

CHAPTER ONE

INTRODUCTION

1.1 Background of The Study

Nepal is land locked Himalayan country bordered by India in East, South and West and in North by Tibet Autonomous Region of the People's Republic of China. Nepal is located in between latitudes 26°22' and 30°27' and longitudes 80°04' and 88°12', with 147181 sq. km. It is 885 Km long and 193 Km wide in average. The country is divided administratively into 5 development regions, 14 zones, 75 districts, 58 Municipalities and 3912 VDC. Geographically, Nepal is divided into three regions viz. Terai, Hill and Mountain Region each covering 17 percent, 68 percent and 15 percent of the total area respectively. Within its very small stretch, Nepal possesses immense ethnic, cultural, climatic and biological diversities. (*Bhattarai, 2069, p. 1-2*)

Nepal is agrarian land-locked country with population of 26,494,504 and population growth rate of 1.35 percent (*NPHC, 2011*). Being agrarian country, agriculture is contributing around 34.9 percent of total national GDP and more than 73 percent of total employment. During the period of 2004/05 to 2010/11, the average GDP growth rate since Nepal acceded to WTO in 2004 is 3.8 percent. Agriculture occupies around 18 percent of total land area of the country, of which less than 50 percent of cultivated area is irrigated (*TPR, 2012*). Nepal's HDI value for 2012 is 0.463 in the low human

development category and rank is 157 out of 187 countries, gross national income per capita is \$1137 and income index is 0.359 (*HDR, 2012*). Major agricultural products include paddy, wheat, maize, barley, millet, potato, lentils, tea, sugarcane, coffee, ginger and large cardamom and some of these are also exportable products.

According to IETSA Nepal's major imports includes petroleum products, iron and steel, machineries and machinery parts, transport vehicles and vehicle parts, electronic and electrical equipment's, computers and computer parts, pharmaceutical products, gold, telecommunication equipment's and parts, crude soybean oil, polythene granules, and chemicals. Nepal's ten major source countries for imports are India, China, UAE, Indonesia, Argentina, Thailand, the Republic of Korea, Malaysia, Japan and the USA. India is the largest trading partner of Nepal both in terms of export as well as imports. India absorbs 67.5 percent of total trade consisting 66.9 percent of total exports and 67.6percent of total imports. The reasons for this concentration of trade with India are its physical proximity, similarity in culture, religion and language, long standing preferential trade agreements, and 1185kms of open border. (*Bhattarai, 2069, p.1-2*)

1.2 The Age of Globalization and International trade

According to World bank “Globalization refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace”. International trade and cross-border investment flows are the main elements of this integration. Globalization started after World War II but has accelerated considerably since the mid-1980s, driven by two main factors. One factor has lowered the costs of transportation, communication, and computation to the extent that it is often economically feasible for a firm to locate different phases of production in different countries. The other factor has to do with the increasing liberalization of trade and capital markets: more and more governments are refusing to protect their economies from foreign competition or influence through import tariffs and nontariff barriers such as import quotas, export restraints, and legal prohibitions. A number of international institutions established in the wake of World War II—including the World Bank, IMF, and GATT, succeeded in 1995 by the WTO have played an important role in promoting free trade-in place of protectionism.

(<http://www.worldbank.org>)

By the result of globalization international trade is growing day by day. The economic interaction among different nations involving the exchange of capital, goods and services is called international trade. The guide principle of international trade is comparative advantage, which indicates that every country, no matter their level of development, can find something that it can

produce cheaper than another country. International trade plays a major role in the economic development of a country. International finance, the study of payments between nations is a related area of international economics. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. A summary of international trade undertaken by a particular nation is given with the balance of trade.

1.3 Statement of the Problems

The international economic environment and global political balance have undergone revolutionary changes since the beginning of 1980's. After this development has consequently led to a continuous erosion of multilateral framework of trading system; internationalization of production and services, application of various protective unfair trade policies and comparative disparity on the distribution of benefits from the existing trading system.

In the era of globalization platform, Nepal also entered into the WTO since 23 April, 2004, SAFTA and BIMSTEC. Nepal has bilateral relationship with 81 countries (<http://www.mofa.gov.np>) and Nepal has signed BIPPA with India, Mauritius, Finland, France, Germany and the United Kingdom (*Republica, 2012*). Despite this, Nepal is unable to improve international trade pattern and cannot diversify its trade.

However, the performance of the international trade so far shows that the trade has not been able to play the critical role and it has not been able to fulfill the expectation of the nation.

In this context, following problems are mainly focused in this study.

- a. What are the major opportunities and threats of international trade after entering WTO?
- b. Can Nepal increase contribution of international trade in GDP?
- c. Can Nepal diversify the international trade?
- d. Can Nepal improve trade balance?

1.4 Objective of the Study

Following are the objectives of the present study:

- a. To analyze the general structure of Nepal's international trade.
- b. To analyze the general trend of international trade balance.
- c. To analyze the impact of international trade in the economy (GDP) of Nepal.
- d. To do general study of the current major Nepal's international trade related policies and reforms measures.
- e. To recommend necessary measures for future improvement.

1.5 Importance of the study

The importances of this study are as follows:

- a. It provides the actual trend of the international trade.
- b. It provides the actual situation of trade balance.
- c. It shows impact of Export & Import in the Nepalese economics.
- d. It provides the information about international trade related policies.

1.6 Limitation of the study

The study has tried to show certain aspects of the international trade and its impact in the economy of Nepal. So, it cannot be escape from these limitations:

- a. The study is based on the boundaries of limit area, subject and time.
- b. The study is based on secondary data.
- c. This study is carried out with an aim to explore trade relation between Nepal and rest of the world also its impact in the economy of Nepal.
- d. This study has focused on the international trade activities within the period of 2003/04 to 2011/12.

1.7 Organization of the study

This study is well organized by dividing the study into five different chapters. These are as follows:

Chapter 1:- Introduction

This chapter is introduction framework that includes background of the study, the age of globalization and international trade, statement of the problems, objective of the study, importance of the study, limitations of the study and organization of the study.

Chapter 2:-Literature Review

This chapter is concerned with the comprehensive survey of the existing literature with theoretical and conceptual part.

Chapter 3:- Research Methodology

This chapter deals with the methodology that includes research design, source and nature of data, study period, data analysis and presentation techniques.

Chapter 4:- Data Presentation and Analysis

This is the extensive and essential chapter of the study under which the collected data and information are presented and analyzed in different suitable ways. In this chapter, the analytical study of Nepal's international trade related policies and reforms and major finding of the study are also included.

Chapter 5:- Summary, Conclusion and Recommendation

This chapter is the final chapter of the study which includes summary of the study, conclusion and recommendation.

In the reference part, bibliography, abbreviation and appendix are included.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Review of literature is foundation of any kinds of research work.

Review of the literature is supported to revise the eminent literature related to the study. For this research study the related literature survey is done by consulting various journals, articles, newspapers, thesis, reports and others more relevant books to international trade, concept of international trade, trade policies about Nepal and rest of the world have been collected compiled and reviewed. In this study library, government body, private sector, authors, research scholars, etc. are the supporter for the literature review.

In the literature review mainly two types of review i.e. conceptual review which provides the concept of export, import and its impact in the economy of Nepal. And review of previous research work which provides information about previous research work.

2.2 Conceptual Review

Conceptual framework is drawn from the review of books, news, letters, articles, research papers, periodicals, leaflets, brochure and related website searching. It basically tries to incorporate the export, import and historical structure in the Nepal's economy.

