

**FOREIGN TRADE OF NEPAL WITH CHINA
ITS PROSPECTS AND CHALLENGES**

A Thesis

Submitted To

Central Department of Economics

Faculty of Humanities and Social Science

**Central Campus, Tribhuvan University, Kirtipur, Kathmandu,
Nepal**

In Partial Fulfillment of the Requirements for the degree of

MASTER OF ARTS

In

ECONOMICS

Submitted By

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July 2019

DECLARATION

I, hereby declare that the thesis entitled “**Foreign Trade of Nepal with China Its Prospects and Challenges**” submitted to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the degree of MASTER OF ARTS in ECONOMICS under the supervision of Prof. Kushum Shakya, Ph.D.

This work has not been previously been submitted in any form to Tribhuvan University or to any other institution for assessment for any other purpose.

.....

Samriddhi Sharma

Date: July, 2019

LETTER OF RECOMMENDATION

This thesis entitled, "**FOREIGN TRADE OF NEPAL WITH CHINA ITS PROSPECTS AND CHALLENGES**", is submitted by Ms. Samriddhi Sharma under my supervision for partial fulfillment of the requirements for the degree of **MASTER OF ARTS** in **ECONOMICS**. I forward it with a recommendation for approval.

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APPROVAL LETTER

We certify that this thesis entitled "**FOREIGN TRADE OF NEPAL WITH CHINA ITS PROSPECTS AND CHALLENGES**" submitted by Ms. Samriddhi Sharma to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in the partial fulfillment of the requirement for the **MASTER OF ARTS in ECONOMICS** has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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ACKNOWLEDGEMENTS

First of all, I would like to express my humble gratitude to my supervisor and Head of Department **Prof. Kushum Shakya, Ph.D**, Central Department of Economics, Tribhuvan University for her unrelenting support and assistance. Her Guidance have helped me endlessly and it is a proud moment to complete my master's thesis under her supervision. I also would like to thank all who helped me in completing my thesis from library staffs to ever helping faculty members of Department of Economics

I endowed my sincere thanks to my friends and classmates for assisting me during study. There are many who have contributed both directly and indirectly to this study and all of them deserve a great appreciation.

I would like to express my deep gratitude to my parents Mr. Chandra Shekhar Sharma and Mrs. Muna Devi, my brother Devashish Poudel and my sister Monika Sharma for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis. This accomplishment would not have been possible without them.

Thank you.

Samriddhi Sharma

July, 2019

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LIST OF ABBREVIATIONS/ACRONYMS

| | |
|---------|--|
| ACFIC | All-China Federation of Industry and Commerce |
| ARC | Autonomous Region of China |
| ASEAN | Association of Southeast Asian Nation |
| BIMSTEC | Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation |
| FDI | Foreign Direct Investment |
| FNCCI | The federation of Nepalese Chambers of Commerce and Industry |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GoN | Government of Nepal |
| HE | His Excellency |
| IMF | International Monetary Fund |
| MoF | Ministry of Finance |
| MoFA | Ministry of Foreign Affairs |
| NRB | Nepal Rastra Bank |
| SAARC | South Asian Association for Regional Cooperation |
| SAFTA | South Asian Free Trade Area |
| SAR | Special Administrative Region |
| SEZ | Special Economic Zone |
| TEPC | Trade and Export Promotion Centre |
| WTO | World Trade Organization |

ABSTRACT

A country's economy is very influenced by its neighboring countries and very much so for a landlocked country whose access to sea port is only through neighboring. Without flourishing trade a country's economic growth will be in slow paced. In the globalizing world a country have to maintain good diplomatic relation with its neighboring countries. Many researches have conducted study on trade relation with India but found very few with China. So, this study is mainly focused on the trade relation between Nepal and China.

Nepal and China has passed a long road of mutual cooperation and relation starting from 5th century to today. This relation has gone from strength to strength. This study aims to discuss the prospects and challenges of trade between Nepal and China. The objective of this study is to overview trade relations and import- export trade between these countries. The analysis covers the period from 2007/08 to 2016/17 where the volume of trade between these countries are discussed.

Trade deficit has increased from 228 million to 1 billion from 2007/08 to 2016/17 which shows the huge gap between the countries. The finding suggests Nepal has huge prospects in trade in various sectors as agriculture, hydroelectricity, investment in financial sectors whereas challenges in trade are Nepal's economy and its variables, infrastructures, political instability. But with new trade agreements and different ongoing and proposed plans with China, Nepal is continuously leading in the way of prosperity.

Keywords: Economic growth, Balance of payment, Trade deficit, Import, Export, Trade determinants

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal and China relation have always remained sound and cordial. These relations have been based on mutual support, friendliness, appreciations of each other's aspirations and sensitiveness. History shows, if one can traced 5th century, when saints and sages engaged in visiting with aim of knowledge and peace. Nepal and China's diplomatic relations has been established on 1st of August 1955. White pagoda temple constructed under the guidance of Nepalese architect 'Arniko' the marriage between Tibet king, Song Sang Gampo and Bhrikuti, the daughter of King Lichhavi in the 7th century provided the historical relationship between Nepal and China.

Nepal's relation with Tibet and China was first recorded at the mid of the 7th century. When the Chinese communist invaded Tibet in 1950, Nepal's relation with China was brooked and continued to till 1955. Then after again both countries relation became better and established the resident ambassador in the Beijing and Kathmandu in July 1960. Nepal and China share a long border spanning range about 1414 kilometers. Both governments have resolved border issue amicably in 1961. Nepal has always upholding 'One China' principal and is committed not to allow Nepalese territory to be used against China. In 1996 Chinese president H.E. Mr. JiangZemin visits, Nepal and also in 2001 premier H.E. ZnuRongi visited Nepal. Such visits enhance the sound relations between both countries.

In July 2002 state visit from the former king and queen to China has immensely contributed to further nurturing Nepal-China bilateral relation. In 2004 the former crown prince also visited to China. In 2005 the former king and queen visited Baos in Haina province in connection with participation in the 2005 annual conference on the occasion handed over Buddha statue to Boao Buddhist temple.

In 1956 between China and Nepal first economic aid was signed. Nepal since then getting significant contribution from China in development field (Infrastructure building, establishing of the industry, health, sports). In the field of education China

has been providing 100 scholarships every year for the Nepalese students which will contribute to understand each other's tradition and culture. Which indicates the bilateral relation between these two countries is not only from the governmental level but also from peoples to peoples. There has been lots of cultural program in each other's territories and visits too. In 2003 China has organized festival on the occasion of 50th anniversary of establishment of diplomatic relation between both the countries.

Nepal has been described as a yam between two boulders. Its geopolitical status landlocked situated two Asian giants India and China. Even though Nepal has sought to maintain friendly relations with both neighbor's, its cultural, linguistic, religion and economic ties with India historically much closer than China. A significant percentage of all foreign investment in Nepal is comes from India. Nepal is dependent on India as the source of access to the sea through the major port of Calcutta. Due to Nepal's geography, the northern border limits access to China. Nepal and India has open border about 500 miles. India has considered Nepal as a strategic link in its northern border defenses. India thinks Nepal's instability plays the role of catalyst for the decentralization of India's north-eastern state.

It has been reported that India will support a Maoist led government and that the Maoist may demand a review of Nepal's treaties with India including the 1950 treaty of peace and friendship. The outcomes of constituent assembly election in 2008, India has welcomed. Few observers had thought the concern stem from a fear by some India that China's power in the region would grow as a result of the outcome of constituent assembly election.

Since 1999, Chinese government has been providing medicine and medical equipment to Nepal. Worth 1.4 million Nepali currencies, it also has provided medical equipment to the B.P. Koirala memorial cancer hospital. To boost Nepal's economy between two giant India and China, Nepal can be considered as transit economy as well as to generate employment too. Since the establishment of diplomatic relation between Nepal and china.

China is the second largest trading partner of Nepal. In 2015/16, total exports to China stood at US\$181 million with marginal increase from US\$179 million in the previous

fiscal year. In contrast, import from China has been growing at the rate of 39 per cent per year. It rose from US\$421 million in fiscal year 2009/10 to US\$1,247 million in fiscal year 2015/16. Although China has given zero tariff entry facility to over 8000 Nepali products that starts from 2009, Nepal exports only 370 products including noodles and agro products to China (MOFA, 2017). China is the largest source of Foreign Direct Investment in Nepal. Chinese investors have shown intent to spend over \$13.51 billion in Nepal during the Nepal Investment Summit concluded in Kathmandu in March 2017.

1.2 Statement of Problem

Nepal is facing an enormous deficit. The trade and commerce haven't got to the competitive level because of many development policies and techniques. Within the current state of affairs, our country will export solely agricultural based mostly raw things that mean it's to import all overpriced and final product from alternative countries. For a protracted time, Nepal is isolated from the world market, agriculture-based country, least developed and landlocked; these square measure bound facts that indicate the importance of foreign trade order to realize property economic process and development. The trade sector remains one in all the smallest attended sectors of the economic numerous measures like Export Exchange, twin rate, direct money grant and regularly modification in alternative procedural aspects like the licensing system and tariff structure was created amid abundant fanfare however with very little impact.

Importers forever dominate the character of trade, export. A developing country, like Nepal, depends on foreign trade for the achievements of the national target and economic process so as to afford quick growing import desires.

Nepal isn't able to export within the adequate amount within the overseas. The trade of Asian country is simply restricted in India instead of alternative countries. Pashmina, Garments, Handicrafts, Woolen or Carpets and Goatskins square measure the share of exportable main things of Asian country however these days they're declining. The performance of foreign trade has ineffectual to play important role and it's not been able to fulfil the state expectation to this point. The state is encircled by its own downside therefore the performance of

foreign trade is weak. It's a protracted history of Nepal's bilateral trade with China, however, Nepal's export to China isn't encouraging, imports from China on the opposite aspect is sort of in a very massive volume.

