	8686.8	28129.7	15301.1	3794.6	1.8	74253.6
2000/01	5400.5	590.7	5487.1	7160.3	2327.6	8504.2	44741.9	13794.9	4016.4	1529.8	93553.4
2001/02	4929.0	799.5	6976.2	9537.3	2025.8	11077.3	32601.6	16734.7	3974.0	346.6	89002
2002/03	7619.5	846.1	6246.7	8737.5	3329.0	12476.4	25638.0	18073.7	4302.4	266.0	87535.3
2003/04	10839.0	906.5	7012.4	9097.7	4446.0	14474.2	34420.0	20547.9	6682.8	78.2	108504.7
2004/05	5994.4	906.1	7559.6	11269.2	5589.2	12941.9	41188.0	23027.8	7210.2	0.8	115687.2
2005/06	6333.2	717.1	6712.7	15222.3	7887.5	122380.9	32889.1	19513.8	5670.3	62.1	217389
2006/07	9370.5	792.2	8479.3	19944.2	7750.5	14319.5	34888.2	20702.1	6582.7	1523.0	124352.2
2007/08	8554.0	10260	10550.6	21904.1	8634.4	16544.9	36510.5	25694.2	5103.8	1753.8	145510.3

Source: NRB (2008a)

SITC Categories:

1. Foods and live animals
2. Tobacco and beverage
3. Crude materials, inedible except fuel
4. Mineral fuel and lubricants
5. Animals and vegetable oil and fats
6. Chemicals and drugs
7. Manufactured goods classified chiefly by materials

8. Machinery and transport equipment
9. Miscellaneous manufactured articles
10. Commodity and transactions not classified according to kind.

4.3.4 Direction and Trends of Nepalese Foreign Trade:

A study of direction and trends of trade is significant because it indicates countries international relations, facilities for the trade and linking of nations. In the context of Nepal a study of direction and trends of trade is important to show that whether its trade is diversified or limited to a few regions or countries, and to see whether the country trades with capitalist regions only or with socialist and mixed economies like India as well. The direction and trends of foreign trade shows the share of export and import destination wise of exportable and importable commodities. A change in direction with the strategy of trade diversification (country and commodity wise) helps to narrow down the trade deficits and build a sound footing for the economic development of a country. Region wise exports indicate that Nepal is confined to limited markets. Such as North and Central America, Western Europe and India while export to SAARC countries and other regions are limited.

Nepalese export trade with India shows a steady growth during study period (1998/99 to 2007/08) except in the fiscal year 2006/07. In fiscal year 1998/99 total to India were 3124.3 million Rupees, more than ninth times, in 2007/08. On the other side, total export to overseas countries also shows an increasing tendency accounting 14514.9 million Rupees in 1998/99 as compared to 23133.6 million Rupees in fiscal year 2007/08.

Table No. 14
Total Foreign Trade Balance of Nepal with India and Overseas
Fiscal year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal year	Export			Imports		
	India	Overseas	Total	India	Overseas	Total
1998/99	3,124.3	14,514.9	17,639.2	19,615.9	44,063.6	63,679.5
1999/00	3,682.6	19,198.5	22,881.1	24,398.6	50,055.9	74,454.5
2000/01	5,226.2	17,410.3	22,636.5	24,853.3	68,700.1	93,553.4
2001/02	8,794.4	18,719.1	27,513.5	27,331.0	61,671.0	89,002.0

2002/03	12,530.7	23,145.6	35,676.3	32,119.7	55,405.6	87,525.3
2003/04	22,618.7	29,004.3	51,623.0	40,928.1	68,844.8	109,772.9
2004/05	26,030.2	29,623.9	55,654.1	55,025.4	60,661.8	115,687.2
2005/06	27956.2	18,988.6	46,944.8	56,622.1	50,766.9	107,389.0
2006/07	26,430.0	23,500.6	49,930.6	70,924.2	53,427.9	124,352.1
2007/08	30,777.1	23,133.6	53,910.7	78,739.5	57,537.6	136,277.1

Source: NRB (2008a)

Total export to overseas shows a steadily growth during fiscal year 1998/99 to 2005/06 and decreased remaining of rest years. Total export increased only 1.6 times in the fiscal year 2007/08 comparing the year of fiscal year 1998/99.

In the import side, India shows a steadily increasing tendency in the study period. During the study period, import of the India increased more than four times.

Figure No. 7
Total Foreign Trade with India and Overseas
Fiscal year 1998/99 to 2007/08

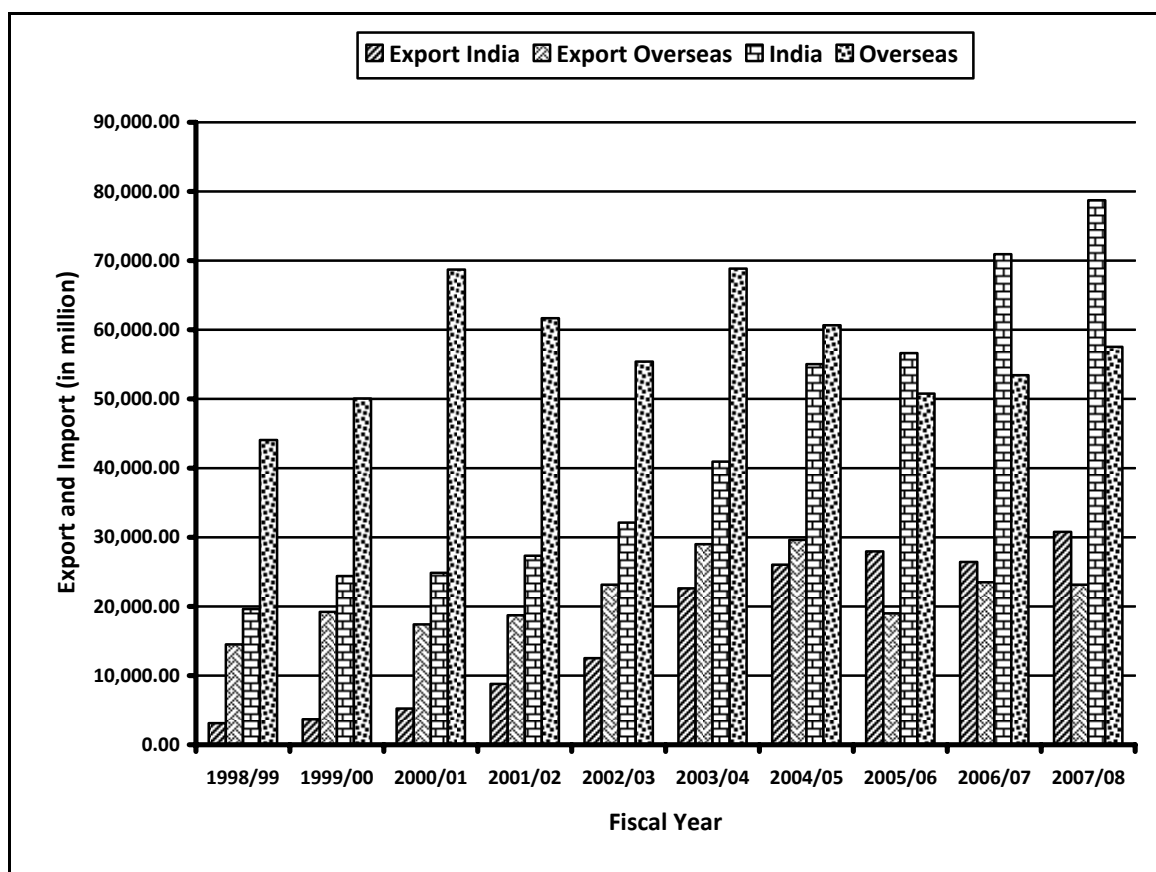
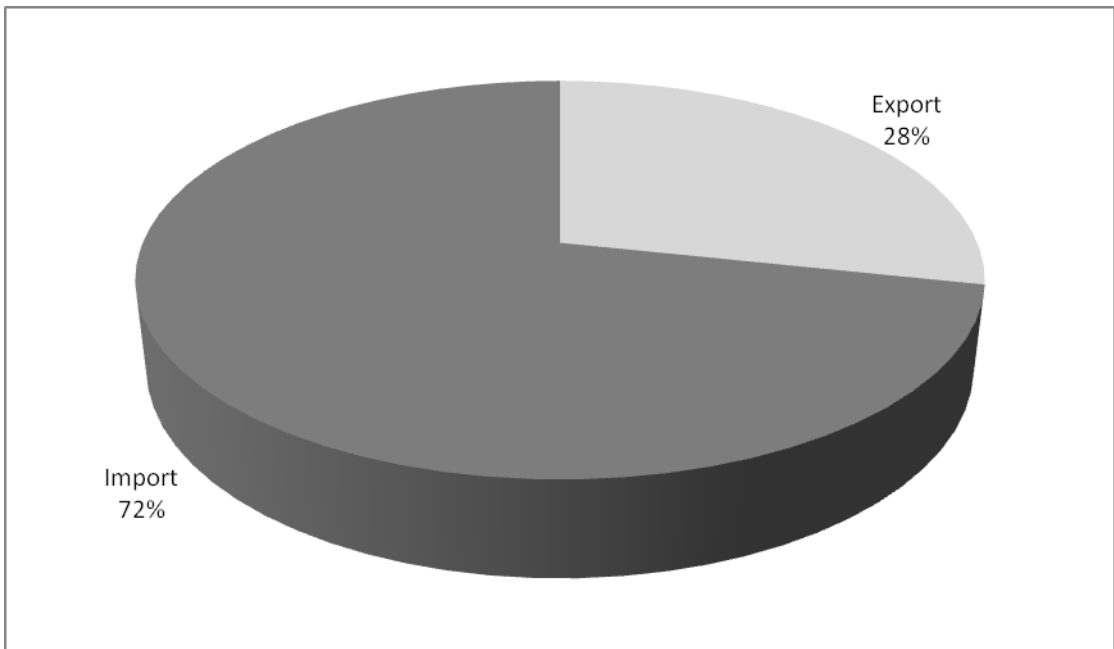