2.2.1 History of Nepalese International Trade

International trade history can be traced out as three categories, i.e. international trade relationship with India, China and rest of the world. It is presented as under:

2.2.1.1 With India

India is a closed neighbor country of Nepal. Socially, economically, culturally, politically and geographically Nepal relationship established since ancient period. India Nepal economic relations can be traced from the ancient period. According to Cautilla (400B.C.) Indian economist mentions Nepal as the principal exporter of woolen goods. Woolen product of Nepal called 'bhingsi' or 'Apsarka' had found as a commercial product of that period. 'Newar' and 'Kirata' the beginning of Christian era (the original communities of Nepal) carried on trade with India. The golden age of Guptas (Beginning in 320A.D.) saw increased activity between Northern India and Nepal. Particularly, all the ruling dynasties of the Lichhavis, the Thakuris and the Mallas developed close commercial relationship with Bengal. (*Katti, 2001*)

After the Sugauli Sandhi in 13 March, 1814 British Indian entered in the Nepal's market. At that time Nepal's trade was governed by natural conditions and topography. Nepal exports agricultural, mineral and forest product like tobacco, ghee, hides and skins, musk, hawk and horses from the Himalayan region and cotton, cardamom, medicinal herbs and metal goods from hilly region. Half of food grains grown in Terai region were also

exported by Nepal. Nepal imported Cotton goods, salt, sheep, goats and buffaloes for mass consumption from India. At that time official trade and border trade was conducted. Nepal's ancient international trade with India in 1880/81 was NRs 25 millions in which export was NRs 16.2 millions and import was NRs 8.8 millions, in 1980/91 was NRs 28.6 millions in which export was NRs 18.3 millions and import was NRs 10.3, in 1999/00 was NRs 44.6 millions in which export was NRs 25 millions and import was NRs 19.6 millions in an average. At that time international trade was in the increasing trend with trade surplus. (*Katti, 2001*)

In the 20th century, Nepalese exports to British India consisted of rice, food grains, ghee, raw jute, raw wool, tobacco. Nepal's main imports were husked rice, wheat, gram and pulse, iron and steel sections, brass and copper, kerosene and other oil.

2.2.1.2 With China

The history of Nepal-China relations could be traced back to the 5th century when sages and saints engaged themselves in visiting far and wide in the pursuit of knowledge and peace. The marriage of Bhrikuti to the Tibetan King, Song Sang Gampo, in the 7th century and the White Pagoda in Beijing constructed under the guidance of Nepalese architect Araniko are testimony to the historical cultural relations between Nepal and China.

(<http://www.mofa.gov.np>)

In the seventeenth century the establishing on an empire in the Tibet side with the opening of new Trans-Himalayan trading routes between the cities of the Gangetic plains and Chinese cities quickly captured the Trans-Himalayan changes. Significant growth in Nepal & Tibet trade should be attributed to the commercial policy of Malla rulers. New urban trading center like Sankhapur, Palanchok, Dolakha and Nuwakot developed trade market and activated trade traffic through caravan to Kerung and Kuti. Prithivi Narayan Shah also wanted to monopolize enter-port trade marts in India and Tibet border to transshipment by the Nepalese merchant also was defused by Tibetans, who in 1770 closed trade routes to Nepal and suspended all commercial transactions between the two countries.

To promote trade a treaty was signed with Tibet after conflagration of 1791 and another after the war of 1856, the treaties, at reviving the Trans-Himalayan trade with Kathmandu as an enter-port center. Tibetan enchanted by the speculation in business with Indian started ignoring Nepalese

merchants. The number of Nepalese merchant in Lhasa dropped from 2000 to 500 in 1907 and to only 40 in 1923. Nepal and China signed an agreement based on five principles of peace co-existence and therefore established diplomatic relationship between two countries. This agreement was just a prelude to the more comprehensive agreement of 1956, in which both the governments expressed the region of Tibet and Nepal would keep continuing. Two governments also allowed each other's people to establish factories. (*Budhathoki, 2008*)

2.2.1.3 With Oversees

According to Dr. Katti, there is no record found about Nepal's trade relationship with any country except India and Tibet during 19th century. Nepal trade with overseas countries does not go back into history due to relative backwardness of the economy as well as the political and physical isolation in the country. Beginning period of 20th century Nepal's international was limited namely in U.K., U.S.A, and France. Before the World War II, Nepal used to import from the countries, such as England, Japan, Singapore and export agricultural products. Indo-Nepal trade treaty of 1950 required Nepal to follow a common traffic policy with India and with respect to other countries respective of their peculiar condition and requirement. After 1960 Nepalese overseas trade become possible, for the foreign currencies were needed for development. Nepal's export had to be promoted by diversifying the trade.

After the establishment of international institutions, in the wake of World War II including the World Bank, IMF, and GATT, succeeded in 1995 by the WTO have played an important role in promoting international trade of Nepal with overseas and also, have played an important role in promoting free trade in place of protectionism internationally. The other factor has to do with the increasing liberalization of trade and capital markets: more and more governments are refusing to protect their economics from foreign competition or influence through import tariffs and non-tariff barriers such as import quotas, export restraints, and legal prohibitions.

2.2.2 Exporter's Exchange Entitlement Scheme

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

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

2.2.3 Dual Exchange Rate System

EEE scheme introduced by Government of Nepal in 1961 could not promote and diversify export from India to the overseas countries so that in the year 1977, it gets replaced by DER. It had lunched basic (official) rate of about \$1=Rs. 12, which was basically applied in certain development goods and essential commodities. And depreciated rate about \$1=Rs.16, which was applied in discouraging the importation of luxurious commodities as well as used in export to encourage the export.

DER system was successful in the delinking of import from export. Under DER system, unnecessary and unavoidable imports were discouraged. Due to attractive incentives provided by the government to the overseas exports under DER system, market diversification only changed the direction of export from India to overseas without expanding the production base. DER system also carried a number of anomalies and trade destructive practice like over invoicing of exports and under invoicing of imports, emergence of unscrupulous trade practices, shortage of Indian currency, and increasing dependency with India.

2.2.4 Trade Diversification Policies of Nepal

From the ancient Nepal's trade was dependent upon India and China. According to Dr. Vijaya Katti, there is no recorded found about Nepal's trade relationship with any other country except India and Tibet during 19th century. Nepal adopted Import Substituting Industrialization Policies to diversify its trade since 1960's. From this period Nepal's trade with India was free and as well as controllable trade with rest of the world as directed by tariff and quantitative restriction policy.

To diversify, promotion and regulation of Nepal's international trade the some trade related acts, rules, regulations and policies enacted by the governments are as follows:

- Trade Policy, 2009
- NTIS, 2010
- Competition Promotion and Market Protection Act, 2063 (2007)
- Extract from the Foreign Exchange (Regularization) Act, 2019 (1962)
- Nepal's Industrial Policy (2010)
- Banks and Financial Institutions Act, 2063 (2006)
- Customs Act, 2064 (2007)
- Secured Transactions and Multimodal Transportation related Act
- Contract Act 2056 (2000)
- Export and Import (Control) Act, 2013 (1957)
- The Copyright Act, 2059 (2002)
- The Electronic Transactions Act, 2063 (2008)
- The patent, Design and Trade Mark Act, 2022 (1965)
- The Excise Duty Act and Rules, (2002)

2.2.5 Current Trade Policy 2009

The Trade Policy 1992 primarily covered export strategy, import strategy, internal export policy, and foreign exchange regulation, and internal trade policy, constitution of trade council, foreign trade policy and research institution and establishment of Nepal Trade Promotion Organization. The Trade Policy 1992; however, largely remained unable to address issues of international trade dynamism, affiliation with regional and multilateral trading system, expansion of bilateral free trade area, simplification of trade procedures and development of new transit system. Enforcement of SPS measures and TBT seem important for sustaining export trade.

To avoid above limitation and diversify trade, Nepal has launched trade policy in 2009 after 5 year becoming member of WTO in 23rd April 2004. Even after entering into WTO and other regional and multilateral agreement, the trade diversification is not so satisfy.

Main objective

To support the economic development and poverty alleviation initiatives through the enhanced contribution of trade sector to the national economy.

Objectives

- a) To create a conducive environment for the promotion of trade and business and make it competitive at international level.
- b) To reduce trade deficit by increasing exports of value added products through linkages between imports and exports trade.

- c) To increase income and employment opportunities by increasing competitiveness of trade in goods and services.
- d) To establish interrelationship between internal and foreign trade developing them as complimentary and supplementary to each other.

Main strategies

a. Creating a conducive atmosphere for making competitive trade at international level.