However, Nepal has not been able to grasp such opportunities. Nepal's export has been stagnated over the years whereas the import volume has exaggerated well. This has crystal rectifier to an impact on this account balance and hits even within the balance of payments.

On this ground, this study administered to assess Nepal's Trade with China and its issues and prospects. This is why this study completely focuses on trade with China and its issues and prospects.

Because of these problems, this study answers the following research questions:

- i. What is the foreign trade situation of Nepal?
- ii. What is the trade situation of Nepal with China?
- iii. What measures are to be followed for increasing trade with China?

1.3 Objectives of the Study

The fundamental objective of this study to overview Nepal's trade with China. . The specific objectives of the proposed study are as follow:

- i. To overview the Nepal-china trade relations.
- ii. To analyze the import –export trend between Nepal-China.
- iii. To discuss the prospects and challenge of foreign trade with China.

1.4 Significance of the Study

This study titled as “Foreign Trade of Nepal with China its Prospects and Challenges” is prepared for the thesis of course. This study is helpful for the foreign traders, policy –makers and fellow researchers.

There is significant role of foreign trade in economic lift up of a country and it highly influence various sectors as the Government, non- government sectors, policy maker, industrial enterprises, researchers, traders, businessmen, and foreign investors and so on. This thesis states brief knowledge on foreign trade and its significance in national

development, trade direction of Nepal in recent year, policies related to the foreign trade, brief relation with WTO, SAFTA, BIMST-EC, SAARC, ASEAN, problem facing by Nepal in foreign trade deficit and foreign trade policies formulated by the Government of Nepal.

This study aims to provide the big picture on “Prospects and Challenge of Nepal's trade with China” from the period it has been actively engaged in international trade. For this, considering the availability of data, facts and nature of the research, the study is prepared by incorporating data from 2007/08 to 2016/17 as 10 year is the standard data period for any research. The data taken from central controlling bodies like, NRB, TEPC and Ministry of finance, Ministry of Industry and Ministry of Commerce and Supplies.

1.5 Limitations of the Study

The aim of this study to know about the foreign trade of Nepal especially with China. The study has the following limitations:

- i. One of the major limitations of this study is that the data differ in various sources. So, to make uniformity in data, data from national source i.e. from NRB, FNCCI and TEPC is taken.
- ii. This study is fully dependent on secondary data provided by various organization and agencies.
- iii. This study has been carried out in limited period of time, so it could not incorporate other dimensions of issue from opinion of civil society to Chinese viewpoint.

1.6 Organization of the Study

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

i. Introduction

A brief note on the trade relationship between Nepal and China accompanied by an overview of economic reform and micro and macro-economic performance of the both countries has presented in the first chapter. This chapter further talks about the

basic framework of the study consisting of objective of the study, significance of the study, focus of the study, limitation of the study, and organization of the study.

ii. Review of Literature

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

iii. Research Methodology

Chapter 3 research methodology explains the research methodology used in this study which includes Research Approach, Research Design, Sources of Data, Data collections, Data processing and Analysis.

iv. Situation of Import and Export in Nepal

This chapter deals with an analytical section of the study. In this chapter, data are presented, analyzed and derive the conclusion of the study. It deals with various aspects on Sin-Nepal trade relation. Moreover, it has included the trade structure, trend and balance of payments situation between the two countries. Attempt has been made to analyze the provisions made in the bilateral trade and transit treaties in view of the economic co-operation. It has also been made an effort to analyze the impact of the bilateral treaties with the focus in treaties of 2007 onward. For this, data are presented separately trade with China. The problems and prospects for the development of the trade and improving bilateral trade relations between the two countries have been discussed in this chapter.

v. Foreign Trade Between Nepal and China

This chapter V contains the historical significance of trade between Nepal and China. There is figures on trade between Nepal and China, it also contains trade agreements with China and major exporting and importing commodities. It also includes the discussion on prospects and challenges of trade with China.

vi. Summary, Conclusion and Recommendations

This chapter is the final part of the study. It consists summary, findings of the study, conclusion of the study has presented with some policy recommendations towards improving the trade structure as well as the trade relation between Nepal and China.

CHAPTER-II

REVIEW OF LITERATURE

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

2.1 International Context

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

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

Bergstrand (1985) applied the gravity model to the study of international trade. The author states that the gravity equation is empirically successful for the explanation of trade flows but maintains that the theoretical foundation is weak in respect of projecting the potentiality of the model. Bergstrand (1989) studied the consistency of the gravity equation with contemporary theories of inter-industry and intra-industry trade. This paper was an extension of the microeconomic foundations spelt out in his

earlier paper of 1985 in that the gravity equation incorporated factor endowment differences and non-homothetic preferences.

Sohn (2005) examined the extent to which the gravity model can be employed to study South Korea's bilateral trade flows and thereby applied in the formulation of trade policy. The author found the gravity model to be the best tool for the explanation of South Korea's bilateral trade flows as a single country case. The coefficient on the trade variable showed that Korea's trade flows depend on comparative advantage, income differences, and stages of development rather than on economies of scale, as proposed in Heckscher-Ohlin³ model on the study of international trade pattern. The author of the present paper also employs the fundamentals of the gravity model by using the product of Nepal's GDP and its trading partners and the simulation techniques applied by Sohn (2005). In this respect, Sohn's paper forms the basis on which research on Nepal's international trade was conducted.

Schuett Antje (2010) analyzed that well established economic links exist between China Germany and China with some problematic issues on the topics of intellectual property and competition policy. The study analyzed that the non-economic relations are dominated by the human rights topic, which still seems to have no influence what so ever on the booming economic interaction. The author has evaluated the bilateral relationship by dividing into economic and non-economic criteria as it is mentioned above too. On economic aspect he has described about competition policy, intellectual property and co-operation councils and at the same time he has analyzed about cultural relations, military relation, regional co-operation, human rights, education, agriculture, tourism and rule of law etc. in non-economic area between these two countries Germany and China. Researcher also analyzed the German- Chinese Forum for Economic and Technological Co- operation. At the study concluded that economic relations dominate the bilateral relations as both partners expect a lot from the economic collaboration.

Bela Balassa (1978) investigated the relationship between exports and economic growth in the cross-country comparisons between 11 developing countries which has established the industrial base. The study suggested the incremental export-GNP ratio could be the solution for the problem of positive auto correlation between the GNP

and other dependent variables with the foreign trade estimates. The author compared the variables of GNP and Per capita GNP in terms of export growth and his own hypothetical incremental export-GNP ratio. The researcher found that the income has been increasing in countries that have followed a consistent policy of export orientation. To conclude, the study explained that export growth favorably affects the rate of economic growth.

Jaiswal (2014) stated that Nepal's position has become strategically more significant with the rise of China as a superpower and situated between the two regional powers who aspire to be global powers, Nepal can capture the opportunities and become center of geopolitical competition between rising china and defensive India.

Michaely (1977) analyzed the cross-country data from 41 countries. The researcher analyzed the ratio of growth rate of GNP and per capita GNP from the selected countries. Through regression of the equation using least square method, the author found positive association of growth with export expansion. Furthermore, the study suggested that, the countries differ from each other in their export proportions due to a variety of factors such as size of the economy, proximity to large markets.

Singh and Singh (1999) analyzed that Nepal is a primary product producing country; terms of trade remain unfavorable. Under these circumstances, production productivity and efficiency are to be generated which is possible by foreign trade in the short run. Singh further suggest that under economic reform at global level i.e. liberalization and globalization, Nepalese economy is to be made compatible with these changes, hence cost of production is to be reduced, efficiency and competitiveness are to be generated.

2.2 National Context

Sharma and Bhandari(2005) analyzed that Nepal's foreign trade has tremendously been suffering from successive deficit which can have negative effect on foreign currency reserve of the country and there by invite macro-economic instability. Inefficient management of the growing population may invite disaster to the economic growth of country in long run. The import substitution policy demands an overall evaluation so that industries only competitive in the international markets are

selected for promotion. Therefore, government should encourage the policy of adequate investment in export oriented industries that embodies a 'proper mix' of export promotion and import substitutions.

Prasai (2014) used gravity model for the period from 1981 to 2009 and concluded that Nepal's trade is unduly low with China and highly concentrated with India. It reveals that Nepal should redirect its trading activities to China to reduce its excessive and risky trade dependence on India. For example, Nepal should negotiate a free trade agreement with China. Since China is a bordering country with economic growth exceeding 8 percent over the last several years, Nepal could acquire a large international market for its exports by improving trade relations and by constructing railway links with that country. The removal of tariffs on Nepalese goods entering the Chinese market could also boost Nepal's export.

Kafle (2017) stated that Nepal's trade with China is also increasing rapidly and it is also likely increase in future. Trade relations between China and Nepal is expected to raise as Chinese railway is arriving near Nepal Chinese Boarder in Kerung, Tibet by the end of year 2018. Further the signing of trade and transit agreement between Nepalese and Chinese government in year 2015 and up gradation of facilities at Kerung-Rasuwagadi boarder is likely to decrease Nepal's trade dependence with India which was created largely by landlockedness of Nepal.

Shrestha (1980) mentioned that Nepal imports from Tibet has grown considerably but however, exports to Tibet have been declining or growing with an erratic trend which is not sufficient to meet all trade obligation. Rice, sugar, Jute bag, thread, soybean, bricks, and tiles accounted for the export of Nepal at 1980s. In the near future Nepal may not be in a position to export such commodities to Tibet as it was doing at 1980s. In fact, the export of such goods to Tibet does not represent entirely all surplus of the country. The established home industries are not replacing imports from Tibet. Some of the items have been exporting by Nepal for the domestic consumption. Overall exports did not compensate rising imports from Tibet. Transport and transit facility are the obstacles for trade expansion.