Figure No. 8
Total Share of Export and Import
Fiscal year 2007/08



Above figure no. 7 clearly shows about total foreign trade in the study period, the share of export of India and overseas are decreasing steadily. But comparing export to import in volume from India is growing huge trade deficit throughout the study period. From figure No. 8, export share is only 28% but import share is 72% in fiscal year 2007/08. Only showing the export and import of 2007/08 in Figure No.8, it is cleared that the share of export covered very small area and import covered more than three times or near three-fourth of total foreign trade.

Table No. 15
India and Overseas Export and Import Ratios
Fiscal year 1998/99 to 2007/08

Fiscal year	India			Overseas		
	Export (%)	Import (%)	Ratios	Export (%)	Import (%)	Ratios
1998/99	17.7	30.8	0.57	82.3	69.2	1.19
1999/00	16.1	32.8	0.49	83.9	67.2	1.25
2000/01	23.1	26.6	0.87	76.9	73.4	1.05
2001/02	32.0	30.7	1.04	68.0	69.3	0.98
2002/03	35.1	36.7	0.96	64.9	63.3	1.03
2003/04	43.8	37.3	1.17	56.2	62.7	0.90
2004/05	46.8	47.6	0.98	53.2	52.4	1.02
2005/06	59.6	52.7	1.13	40.4	47.3	0.85
2006/07	52.9	57.0	0.93	47.1	43.0	1.10
2007/08	57.1	57.8	0.99	42.9	42.2	1.02

Source: NRB (2008a) and Computation

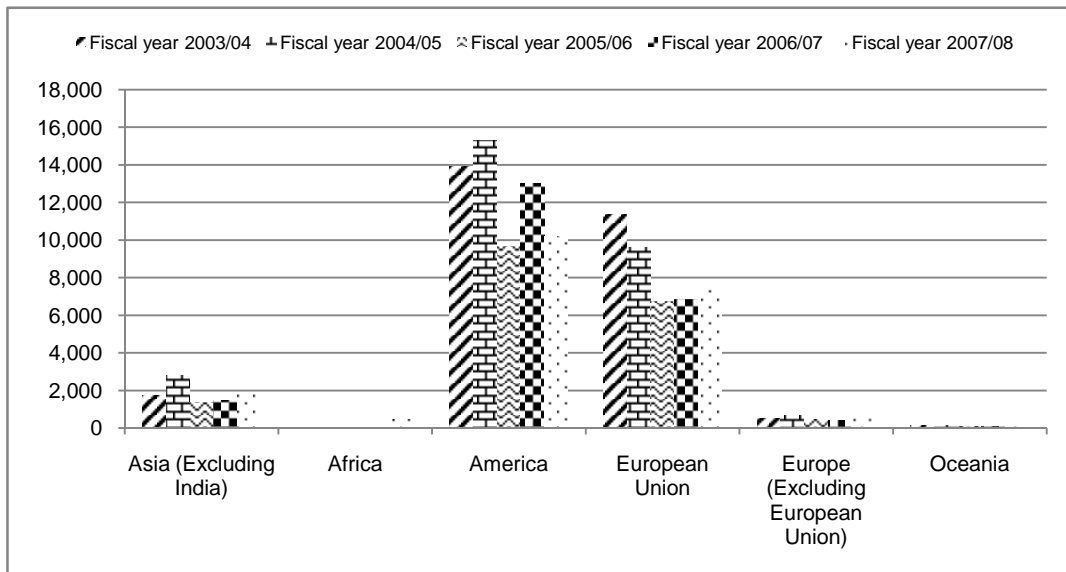
Table No. 16
Composition of Regions in the Total Overseas Exports of Nepal
Fiscal year 2003/04 to 2007/08

(Value in Million Rs.)

Regions	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08
Asia (Excluding India)	1,712	2,814	1,352	1,495	1,899
Africa	5	12	11	10	478
America	13,993	15,421	9,725	13,100	10,274
European Union	11,443	9,637	6,790	6,874	7,541
Europe (Excluding European Union)	525	665	457	402	639
Oceania	149	141	74	100	111
Total Export	27,827	28,690	18,409	21,981	20,942

Source: Trade Promotion Center and Nepal Rastra Bank

Figure No. 9
Total Overseas Exports of Nepal
Fiscal year 2003/04 to 2007/08



Above table no. 16 and figure no. 9 is about export trade of Nepal to Region-Wise like Asia (excluding India), Africa, America, European Union, Europe (excluding European Union), and Ocean Regions.

From both table and figure shows the maximum share of export trade, first in America and European Union import only ready made garments and woolen carpets took more than 70 percent in total export. It is not beneficial for developing country like Nepal for depending two major products. America has not given one of two, the quota of readymade garments from the beginning of 2005.

In other words, the shares of total export remaining regions are not satisfactory throughout study period. Nepal has to increase its export shares to these regions.

Due to land-locked feature, Nepal has to expand its trade in neighbouring countries by saving transport cost on both export import. And Nepal also has to expand its foreign trade in Africa and South America as well.

Table No. 17
Composition of Regions in the Total Overseas Imports of Nepal
Fiscal year 2003/04 to 2007/08

(Value in Million Rs.)

Regions	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08
Asia (Excluding India)	45,315	49,047	36,162	38,094	38,385
Africa	89	91	181	131	353
America	3,107	2,125	3,486	3,395	3,970
European Union	7,882	13,663	4,051	8,027	6,559
Europe (Excluding European Union)	11,385	947	1,305	1,176	1,413
Oceania	2,059	2,402	1,599	2,142	2,555
Total Export	69,837	68,275	46,784	52,965	53,235

Source: Trade Promotion Center and Nepal Rastra Bank

Table No. 18
Composition of Development Regions
in the Total Overseas Exports of Nepal
Fiscal year 2003/04 to 2007/08

(Value in Million Rs.)