- The private sector will be facilitated to actively engage in the conduct of trade and the government will play the role of a guide, guardian, regulator and motivator.
- Transaction costs will be reduced by facilitating exports and imports through procedural simplification, facilitation and institutional strengthening.
- Reform measures will be introduced with the development of policy, institutional and physical infrastructures relating to the trade of goods and services.
- Market access of Nepalese products will be enhanced through protection of intellectual property rights.
- Goods that are of comparative advantage, and based on skills, means and resources available in the country will be identified and selected as well as promotion of trade in such goods will be supported.

b. Reducing trade deficit through export promotion.

- Procedures of import will be simplified and incentives will be provided for the import of raw materials and industrial machinery required by the export oriented industries.
- Market access opportunities will be expanded for Nepalese products through utilization of windows available under the bilateral, regional and multilateral trade agreements.
- SEZ will be established and expanded for export promotion with the view to attracting domestic and foreign investments.

c. Increasing income and employment opportunities.

- The trade development will be made inclusive, and the employment opportunities to the marginalized groups and deprived communities will be enhanced by developing the employment oriented skills and entrepreneurship in the commerce sector.
- Emphasis will be given on the development and promotion of special thrust areas and industrial clusters with the view of expanding market access to exportable products based on traditional skills, art and craftsmanship.
- Emphasis will be given to increase income and employment opportunities through promotion of trade in services.

d. Establishing interrelationship between domestic and foreign trade.

Conducive environment will be created to allow partial consumption of goods or services produced by export oriented industries and the domestic consumption within Nepal will be encouraged for exports.

Policy and Working Policies

Policy and working policies are related with as following:

- Promotion of public and private sector in trade.
- Reduction of transaction costs through procedural simplification and institutional strengthening.
- Developing policy, institutional and physical infrastructures relating to foreign trade.
- Developing policy and institutional networks for the protection of intellectual property rights and promotion of export of services.
- Providing additional incentives to the export oriented industries.
- Market expansion through utilization of opportunities available under bilateral, regional and multilateral trade promotions.
- Establishing SEZ for export promotion.
- Developing employment oriented skills and entrepreneurship.
- Increasing income and employment opportunities.
- Developing special thrust areas and promoting the identification, selection, production and trading of new exportable goods of comparative advantage.
- Linking export oriented industries with domestic markets.
- Encouraging exports of goods or services produced for domestic consumption by expanding their production.

Institutional Arrangement

Trade policy 2009 had institutional arrangement to promote trade are as following:

- a. Board of Trade
- b. Trade Promotion Institute
- c. SEZ and Export Processing Zone

Foreign Trade Promotion Programs

Foreign trade promotion programs are transit and logistics programs, export processing and SEZ promotion programs, publicity and promotion programs, and HR development program.

Special Focus Area

Trade policy 2009 has categorized special focus areas into; Readymade garments, Carpets and woolen goods, Pashmina and silk products and Handicraft goods.

Thrust Area Development

In order to improve the competitive capacity, as emphasized under the TAD, by increasing the production of highly export potential agricultural products, coordination will be established among the concerned agencies of the government and private sector. Under this, particular programs will be implemented for the commercialization of the farming of tea, vegetable seeds, large cardamom, pulses, floriculture, precious/semi-precious gems and stones, gold and silver ornaments, processed leather, herbs and essential oils, handmade paper and paper products, wooden craft products, coffee, honey, oranges (junar) and vegetables that possess comparative advantages.

2.2.6 Nepal Trade Integration Strategy 2010

In 2010, Government of Nepal has launched Nepal Trade Integration Strategy -2010 with four capacity development objectives. The NTIS charts a possible course of the development of the country's export sector over the next five years together with possible capacity development actions and selected short to medium term priorities that are supportive of inclusive growth. NTIS-2010 is undertaken by ministry of commerce and supplies, with support from UNDP, the government of Finland, the UK's Department for International Development, the IFC and the International Trade Center.

NTIS 2010 identifies four objectives to respond to these capacity development challenges for the coming years:

a. Strengthen trade negotiations (especially bilateral):

The study identifies a list of 19 possible priority export potential sectors and priority attractive markets for such export potentials. Nepalese trade negotiators need to ensure proper market access in order to promote them in the respective attractive markets. Bilateral market access negotiations are likely to be required in quite a few cases, though negotiations with and within regional groupings are also likely to play an important role. Some strengthening of policy research capacity especially in relation to trade negotiations may be required.

b. Strengthen the technical capacity of domestic non-tariff barrier and other business environment supportive institutions:

Building a competitive, exportable supply capacity of goods and services from Nepal has become increasingly dependent upon the ability of the country's producers to meet the NTB market entry requirements of importing countries. Doing so requires putting in place a supportive domestic support infrastructure in areas of technical standards, SPS standards, trade facilitation, investment environment, intellectual property rights, domestic service regulations, and others.

c. Strengthen the export capacity of 'Inclusive' export potential goods and services:

Nepalese policymakers might want to prioritize their attention on the 19 goods and services sectors identified as potential export sectors and ensure their success in their current or potential attractive destination markets. Doing so may require carrying out in-depth analyses of the individual sectors presented in the NTIS and ensuring those sectors benefit from proper sector-specific supportive measures

This, in turn, suggests that the Government's and private sector's initial focus under Objectives 1 and 2 will also need to target the areas of trade negotiations, trade-related policy reform or NTB institution-building that are most immediately pertinent to supporting those export potentials.

d. Strengthen the GoN's capacity to coordinate and manage Trade-Related Technical Assistance and Aid for Trade and to implement the NTIS:

Achieving the objectives of the NTIS will require domestic as well as external resources. The NTIS suggest that the MOCS, on behalf of the GoN, needs to put in place a set of implementation arrangements that will assist in formulating implementation projects in support of the NTIS' objectives, in securing TRTA resources, coordinating and managing those, and monitoring results. It is also indicated that the coordination and management of aid in the trade sector are quite complex as they involve not simply coordinating and managing with and among Development Partners but also among various line ministries and agencies directly or indirectly involved in trade development. Aid coordination and management also requires a large amount of capacity building in the new implementation arrangements, therefore, this need should not be underestimate during the implementation of the NTIS.

Capacity Development Actions and Proposed Short and Medium term Priorities:

- a. Focus on 19 export potential goods and services.
- b. Focus on bilateral negotiations.
- c. Qualitative export product.
- d. Established board of investment and The Nepal Business Forum.
- e. Organized and develop a trade support network.
- f. Focus on services.
- g. Mechanisms for strengthened coordination and management capacity of Aid for Trade and Trade and TRTA.

2.2.7 International Trade in Thirteenth Periodical Plan

The thirteenth periodical plan FY 2070/71-2072/73 set by the NPC has a long-term perspective of transforming Nepal into a developing country from the LDC status within the next ten years, and reducing economic and human poverty to increase living status of people as a main objective. Keeping the Regional and International Agreements, Trade Policy 2009 and NTIS 2010 in higher priority, this periodical plan has formulated the following objective, strategic and action plans:

Objectives

- To promote national and international trade.
- To reduce the trade deficit by maintaining the price and quality of comparably beneficial products and services competitive.
- To extend the benefits, obtained from export promotion of local base products, throughout the rural level.

Strategy

- To formulate and implement the sectorial plans and policies in coordination with the trade sector.
- To promote the participation of government, cooperative and private sector for the development of commercial sector.
- To give higher effort in the production and productivity of the beneficially independent, comparable and competitive exportable products introduced by Trade Policy and NTIS emphasizing the value added and value chain to promote export trade.

- To extend trade capacity, trade infrastructures and easy trade accessibility through economic diplomacy.

Working Policy

- To improve the inter-ministerial cooperation so as to obtain maximum benefit from the export capacity enhancement, promoting the service trade.
- To reduce the transaction cost of the trade through process-wise simplification and institutional improvement.
- To develop the TEPC into Trade Promotion Academy as an autonomous institution enhancing the trade related studies, research, export promotion, and product and manpower development.
- To establish an international exhibition centre in the participation of private sector.
- To manage the transportation of the importable and exportable products in the enclosed container.
- To give special effort in the research and development of contemporary trade related issues in effective coordination with the different trade related institutions.
- To preserve and promote the product and services manufactured with the indigenous knowledge and skills.
- To make the internal trade and supply easily accessible and effective by the effective implementation and supervision of the policy related to competitive promotion.