Timilsina (1985) analyzed the contemporary trade situation in the form of composition, development and balance of payment with the help of secondary data.

The tariff policies adopted in different time periods and how the policy makers are curious about the use of tariff instrument to promote export trade and to protect domestic industries. However the non-tariffs barriers like quota and licensing system are not proving worthy. The author concludes that Nepal's foreign trade, instead of working as an engine of economic growth, facing various problems like high import, import of non- essential goods etc. The study has also raised some issues like open border, smuggling trade import payment etc.

Jha (1987) examined the trade situation of Nepal from 1956/57 to 1985/86. The study analysed the overall scenario of the foreign trade and strategies adopted by recent HMG of Nepal to diversify the country's trade to the third countries. This book also covers the study on tariff and transit problems and joint ventures in Nepal. Not only this, but also the book analyzes the composition of export and import of trade direction of trade, structure of trade and tariff rate. It also covers the various aspects of Indo-Nepal trade.

Poudyal (1999) analyzed that saving gaps and foreign exchange gaps are analyzed, highlighting the over widening current account deficit, in the balance of payments and the ensuring danger of debt crisis. The author concludes that in the present situation of Nepal totally liberalizing the economy is harmful to the country, thus the state has to play a more dynamic and responsible role rather than simply let the market forces decide the course of economy The study report prepared by center for policy studies for FNCCI "Nepal- China Trade, Economic and Cultural Co-operation" in the year (1999) covers various issues of trade between Nepal- China and also the economic and cultural co-operation between these two countries. The book analyzes the volume and composition of trade between the two countries. The book highlights that Nepal's trade with China is a very small proportion of the country's total trade. The average figure of 1994/95- 1997/99 shows that it is only 5 percent. The share of China in Nepal's total exports is only 2 percent and that of import is only 5.2 percent. The author also discusses the major issues and problems in trade promotion between two countries. The author has stated that there are problems of physical infrastructure and other problems like lack of sheds, lack of organized trading system, problem of tariff, trade deflection, check points, visa problems, communication problems, payments

problems, lack of exchange rate systems etc. Thus such problems are acting as the hurdles of trade promotion between Nepal and China.

Regmi (1993) has categorized product wise export by taking 20 years trade data of export side only from 1971 to 1990. The study has also included the trade policies of 1982 and 1992 and other related policies about industries and trade. The main objectives of the study are to measure the export performance of Nepal between 1971-1990, 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. The author has studied in depth about the foreign trade of export side and also analysed all trade and industry policies.

Sharma (1999) argued that the trade deficit of Nepal has been increasing over the period of 1991/92-1996/97 though export has increased at the average rate of 11 percent per annual year and import has increased at the average rate of 24.7 percent during the period. The ratio of trade deficit to GDP ratio increased from 12.6 percent in 1991/92 to 27.3 percent in 1996/97. Sharma also found export- GDP ratio during the period was 9 percent in average while the import-GDP average ratio was more than 29 percent, which is not a favorable indication for the Nepalese economy. The author also found that Nepal's active participation in many multilateral cooperation arrangements cannot be fully exploited without joining the WTO. Nepal intends to integrate into the multilateral trading system to increase the supply of tradable items, both goods and services, to attract foreign investment and to gain better market. Nepal has recently submitted a memorandum on foreign trade regime to the WTO office. However, one vital missing factor is the domestic front for Nepal is to benefit optimally from the WTO is a consistent set of strategies and policy instruments to boost-up quality production in sufficient amount for low bulk high value selective commodities.

Sigdel (2003) analyzed the socio-economic relationship between Nepal, Japan and China. Although, Nepal is an economically weak country in comparison with the big countries China and Japan having their good economy, still there are good relations, mutual help and co-operation and lots of sharing between these two countries in terms

of economy, culture, religion, education and politics. The book presents a review of Chinese economy from Mao's Deng's and Zhu's time to the modern times. The author also analyzes the Nepal-China socio-cultural and diplomatic relation. The book also explains the Chinese aid in terms of volume and sectoral on distribution of Chinese trade. The book also highlights the Chinese trade and investment in Nepal and precuts the tourism ties between Nepal and China.

Acharya (2013) identified Nepal's international trade determinants (export, import and trade balance) using the extended gravity model. According to empirical results based on panel data containing Nepal's 21 major trade partners from 2005 to 2010, both exports and imports of Nepal were positively linked with the real GDP of her trade partner countries but exports increased at a higher rate than imports.

Shrestha (2005) has pointed out about ancient trade history of India and China with our country Nepal, which is noted as below:

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

Sharma (2005) presented that globalization is commonly used as a short hand way of describing the spread and connectedness of production, communication and technologies across the world. It is a key for the business theory and practice. It is a common term for processes of international integration arising from increasing human connectivity and inters charge of world views, products, ideas and other aspects of culture.

In one hand, the developing countries can get benefits with an attempt of foreign trade to the worldwide market in globalization, on the other hand it is a good practice for reducing poverty in the under developed and developing countries. In the case of our country Nepal, globalization is regarded as the useful structural charge in Nepalese economy to increase efficiency, enhance the income of the people and promote equitable distribution. The present situation of Nepal shows that these are the need for the stability of the internal macroeconomic environment to use the opportunities of

globalization. So trade is required to be spread all over the countries in the world with the globalization practice. The under developing and developing countries have enough supply of labour which when utilized properly may provide significantly in the development of their countries. The big amount of remittance earned by the country as its major income source can be mobilized and used in different productive sectors. That's why the concluded point is as "globalization is a key factor for the economic development of developing countries like Nepal."

Adhikari (2010) argued that China has been an important bilateral trade partner of Nepal. However, the trade with China is quite lower than India. Nepal's trade with China is lopsided and even more imbalanced than that with India. There was dramatic increased in the import from India in the last few years. The key points with reference to Nepal- China high trade imbalances are infrastructural bottlenecks remain a major impediment, limited access to road; despite ongoing efforts, China- Nepal overland trade remains modest; and given the mountainous terrain in the region, investment to improve infrastructure will have to be substantial.

Bilateral trade between China and Nepal has seen steady development since the establishment of diplomatic ties between the two countries in 1955 and has witnessed rapid expanding after 1996 when Chinese president Jiang Zemin paid a state visit to Nepal and the two governments agreed to further promote good-neighborly partnership between Nepal and China. Statistics shows trade volume between China and Nepal reached US\$67.74 million in 1997, an increase of 68.7 percent over 1996. The figure soared to US\$220 million in 1999, a sharp rise of over 200 percent compared with 1998. As China is an emerging economic power in the world while Nepal is endowed with rich and untapped natural resources, the combination of Chinese capital and technology with Nepal's will abounding resources benefit enormously to both countries.

Ojha (2010) mentioned that Peoples' Republic of China is a key player in the international trading system as it has been able to expand markets around the world after it acceded to the WTO. Similarly, Nepal as least developed country has to strive for sustaining its export base in the wake of competition increased in the destination markets. Moreover, he discussed about the challenges faced by Nepal which are enormous in terms of increasing productive capacity and production, identification of

export potentials, domestic value addition and employment generation, and linking trade with poverty reduction programme. Support from the neighboring countries and development partners are very important to overcome these challenges and benefit from openness of trade.

Singh and Khanal (2010) studied Indo-Nepal trading patterns after 1990. They found that the rising proportion of exports to and imports from India in Nepal's total trade has increased its dependency on this neighboring country for trade. The paper does not suggest any possible solutions based on the empirical findings as to how to reduce trade dependency on India.

Basyal (2011) examined how the full implementation of a liberal trade agreement can contribute to the growth of the exporting sector and its significance for the economy of Nepal. The paper recommends that measures to reduce the inflation rate in Nepal could considerably improve trade competitiveness. The recommendations made on how to improve trade are vague and are not supported by empirical results.

NRB (2012) on Macro Economy, revealed that the country's Balance of Payment (BOP) has recorded the highest ever surplus of Rs.46.31 billion as of the first four months (Shrawan, 2011- Kartik, 2011) of the current fiscal year. The country started keeping BOP records in 1974/75. According to NRB, the acceleration in the growth of remittance along with the improvement in the service account helped maintain a comfortable BOP situation.

After two year's period, the country's BOP turned surplus in the second last month of the last fiscal year and continued to grow since. Last year, in the same period, the BOP had recorded a deficit of Rs.5.72 billion. Nepal was compelled to borrow \$42.5 million from the International Monetary Fund under its rapid credit facility to address BOP deficit one and a half year ago. Over the review period, remittance inflow grew by 34.2 percent to Rs.103.20 billion compared to a 13.6 percent growth in the same period a year ago. Under the service account, income from tourism rose by 33.4 percent, against a decline of 14.7 percent in the last year's corresponding period. The country's foreign exchange reserves also surged notably over the period. The foreign exchange rate reserves increased by 25.9 percent to Rs.342.74 billion as of mid-November 2011. The figure was at Rs.272.15 billion as of mid-July, 2011. The

devaluation of the Nepali currency against the US dollar also fueled forex reserves growth.

According to the report, the domestic currency depreciated by 12.13 percent against the dollar over the review period. After several years, the country's foreign exchange reserve was able to finance merchandise imports for 10.3 months and merchandise and service imports for 9.1 months.

Despite an immense trade deficit of Rs.107.53 billion as of the fourth month, exports of trade are performing relatively well. Merchandise exports rose by 10.7 percent to Rs.23.69 billion, against 7.7 percent growth in the same period of last year, while imports also grew by 11.8 percent to Rs.135.49 billion. Inflation came down to 8.5 percent in the fourth month of the current fiscal year from 8.9 percent as of third month. However non- food items were the major components to fuel inflation unlike earlier years when food items caused price rise. The price index of food items stood at 8.4 percent and non-food items at 8.5 percent.