Dev. Regions	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08
Eastern	4,778	5,940	5,090	7,416	6,814
Central	23,028	22,739	13,316	14,556	14,125
Western	8	11	-	8	2
Mid-Western	4	1	3	22	-
Far-Western	-	-	-	0	-
Total Export	27,818	28,691	18,409	22,002	20,941

Source: Trade Promotion Center and Nepal Rastra Bank

Above table no. 18 is related total import from different Development Regions. Nepal has divided in five Development Regions. The data has been taken latest five years from fiscal year 2003/04 to 2007/08. Nepal imported high share from Central Development Region throughout the study period. The figure has in million so imports from different regions below than one million gas not been included in table no. 15. Kathmandu International Airport and

Birgunj Customs are in this Central Development Region that it's taken the highest volume of total import.

Table No. 19
Composition of Development Regions
in the Total Overseas Imports of Nepal
Fiscal year 2003/04 to 2007/08

(Value in Million Rs.)

Dev. Regions	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08
Eastern	9,421	11,244	11,493	13,468	11,775
Central	40,884	40,830	35,151	38,519	40,612
Western	3,524	1,239	688	725	587
Mid-Western	259	445	249	253	241
Far-Western	11	2	3	-	20
Total Export	54,099	53,760	47,584	52,965	53,235

Source: Trade Promotion Center and Nepal Rastra Bank

Above table no. 19 shows the export trade from different development region from fiscal year 2003/04 to 2007/08. There are same trends as import table no. 15 Central Development took the maximum share of total export throughout the study period. The second share of export has Eastern Development Region. Form the table no. 16, the trends of export from different development regions are not differing but the contribution of share of other is not satisfactory.

Table No. 20
Composition of Development Regions
in the Total Overseas Exports of Nepal
Fiscal year 2003/04 to 2007/08

(in percentage)

Dev. Regions	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08	Average Percentage
Eastern	17.20	20.70	27.65	33.74	32.54	26.17
Central	82.75	79.30	72.33	66.22	67.45	73.61
Western	0.03	0.00	0.00	0.03	0.01	0.21
Mid-Western	0.02	0.00	0.02	0.01	0.00	0.01
Far-Western	0.00	0.00	0.00	0.00	0.00	0.00
Total Export	100	100	100	100	100	100

Source: Trade Promotion Center and Nepal Rastra Bank

Table No. 21
Nepal's Exports to SAARC Member Countries
Fiscal year 2003/04 to 2007/08

(Value in Million Rs.)

Country	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08
India	21,220	26,030	27,956	26,430	31,244
Bangladesh	127	521	237	411	421
Bhutan	42	25	27	53	78
Maldives	0	0	1	0	0
Pakistan	6	21	61	74	278
Sri-Lanka	0	0	0	0	0
Total	21,395	26,597	28,282	26,968	32,021
Total Export	49,561	55,246	47,387	50,011	54,417
% in Total Export	43.2%	48.1%	59.7%	53.9%	58.8%

Source: Trade Promotion Center and Nepal Rastra Bank

Above table no. 21 shows the export trade to SAARC member countries from fiscal year 2003/04 to 2007/08. There is also given total trade and percentage in total export of SAARC member countries. The share of SAARC countries is growing from 43.2% in fiscal year 2003/04 to 58.8% in 2007/08.

India covered more than 97% in export trade so Nepal unable to expand her trade diversification among the SAARC countries. The maximum share of total export to SAARC region was 59.2% in fiscal year 2005/06. Among the SAARC countries the share of export to Maldives and Sri Lanka are almost nil. The second main export country has Bangladesh with very small volume although Fulbari port facility.

Table No. 22
Nepal's Imports to SAARC Member Countries
Fiscal year 2003/04 to 2007/08

(Value in Million Rs.)

Country	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08
India	39,660	45,211	56,622	70,924	81,652
Bangladesh	561	203	643	335	671
Bhutan	40	522	85	36	22

Maldives	N	N	N	N	N
Pakistan	241	104	133	153	191
Sri-Lanka	52	294	161	105	139
Total	40,554	46,334	57,644	71,553	82,675
Total Export	113,687	118,787	108,635	128,228	138,753
% in Total Export	35.7%	39.0%	53.1%	55.8%	59.6%

Source: Trade Promotion Center and Nepal Rastra Bank

Note: N denotes less than one million.

Above table No. 19 shows the share of total import from SAARC countries from fiscal year 2003/04 has 35.7 and in fiscal year 2007/08 has 59.6% of total import. Comporting export to import huge trade deficit from India.

Table No. 23
Nepal's Imports to SAARC Member Countries
Fiscal year 2003/04 to 2007/08

(in percentage)

Country	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Fiscal year 2006/07	Fiscal year 2007/08
India	99.2	97.8	98.9	98.0	97.6
Bangladesh	0.6	2.0	0.8	1.5	1.3
Bhutan	0.2	0.1	0.1	0.2	0.2
Maldives	0.0	0.0	0.0	0.0	0.0
Pakistan	0.0	0.1	0.2	0.3	0.9
Sri-Lanka	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100

Source: Trade Promotion Center and Nepal Rastra Bank

The export in each and every plan has remained quite low and less effective in speeding up the total volume of trade. The trade export has increased over the various plans ranking from RS. 628.1 million in first plan to RS. 217411.7 million in ninth plan. Total import has steady growth in the subsequent plan till ninth plan. Trade balance deficit has also increasing trend but annual trade deficit improved in third plan over second plan. The total trade variation in ninth plan over plan was 82.30 percent. The share of export and import in total trade are 33.7 percent and 66.3 percent respectively in first plan. The total share of export tends to decrease from fourth plan to eighth plan and slightly increase in ninth plan.

Total exports increased from RS. 17.6 billion in fiscal year 1998/99 to RS.53.9 billion in fiscal year 2007/08. Between fiscal year 2006/07 and fiscal year 2007/08, exports to India went up by 16.4% while export to other countries fell by 1.6 percent. Still, the share of India in total exports remained at 57.1% in fiscal year 2007/08 compared to 52.9% in fiscal year 2006/07, while the share of other countries in total exports was placed at 42.9% in fiscal year 2007/08 compared to 47.1% on fiscal year 2006/07. In fiscal year 1998/99, the contribution of India and other countries to total exports was 17.7% and 82.3% respectively.

Total imports, on the other hand, went up to 136.3 billion in fiscal year 2007/08 from RS. 63.7 million in fiscal year 1998/99. While total imports catapulted by 9.6% in fiscal year 2007/08 in comparison to fiscal year 2006/07, imports from India and third countries soared by 11.0% and 7.7% respectively. Similarly, illustrated by table no. 2, the share of India in total imports stood at 57.8% while that of other countries remained at 42.2% in fiscal year 2007/08, compared to their shares of 30.8% and 69.2% respectively in fiscal year 1998/99.

Between fiscal year 1998/99 and 2007/08, trade deficit soared by 79%. However, when comparing fiscal year 2006/07 and fiscal year 2007/08, trade deficit has gone up by 10.7% and reached Rs. 86.4 billion. This was ascribed to the 7.8% rise in trade deficit with India and 15.0% rise in trade deficit with other countries.

An assessment of commodities according to SITC grouping does not display any noteworthy changes in the composition of goods exported between fiscal year 1998/99 and fiscal year 2007/08. As illustrated in table no. 12 accordingly, as in fiscal year 1998/99 manufactured goods classified chiefly by materials, miscellaneous manufactured articles and food and live animals are the major exportable items in descending order even in fiscal year 2007/08. The shares of these items in total exports stood at 43.8%, 28.5%, and 8.9%, respectively, in fiscal year 1998/99. Similarly, manufactured goods classified chiefly by materials, machinery & transport equipment, and mineral fuels & lubricants accounted for 26.8%, 18.9%, and 16.1% of total imports, respectively, in fiscal year 2007/08. Their respective shares in fiscal year 1998/99 were 39.7%, 20.5 percent and 7.4%.