- To give special effort in the purification of medicinal herbs, and the production and export of herbal-medicinal products so as to obtain maximum benefits from the available valuable herbs.
- To expand the service sector as an indispensable part of commerce sector by developing and expanding the introduced service sectors.
- To provide encouragement, facilities and convenience to the beneficially independent, comparable and competitive exportable products and services to increase the Export Trade.
- To conduct programs for the increment of productivity and price of the exportable products and services introduced by Trade Policy and NTIS, by making them competitive in the international market.
- To conduct the market expansion and promotion programs for the quality increment of internationally established Nepalese products and services and so as to get maximum benefit.
- To develop and improve the trade related infrastructures in the border area.
- To energize the trade related Nepalese Diplomatic Institutions of the international level for the trade promotion.
- To study and implement the trade related sectorial plans for the effective mobilization and implement the trade related co-operations.

2.3 Review of Empirical Studies

Empirical studies are devoted to review of important works.

Empirical study will make from the review of international trade and impact in the Nepalese economics related Journal's articles, case studies, review of Thesis/ Dissertations.

2.3.1 Review of Unpublished Thesis

In this chapter, the unpublished theses are reviewed as follows:

Shah, Supriya (1999) has done her thesis paper "**The Study of Nepal's Foreign Trade: 1965-97**". This paper focus on the following objective:

- a. To study Nepal's foreign trade,
- b. To analyze exports and
- c. To examine imports.

In her thesis paper, the information of foreign trade is taken from SITC. She used mathematical tools, foreign trade multiplier, linear equation and regression analysis. She concluded that Nepal's foreign trade is fluctuating with GDP. Her export multiplier and import multiplier finding are 10.72 and 2.19 respectively. Also marginal propensity to import and saving on average are 0.3143 and 0.1413 respectively. She estimated annual exponential growth rate of the specified macroeconomic variables that vary from 10 percent to 21 percent. Growth rate of GDP at constant price (1974/75 = 100) is only 3 percent.

Khanal, Madhab (2006) has conducted his thesis paper “**Foreign Trade of Nepal: Trend and Structure**”. The main objective of this thesis was to study structure and trend of foreign trade, trade policies and its reforms. In his paper, data are studied during the fiscal year 1990/91 to 2003/04, which was almost prior period of WTO agreement of Nepal. To fulfill the aimed objectives, Khanal use various statistical tools like regression model, T-test, F-test, D/W-test, and analytical and description method are widely used for data analysis. Major finding of this study are as follows:

- a. During the study period, there seems negative trade balance. Most of trade deficit is occurred with India in fluctuating trend.
- b. Lack of diplomatic efforts, India oriented policies, condition imposed by donor agencies, donor driven strategies, poor implementation , non-effective monitoring and evaluation mechanism, no price and reward system and red tapism on bureaucracy can also be consider as the challenging scenarios.
- c. Though the agriculture is the mainstay of the Nepalese economy, it has been extremely disappointing. Transit and transportation cost is too high and there is no effective rural-urban linkages practices, too.
- d. Due to the adoption of liberal economic policy, government levied international trade tax to generate revenue but it neglected the aspect of import substitution. So, the trade deficit of Nepal becomes more acute.
- e. Infant industrial shape with narrow base of exportable production having low quality products has been challenging scene of Nepalese trade, though it has already entered into global trade i.e. WTO and bilateral trade arrangements like SAPTA and SAFTA.

Bhandari, Deepak (2007) has completed his research paper on “**Trade and Transit Policies of Nepal and Its Impact on Foreign Trade**” by using the data started from FY 2001/02 to FY 2005/06. Major objectives of his thesis were as following:

- a. To overview the existing trade and transit policies of Nepal.
- b. To analyze foreign trade direction of Nepal.
- c. To show impact of trade and transit policy on the foreign trade especially with India.
- d. To find the emerging possibilities and barriers on Nepal’s trade and transits.

Major finding of his study were as follows:

- a. After establishment of TPC in 1971 and Trade policy 1992, trade pattern of Nepal is moving widely towards the diversification.
- b. Trade policy 1992 enhance the contribution of trade sector to national economy by promoting internal and external trade, diversity trade by identifying, developing and producing new exportable product as well as also enhance the expand trade to reduce trade imbalance, coordination of trade with other sectors by expanding employment oriented trade.
- c. First treaty on trade made in 1950 was renewed in 1961 and again renewed in 1971, 1978,1991,1996 and most recent revision in 2002, which finally gives the following features of transit:
 - Exemption from basic customs and qualitative restriction on import.

- Access to Nepalese product to Indian market free of basic custom duties.
 - Preferential entry on goods imported without any qualitative restriction and payment in Indian currency.
 - Focus on rules of origin, imposition of tariff quota and submission of information regarding the basis of rules of origin.
- d. Due to the weak internal production sector and insufficient provision of required qualitative commodities, export trade is on the way of substitution by import trade. This resulted huge trade deficit.
- e. Due to the social and economic interaction, Nepal has high trade dependency and trade deficit with India.

Budhathoki, K. Narayan (2008) has conducted research on “**A Study on the Foreign Trade of Nepal**”. This study is to analyze the scenario of international trade of Nepal. This research paper had these objectives:

- a. To identify the present real situation of Nepalese foreign trade,
- b. To find out the major issues of Nepalese foreign trade,
- c. To analyze the factor affecting of foreign trade of Nepal,
- d. To analyze the situation of balance of trade of Nepal and
- e. To provide valuable suggestions to concerned sectors for improving the foreign trade of Nepal.

In order to fulfill these objectives, Budhathoki has taken data during the period frumpy 1996/97 to FY 2005/06 and adopted analytical as well as

descriptive approach. He presented data as overall, plan wise and composition wise. The major findings by Budhathoki were as follows:

- a. Negative trade balance is occurring due to agricultural dependency, low productivity and demand of industrial products.
- b. Nepal's geographic diversity and open boarder with India is one causes of trade deficit.
- c. Nepal's foreign trade policy is directed more towards import expansion rather than export promotion and import substitution.
- d. Nepal's trade deficit problem arises increment in foreign loans, grants and balance of payment that may have long-term effect in country's economy
- e. Nepal utilizes one transit Fulbari Banglaband to trade with overseas countries; no action is forwarded regarding this.
- f. The export GDP ratio in Nepal from FY 1974/75 to FY1989/90 is ranged from 1.9 to 5.4. The agricultural production has affected export-GDP ratios.

Collectively, through his study, he has recommended for the formulation of production plans, bilateral agreements with importing countries with quota system that may help in the production diversification, and negotiations for export-import simplification procedures.

Dahal, Santosh (2009) had conducted thesis paper “**Trend and Structure of foreign trade of Nepal with India**”. He had conducted his thesis based on the following objectives:

- a. To study structure of foreign trade between Nepal and India.
- b. To analyze Nepal's foreign trade trend and their determinants.
- c. To analyze Nepalese foreign trade policies and reform measures.
- d. To recommend necessary measures for future improvement.

In order to fulfill determined objectives, he used table, graph, diagram and log linear regression model for description and analysis of data taken from the FY 1993 to FY 2006/07. He had also analyzed foreign trade policies and reform measures of that period. From his study the major findings were as follows:

- a. The trade share on GDP is about 10 percent, NRN investment and FDI could be encouraged to enhance trade sector.
- b. Low productivity, land locked situation; open boarder and free flow of goods are the barriers of the Nepalese trade. Also, lack of diplomatic efforts, India oriented policies, strategies oriented towards the donor agencies, poor management, no price and reward system are the barrier of trade.
- c. The adoption of liberal economic policy, government levied international trade tax to generate revenue but it has neglected the aspect of import substitution increasing the trade deficit of Nepal.
- d. No any action taken by government to uses alternative transit routes to trade with overseas countries other than India and China.