Subedi (2012) presented that eight years after Nepal's accession to the world Trade organization (WTO), the country's trade deficit has increased four folds and the share of export in GDP decreased to 5 percent from 10 percent. Between 2003-04 and 2010-11, the value of Nepal's total imports almost tripled from Rs.133 billion to Rs.388 billion. But in the same period, Nepal's exports rose from 55 billion to Rs.69 billion (only a 25 percent increase). It shows that in these eight years exports of major items have undergone sharp decline, while imports rose quickly, thereby steadily increasing the trade deficit. The author concluded that Nepal's weak export performance is also due to supply side constraints. Supply side constraints like political instability, low connectivity, power crisis and problematic labor relation, among others are playing crucial role in eroding our capacity. Although various trading partners are still providing us preferential market access, we have not been able to overcome non-tariff measures in those countries. The review suggests that Nepal must address its supply side constraints and overcome other problems including high transit costs to realize the full potential of international trade.

Panta (1994) has attempted to define the meaning of foreign trade in terms of pessimistic view and optimistic view. The author also reviews the foreign trade of

Nepalese economy annually as well as periodic plan wise up to the eighth five year plan. The study also analyzed foreign trade treaties and policies. This study also deals with import substitution and export promotion. The author has analyzed Nepal India trade under the circumstances of liberalization and privatization view and optimistic view. Thus export and import helped in breaking vicious circle and accelerated the economic development. The writer elucidated that foreign trade provided better ground for efficient use of resource which had comparative advantage. In underdeveloped countries like Nepal, agriculture was always the backbone of the economy. But it was always backward and subsistence farming was the rule. Trade helped in commercialization, modernization and of agriculture helped in the establishment of industrial sector.

Thapa (2013) studied the determinants of bilateral trade flows of Nepal and 19 other countries using the gravity model approach. The author found that Nepal has a potential for expansion of trade with 9 out of 19 countries, like Bangladesh, Brazil and Italy.

2.3 Research Gap

From the review of available literatures presented above, it is noticed that though the various writings are published in the forms of books, booklets, magazines, journals and articles the required appropriate (adequate) publication is not available in the field of Nepalese Foreign Trade with Reference to China. Most of the literatures are concerned with Nepal's overall trade scenario. There are only a few studies concerned with Nepal's trade with neighboring countries which are two giant nations India and China. They are also related to old statistical data. Among the trade studies, the study on Nepal's trade with China is rarely found. Previous studies made on Nepal's trade with China are also related to old data. For example, the FNCCI study is already nine years old. In the changing world trade scenario, the picture of Nepal's trade with China might have also changed in the last five years. Projects like belt and road initiative are already signed and, railways connecting Nepal and china are proposed. Recent trade agreement on treating Nepal as most favored country also has not been included in previous studies. Since the Tibetan Autonomous Region of China is the next valuable door neighbour of Nepal with vast market, there exists a huge potentiality for expanding Nepal- China trade. Likewise, Nepal also has high

prospects for Chinese investment in various sectors. Thus, keeping these facts in view, this thesis tries to analyze Nepal's overall trade with China disaggregated by various regions of China and Chinese investment in Nepal on the basis of recent data.

CHAPTER-III

RESEARCH METHODOLOGY

The aim of research methodology is to achieve goal from the study of research work. In this chapter research design, nature and sources of data, data collection, data processing and analysis are discussed by the researcher to make the research work more convenient.

3.1 Research Design

This is descriptive type of research design. The descriptive type of research design is used to make the analyzed fact more meaningful and useful for the study purpose. So, this research study is designed with the help of secondary data and information. The secondary data are collected from the different national and international sources. Similarly, the trade performance with different countries is also studied and analyzed with the help of graphical and tabular analysis. In any research study, time frame of reference is of vital importance. The research should be conducted within the specific time frame of reference. In this research study the time period of fiscal years 2007/08 to 2016/17 is taken into consideration because it is a standard time frame i.e. 10 years for the research.

3.2 Sources of Data

The collection of data is very important source of research study. This research study is fully based on secondary data. In order to make this research a successful one, data have been collected from various types of sources. Among them the major national and international sources used in this study are Economic Survey and Budget Speech, Published document of Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), National Planning commission (NPC), Trade and Exports promotion Center (TEPC) reports of earlier researches, related books, journals, articles, and other persons those engaged in Nepal-China trade.

3.3 Data Collection

In this study data has been collected through secondary sources. The data which are related with foreign trade of Nepal with China are collected. The data are related about Nepalese trade in the sense of export/import. Available data has been collected, tabulated, categorized and interpreted. Relevant information has also been collected from books, research reports, dissertations and magazines.

3.4 Data Processing and Analysis

After collecting data from different sources as mentioned above have been arranged in a systematic way and tabulated according to the need of research content. Since this study covers the systematic presentation of volume, composition and direction of Nepalese foreign trade, facts are arranged systematically as obtained through secondary sources with the help of ratios and percentages to make them comparable and explanatory by using the method of descriptive analysis. In order to fulfill the specific objectives, descriptive statistical tools have been applied for the processed and tabulated data. Tables are designed in values, percentages and ratios. Figures are drawn in order to make the results comparable and self-explanatory.

CHAPTER-IV

SITUATION OF IMPORT AND EXPORT IN NEPAL

4.1 Scenario of Nepalese Economy

Nepal's trade has been characterized by high import and less export. Our dependency on foreign goods is increased by lack of industries, neglected agricultural sector and unhelpful laws. These factors are major cause of trade deficit. The following table shows the macroeconomic indicators of Nepal from 2007/08 to 2016/17.

Table: 4.1 Major Macroeconomic Indicators

| F/Y | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Real GDP growth% | 5.8 | 3.9 | 4.3 | 3.9 | 4.6 | 3.8 | 5.1 | 3 | 0.4 | 7.5 |
| Inflation% | 7 | 13.2 | 10.5 | 10.7 | 8.6 | 10.1 | 9.1 | 7.2 | 9.9 | 4.5 |
| GDP (at current price)% | 12.1 | 21.2 | 20.7 | 14.6 | 11.7 | 11 | 14.5 | 9.4 | 5.4 | 16.0 |
| Fixed and saving Deposits/GDP% | 41.8 | 43.9 | 51 | 50.8 | 56.4 | 59.6 | 62.4 | 67.1 | 40.1 | 45.4 |
| EXP/IMP Ratio% | 26.7 | 23.8 | 16.2 | 16.2 | 16.1 | 13.8 | 12.7 | 10.7 | 11.03 | 13.08 |
| Total trade% | 34.5 | 35.6 | 36.5 | 33.7 | 35.1 | 37.4 | 41.5 | 41.9 | 137.5 | 40.9 |

Source: Economic Survey 2017/18, MoF, GoN, 2018.

Table 4.1 explains the percentage of growth of real GDP has risen from 5.8 to 7.5 from 07/08 but the dip in GDP was seen in 2015/16 where it was 0.4 it was due to effects of huge earthquake and economic blockade. And many indicators such as inflation and trade rate was highest in that period. We can see in recent year savings and GDP has increased which shows the economy of country is rising. This is due to end of load shedding, definite plans by government and increase in economic activities.

Table: 4.2 Sectorial Contribution of GDP (in percentage)

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Agriculture | 31.16 | 30.31 | 31.32 | 33.18 | 34.98 | 33.15 | 31.53 | 30.27 | 29.38 | 29.17 |
| Industry | 15.87 | 16.05 | 15.07 | 14.2 | 14.11 | 14.1 | 14.15 | 13.83 | 13.72 | 13.06 |
| Service | 48.78 | 49.2 | 48.61 | 46.4 | 45.29 | 46.87 | 47.55 | 48.65 | 49.46 | 49.97 |

Source: Economic Survey 2017/18, MoF, GoN, 2018.

Table 4.2 shows there is the sectorial contribution of the different sectors of the economy, contribution of agricultural sector is decreasing a little compared to previous years whereas the service sector contribution has increased. Industrial sector contribution is also decreasing which shows our dependency on service sector recently. In 2007/08 the share of agriculture sector was 31.16 percent, similarly the share of industrial sector was 15.87 percent and of service sector it was 48.78 percent. In 2008/09 there was minor change, the percentage for agriculture, industry and service was 30.31, 16.05 and 49.2 respectively. And coming to 2016/17 the contribution of agriculture sector was 29.17 percent, Industrial sector was 13.06 percent and service sector was 49.97 percent.

4.2 Volume and Direction of Nepal's Foreign Trade Performance

Nepal is a least developed country, where inputs for economic development are limited. Foreign trade plays a significant role in the economic development of the developing countries like Nepal. So, foreign trade is inevitable for economic development of the country as it provides necessary raw materials, technical know-how, machinery and various goods and services necessary for livelihood. As we know, foreign trade has two components; export trade and import trade. Foreign trade basically export trade is very much necessary as it gives rise to industrial development. It also provides market access to the developing countries like Nepal. Nepal's export is of low volume low value where as its import is high both in volume and value. Nepalese foreign trade performance has so far been poor.

Therefore, Nepal's balance of trade is unfavorable. Nepal's volume of export has not been increasing in the same direction as the volume of import increases. A study of direction of trade is significant to show that whether its trade is diversified to many

countries or is limited to a few countries or regions. The direction of foreign trade shows the share of export and import trade in terms of destination. However, the volume and direction of Nepal's foreign trade from 2007/08 to 2016/17 has been explained in brief with the help of table as shown below.