In terms of product diversification, while comparing fiscal year 2006/07 to 2007/08, the principal commodities that contributed to the increase in exports to India included soap, toothpaste, thread M.S. pipe and plastic utensils. However, Exports of vegetable ghee, pulses, cardamom, copper wire rod, pashmina and ayurvedic medicine to India fell. On the other hand, the major commodities that contributed to the decline in the exports to other countries were ready made garments and pashmina. There was an increased in the exports of woolen carpets, handicrafts, tanned skin, pulses and silverware and jewelers to other countries. It should be noted that between fiscal year 1998/99 and 2007/08 that some uniformity has been maintained in the export intensity with regard to goods exported to India although some fluctuations in the annual export of various commodities existed.

With regard to exports to other countries, Nepal's export to other countries till now was dependent on primary on exports carpets and readymade garments. While carpets and readymade garments formed 88.6 percent of total exports to other countries in fiscal year 1998/99, these two items accounted for 65.8% in fiscal year 2007/08. In between fiscal year 1998/99 and 2007/08, there has not been much significant change in the commodity composition of exports to overseas countries. One major exportable commodity that emerged during this period was pashmina whose export value amounted to RS. 1.1 billion in fiscal year 2007/08.

The annual import requirements of Nepal are quite volatile in nature, and primary consists of development goods machinery and equipment, consumer items, Petroleum products and industrial raw materials. The import of gold has been declining since fiscal year 2001/02 and considerably after fiscal year 2004/05 following the liberalization of gold imports in India. Compared to exports, imports are diversified and several commodities possess similar shares of total imports in the top rung, especially with regard to imports from overseas.

While comparing fiscal year 2007/08 and 2006/07, the major from India that witnessed an increase include chemicals, fertilizer, medicine, other machinery & parts, vehicles & spare parts, electrical equipment, petroleum products, M.S. wire rod, M.S billet, and cold rolled sheet in coil. On the other hand, imports of textiles, cement, rice agricultural equipment and parts, hot rolled sheet in coil and thread

from India dropped. With regard to imports from third countries, the principal items that exhibited an augmentation included betel nut, crude palm oil, crude soybean oil, chemical fertilizer, writing and printing paper, copper wire rod and & spare parts, other machinery and parts and thread. Likewise, the following items disclosed a fall in imports from other countries: raw silk, textiles, readymade garments, transport equipment and parts, video television and parts, computer parts, medical equipment & tools and medicine

There exists a geographical concentration in Nepal's exports, the top four trading partners in fiscal year 2007/08 being India, USA, Germany, and United Kingdom. Analogously, the countries imports have been primary from India, Singapore, China and Thailand.

In aggregate, the following conclusions may be derived relating to the foreign trade position of the country:

1. No significant change has been recorded with regard to the composition of especially with regard to overseas countries.
2. No noticeable change has been observed with respect to the diversification of export market.
3. The export/import ratios, which indicate the degree of trade-off between exports and imports, have been slightly going down after fiscal year 2004/05 as shown table no. 7.
4. Table no. 11 indicates that there have been some fluctuations in the contribution of exports to the GDP. While exports/GDP stood at 8.0 percent in fiscal year 1998/99, it rose to 13.6% in fiscal year 2003/04 before going down to 10.9% in fiscal year 2007/08. Similarly, the contribution of imports in GDP was 29.1% in fiscal year 1998/99 to 80.6% in fiscal year 1998/99 to 19.4% in fiscal year 2007/08. Conversely, the share percent in fiscal year 1998/99 to 19.4% in fiscal year 2007/08.

4.4 Factors Affecting Nepal's Foreign Trade:

Nepal is land-lucked and developed country. Although foreign trade gives average 10% GDP of national productions, Nepal has been suffering huge deficits due to various reasons like trade and transit problems. Nepal

has just entered into WTO membership, SAFTA and BIMST/EC as multilateral and bilateral agreement and cooperation. Nepal may be the point for the big developed two countries like India and China. It is the main issue point towards the recent year.

Transit is an unquestionable right of land-locked country like Nepal and which is essential for the flow of trade, is seriously constrained by the neighboring SAARC member country India. The factor affecting and major issues of Nepal's foreign trade can be discussed as below:

1. Nepal lacks genuine exportable items. There are only two or three major items for export—readymade garments and woolen carpets—the account more than 70 percent of the total overseas trade. So we should introduce more exportable items for improving foreign trade.
2. It seems to feel that the research and development activities regarding the development of exportable products in Nepal is quite lacking. There is only one government agency undertaking such responsibility—Trade Promotion Centre (TCP)—but it lacks such activities.
3. Information that are essential for better decision-making are seriously lacking in Nepal. Most of the information on policy approach and fundamental decisions are not transparent in Nepal. They are stored in the dark basket by the responsible authorities both government and private sectors.
4. Nepal's trade with SAARC member countries is not satisfactory; India alone accounts for more than 97% sectors.
5. India has recently imposed quota system against the major export items of Nepal to India like vegetable ghee, acrylic yarn, copper products and zinc oxide,
6. Nepal has huge trade deficits with both India and overseas countries. The value of Nepal's trade is more than the country's export value. Nepal has trade deficits even with Tibet, the Autonomous Region of China.
7. No Symptoms have yet seen that Nepal's trade situation will improve in the near future due to the country's internal political crises and economic downward.
8. Nepal is China-locked in the north. However, Chinese ports are about 5,000 kms from the Nepalese border. The snowy range of

Himalayas stands as a transit barrier between these two giant countries. Tibet, which is one of the nearest neighbors of Nepal, is still in the earliest state of its economic development and lacks transportation and other physical facilities.

9. Nepal has trade and transit agreements with the People's Republic of Bangladesh. Bangladesh has agreed to provide its Chittagaon and China ports for Nepali cargo. The Bangladesh ports authorities in Chittagaon, Khulna and Chalna are ever ready to assist Nepal in handling the Nepal-bound cargo. Regarding their existing limited storage space in the port of Chittagaon, the Bangladesh River Transport Corporation is willing to haul Nepalese cargo through their well-developed barge and lighting services. The Bangladesh railways have been providing a rebate of 25% in its tariff for Nepalese cargo to compensate for the longer distance compared to the Calcutta route. However, the main obstacle on using the Bangladesh transit route lies in the Radhidapur/Biral crossing between India and Bangladesh, where Nepal has no liaison office. Beside this, Nepal traders have to hold valid passport and visa to launch trade with and Bangladesh. Again, Bangladesh transit route suffers from several basic logistic problems and during the transit in India, Indian police and officials give unnecessary obstacles.
10. Due to the uncomfortable geo-political position of Nepal, it has to accept Calcutta port as the only exit or entrance point for Nepali cargo, for which Nepal is compelled to accept the India's hard conditions too. The freedom of transit, which was accorded by the Trade and Transit Agreement of 1960, has not brought yet into actual practice. Whenever, Nepal raises the question of such facility, the Indian government always tries to push unnecessary problems and pressure to Nepal and try to trade reciprocal advantage.
11. The Nepalese transit-traffic that is subject to the Indian Customs Act for Nepal bound cargo is not justifiable. The Nepalese do not have their separate customs zone. The security problem is out of Nepal's hand. The institutions created in Nepal for transit are not able to deal with such policy issues with the Calcutta authorities.
12. Operations at Calcutta port pose serious difficulties to Nepalese shippers due to lack of physical infrastructure, congestion in the berths, jetties and warehouses, frequent labor unrest, lack of

adequate security, bureaucratic procedures, delays in clearance, shortage of railway wagons and host of other r problems.

13. Nepal may be the transit point of two giant countries like India and China but to dot this role, Nepal has not sufficiently infrastructure transit facilities, air cargo facilities and other related activities.
14. Nepal can grave benefits in the global market as the WTO's least developed country but this job has more challenges to obtain its arrangements.
15. To do her better performance of forging trade, there should be quite political stability in the nation, lot of exportable goods, huge infrastructures, high productivity, sufficient transit, banking and insurance facilities, technological ad industrialization nation, participating in freight trade fair and exhibition regularly etc and so on. But we have not able to provide these kinds of activities for the trading sectors.