Sah, M. Kumar (2012) has conducted thesis paper “**A Study on Indo-Nepal Trade Situation**”. He used description and analytical method to analyze the data from FY 1998/99 to 2011/12 including estimated data of FY 2010/11 and 2011/12 form MOF, Government of Nepal. He used hypothesis testing and diagrammatic presentation of data. Objectives of this study were following:

- a. To find out the foreign trade composition of Nepal.
- b. To find out the export-import position of Nepal with the neighboring country mainly India.
- c. To find out the trade balance of Nepal with India.

In this paper following were the major finding:

- a. In the beginning of the study period, the trade volume is dependent with overseas; however, at the ending period, this trend is reverse.
- b. In the majority of the years, Nepal is facing the trade deficit with India except in the FY 1999/00 and FY 2000/01.
- c. Due to the landlocked and physical diversity, Nepal faces trade deficit with India during study period except FY 1999/00 and FY 2000/01.
- d. The trade with India and overall international trade of Nepal are seen to be correlated form the testing of hypothesis.

2.3.2 Review of Journals and Report

Sharma, Om and Bhandari, Rajendra (2005), in their article “**Foreign Trade and Its Effects on Nepalese Economic Development**” published in Journal of Nepalese Business Studies, had the objectives of understanding the effects of foreign trade on the economic development process of Nepal. This paper attempts to deal the role and impact of export and import along with many other pertinent factors. The determining factors that have been considered along with export are capital stock, labor force, and average propensity to save, relative price index, ratio of government development expenditure to GDP. Moreover, GDP, PCI, and growth rate of GDP are the assumed as development indices. These macro variables are introduced through the application of various econometric models. The empirical results have been estimated by applying annual data for the period from FY 1974/75 to FY 2002/03. The different models in linear and log-linear forms have justified that exports growth leads to economic growth. Therefore, the policy of adequate investment in export-oriented industries that embody a 'proper mix' of export promotion and import substitutions is suggested.

Regime, Udaya Raj (2008) in his publication “**Indo-Nepal Trade: A Quantitative Analysis**” published in **Nepal journals online, administration and management review**”, made an attempt to empirically analyze the Indo-Nepal trade position, using market share analysis, dependency ratio, trade intensity, complementarily and country bias indices, degree of horizontal trade, comparative advantage, similarity index and intra-

industry trade. India is losing Nepal as the target market whereas Nepal has barely maintained its share in India. Owing to the existence of poor complementarity, Nepal's export composition could not match to that of import composition of India. Among the commodities that Nepal has comparative advantage, India has tended to remain the potential market only for a few commodities. Despite a shift in export composition, there is no possibility of horizontal trade between Nepal and India. The existing intra-industry trade linkages between these two countries are also very poor. In addition, the partial complementarity in export-import structures and the competitive export structure suggests that the prosperous expansion of trade between these countries can be achieved through vertical trade, harmonization of production structures, and change in trade and industrial policies.

Panta & Panta (2009) in their paper “**Export Diversification and Competitiveness: Nepal’s Experience**” has stated Nepal’s trade related regime has not been able to improving trade competitive advantage. To identify new exportable products and enhance the diversification of export markets, many policy measures have been formulated from time to time; however, these have hardly been executed and implemented. The legacy of the past made the challenge for Nepal more complicated. Against this perspective, the paper:

- a. Examines the export scenario of Nepal and reviews the past studies on the country’s export potential;

- b. Illustrates Nepal's competitiveness of the export sector; and
- c. Suggests measure for promoting export diversification and competitiveness.

On the basis of examination of the REER, this paper clearly indicates that Nepal is gradually losing its competitiveness. A comprehensive case-by-case analysis of home and host countries trading environment, supply and demand condition, cost of production, innovation capacity as well as its forward and backward linkages should be conducted to translate the export potential into the actual trading opportunities, even though the various studies have demonstrated that Nepal possesses competitive advantage in herbal products, woolen carpets, tea, garments and pashmina.

Rajkarnikar, Dr. Pushpa Raj, (2011) has published article “**Trade Performance Before and After WTO Accession**” on Trade and Development Journal of MOCS, Nepal. His article focused on five post and prior period of WTO accession from the FY 1999/00 To FY 2003/04 and FY 2004/05 to FY 2008/09 respectively. He has conducted his study under analytical and description method. The major finding of his study can be presented as follows:

- a. The total trade volume was growing during the entire study period under review except in the year 2001/02. In an average, the total trade volume was increased by 13.3 percent after the WTO accession period. However, it is 9.8 percent before WTO accession. Merchandise trade to GDP was 39

percent in the pre-accession period and it falls to 38 percent in the post-accession period mainly due to drastic decline in exports.

- b. Nepal's annual growth rate of export trade is higher in the beginning of study period and gradually decreasing in fluctuating trend before WTO accession period with average growth is 10.04 percent. However, after WTO accession period, the trend is continuous except in the FY 2008/09 with 14.2 percent and average occurred 4.82 percent. Till this, annual growth rate of ratio to GDP is in continuously decreasing trend which in the pre and post accession period was 11.8 percent and 8.9 percent respectively.
- c. On the import side, annual growth rate is 9.8 percent and 16.1 percent in average pre and post accession period which shows the increasing trend of trade dependency. Also in an average, ratio to GDP is increasing by 27.6 percent to 29percent respectively in pre and post accession period.
- d. Annual growth rate of trade deficit of Nepal during the WTO pre-accession period was in decreasing trend with average 10 percent and after WTO accession period, it increased by 21.4 percent. And the ratios to GDP are respectively 15.3 percent and 20.1 percent in pre and post accession with WTO.
- e. During pre-accession period, the average ratio of export to imports was 44 percent which decreased to 31 percent during post accession period. Declining of export to import ratio started before being member of the WTO and continued at much faster pace in the year after its membership.

- f. The average share of trade with India increased from 49.7 percent in pre-accession period to 61.7 percent in post accession period.
- Correspondingly, in an average, the share of other countries in Nepal's trade declined sharply from 50.3 percent to 38.3 percent in this period.
- g. In an average, out of total trade, the export to India in total export increase from 51.8 percent in pre-accession period to 61.5 percent in post accession period. In an average, export trade with overseas was declined from 48.2 percent in pre-accession period to 33 percent in post accession period. The main cause of trade dependency with India and declining trend with overseas is the termination of multi-fiber agreement and competition due to absence of quota system.
- h. In an average, the share of imports from India in total imports of Nepal increased from 48.6 percent in pre-accession period to 60.4 percent in post accession period. Correspondingly, the share of imports from other countries declined from 51.4 percent to 39.7 percent.

Government of Nepal has done **Trade Policy Review (2012)** as per Marrakesh Agreement establishing the WTO. According to TPR the average ratios of export and import with GDP in the period 2004/05 to 2009/10 were 12.1 percent and 32.9 percent respectively and average total foreign trade ratio to GDP is around 37 percent in the same period. The big gap between export and import is generating huge trade deficit as well as creating foreign exchange burden to the economy. In addition, Nepal's trade, especially the export trade, is highly concentrated on few items and few markets. Major ten

export items cover around forty percent of the total exports. The major export products are iron and steel, textiles, woolen carpets, garments, pashmina, tea, coffee and large cardamom. Nepal's exports go to a very few countries, mainly to India, USA, Bangladesh, Germany, UK, France, Turkey, Canada, Italy, China and Bhutan. Nepal's major imports include petroleum products, iron and steel, machinery and parts, transport vehicles and their parts, electronic and electrical equipments, pharmaceutical products, gold, telecommunication equipments and parts, crude soya-bean oil, polythene granules, and chemicals. Nepal's ten major source countries of imports are India, China, UAE, Indonesia, Argentina, Thailand, the Republic of Korea, Malaysia, Japan and the USA. Among them India alone absorbs 67.5 percent of total trade consisting 66.9 percent of total exports and 67.6 percent of total imports due to physical proximity, similarity in culture, religion and language, long standing preferential trade agreements, and 1700kms of open border.