Table 4.3 Volume of Nepal's Foreign Trade

| | Direction | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---------------|--------------|--------------------|--------------------|--------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Exports | India | 385,55,700 | 435,74,482 | 399,02,811 | 428,68,108 | 49565581 | 51959287 | 59613700 | 55864600 | 39695134 | 41500844 |
| | China | 9,44,489 | 21,51,783 | 13,80,274 | 9,25,478 | 1241186 | 2476749 | 2840700 | 2229900 | 2156758 | 1809834 |
| | Others | 189,74,170 | 22,,870,587 | 196,66,518 | 207,68,858 | 23282293 | 22914673 | 29537000 | 27224600 | 29285771 | 29814673 |
| | Total | 584,74,359 | 685,96,852 | 609,49,603 | 645,62,444 | 74089060 | 77350709 | 91991400 | 85319100 | 71137663 | 73125351 |
| Imports | India | 1423,76,500 | 1651,19,002 | 2142,61,109 | 2591,62,277 | 336258725 | 389582476 | 477947000 | 491655900 | 487597307 | 646019022 |
| | China | 234,33,205 | 344,65,791 | 434,45,613 | 466,29,754 | 53126367 | 68454731 | 73318600 | 100166400 | 117209982 | 130241442 |
| | Others | 712,20,571 | 914,16,151 | 1178,99,148 | 917,43,911 | 108775982 | 143170318 | 163100200 | 182861900 | 176338672 | 209690862 |
| | Total | 2370,30,276 | 2910,00,944 | 3756,05,870 | 3975,35,942 | 498161074 | 601207525 | 714365800 | 774684200 | 781145961 | 985951326 |
| Trade Deficit | India | 1038,20,800 | 1215,44,520 | 1743,58,298 | 2162,94,169 | 285824537 | 337623189 | 418333400 | 435791400 | 447902173 | 604518178 |
| | China | 224,88,716 | 323,14,008 | 420,65,339 | 457,04,276 | 51885181 | 65977982 | 70477900 | 97936500 | 115053224 | 128431608 |
| | Others | 522,46,401 | 685,45,564 | 982,32,630 | 709,75,053 | 86362296 | 120255645 | 133563100 | 155637300 | 147052901 | 179876189 |
| | Total | 1785,55,917 | 2224,04,092 | 3146,56,267 | 3329,73,498 | 424072014 | 523856816 | 622374300 | 689365000 | 710008298 | 912825975 |

Source: Department of Customs Ministry of Finance Government of Nepal Foreign.

Here is the data which shows the overall trade direction or volume of trade from 2007/08 to 2016/17. It shows the figure of exports, imports and trade deficit for India, China and others. India and China are specifically included than collectively with other countries because they hold significant percentage in total trade with Nepal.

In 2007/2008 total exports was 584, 74,359 where share of trade with India was 385, 55,700 and others was 189, 74,170. In the same period total import was 2370, 30,276 and trade deficit was 1785, 55,917. Coming to 2016/17 total exports was slightly increased to 73125351 whereas there was significant increment in imports to 9859511326 which led to huge trade deficit to 912825975.

4.3 Exports and Imports of Goods to the World

Table: 4.4. Nepal's Export, Import and Trade Balance

| F/Y | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Import | 237.03 | 291 | 375.61 | 390.3 | 506.7 | 613.6 | 786.2 | 774.7 | 781.1 | 985.9 |
| Export | 57.47 | 68.6 | 60.95 | 62.7 | 72.1 | 77.4 | 85.2 | 70.3 | 71.3 | 73.1 |
| Trade Balance | -178.56 | -222.4 | -314.66 | -327.5 | -434.6 | -536.2 | -701 | -704.5 | -709.8 | -912.8 |

Source: Department of Customs Ministry of Finance Government of Nepal (In billions Rs.)

Table 4.4 shows the overall import, export and trade balance from fiscal year 2007/08 to 2016/17 is shown.

CHAPTER-V

FOREIGN TRADE BETWEEN NEPAL AND CHINA

China is the second largest trading partner of Nepal. Trade deficit of Nepal with China has been in an increasing trend. Although, China has given zero tariff entry facility to over 8,000 Nepali products since 2009, Nepal hasn't been able to bring the trade deficit down. Nepal regularly participates in various trade fairs and exhibitions organized in China. Nepal-China's Tibet Economic and Trade Fair is the regular biannual event hosted by either side alternatively to enhance business interaction and promote economic cooperation between Nepal and TAR, China. Nepal participated in the China International Import Expo held in Shanghai in November 2018. The 16th Nepal-China's Tibet Economic and Trade Fair was held in Lhasa on 24-29 October 2018.

Nepal-China Non-Governmental Cooperation Forum was established in 1996 which is led by the President of the Federation of the Nepali Chambers of Commerce and Industry (FNCCI) from the Nepali side and the Vice Head of the All-China Federation of Industry and Commerce (ACFIC) from the Chinese side. It is an initiative to mobilize the apex business organization of both sides to enhance cooperation between the private sectors of two sides. The 14th meeting of the Forum was held in Kathmandu on 25-26 May 2017.

China is the largest source of Foreign Direct Investment in Nepal. Chinese investors committed to spend over \$ 8.3 billion in Nepal during the Nepal Investment Summit concluded in Kathmandu in March 2017. China has topped in FDI pledges to Nepal in FY 2015-16, 2016-17 and in 2017-18 with the growing investment pledges from the Chinese companies in hydropower, cement, herbal medicine and tourism.

China is the second largest source of foreign tourists to Nepal. The Government of Nepal has waived visa fees for the Chinese tourist effective from 1 January 2016. The Chinese Government had announced the year 2017 as Nepal Tourism Promotion Year in China. In view of upcoming Visit Nepal Year 2020, both sides have been carrying out joint efforts to promote Nepal in China and encourage Chinese enterprises to invest in Nepal's tourism sectors. Nepal has road connectivity via Rasuwagadhi and Tatopani

for trade and international travelers. There are four other border points designated for bilateral trade. Nepal has direct air link with Lhasa, Chengdu, Kunming, Guangzhou and Hong Kong SAR of China.

Economic Cooperation:

Nepal-China economic cooperation dates back to the formalization of bilateral relations in 1950's. The first "Agreement between China and Nepal on Economic Aid" was signed in October 1956. From the mid-80s, the Chinese Government has been pledging grant assistance to the Government of Nepal under the Economic and Technical Cooperation Program in order to implement mutually acceptable development projects.

Chinese assistance to Nepal falls into three categories: Grants (aid gratis), interest free loans and concessional loans. The Chinese financial and technical assistance to Nepal has greatly contributed to Nepal's development efforts in the areas of infrastructure building, industrialization process, human resources development, health, education, water resources, sports and the like.

Some of the major on-going projects under Chinese assistance include:

1. Upper Trishuli Hydropower Project- Power station and Transmission Line Projects
2. Food/ Material Assistance in northern 15 bordering districts.
3. Kathmandu Ring Road Improvement Project
4. Larcha (Tatopani) and Timure (Rasuwagadi) Frontier Inspection Station Project
5. Pokhara International Regional Airport
6. Upgradation of Syaprubensi- Rasuwagadhi Road
7. Upgradation of Civil Service Hospital
8. Upgradation of Kodari Highway and restoration of bordering bridges at Kodari and Rasuwagadhi

With the signing of the Memorandum of Understanding on Cooperation under the Belt and Road Initiative on 12 May 2017 in Kathmandu between Nepal and China, new avenues for bilateral cooperation in the mutually agreed areas are expected to open. The

major thrust of the MoU is to promote mutually beneficial cooperation between Nepal and China in various fields such as economy, environment, technology and culture. The MoU aims at promoting cooperation on policy exchanges, infrastructure connectivity, trade connectivity, financial integration and connectivity of people.

The Government of the People's Republic of China provided substantial and spontaneous support in search, relief and rescue efforts of Nepal following the devastating earthquakes of 2015. China provided 3 billion Yuan on Nepal's reconstruction to be used in the mutually selected 25 major projects for the period of 2016-2018. The two countries signed three separate bilateral Agreements on Economic and Technical Cooperation on 23 December 2016, 15 August 2017 and 21 June 2018 for providing Chinese grant of one billion Yuan each to Nepal for implementing post-disaster reconstruction projects, livelihood projects and other mutually agreed projects.

5.1 Nepal-China Trade

Nepal has been facing huge and unsustainable trade deficit with China. To reduce huge trade deficit of Nepal with China the government should request for preferential treatment to Nepalese exports to China especially Mainland Chinese and Hongkong markets. Nepal should capitalize on this great opportunity by working together to identify for zero tariffs and preferential treatment goods in which Nepal has comparative and competitive advantage. In globalize economy, Nepal cannot remain on isolation. Now Nepal has trade relation with more than 100 countries. Nepalese foreign trade trends and structure seems not so satisfactory. Gradually increment of trade deficit problem shows the fact that Nepalese trade is dominated by imports. Trade between Nepal and China is taking place since long time in the history which cannot be traced back to any particular year. The traditional barter trade is still practiced by the highland people living in the bordering areas. However, with the fast growth of transport network particularly in the Tibetan side, development of communication network and banking services on both sides of the border, changes are taking place in the practices of doing trade. Payment of the trade through banking channels, door-to-door insurance of traded goods and creation of transporters liability are taking shape and replacing the old system of overland trade.