4.5 Analytical Study of Nepalese Foreign Trade Policies and Reform:

After the restoration of democracy in Nepal, the elected government introduced new trade policy. Their changing environments of liberalization trade in globalize Nepal had also established Trade Promotion Centre (TPC) for promoting exportable items and trade diversification. Nepal has joined bilateral and multilateral cooperation like SAARC, SAPTA, SAFTA, BIMSTEC and UNCTAD and WTO for international trading performance. Nepal has done bilateral trade agreement with more than 17 countries and Nepal can be traded in more than 80 countries. Although Nepal can diversify its foreign trade, Nepal is suffering huge trade deficits due to various reasons. The reason may be inadequate policies about the foreign trade.

After entering WTO, BIMSTYEC and SAFTA etc., Nepal has to reduce its tariff and non-tariff barriers according to international arrangement. Existing policies and commitment may be outdated for international trade in the beginning of 21st century. To address the rules, regulations, agreements and arrangements of WTO and other cooperation, Nepal should change its some policies, acts and other strategies immediately.

4.6 Major Findings:

From this research writing, we have found the following major issues such as:

- Nepal is least developed and land-locked country so that Nepal has suffered transit problems for India and overseas trade.
- The readymade garments and woolen carpets are the major exportable goods of overseas trade. Its take more than 70 percentage in overseas trade so it is not beneficial for the under developing country like Nepal.
- Nepal's trade with SAARC member countries is not satisfactory. India alone accounts for more than 97 percent of the total SAARC trade.
- Dry ports, transit facilities, infrastructure, policies and commitments are not satisfactory for the foreign trade.
- Nepal has huge trade deficits with both India and overseas countries. The value of Nepal's trade is more than the countries export value. Nepal has trade deficit even with Tibet, the autonomous region of china.
- The sluggish growth of export price relative the rapid growth of import price leave Nepal's trends of trade always unfavorable, less than 1.
- Nepal can expand her trade diversification at least country wise and commodity wise.
- GoN should reduce her tariffs and formulate adjusted acts and policies immediately as per WTO and others commitments.
- Nepal has primary exportable goods but manufactured, deluxe, luxury and other sophistic and valuable items are being imported form other countries.
- Most of the labour, skilled and semi-skilled is form India. Rough estimation of the Indian labours in these factories is more than 50 percent. Nepalese labour has been utilized only in simple works like thread cutting, checking, packaging, and for port rage.
- There seems to have no direct contact of the buyer of readymade garment in U.S.A.
- Raw materials used almost all comes form India despite of so many mills and textile produce cotton fabrics in Nepal.

- The production of readymade garment is not for the local market. All of them are of high fashion and are subject to exporting to the America and European world. The general people have nothing to do with them. The amount of export is very high and it is not the way to be first amounting the hard currency generating export of Nepal.
- Readymade garments productions are in a large scale and the export of it form Nepal is a new phenomenon. In this initial period, it has welcomed many industrialists, labour, capital and equipments form India. As such, major benefits our of this sector have been utilized by the Indians and Nepal has become only the media.

Chapter 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary:

Nepal is land-locked country based on agrarian economy, low per capita income, high population growth, dependency on foreign trade and aid, continuous deficit in balance of payment are the features of the Nepalese economy which places itself among the poorest country in the world. Decreasing agricultural productivity and growing population is facing a number of problems tapped with how to raise its economy and how to confront the decreasing balance of payment position. Having the poor industrial base, it has been depending on the foreign trade.

As the lack of technology and capital, Nepal usually imports capital equipment's, daily consumable goods, technical know-how, chemicals, means of transport and communication etc. And, it exports the raw materials and labor intensive industrial products.

The major commodity exports from Nepal are woolen carpets, readymade garments, goatskins and hides, pulses, niger seeds, handicrafts, leather goods and woolen goods. The export figures of raw goods are decreasing in comparison to manufactures goods. On the other hand, the labor-intensive industries are getting popularity in internal economy and external markets.

This thesis has been divided into five chapters and other subchapters for making fruitful and effective. The main objective of the study is to analyze about trends and policies of Nepal's foreign trade.

To justify thesis writing and the collected review of literatures, there should be necessary to conduct research methodology. Therefore, in chapter three, the analytical and descriptive research methodology have been applied with taking secondary data by sampling method through concerned department like Trade Promotion Center (TPC), Nepal Rastra Bank (NRB), Ministry of Industry, Commerce and Supply (MoICS), Ministry of Finance (MoF) and others.

For analyzing and presenting the collected data simple statistical and mathematical tools has been used. For the descriptive analysis, foreign trade problems and issues and policies reform is critically analyzed.

Data has been taken from fiscal year 1998/99 to 2007/08 as country-wise, commodity-wise, region-wise, plan-wise, SITC-wise from TPC and NRB. The collected data has been presented in both tables and figures. The trade both export and import is growing steadily but comparing export to import, the volume of export is lesser than the import i.e. less than 1. Comparing India and overseas about export and import, the share of India is growing steadily throughout the study period but overseas trade has not same direction.

Nepal's foreign trade to the SAARC countries, India has taken maximum share (not less than 97%) in both export and import. The region-wise trade direction gives us the view that export to USA has higher and excluding India has higher in the side of import.

After entering World Trade Organization (WTO) membership, Nepal has been suffering both challenges and opportunities in foreign trade. Nepal has competitive advantages in agricultural and small and medium scale industries. The approach of private institution would play a vital role in the development of these sectors. Private organizations should give emphasis in the use of modern technologies quality management and hardcore professionalism.

There exists a geographical concentration in Nepal's exports, the top four trading partners in fiscal year 2007/08 being India, USA, Germany, and United Kingdom. Analogously, the country's imports have been primary from India, Singapore, China, and Thailand.

5.2 Conclusions:

The major objective of the study is to provide a bird's view of various aspects of Nepalese trade with India, Tibet and Overseas. The volume of trade found to be increased steadily but the weight of export in total volume of trade is very low. The analysis of Nepal's foreign trade has shown that landlockness primary nature of export, poor export performance, unfavorable terms of trade, poor industrialization are some of her worsen realities in the foreign trade sector of Nepal. The share of export and import in the total volume of trade in fiscal year 2007/08 was 28.35% and 71.65% respectively, which indicates a more dominance of import in Nepalese foreign trade.

1. Although trade is considered as an engine of growth in economic development of a country, in Nepal there prevails a big gap between the objectives and vision and the current state of affairs in the trade sector.
2. Though Nepal is already a member of the WTO, the institutional and legal structures to implement the WTO agreement have not been properly developed.
3. Market and product concentrations of export led to volatile export proceeds. Structural difficulties of trade related services and infrastructures than obstructed to materialize potential comparative advantages.
4. Analysis of Nepal's foreign trade has shown the share of export and import in the total volume of trade in fiscal year 2007/08 28.35% and 71.65% respectively, which indicates a more dominance of export in Nepalese foreign trade.
5. The ratio of foreign trade export its import is always less than 1, which clearly shows import exceeding. It is not beneficial for the developing country like Nepal. The huge trade deficit affects for our economic development.
6. The trends of foreign trade of Nepal, Nepal can diversify its trade country-wise as well as commodity-wise after the restoration of democracy system of Nepal.
7. But Nepal is a primary product producing country. The export side, only readymade and carpet products have taken more than 70% share and America and Germany two foreign countries hold more share of oversea export.
8. Nepal entered into WTO after one year and also entered into SAFTA, BIMSTEC. Now, it is growing to build transit point of India and China, which is more beneficial for developing and land-locked country.
9. The plan-wise scenario also shows us the trade is increased but in the comparison exports to import, Nepal is not enabling to be balance of trade.
10. The direction of foreign trade shows the share of exportable and importable commodities. A change in direction with the strategy of trade diversification helps to be narrow down the trade deficit and build a sound and strong economic development of the country.