Nepal bounds 99.4 percent of tariff lines at HS 8 digit level. The simple tariff average is 12.1 percent which was 13.8 percent in 2003/04. Currently, there are six slabs and 5168 tariff lines at HS 8 digit level, which was 5351 before the accession to the WTO. The tariff structure has been streamlined over the years and now the highest level of tariff has been reduced from 130 to 80 percent applicable mostly for vehicles. Almost 80 percent tariff lines are concentrated in 5 percent, 10 percent and 15 percent duty slab. Kakarbhitta, Biratnagar, Birgunj, Bhairahawa, Nepalgunj, and Mahendranagar are the major corridors in the southern part of the country, whereas Tatopani is the

only corridor available for international trade in the northern part. Most of Nepal's foreign trade with third countries has to use transit routes that pass through the Indian Territory. The movement of transit traffic from Kolkata and Haldia ports to Nepal is governed by the Treaty of Transit and Rail Service Agreement between Nepal and India. Besides the Treaty of Transit, the Government of Nepal and India have entered into Rail Service Agreement for operating and managing the rail service for transit traffic between Kolkata/Haldia ports in India and Birgunj in Nepal via Raxaul in India. Nepal is also considering using Vishakhapatnam port for transit. Nepal and Bangladesh signed a bilateral agreement on transit in 1976 to six transit points; viz. Chittagong port, Khulna-Chalna which are sea ports, Birol point, Banglabandh point, Chilhati point and Benapole which are land border points at Bangladesh India border. A bilateral agreement was signed between India and Nepal to open the Kakarvitta-Panitanki point to Phulbari-Banglabandh point which is the shortest route (44 Km) from Nepal border to Bangladesh border and Mongla port. Nepal is still using Birol and Banglabandh points. In addition as rail connection is possible, Rohanpur-Singhabad has been recommended. But necessary arrangement/amendments are remaining to make this route fully operational.

Nepal has signed bilateral trade agreements with India, China, Bangladesh, Sri Lanka, Pakistan, UK, USA, DPR Korea, the Republic of Korea, Egypt, Mongolia and Romania, regional agreement with SAFTA in 2004 with reducing traffic to 0-5 percent except sensitive lists as per TLP, BIMSTEC and multilateral agreement with WTO in April 23, 2004 to diversify trade.

2.4 Research Gap

There are very few research papers concerning with the particular international trade related topics. The previous researches did not focus on the overall international trade of Nepal and its effects on the economy of Nepal. Most of the previous research papers mainly address the issue of Indo-Nepal trade, and trade related policies of Nepal. However, these previous research papers only analyzed the old trade policy formulated in the year 1992, which could address the situation only before the WTO membership. Even a latest research paper by Manoj Kumar Shah only address Indo-Nepal trade situation. This study so would be of different value as it focused almost on the overall international trade of Nepal after WTO membership and new trade policy formulated in the year 2009 and other reforms supporting the international trade. Also, this study also address the impact of international trade in the economy of Nepal by showing the relationship between international trade of Nepal and its GDP.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the short outline of the methods applied in the process of analyzing and description of the international trade and its effect on the economy of Nepal. This provides the valuable information and data about the concerned study and also helps for presenting and analyzing the collected information and data. In order to make the study more effective and scientific following procedures are adopted.

3.2 Research Design

Research design is the milestone to fulfill the research work. The main objective of the study is to analyze the Nepal's international trade and its impact in the economy of Nepal. To conceptualize the problem, basically analytical, descriptive and quantitative approach will be utilize.

3.3 Source and Nature of Data

In this study, for the achievement of the targeted goals of this study, secondary source of data are mainly used.

To make systematical and more valid, the annual publication and various periodical published by NRB, TEPC Nepal and CBS are considered as the major sources in this study.

3.4 Period Covered

The present study covered almost period after WTO membership of Nepal from FY 2003/04 to FY 2011/2012.

3.5 Data Presentation and Analysis Techniques

Data analysis includes the process of ordering, splitting down to constituents, and manipulating the data so as to obtain the answers of the researched issues. In order to achieve the objectives, descriptive and inferential data analysis techniques are applied. Descriptive and analytical is mainly used for summarizing and comparing data and information which broadly provides the useful, clear and critical informative description of the characteristics of trade related issues and ideas. In order to make systematic and scientific study, following statistical tools are widely used.

a. Tabulation

Tabulation includes converting the raw data into tabular form. Table provides systematic and convenience analysis of data. It simplifies the process of manipulation and presentation of numeric and outlined data in understandable forms. In this research, table clearly shows the yearly data of business activities with India, China and foreign countries.

b. Diagram

For the clear representation and simplified analysis of the tabulated data, simple bar diagram and multiple bar diagrams are used in this research study.

c. Graph

Graphical method is used to represent the tabulated data in the clarified and scientific way. It provides the critical information about the trend of international trade and economy of Nepal.

d. Arithmetic mean

Arithmetic mean is used to calculate the average figure of the tabulated data during the study period which is directly calculated in the table.

e. Ratio

Ratio is the quantitative relation between any two variables. Suppose X and Y are two variables, then the ratio between these two variables is given as:

Ratio = X/Y . Ratio of two variables is directly calculated in the table.

f. Percentage

Percentage is used to clarify the raw data into tabulated, graph and diagram.

g. Correlation and Regression Analysis

To ascertain the relationship between international trade and economy of Nepal, under this study correlation coefficient and regression equation are calculated. Mainly, to calculate the correlation and regression line GDP is considered as the indicator of economy to compare with International trade.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Background

Data presentation and analysis is the important part of the research work. In this chapter collected data are presented and analyzed according to research methodology.

4.2 International Trade Scenario of Nepal

International trade of Nepal was broad after the 19th century. Before this period, Nepal's trade was fully dependent with India and Tibet. After the membership in WTO, Nepal's international trade is on the way of diversification. This study mainly focuses on FY 2003/04 to 2011/12 which is almost post period of membership of Nepal in WTO. This can be represented by the following tabulated data.

Table 1: Overall International Trade of Nepal

(Values in NRs. 000')

FY	Total Exports	Total Imports	Total Trade	Trade Balance
2003/04	53,949,414	135,840,335	189,789,749	-81,890,921
2004/05	58,443,821	148,294,229	206,738,050	-89,850,408
2005/06	59,776,874	160,677,924	220,454,798	-100,901,050
2006/07	58,927,097	195,808,412	254,735,509	-136,881,315
2007/08	58,474,359	237,030,276	295,504,635	-178,555,917
2008/09	68,596,852	291,000,944	359,597,796	-222,404,092
2009/10	60,949,603	375,605,870	436,555,473	-314,656,267
2010/11	64,562,444	397,535,942	462,098,386	-332,973,498
2011/12	74,089,060	498,161,074	572,250,135	-424,072,014