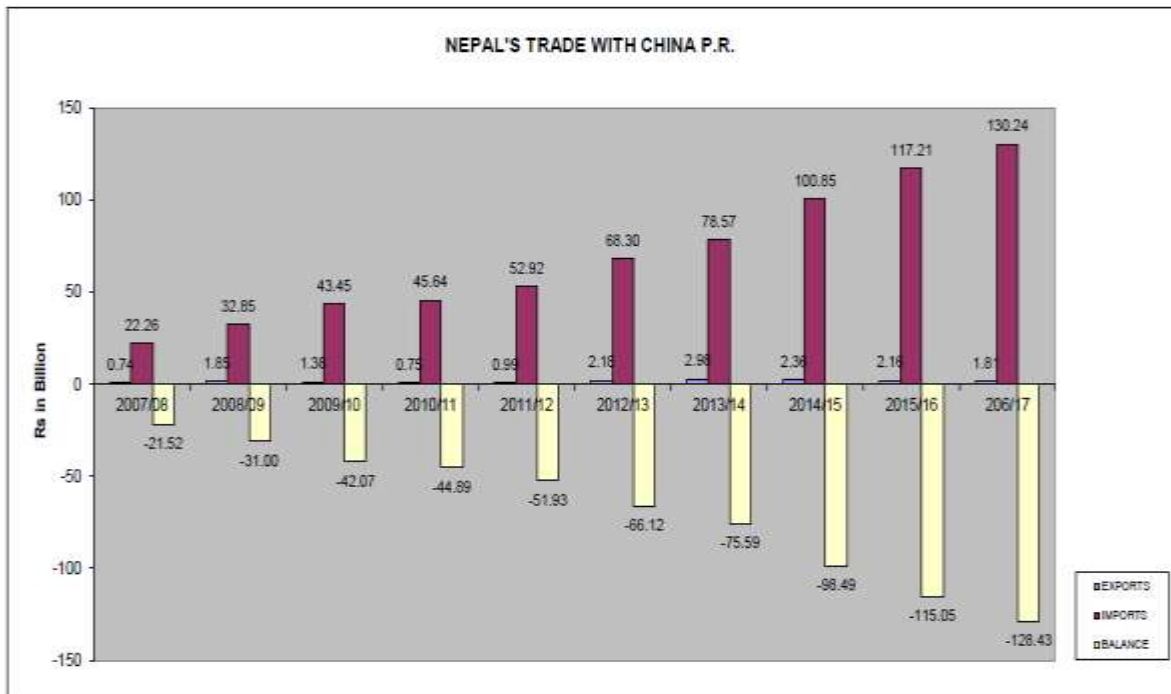
Table: 5.1 Nepal's Exports, Imports and Trade Balance with China

In Rs (000)

| F/Y | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| Import | 22255845 | 32852910 | 39218203 | 45635962 | 52924945 | 68368320 | 79729264 | 99281429 | 117209982 | 130241442 |
| Export | 736405 | 1847934 | 1008696 | 746023 | 985693 | 2476749 | 2544303 | 2060722 | 2156758 | 1809834 |
| Trade Balance | -21519440 | -31004976 | -38209507 | -44889939 | -51939252 | -65891571 | -77184960 | -97220707 | -115053224 | -128431608 |

Sources: Government of Nepal Ministry of Finance Department of Customs

Table 4.4 shows the Nepal's foreign trade during FY 2007/08 to 2016/17. It shows the steady incremental growth of both export trade value and import trade value each period. However, the value of imports against exports is quite high which provided the negative trade balance for Nepal. China has been the major trade partner for a long period of time. In the period of 2005/6, the value of export to China was NRs. 892583 rupees. This reached to NRs.1719967 rupees in the period 2015/16. The period 2013/14 is recorded for the highest export. Then it started to decline and approached to the period of 2014/15 – 2015/16 caused by devastating earthquake in the year 2014/15 in Nepal. This statistical data indicates how the export growth has been diminishing against imports. On the import side, the values of import from China in the period 2005/06 were NRs. 12083497 rupees. There is tremendous increment in the value of import from China. It reached to NRs. 128431608 rupees in the period of 2016/17 the total import of Nepal. One of the main reasons of such incremental figure was the high import dependency of Nepal with China. The value of import from China in the study period was also in increasing trend. The heavy share of import on the total volume of trade with China has been found discouraging for the trade balance. Although the trend of Nepal's foreign trade during the past few years is encouraging, the value of our trade deficit is yet very disappointing. The main reason for increasing trade deficit of Nepalese trade is higher imports against small exports. It can be also represent under the figure



5.2 Trade Agreements with China

Since the establishment of diplomatic relations in 1955, considerable efforts have been made to expand trade and commercial intercourse between Nepal and China including the Kingdom's traditional border trade with the Tibet Region. The first agreement signed in 1956 stipulated that "in order to maintain and develop the traditional contacts between the people of Nepal and the Tibet Region of China, the nationals of both parties may trade, travel and make pilgrimage in each other's territory". It provided for the establishment of trade agencies and trade marts both in Nepal and Tibet.

In 1966 a new agreement on trade and other matters was signed. This agreement covering a period of ten years replaced the earlier agreement of 1956. It emphasized the need for making full use of the Kathmandu-Kodari Road for commercial traffic. The new provision brought by this agreement was the exchange of Consulate General between Kathmandu and Lhasa. The border trade was permitted as usual.

One more agreement was later signed in 1968. The Protocol to this agreement concluded in 1969 stated that the overland trade between the two countries would be conducted on the basis of c.i.f. at the point of transfer of goods over the border. The overseas trade was

to be conducted on the basis of f.o.b. in the case of Nepal's exports and c.i.f. Calcutta or other ports in the case of China's exports. In spite of all these provisions, the volume of trade did not register a considerable expansion. However, the Chinese side seems to have accomplished their goal of eliminating the role of Nepalese private traders in Tibet and of replacing the traditional trade structures between Nepal and Tibet by state to state trading. Consequently, the number of Nepalese merchants in Tibet declined from about 5000 in the early sixties to a few hundred by 1968.

The agreement of 1974 opened up two additional routes Rasuwa and Yari for the overland trade. This agreement also made provisions for a "swing credit" of 300,000 for a period of three years. As per this provision, Nepal would not have to pay every year in hard currency. When the amount to be paid exceeded the volume of credit, the difference was to be made by exporting goods. In 1977, this system of swing credit was extended to further three years. The traditional border trade was again permitted as usual.

The trade and payment agreements of 22nd November 1981 between Nepal and China has provided legal basis for the bilateral trade transactions and payments between the two countries.

Salient Features of the Agreement are:

1. The preamble the agreement specifies "For the purpose of further developing and strengthening the economic and trade ties between two countries including the traditional trade between Nepal and the Tibet Autonomous Region of China (ARC) on the basis of equality and mutual benefit: the agreement has been effected by the two countries".
2. Both the countries have agreed to initiate all appropriate measures and facilities to develop trade and have agreed to undertake separate measures in regard to promotion of traditional overland-trade between Nepal and Tibet ARC and overseas trade between Nepal and mainland China.
3. It is agreed by both the countries to regulate mutual trade on the principle of equilibrium as far as possible. As per the Agreement, bilateral trade can be

conducted by the trading organizations or importers and exporters of both the countries.

4. The agreement has agreed to provide most favored nation's treatment on reciprocal basis in all matters relating to duties and related taxes and also to rules and formalities. This provision is not subject to advantages resulting from customs union or similar multilateral agreements.
5. For the development and consolidation of overland trade between Nepal and Tibet ARC, different provisions have been laid down in the agreement.
6. Following trading points along the border have been agreed to utilize.

| | |
|-----------------------------------|------------|
| Name of the border point in Nepal | Tibet, ARC |
| Kodari | Nyalam |
| Rasuwa | Kyerong |
| Yari (Humla) | Purang |

In April 29, 2019 Nepal and China signed the protocol on Implementing Agreement on transit and transport and six other agreement. The protocol had been pending since Nepal and China signed The Transit And transportation agreement in March 2016 during Prime Minister== K.P. Sharma Oli visit.

The signing of the protocol makes it possible for Nepal to use four Chinese sea ports--in Tianjin, Shenzhen, Lianyungang and Zhanjiang--and three land ports--in Lanzhou, Lhasa and Shigatse--for third-country import. It will also allow Nepal to carry out exports through six dedicated transit points between Nepal and China.

Another key agreement was on China's economic and technical cooperation for Nepal worth Rs16.8 billion (1 billion yuan). Out of the pledged amount, 20 million yuan will be spent for development assistance and to create the headquarters in the 15 northern districts of Nepal. The programme will be executed by the China International Development Cooperation Agency. The rest of the amount will be spent on mutually agreed projects including the expansion of the second phase of the Kathmandu Ring Road. Other projects include handing over the certificate of grant-aid for repair and reinforcement of the existing China-aided projects in Nepal, cooperation and mutual

administrative assistance in customs matters, cooperation on standardization between the Nepal Bureau of Standards and Metrology and the Standardization Administration of China and preventing theft, clandestine excavation and illicit import and export of cultural property

5.3 Prospects and Challenges of Trade

There lies many prospects and challenges in between trade of Nepal and China .Agricultural and primary products should be given special attention for export. Special attention should be given to agriculture and primary products like poultry and meat-products that are losing market in China due to its strict quarantine requirement. Accreditation and upgrading of Nepal's present lab facilities is of utmost importance in order to solve this problem. Importance of diversification of Nepal's export basket and need for the exporters to carefully study China's import demand. . As Nepal and China are friendly neighboring countries, Nepal can achieve so many benefits and have chance to expand export, to improve trade deficit and to correct BOP situation.

There are prospects for investment from the Chinese side on hydropower projects as well as in construction, pharmaceuticals, minerals, cement, banking and education. Development of information technology and introducing of new technology on some industries are encouraging factor to assure quality and competitive products. Adequate work force with Low labor cost can easily available throughout the country. Various national and international agencies like NRN are seeking to invest in Nepal, which will enhance trade sector too.

Nepal's export performance is very poor and limited to a few items whereas due to heavy dominance of imports over exports, trade deficit with China has been widening. Nepal is still primary goods exporter and China is exporter of manufactured products. This has created tread imbalance between two countries. Agricultural sector, which is the backbone of Nepalese economy, has poor performance. Similarly, industrial sector is still at infant stage and the contribution of industrial sector to total GDP of Nepal is very low. Consequently, share of total trades in GDP is also in decreasing trend. Our trade sector is handicapped by lack of potential exportable products. But only an assessment of export

potentials and selection of appropriate export commodities is not sufficient to promote our foreign trade, it requires to launch comprehensive product development programmers, assess product suitability, acceptability and appropriate product adaptation most effectively and efficiently to foreign markets.