11. The average Gross Domestic Production (GDP) of national development, foreign trade trades 10% out of national income.
12. Nowadays, the share of India in foreign trade is growing but third country is not equally growing due to entering WTO and others transit barriers. The share of foreign trade in SAARC country, India has maximum in both export and import side (not below 97% of that sector). Now it is also issuing point about foreign trade.
13. Nepalese policy regime has not been very effective in improving trade competitiveness. Although, policy measures have been diversification of export markets, these have hardly been executed.
14. Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the country in improving its international competitiveness.
15. The movement of trends of foreign trade of Nepal is not favorable during the study period, which clearly shows that Nepal is still far away from gains of international trade.
16. The sluggish growth of export price relative the rapid growth of import price leave Nepal's trends of trade always unfavorable, less than 1.
17. As a whole, Nepal's foreign trade situation suggests that government immediately take concerted steps to expand its trade and improve the country's foreign trade trends in the year to come with the help of private sector. The delay decision making in this regard may well prove to be quite costly to nation. The policies related foreign trade would also change according to foreign trade demand.

5.3 Recommendation:

In the light of above observation about comparative study on the trends and policies of Nepal's foreign trade, the following points deserve special consideration:

1. It is necessary to make appropriate export plan with production plan of the country, which helps to increase productivity and exportable goods. Therefore, the comprehensive survey should be conducted to inquiry the whole wealth of nation.

2. GoN should workout bilateral agreements with importing countries for fixing of quota of export and diversification of products, and for possible adjustments in GSP tariff application to compensate for transport cost differentials arising from Nepal's land-locked position.
3. Dry ports, transit facilities, infrastructure would be made soon for helping foreign trade and sustains the existing facilities.
4. Participating in international fairs and sending trade sending trade delegation to potential markets as well as increased publicity for Nepalese products in international media will help to expand the market of Nepalese products.
5. GoN should negotiate with India officials on the matters reducing prevailing port charges, simplification of customs procedures about the transit facilities for third countries.
6. Private sectors should be given reasonable facilities and incentive because it plays dominant role in the country's export trade. They often complain that the government has never been able to fulfill its commitments: such situation should not be developed in the country.
7. Nepal is land-locked, it must not depend only on Calcutta port for its foreign trade, it should developed and searched for alternative routes in other countries as well, including the northern neighboring country China. The best possible option is using the Fulbari Bangladesh. To expand the favorable foreign trade, Nepal should improve its trade and transit treaty with India.
8. Since Nepal has been suffering from fundamental deficit in its balance of trade. To improve it, Nepal should increase exports and reduce imports. Export can be encouraged by improving the quality of products, reducing cost of production, generating export surplus, encouraging research and development, re-obtaining quota system of garment in USA. On the other hand to reduce import, indigenous production of import substitution should be encouraged by adopting improved indigenous technology curtailing non-essential and luxurious imports and controlling population. It should also diversify its imports and exports markets and products via trade agreements and developing friendly relation to other countries.
9. Nepal has just entered into WTO membership. So Nepal should arrange its own act, rules and regulations, different trade and

industrial acts and policies, tariff and non-tariff barriers, product price according to the requirement of WTO objectives and policies. These procedures should be done for SAFTA, BIMSTEC and other bilateral agreement also.

10. GoN should simplify the procedures for exporters by establishing a single office, which can issue trade documents required by the agencies concerned. Government should adopt international procedures regarding banking and insurance.
11. Nepal is the second richest country of hydro-electricity of the world. Nepal should sell its hydro-electricity to the neighbor countries for earning foreign currency and the reduction of balance of trade. Many foreign investors as well as Non-Resident Nepalese (NRN) are interested to jointly invest in hydro-electricity projects. Therefore, GoN should introduce a special policy for foreign investors and NRN.
12. Nepal is being trade of green vegetable and fruits to the golf countries, Thailand, Singapore and Malaysia etc. The salt trading corporation should establish a branch office in Doha, Qatar for promoting green vegetable and fruits. So GoN should give full facilities and arrangement to exporters of these types of products.
13. Nowadays the world is like a small village by global networking. Nepal cannot be isolate from it. The e-commerce business is being popular. Nepal has to grab foreign market through running e-commerce business in the western countries.
14. The garments and woolen carpets has been hold maximum export shares in overseas trade of Nepal. It is not beneficial for the developing and land-locked country like Nepal. So the GoN should take actions seriously for expanding other exportable products in the third countries.
15. Nepal's foreign trade situation suggests that government immediately should take concerted steps to expand its trade and improve the country's foreign trade trends in the year to come with the help of private sector. The delay in decision making in this regard may well prove to be quite costly to nation. The policies related foreign trade would also change according to foreign trade demand.
16. Nepalese policy regime has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been

executed. Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the country in improving its international competitiveness. Therefore, Nepal has to more diversify her both country wise and commodity wise of exportable goods.

17. Although trade is considered as an engine of growth in economic development of a country. In Nepal, these prevails have a big gap between the objectives and vision and the current state of affairs in trade sector. So GoN should match its objectives and vision with real output of it.

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ABBREVIATIONS

A.D.B./N	:	Agriculture Development Bank Nepal
ATC	:	Arrangement on Textiles and Clothing
BIMSTEC	:	Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation
BoP	:	Balance of Payment
CBS	:	Central Bureau of Statistics
CEDA	:	Centre for Economic Development and Administration
EEC	:	European Economic Community
e.g.	:	example gratia, for example
ESCAP	:	Economic and Social Commission for Asian and Pacific
EEZs	:	Especial Economic Zones
Etc.	:	etceteras, and so forth
FNCCI	:	Federation of Nepal Chambers of Commerce and Industry
GATT	:	General Agreement on Trade and Tariffs
GDP	:	Gross Domestic Production
GoN	:	Government of Nepal
Ibid.	:	Ibidem, in the same place
ITC	:	International Trade Centre
i.e.	:	idest, that is
LDC	:	Least Developed Country
LTA	:	Long-term Arrangement
MFA	:	Multi-fiber Arrangement
MoICS	:	Ministry of Industry, Commerce and Supply
MoF	:	Ministry of Finance
NCC	:	Nepal Chamber of Commerce
NCC	:	Nepal Commerce Campus
NPC	:	National Planning Commission
OECD	:	Organization of Economic Cooperation and Development
Op. cit.	:	Opere citato, in the work mentioned

SAARC	:	South Asian Association for Regional Co-operation
SAFTA	:	South Asian Free Trade Arrangement
SAPTA	:	South Asian Preferential Trade Agreement
SITC	:	Standard International Trade Classification
STCL	:	Salt Trading Corporation Limited
TBT	:	Technical Barriers to Trade
TPC	:	Trade Promotion Centre
TU	:	Tribhuvan University
UN	:	United Nation
UNCTAD	:	United Nations Conference on Trade and Development
WTO	:	World Trade Organization

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Total Foreign Trade Balance of Nepal Fiscal Year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal Year	Total Exports	Total Imports	Grand Total	Trade Deficits
1998/99	17,639.2	63,679.5	81,318.7	(46,040.3)
1999/00	22,881.1	74,454.5	97,335.6	(51,573.4)
2000/01	22,636.5	93,553.4	116,189.9	(70,916.9)
2001/02	27,513.5	89,002.0	116,515.5	(61,488.5)
2002/03	35,676.3	87,525.3	123,201.6	(51,849.0)
2003/04	51,623.0	109,772.9	161,395.9	(58,149.9)
2004/05	55,654.1	115,687.2	171,341.3	(60,033.1)
2005/06	46,944.8	107,389.0	154,333.8	(60,444.2)
2006/07	49,930.6	124,352.1	174,282.7	(74,421.5)
2007/08	53,910.7	136,277.1	190,187.8	(82,366.4)

Source: NRB (2008a)

**Total Foreign Trade Balance of Nepal with India and Overseas
Fiscal Year 1998/99 to 2007/08**

(Value in Million Rs.)