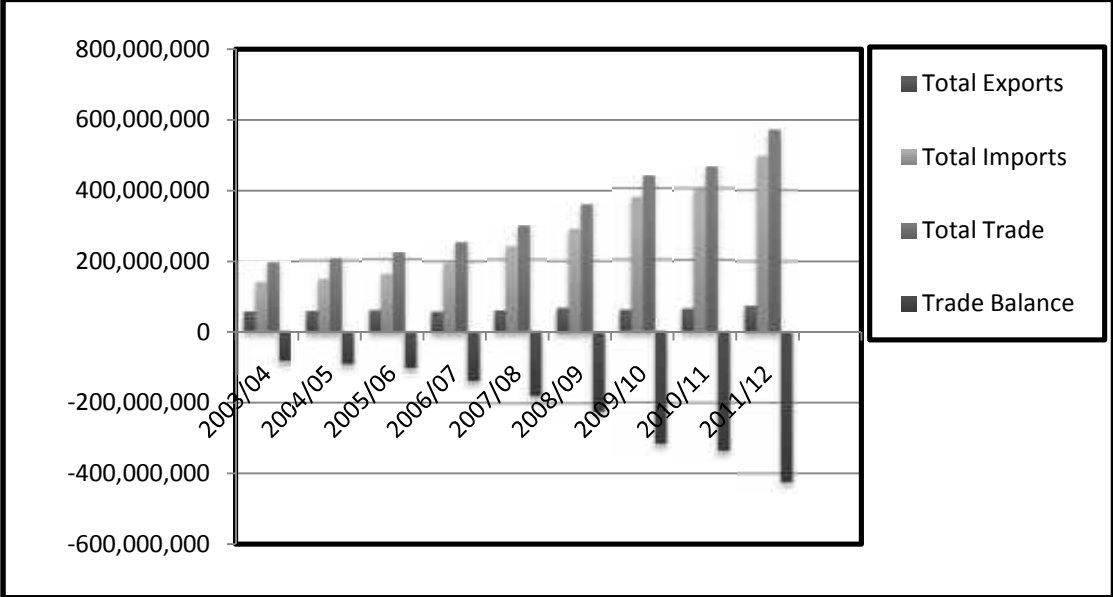
Source: NRB and TEPC Nepal

This table (1) clearly shows the overall international trade scenario of Nepal during the study period from FY 2003/04 to FY 2011/12. In the FY 2003/04, the total trade volume was Rs. 189,789,749 thousands out of which Rs. 53,949,414 thousands and Rs. 135,840,335 thousands were total volume of export and import respectively which resulted the trade deficit of Rs. 81,890,921 thousands. The above table 1 shows the total trade is in increasing trend during the study period.

However, total export value is not proportionally increasing as compare to total import value. This fluctuating and proportional trend of trade value finally results the increasing trend of trade deficit. At the final FY of the study period (i.e. FY 2011/12), total trade volume increased to about Rs. 572,250,135 thousands out of which total export and import volume also increased to about Rs. 74,089,060 thousands and Rs.498,161,074 thousands respectively and finally resulted the trade deficit of Rs. 424,072,014 thousands.

Figure 1: Overall International Trade of Nepal

This figure (1) is evolved from the above table 1, which can be analyzed as follows.



Above figure (1) clearly shows the total import, export and trade deficit from the FY 2003/04 to FY 2011/12. Total import volume is increasing continuously; however, export is fluctuating up and down. Moreover, the total trade volume is increasing steadily during the study period. The continuous increasing import volume and fluctuating export volume has created a gap which results to the continuous increment in trade deficit.

4.2.1 Proportion of Share of Export and Import Trade in Total International Trade

In this chapter, the study focuses on share of export and import in the total trade as well as the resulted trade deficit, which can be represented as follows:

Table 2: Proportion of Share of Export and Import Trade

(Values in %)

FY	Total Exports	Total Imports	Total Trade	Trade Deficit
2003/04	28.43	71.57	100	-43.14
2004/05	28.27	71.73	100	-43.46
2005/06	27.12	72.88	100	-45.76
2006/07	23.10	76.90	100	-53.80
2007/08	19.79	80.21	100	-60.42
2008/09	19.08	80.92	100	-61.84
2009/10	13.96	86.04	100	-72.08
2010/11	13.97	86.03	100	-72.06
2011/12	12.95	87.05	100	-74.10
Average	20.74	79.26	100	-58.52

Source: NRB and TEPC Nepal

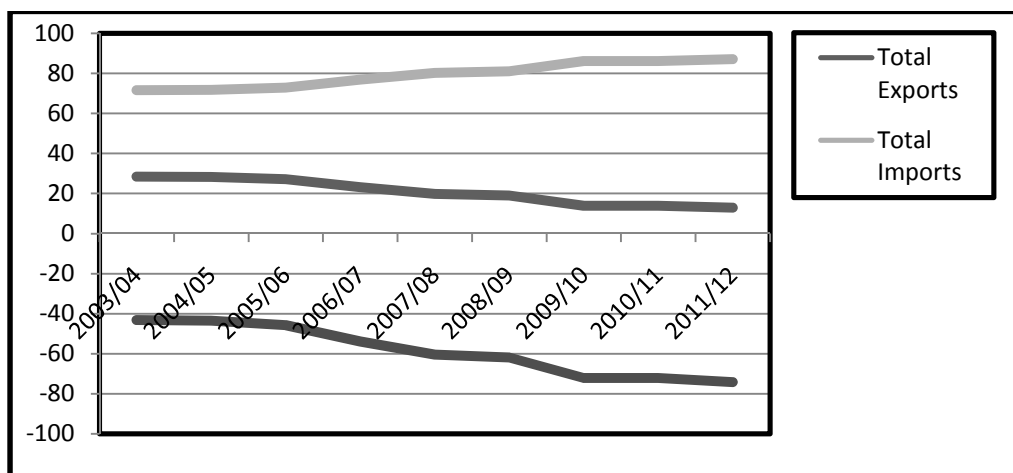
In the above table (2), data are taken from FY 2003/04 to 2011/12 which clearly shows the proportionate share of trade in every FY. Comparing the overall shares, it has been observed that in the FY 2003/04, there was maximum export share of 28.43 percent and minimum import share of 71.57 percent and minimum trade deficit of about 43.14 percent. However, in the last FY of study period i.e. 2011/12, there was maximum import share of 87.05 percent and minimum export share of 12.95 percent and maximum trade deficit of 74.10 percent. In an average, during the study period, the

share of export trade is 20.74 percent; import trade is 79.26 percent and trade deficit is 58.52 percent.

During the study period, even after the WTO membership, the export share is gradually decreasing but import share is in increasing trend. The share of import is always greater than share of export. This finally leads to the increasing trend of trade deficit.

Figure 2: Proportions of Share of Export and Import Trade

This figure (2) is developed from the table (2), which can be presented and analyzed as following:



The figure (2) represents the tabulated data in the table 2, which clearly shows the share of import, export and trade deficit throughout the study period from 2003/04 to 2011/12. The import share line is continuously up going but the export share line goes in reverse trend. The increasing gap between the export and import share lines finally results in the increment of trade deficit. This clearly shows import is always greater than export share. Therefore, Nepal is always suffering from trade deficit during the study period.

4.2.2 Proportion of Annual Growth Rate of Nepal's International Trade

This chapter shows the annual growth rate of Nepal's international trade. The annual growth rate table is computed as follows:

Table 3: Proportion of Growth Rate of Nepal's International Trade

(Values in %)

FY	Total Exports	Total Imports	Total Trade	Trade Balance
2003/04	7.9	5.9	6.5	4.7
2004/05	8.3	9.2	8.9	9.7
2005/06	2.3	8.4	6.6	12.3
2006/07	-1.4	21.8	15.5	35.7
2007/08	-0.8	21	16	30.4
2008/09	17.3	22.8	21.7	24.6
2009/10	-11.1	29.1	21.4	41.5
2010/11	5.9	5.8	5.9	5.8
2011/12	14.8	25.3	23.8	27.4
Average	4.8	16.59	14.03	21.34

Source: NRB and TEPC Nepal

Above table (3), shows the annual growth rate during the study period from FY 2003/04 to 2011/12 of international trade. In it, fluctuation in the overall trade is indicated.

During the FY 2003/04 to 2004/05, the total annual trade change rate was about 8.9 percent out of which total annual export change rate was 9.2 percent. In the FY 2005/06, it decreased to about 6.6 percent with decrease in total annual import. From the FY 2006/07 to 2008/09, total annual trade change rate gradually increasing of which total annual export change rate was

in decreasing trend, while total annual import change rate is in increasing trend. In the FY 2010/11, total annual trade change rate suddenly decreased from 21.4 percent to 5.9 percent during which total export change rate drastically increased but total import change rate decreased by high difference. In the final FY of study period, in the FY 2011/12, total trade change rate increased with increasing trend of import and export change rate.

During the study period, in an average, the total trade change rate is about 14.03 percent of which average export change rate is 4.8 percent and import change rate is 16.59 percent which finally results in average trade deficit of about 21.34 percent due to the such increasing imbalance between export change rate and import change rate, trade deficit has get increasing trend during this study period of Nepal's trade.