In favor of country's interest, effective diplomatic efforts with strong political -will and commitment should be taken by the government. It is necessary to make export plan having the framework of enhancing strategies of export and discouraging the volume of import that can reduce trade deficit problems. To reduce imports, domestic industries should be encouraged to produce consumer goods, which can be done by increasing tax on imported items.

Government should have the strategies to protect domestic industries that can be exercised by imposing quantitative restriction on imported items, developing of infant industries and expanding domestic markets. Areas of comparative advantage should be identified and environment for investment should be created in those sectors. Moreover, import trade should be developed as the component of industrial development. Export and import houses (SEZs) should be established to expand Nepal's foreign trade with China.

Nepal should organize more trade fairs, product exhibition and investment seminars in China and needs to increase our participation in trade and investment fairs in China to promote and expand bilateral trade and investment. Both Nepal and China should jointly remove existing trade barriers like customs, quarantine, transportation etc. Language barriers should be removed by encouraging the traders to learn Chinese language and culture which is very important while doing business with Chinese people. Necessary arrangements should be made for reducing delays and hassles in terms of trade and there should be increased required cooperation from the border officials.

The government should focus check-post hassles along the Araniko highway for ensuring convenient, smooth and efficient trade transit. The government should provide Chinese businesspersons or their representatives with multiple visas with duration of stay up to one year. Government role should be defined as catalytic in practice not only on paper.

Government should empower and attract the private sector involvement by making environment friendly policies. Export should be increased by improving the quality of product, introducing new commodities, reducing cost of production, generating export surpluses, encouraging research and development.

Belt and Road Initiative

The Belt and Road Initiative (BRI) is a global development strategy adopted by the Chinese government involving infrastructure development and investments in 152 countries and international organizations in Asia, Europe, Africa, the Middle East, and the Americas.

The leader of the People's Republic of China, Xi Jinping, originally announced the strategy during official visits to Indonesia and Kazakhstan in 2013. "Belt" refers to the overland routes for road and rail transportation, called "the Silk Road Economic Belt"; whereas "road" refers to the sea routes, or the 21st Century Maritime Silk Road.

It was known as the One Belt One Road (OBOR) and the Silk Road Economic Belt and the 21st-century Maritime Silk Road until 2016 when the Chinese government considered the emphasis on the word "one" was prone to misinterpretation. However, the old is still used inside China. The project has a targeted completion date of 2049, which coincides with the 100th anniversary of the People's Republic of China. From South-east Asia to Eastern Europe and Africa, Belt and Road includes 71 countries that account for half the world's population and a quarter of global GDP.

The Belt and Road Initiative formerly known as "One Belt and One Road" initiative, was proposed by China in 2013 and quickly developed into a national strategy. Almost simultaneously, China put forward other strategically important initiatives like the "Building a Strong Maritime Nation Strategy," "Diplomacy of a Great Power with Chinese Characteristics," the vision for "A New Type of Great Power Relationship" between China and the United States, and the new neighborhood diplomacy featuring amity, sincerity, mutual benefit, and inclusiveness. Under these new initiatives, frontiers, borderlands, and the ocean are elevated to a more critical position. Accordingly,

management and settlement of outstanding territorial and boundary disputes between China and its neighbors have become more important and imminent for the Chinese government to deal with inclusiveness in conducting neighborhood diplomacy, promote friendship and partnership with the neighbors, foster an amicable, secure, and prosperous neighboring environment, and boost win-win cooperation and connectivity with its neighbors.

Obviously, China sees itself in a critical era on the path to fulfilling its dream of the great rejuvenation of the Chinese nation. What China cherishes most is an amicable, secure, and prosperous neighboring environment. Geographically, the Belt and Road Initiative and the strong maritime nation strategy both start with China's neighborhood, both need a stable neighboring environment, and both require China and relevant states to effectively manage territorial and boundary disputes. Meanwhile, the Chinese government continues to reiterate that it would resolutely protect its sovereignty, territorial integrity, and maritime rights. As a result, how to coordinate the two conflicting objectives through a more balanced approach will be a great challenge for China. Toward this end, the following sections will examine impacts of the outstanding territorial and boundary disputes on the Belt and Road Initiative and vice versa.

Nepal's participation in the Belt and Road Initiative (BRI) goes beyond physical connectivity and also includes connectivity of ideas, trade, people, finance and the whole spectrum of connectivity.

On three tracks we could realize the benefit that this important initiative offers, and in the days ahead, perhaps, the government in collaboration with the private sector and with the knowledge community could come up with some idea on realizing it. The main focus of the meeting between the Presidents of Nepal and China, during President Bidhya Bhandari's visit to China that has been learnt, will be on expediting the Kerung-Kathmandu Railway project.

Discussion on the pre-feasibility study of the Kerung-Kathmandu-Pokhara railway and Kerung-Kathmandu-Lumbini railway are also on the cards. Also included in the agenda is signing of the Protocol on Transit and Transportation, a landmark agreement signed by

the two countries in 2016 during the first visit of Prime Minister KP Sharma Oli to Beijing. Once the protocol comes into effect, it will allow Nepali traders to use Chinese sea and land ports for third-country trade.

According to the agreement, Nepal will be able to use four Chinese seaports in Tianjin, Shenzhen, Lianyungang and Zhanjiang and three dry ports in Lanzhou, Lhasa and Shigatse.

The BRI was put forward by President Xi Jinping in 2013 in a bid to build the Silk Road and 21st century maritime Silk Road. And up to now, 80 plus countries and international organisations have signed a hundred cooperative memoranda with China under this framework.

The formality to join the BRI by Nepal is over, and now the focus should be on further cooperation under the BRI. Currently, China has developed new interests in Nepal to make Kerung the gateway to South Asia, which holds bilateral and regional importance. All the parties and people have collectively accepted and tried to be connected under the BRI.

During the tenure of Prime Minister Sushil Koirala, Nepal became a founder member of the Asian Infrastructure Investment Bank; during the tenure of Prime Minister K.P. Oli, Nepal signed the transit treaty; during the tenure of Prime Minister of Pushpa Kamal Dahal, Nepal joined the One Belt One Road (OBOR) initiative; and during the tenure of PM Sher Bahadur Deuba, Nepal allocated budget for the Detailed Project Report for the railway line from China.

Due to our geographical condition, a single passage is not enough. Nepal needs more connectivity from north to south as Nepal is elongated east to west. Following the destruction by the 2015 earthquake, China shifted the trading route from Tatopani to Rasuwagadhi. Through the route envisaged, Nepal could export various products using the shortest trade and transit route, saving transshipment and transit costs. BRI is not only a bilateral agreement but the shortest route to facilitate our trade: both export and import.

Although China has become a major trading partner, we suffer a huge trade deficit with China. Hence, it is necessary to promote the export of Nepali products to China to bridge the gap. Removal of non-tariff barriers — mutual accreditation arrangements, entry-exit inspection and simplified quarantine rules and regulations at the entry points, including mainland China, and simplification of customs procedures — can be effective tools to bridge the divide.

When we talk of Nepal China relations, establishing the following norms will prove beneficial: Strengthening policy coordination and consolidating mutual trust, for which the two governments must actively carry out dialogue and communication and exchange high-level visits at all levels more frequently. Second, expanding connectivity and shared experiences for the economic development of the countries concerned.

Promoting uninterrupted trade through jointly built roads for win-win cooperation. In 2017, surface road trade amounted to US\$ 990 million, up 11% over the previous year. In order to promote the traditional trade subsisting between China and Nepal, both the countries have pushed forward joint feasibility study of a China-Nepal Free Trade Agreement. China-Nepal cross-border economic cooperation, negotiation and signing of a Bilateral Investment Promotion and Protection Agreement (BIPPA) are some of the aspects that need immediate attention.

Nepal frequently participates with a pavilion in the China International Import Export Exhibition. China had shown interest in welcoming more enterprises from Nepal to promote products like tea and coffee besides handicrafts. China and Nepal need to further upgrade the level of trade facilitation and improve the investment environment to enhance win-win cooperation. The potential projects for investment are the Kathmandu Valley Metro Project, East West Railway Link to India Project, a chemical fertiliser plant, Kathmandu- Kulekhani-Hetauda Tunnel and Tamakoshi III Hydro Power Project. Investment Board Nepal is also conducting feasibility study on a luxury resort in the SheyPhoksundo National Park, a ski resort in Manang, an education, health and sports city and an integrated agriculture programme.