Fiscal Year	Export			Imports		
	India	Overseas	Total	India	Overseas	Total
1998/99	3,124.3	14,514.9	17,639.2	19,615.9	44,063.6	63,679.5
1999/00	3,682.6	19,198.5	22,881.1	24,398.6	50,055.9	74,454.5
2000/01	5,226.2	17,410.3	22,636.5	24,853.3	68,700.1	93,553.4
2001/02	8,794.4	18,719.1	27,513.5	27,331.0	61,671.0	89,002.0
2002/03	12,530.7	23,145.6	35,676.3	32,119.7	55,405.6	87,525.3
2003/04	22,618.7	29,004.3	51,623.0	40,928.1	68,844.8	109,772.9
2004/05	26,030.2	29,623.9	55,654.1	55,025.4	60,661.8	115,687.2
2005/06	27,956.2	18,988.6	46,944.8	56,622.1	50,766.9	107,389.0
2006/07	26,430.0	23,500.6	49,930.6	70,924.2	53,427.9	124,352.1
2007/08	30,777.1	23,133.6	53,910.7	78,739.5	57,537.6	136,277.1

Source: NRB (2008a)

Total Foreign Trade Balance of Nepal Fiscal Year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal Year	Exports	Percentage	Imports	Percentage	Total Trade
1998/99	17,639.2	21.7%	63,679.5	78.3%	81,318.7
1999/00	22,881.1	23.5%	74,454.5	76.5%	97,335.6
2000/01	22,636.5	19.5%	93,553.4	80.5%	116,189.9
2001/02	27,513.5	23.6%	89,002.0	76.4%	116,515.5
2002/03	35,676.3	29.0%	87,525.3	71.0%	123,201.6
2003/04	51,623.0	32.0%	109,772.9	68.0%	161,395.9
2004/05	55,654.1	32.5%	115,687.2	67.5%	171,341.3
2005/06	46,944.8	30.4%	107,389.0	69.6%	154,333.8
2006/07	49,930.6	28.6%	124,352.1	71.4%	174,282.7
2007/08	53,910.7	28.3%	136,277.1	71.7%	190,187.8

Source: Trade Promotion Center and Nepal Rastra Bank

**India and Overseas Export and Import Ratios
Fiscal Year 1998/99 to 2007/08**

Fiscal Year	India			Overseas		
	Export (%)	Import (%)	Ratios	Export (%)	Import (%)	Ratios
1998/99	17.7	30.8	0.57	82.3	69.2	1.19
1999/00	16.1	32.8	0.49	83.9	67.2	1.25
2000/01	23.1	26.6	0.87	76.9	73.4	1.05
2001/02	32.0	30.7	1.04	68.0	69.3	0.98
2002/03	35.1	36.7	0.96	64.9	63.3	1.03
2003/04	43.8	37.3	1.17	56.2	62.7	0.90
2004/05	46.8	47.6	0.98	53.2	52.4	1.02
2005/06	59.6	52.7	1.13	40.4	47.3	0.85
2006/07	52.9	57.0	0.93	47.1	43.0	1.10
2007/08	57.1	57.8	0.99	42.9	42.2	1.02

Source: NRB (2008a) and Computation

**Plan-wise Scenario of Total Foreign Trade
First Plan to Tenth Plan (in percentage)**

(Value in Million Rs.)

Plan	Exports	Imports	Total Trade	Balance of Trade
First Plan (1956/57–1960/61)	628.1	1,237.2	1,865.3	(609.1)
Plan Gap Year (1961/62)	256.2	444.4	700.6	(188.2)
Second Plan (1962/63–1964/65)	1,019.5	2,027.4	3,046.9	(1,007.9)
Third Plan (1965/66–1969/70)	2,256.1	3,353.0	5,609.1	(1,096.9)
Fourth Plan (1970/71–1974/75)	3,127.1	5,549.0	8,676.1	(2,421.9)
Fifth Plan (1976/76–1979/80)	5,844.0	12,824.1	18,668.1	(6,980.1)
Sixth Plan (1980/81–1984/85)	8,676.7	29,928.9	38,605.6	(21,252.2)
Seventh Plan (1985/86–1989/90)	19,535.5	68,704.6	88,240.1	(49,169.1)
Plan Gap Year (1990/91–1991/92)	21,094.0	55,166.5	76,260.5	(34,072.5)
Eighth Plan (1992/93–1996/97)	96,716.7	322,463.8	419,180.5	(225,747.1)
Ninth Plan (1997/98–2001/02)	217,411.7	509,376.4	726,788.1	(291,964.7)
Tenth Plan (2002/03-2006/07)	311,217.4	795,983.7	1107,201.1	(484,766.2)

Source: Economic Survey, 2008, TPC

Plan-wise Scenario of Total Foreign Trade 1st Plan to 9th Plan

(Value in Million Rs.)

Plan	Exports	Imports	Total Trade	Export (%)	Import (%)	Total
First Plan (1956/57–1960/61)	628.1	1,237.2	1,865.3	33.67%	66.33%	100.00
Second Plan (1962/63–1964/65)	1,019.5	2,027.4	3,046.9	33.46%	66.54%	100.00
Third Plan (1965/66–1969/70)	2,256.1	3,353.0	5,609.1	40.22%	59.78%	100.00
Fourth Plan (1970/71–1974/75)	3,127.1	5,549.0	8,676.1	36.04%	63.96%	100.00
Fifth Plan (1976/76–1979/80)	5,844.0	12,824.1	18,668.1	31.30%	68.70%	100.00
Sixth Plan (1980/81–1984/85)	8,676.7	29,928.9	38,605.6	22.48%	77.52%	100.00
Seventh Plan (1985/86–1989/90)	19,535.5	68,704.6	88,240.1	22.14%	77.86%	100.00
Eighth Plan (1992/93–1996/97)	96,716.7	322,463.8	419,180.5	23.07%	76.93%	100.00
Ninth Plan (1997/98–2001/02)	217,411.7	509,376.4	726,788.1	29.91%	70.09%	100.00
Tenth Plan (2002/03–2006/07)	311,217.4	795,983.7	1107,201.1	28.11%	71.89%	100.00

Source: Economic Survey 2007/08, 2008, TPC

**Total Indicators
(in percent with GDP)**

Fiscal Year	Exports /Import	Export/ GDP	Import/ GDP	Trade Deficits/ GDP	Manufactured Exports/Total Export	Primary Export/Total Export
1998/99	27.7	8.0	29.1	-21.0	87.1	12.9
1999/00	26.7	8.0	29.9	-21.9	85.0	15.0
2000/01	24.2	8.1	33.4	-25.3	83.9	16.1
2001/02	30.9	9.1	29.2	-20.4	79.0	21.1
2002/03	40.8	10.4	25.6	-15.2	78.0	22.0
2003/04	47.6	13.6	28.6	-15.0	83.6	16.4
2004/05	48.1	13.5	28.1	-14.6	82.8	14.4
2005/06	43.7	11.1	25.4	-14.3	71.7	28.3
2006/07	40.2	10.9	27.3	-16.3	77.3	22.7
2007/08	39.6	10.9	27.5	-16.6	80.1	19.9

Source: NRB (2008) and Computation

Export Trade by SITC Grouping Fiscal Year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal Year	1	2	3	4	5	6	7	8	9	10	Total Export
1998/99	1,562.7	11.3	485.5	0.0	214.1	302.3	9260.3	37.1	5765.8	0.1	17639.2
1999/00	1,946.6	9.7	768.7	1.3	251.3	640.4	10455.7	35.2	5772.2	0.0	19881.1
2000/01	2,261.7	14.9	663.5	1.4	312.6	1353.4	11028.6	59.6	6540.3	0.5	22636.5
2001/02	3,123.2	22.8	487.1	20.9	2136.3	1968.5	11637.1	58.0	8059.6	0.0	27513.5
2002/03	3,724.5	50.0	469.9	0.5	3229.7	2804.0	13539.6	97.8	11392.8	0.0	35676.3
2003/04	4,240.5	117.2	561.9	2.2	3597.2	3933.2	15838.7	390.8	21509.2	0.0	49822.7
2004/05	4,776.6	75.6	751.1	1.3	4104.0	4041.7	18909.3	343.6	22650.9	0.0	55654.1
2005/06	5,094.2	145.7	624.5	1.6	7421.4	3308.3	17394.9	364.9	12589.3	0.0	46944.8
2006/07	6,100.9	138.7	800.1	5.5	4278.7	3279.0	17794.7	208.3	17281.5	46.3	49930.6
2007/08	6,276.9	55.2	714.3	14.5	3375.7	3865.9	23601.7	619.5	15380.1	6.9	55910.7

Source: NRB (2008a)

SITC Categories:

1. Foods and live animals
2. Tobacco and beverage
3. Crude materials, inedible except fuel
4. Mineral fuel and lubricants
5. Animals and vegetable oil and fats
6. Chemicals and drugs
7. Manufactured goods classified chiefly by materials
8. Machinery and transport equipment
9. Miscellaneous manufactured articles
10. Commodity and transactions not classified according to kind.