Effectiveness of Belt and Road Initiative in Nepal

BRI initiative raises a new hope for the developing countries like Nepal in the region. Nepal aspires to become a middle income country by 2030. Eradicating absolute poverty and hunger and uplifting the standard of lives of the whole population are the main focus areas of Nepal's plans, policies and programs. Achievement of these objectives heavily hinges on the building of sufficient infrastructure. In this context, infrastructure development has been one of the high priority areas of the current Periodic plan. Nepal's development efforts have been slow and inadequate due to political instability, lack of resources, difficult landscape and poor infrastructure. Land-lockedness and access to limited transit points has compelled the country to face trade and supply disturbances time to time. In this context, Nepal is hopeful to get significant benefit from OBOR initiative, as this might help improve the transport infrastructure and provide access to multiple transit points. Nepal has a history of being part of ancient silk routes. OBOR initiative is revival of this history. Nepal signed a preliminary agreement with China in December 2014 expressing its willingness to join the BRI initiative and finally signed the memorandum of understanding in May 2017. Nepal is a founding member of China-led Asian Infrastructure Investment Bank (AIIB), which is a funding body of BRI. BRI initiative will be helpful in broadening Nepal's trade and industrial base. This will turn Nepal from a landlocked to a land-linked country. Nepal can reap the benefits by becoming a bridge between the two large economies of the world, China and India and also by working as a gateway for China to enter the South Asia sub-region through BRI initiative. This will propel trade, tourism, investment and cooperation between China and Nepal to a new height

Nepal is a country of opportunities with high growth potential. However, the country is lagging behind in economic growth and development despite all these strengths. In the recent years, there has been gradual improvement in the political front and several measures have been taken to address the structural bottlenecks. The country is now emerging from the damages of devastating earthquake and disruptions created by the trade blockade in the southern border. Key economic indicators show that macroeconomic fundamentals are becoming stable and economic growth in Nepal is

picking up. Despite a huge trade deficit, foreign reserve is at a comfortable level. Investment environment is improving because of the legal, institutional and procedural reforms initiated in various areas. As a result, Nepal has become one of the most attractive destinations to do business in South Asia. Investors from various countries have pledged investment in hydropower, alternate energy, roads, airport, railway, industries and agriculture projects among others. Large portion of such investment is coming from Chinese investors. One Belt One Road initiative raises a new hope for Nepal, which has paid huge cost for being landlocked and having access to limited transit points. The initiative might help improve the transport infrastructure and provide access to multiple transit points. Nepal can become a land-bridge between the two large economies of the world, China and India and also work as the gateway for China to enter the South Asia. This might propel trade, tourism, investment and cooperation between China and Nepal to a new height.

CHAPTER -VI

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary

Nepal is one of the least developed countries in the world, which is facing the vicious circles of poverty and economic backwardness. Foreign trade, which is considered as an engine of economic growth is not in favor of Nepal.

The study of foreign trade trend and structure shows that it is still unfavorable to Nepalese economy. In other words, large imports against small exports obviously prove that the foreign trade deficit is being widened each year. However, the main purpose of the study is to analyze various aspects of Nepalese trade and economic relation with China. As India has remained the major foreign trade partner of Nepal, while other countries share a very negligible amount in trade.

China and Nepal share harmonious relation in social affairs since very beginning. Trade between these two countries and their people strengthen the tie. From establishing diplomatic relation in 1955 there are various treaties and agreement to make the trade between countries more strong.

The trade between Nepal and china is mentioned in various historical and literary accounts. Among them salt, gold, animal and animal products were main trading items. At present, products like Garments, electronic, incense, machinery, food items and agricultural products are major element of trade. The volume of Nepal China trade is growing but imbalance. This needs to be corrected in order to make our bilateral trade sustainable in the long run. Duty free access to the markets in China for Nepalese products could be one measure for narrowing this trade deficit.

The volume and trend of Trade between two countries is increasing significantly. China is the second largest trading partner of Nepal in terms of import and seventh largest partner in terms of export. However trade deficit of Nepal with China is increasing as the volume of the trade increasing year by year.

Despite of long economic and trade relationship between Nepal and China , the volume of trade could not developed faster in comparison to the development of international trade in recent decades and Nepal is facing a huge Trade imbalance with China. However, the value of imports against exports is quite high which provided the negative trade balance for Nepal. India and China has been the major trade partner for a long period of time. Nepal is facing a huge imbalance in its trade with China. There is huge trade gap between Nepal and China. The urgent attention of the government should be taken to be minimizing the Trade deficit of Nepal with China.

So it shows that the growth rate of export and import continuously increasing per year. Moreover, Nepal's trade imbalance with China has increased persistently and thus, a quest for complementarities in trade and economy has been a common concern. China has attained a double digit economic growth in recent year bringing a faster pace of development thereby improving the life and living of the Chinese people at large. As a close neighbor, Nepal could be benefited from China's fastest growing economy. But, this required development of common framework and proper strategy to facilitate trade, investment and economic integration between two countries.

This thesis has been divided into five chapters and other sub-chapters for making fruitful and effective. The main objective of the study is to analyze about problems and prospects of Nepal's trade with China. 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 for analyzing and presenting. The collected data for the descriptive analysis, foreign trade problems and issues and policies reform is critically analyzed. Data has been taken from FY 2007/08 to 2016/17 as country wise, commodity wise, from CBS, MOF, TPC and NRB etc. The collected data has been presented in both tables and figures.

Trade is the accelerative role in leading the economy in today's period and foreign trade is the indispensable part of it. In liberalized and globalized world foreign trade can play major role in economic upliftment of a country. In case of our country there are plenty of

natural resources but its utilization takes time and proper planning and foreign trade can be viable source of meeting demand of the country until we become self-sufficient. The overall findings of the study can be presented as follows;

6.2 Conclusions

Huge trade deficit due to increase in imports and decrease in exports has been a major problem in Nepalese trade. Since last few years, imports have been increasing rapidly and exports have been stagnant. Economic liberalization initiated in mid-1980's has failed to encourage export diversification and to reduce the trade deficit. Instable political environment and frequent changes in government has contributed to frequent changes in trade policy which is responsible for growing trade deficit. India has been the biggest trading partner of Nepal with about 64% of total foreign trade. With Indian economy growth is increasing, trade with India is likely to increase in the future. Nepal's trade with China is also increasing rapidly and it is also likely increase in future. Trade Relations of between China and Nepal is expected to raise as Chinese railway is arriving near Nepal Chinese Boarder in Kerung, Tibet by the end of year 2018. Further the signing of trade and transit agreement between Nepalese and Chinese government in year 2015 and up gradation of facilities at Kerung-Rasuwagadi boarder is likely to decrease Nepal's trade dependence with India which was created largely by land-lockedness of Nepal.

6.3 Recommendations

Nepal's trade relation with china has a lot of possibilities but due to lack of government eagerness to increase the tap on those opportunities we are not optimizing the situation. China being industrial nation we should request for preferential treatment to Nepalese exports. Our export problem which is been there due to various factors as transportation, customs capacity, payment problem and administrative process should be solved accordingly.

The following suggestions for the government of Nepal and the private sector with regard to improving Nepal- China trade could be fruitful for both the countries. This study has some suggestions for the promotion and expansion of Nepal's foreign trade especially

exports trade and consequent economic growth of the country. The following measures should be considered.

- With the future belt and road initiative the problem of transport system between Nepal and China will be solved and government should imply to reap benefit from the project.
- Nepal should fully utilize the most favored nation treatment to customs duties, taxes, fees and charges levied on exportation and importation of commodities and to the rules, formalities and charges of customs management.
- India still is the biggest trade partner of Nepal compared to other countries. So, trade with other countries also must be initiated.
- The trade between Nepal and China is increasing in recent year .From belt road initiative to study of opening new customs in border the opportunities are increasing.
- The difficulty of transport system is major obstacle for Nepal's foreign trade with China. Transport system in the country should be improved.
- There is few exportable commodity from Nepal which is standard quality. Inspection and production of high quality goods should be encouraged.
- Being landlocked has been biggest bottleneck in our trade expansion although it is a natural and permanent type of problem for landlocked country like Nepal; it should be solved through the political/diplomatic efforts and commitment.
- The export of agriculture production has been declining as growth in agricultural production has hardly been able to keep pace with population expansion. The agricultural production has affected export- GDP ratios. Agriculture must be the driving force of economy.
- In Nepalese trade sector, tariff is levied just to enhance revenue not to provide protection to domestic industries. There exists absence of attention in the production of consumer goods to reduce import. Domestic industries should be protected and preserved.

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www.moics.gov.np (Ministry of Industry, Commerce and Supplies)

www.npc.com (Nepal Planning Commission)

APPENDICES

Major Exporting And Importing Goods

| EXPORTS OF MAJOR COMMODITIES TO CHINA | IMPORTS OF MAJOR COMMODITIES FROM CHINA |
|---|---|
| 1. Agarbatti | 1. Aluminum Scrap, Flake, Foil, Bars and Rods |
| 2. Aluminum, Copper and Brass Utensils | 2. Bags |
| 3. Handicraft (Metal and Woolen) | 3. Camera |
| 4. Herbs | 4. Chemical |
| 5. Human Hair | 5. Chemical Fertilizer |
| 6. Musical Instruments, Parts and accessories | 6. Cosmetic Goods |
| 7. Nepalese Paper and Paper Product | 7. Dry Cell Battery |
| 8. Noodles | 8. Electrical Goods |
| 9. Other handicraft goods | 9. Fastener |
| 10. Pashmina | 10. Garlic |
| 11. Readymade Garments | 11. Ginger |
| 12. Readymade leather Goods | 12. Glasswares |
| 13. Rudrakshya | 13. Medical Equipment and Tools |
| 14. Silverware and Jewelries | 14. Medicine |
| 15. Tanned Skin | 15. Metal and Wooden Furniture |
| 16. Tea | 16. Office Equipment and stationary |
| 17. Vegetables | 17. Other Machinery and Parts |
| 18. Wheat Flour | 18. Other Stationaries |
| 19. Woolen Carpet | 19. Parafin Wax |
| | 20. Pipe and Pipe fittings |
| | 21. Plywood and Particle boards |
| | 22. Polythylene Terephthalate (Plastic pet chips) |
| | 23. Raw Silk |
| | 24. Raw Wool |

| | |
|--|---|
| | <ul style="list-style-type: none"> 25. Readymade Garments 26. Seasoning Powder and Flavour for Instant Noodles 27. Shoes and Sandles 28. Smart Cards 29. Solar Pannel 30. Steel Rod and Sheet 31. Storage Battery 32. Telecommunication Equipment and Parts 33. Threads- Polyester 34. Toys 35. Transport Equipment and parts 36. Tyres, Tubes and Flapes 37. Video, Television and Parts 38. Wielding Rods 39. Wheat Products 40. Writing And Printing Paper |
|--|---|

Source : Nepal Rastra Bank