Import Trade by SITC Grouping Fiscal Year 1998/99 to 2007/08

(Value in Million Rs.)

Fiscal Year	1	2	3	4	5	6	7	8	9	10	Total Export
1998/99	4464.0	500.9	3347.9	4717.1	2056.0	7193.0	25300.6	13027.6	3057.2	15.0	63679.3
1999/00	4785.8	508.6	4665.9	5549.3	2830.0	8686.8	28129.7	15301.1	3794.6	1.8	74253.6
2000/01	5400.5	590.7	5487.1	7160.3	2327.6	8504.2	44741.9	13794.9	4016.4	1529.8	93553.4
2001/02	4929.0	799.5	6976.2	9537.3	2025.8	11077.3	32601.6	16734.7	3974.0	346.6	89002
2002/03	7619.5	846.1	6246.7	8737.5	3329.0	12476.4	25638.0	18073.7	4302.4	266.0	87535.3
2003/04	10839.0	906.5	7012.4	9097.7	4446.0	14474.2	34420.0	20547.9	6682.8	78.2	108504.7
2004/05	5994.4	906.1	7559.6	11269.2	5589.2	12941.9	41188.0	23027.8	7210.2	0.8	115687.2
2005/06	6333.2	717.1	6712.7	15222.3	7887.5	122380.9	32889.1	19513.8	5670.3	62.1	217389
2006/07	9370.5	792.2	8479.3	19944.2	7750.5	14319.5	34888.2	20702.1	6582.7	1523.0	124352.2
2007/08	8554.0	10260	10550.6	21904.1	8634.4	16544.9	36510.5	25694.2	5103.8	1753.8	145510.3

Source: NRB (2008a)

SITC Categories:

1. Foods and live animals
2. Tobacco and beverage
3. Crude materials, inedible except fuel
4. Mineral fuel and lubricants
5. Animals and vegetable oil and fats
6. Chemicals and drugs
7. Manufactured goods classified chiefly by materials
8. Machinery and transport equipment
9. Miscellaneous manufactured articles
10. Commodity and transactions not classified according to kind.

Composition of Regions in the Total Overseas Exports of Nepal Fiscal Year 2003/04 to 2007/08

(Value in Million Rs.)

Regions	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08
Asia (Excluding India)	1,712	2,814	1,352	1,495	1,899
Africa	5	12	11	10	478
America	13,993	15,421	9,725	13,100	10,274
European Union	11,443	9,637	6,790	6,874	7,541
Europe (Excluding European Union)	525	665	457	402	639
Oceania	149	141	74	100	111
Total Export	27,827	28,690	18,409	21,981	20,942

Source: Trade Promotion Center and Nepal Rastra Bank

Composition of Regions in the Total Overseas Imports of Nepal Fiscal Year 2003/04 to 2007/08

(Value in Million Rs.)

Regions	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08
Asia (Excluding India)	45,315	49,047	36,162	38,094	38,385
Africa	89	91	181	131	353
America	3,107	2,125	3,486	3,395	3,970
European Union	7,882	13,663	4,051	8,027	6,559
Europe (Excluding European Union)	11,385	947	1,305	1,176	1,413
Oceania	2,059	2,402	1,599	2,142	2,555
Total Export	69,837	68,275	46,784	52,965	53,235

Source: Trade Promotion Center and Nepal Rastra Bank

**Composition of Development Regions
in the Total Overseas Exports of Nepal
Fiscal Year 2003/04 to 2007/08**

(Value in Million Rs.)

Dev. Regions	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08
Eastern	4,778	5,940	5,090	7,416	6,814
Central	23,028	22,739	13,316	14,556	14,125
Western	8	11	-	8	2
Mid-Western	4	1	3	22	-
Far-Western	-	-	-	0	-
Total Export	27,818	28,691	18,409	22,002	20,941

Source: Trade Promotion Center and Nepal Rastra Bank

**Composition of Development Regions
in the Total Overseas Imports of Nepal
Fiscal Year 2003/04 to 2007/08**

(Value in Million Rs.)

Dev. Regions	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08
Eastern	9,421	11,244	11,493	13,468	11,775
Central	40,884	40,830	35,151	38,519	40,612
Western	3,524	1,239	688	725	587
Mid-Western	259	445	249	253	241
Far-Western	11	2	3	-	20
Total Export	54,099	53,760	47,584	52,965	53,235

Source: Trade Promotion Center and Nepal Rastra Bank

**Composition of Development Regions
in the Total Overseas Exports of Nepal
Fiscal Year 2003/04 to 2007/08**

(in percentage)

Dev. Regions	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08	Average Percentage
Eastern	17.20	20.70	27.65	33.74	32.54	26.17
Central	82.75	79.30	72.33	66.22	67.45	73.61
Western	0.03	0.00	0.00	0.03	0.01	0.21
Mid-Western	0.02	0.00	0.02	0.01	0.00	0.01
Far-Western	0.00	0.00	0.00	0.00	0.00	0.00
Total Export	100	100	100	100	100	100

Source: Trade Promotion Center and Nepal Rastra Bank

**Nepal's Exports to SAARC Member Countries
Fiscal Year 2003/04 to 2007/08**

(Value in Million Rs.)

Country	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08
India	21,220	26,030	27,956	26,430	31,244
Bangladesh	127	521	237	411	421
Bhutan	42	25	27	53	78
Maldives	0	0	1	0	0
Pakistan	6	21	61	74	278
Sri-Lanka	0	0	0	0	0
Total	21,395	26,597	28,282	26,968	32,021
Total Export	49,561	55,246	47,387	50,011	54,417
% in Total Export	43.2%	48.1%	59.7%	53.9%	58.8%

Source: Trade Promotion Center and Nepal Rastra Bank

Nepal's Imports to SAARC Member Countries Fiscal Year 2003/04 to 2007/08

(Value in Million Rs.)

Country	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08
India	39,660	45,211	56,622	70,924	81,652
Bangladesh	561	203	643	335	671
Bhutan	40	522	85	36	22
Maldives	N	N	N	N	N
Pakistan	241	104	133	153	191
Sri-Lanka	52	294	161	105	139
Total	40,554	46,334	57,644	71,553	82,675
Total Export	113,687	118,787	108,635	128,228	138,753
% in Total Export	35.7%	39.0%	53.1%	55.8%	59.6%

Source: Trade Promotion Center and Nepal Rastra Bank

Note: N denotes less than one million.

Nepal's Imports to SAARC Member Countries Fiscal Year 2003/04 to 2007/08

(in percentage)

Country	Fiscal Year 2003/04	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07	Fiscal Year 2007/08
India	99.2	97.8	98.9	98.0	97.6
Bangladesh	0.6	2.0	0.8	1.5	1.3
Bhutan	0.2	0.1	0.1	0.2	0.2
Maldives	0.0	0.0	0.0	0.0	0.0
Pakistan	0.0	0.1	0.2	0.3	0.9
Sri-Lanka	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100

Source: Trade Promotion Center and Nepal Rastra Bank