4.2.3 Export To Import Trade Ratio of Nepal

Export to import trade ratio is the ratio of the total exports and total imports. It measure whether or not a country's imports are fully paid for by exports in a given year. This can be presented as follows:

Table 4: Export to Import Trade Ratio of Nepal

(Values in NRs. 000')

FY	Total Exports	Total Imports	Export to Import Ratio (Times)
2003/04	53,949,414	135,840,335	0.3972
2004/05	58,443,821	148,294,229	0.3941
2005/06	59,776,874	160,677,924	0.3720
2006/07	58,927,097	195,808,412	0.3009
2007/08	58,474,359	237,030,276	0.2467
2008/09	68,596,852	291,000,944	0.2357
2009/10	60,949,603	375,605,870	0.1623
2010/11	64,562,444	397,535,942	0.1624
2011/12	74,089,060	498,161,074	0.1487
Average			0.27

Source: NRB and TEPC Nepal

Above table (4) clearly indicate the total import and export volume along with export to import ratio during the study period From FY 2003/04 to 2011/012. In the FY 2003/04 export to import ratio is about 0.3972 which declined to a very low level of 0.1487 in the final FY 2011/12 even after the member of WTO. In an average of study period export to import ration is 0.27. Above table shows, during the study period export/import ratio is in gradually decreasing trend. From this, it can be clearly analyzed that Nepal's import cannot pay from its export.

4.3 Nepal's International Trade With India, China and Overseas

In this chapter Nepal's international trade with India, China and Overseas is presented. International trade of Nepal is presented in trade wise way which can be presented as following:

4.3.1 Nepal's Export Trade With India, China and Overseas

This chapter mainly focuses on the export trade of Nepal with India, China and Overseas. It can be represented by the following table.

Table 5: Nepal's Export Trade with India, China and Overseas

(Values in NRs. 000')

FY	India	# China P.R.	Overseas	Total
2003/04	30,777,100 (57%)	2,425,174 (4.5%)	20,747,140 (38.5%)	53,949,414 (100%)
2004/05	38,916,900 (66.6%)	2,017,901 (3.4%)	17,509,020 (30%)	58,443,821 (100%)
2005/06	40,714,700 (68.1%)	1,004,357 (11.7%)	18,057,817 (30.2%)	59,776,874 (100%)
2006/07	41,728,800 (70.8%)	1,202,783 (2%)	15,995,514 (27.2%)	58,927,097 (100%)
2007/08	38,555,700 (65.9%)	9,44,489 (1.6%)	18,974,170 (32.5%)	58,474,359 (100%)
2008/09	43,574,482 (63.5%)	2,151,783 (3.1%)	22,870,587 (33.4%)	68,596,852 (100%)
2009/10	39,902,811 (65.5%)	1,380,274 (2.2%)	19,666,518 (32.3%)	60,949,603 (100%)
2010/11	42,868,108 (66.4%)	925,478 (1.4%)	20,768,858 (32.2%)	64,562,444 (100%)
2011/12	50,933,222 (68.7%)	1,241,186 (1.7%)	21,914,652 (29.6%)	74,089,060 (100%)
Average Share	65.83%	3.51%	31.77%	100%

includes trade with Hong Kong SAR and Macau

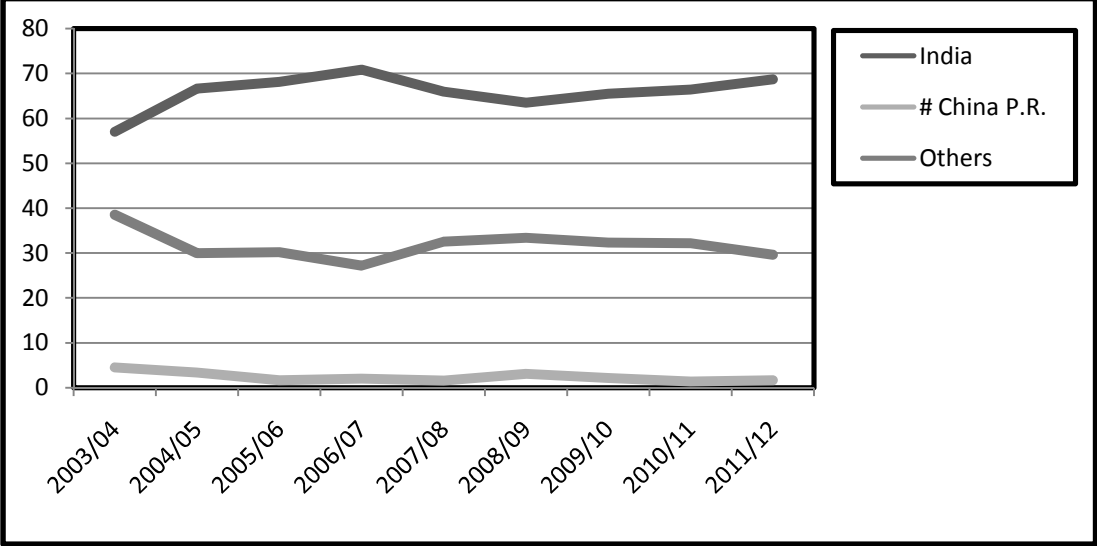
Source: NRB and TEPC Nepal

This table (5) shows the export trade of Nepal with India, China and Overseas in rupees and share in percent during the study period from FY 2003/04 to FY 2011/12. In the FY 2003/04, Nepal has total export trade of about Rs. 53,949,414 thousand out of which it has about 57 percent of export trade with India, 4.5 percent with China and 38.5 percent with Overseas. Total trade increases to about Rs. 74,089,060 thousands in the final FY 2011/12 of study period out of which Nepal has export trade of about 68.7 percent with India, 1.7 percent with China and 29.6 percent with Overseas. In an average, the total trade during study period with India, China and Overseas is 65.83 percent, 3.51 percent and 31.77 percent.

Although the membership of Nepal in WTO, the export trade shares with India is more than about 60 percent which is gradually increasing during the study period instead of world trade diversification with other nations. Export trade share of Nepal with India is more or less increasing trend but with China and Overseas, it is highly fluctuating.

Figure 3: Nepal’s Export Trade Trend with India, China and Overseas

This figure (3) is developed from the table 5, which can be analyzed as follows.



This figure (3) graphically represents the tabulated data in the table 5, which clearly shows the Nepal’s export trade with India, China and Overseas during the study period from FY 2003/04 to FY 2011/12. The export trade lines with India and Overseas are highly fluctuated, however, export trade line with China is less fluctuating. The export trade line with India is more or less in increasing trend; however, with China and Overseas, respective lines are more or less in decreasing trend.

This notably shows that the export trade dependency is more or less increasing with India, but it is gradually declining and fluctuating up and down with China and Overseas. Clearly, even after the WTO membership, it represent that export trade is not in the way of diversification with other nations rather than India.

4.3.2 Nepal's Import Trade With India, China and Overseas

This chapter mainly focuses on the import trade of Nepal with India, China and Overseas. It can be represented by the following table.

Table 6: Nepal's Import Trade with India, China and Overseas

This chapter mainly focuses on the import trade of Nepal with India, China and Overseas, which can be represented as follows.

(Values in NRs. 000')

FY	India	# China P.R.	Others	Total
2003/04	78,739,500 (58%)	10,941,473 (8%)	46,159,362 (34%)	135,840,335 (100%)
2004/05	88,675,500 (59.8%)	14,145,609 (9.5%)	45,473,120 (30.7%)	148,294,229 (100%)
2005/06	107,143,100 (66.7%)	13,014,427 (8.1%)	40,520,397 (25.2%)	160,677,924 (100%)
2006/07	115,872,300 (59.2%)	17,718,164 (9%)	62,217,948 (31.8%)	195,808,412 (100%)
2007/08	142,376,500 (60.1%)	23,433,205 (9.9%)	71,220,571 (30%)	237,030,276 (100%)
2008/09	165,119,002 (56.7%)	34,465,791 (11.9%)	91,416,151 (31.4%)	291,000,944 (100%)
2009/10	214,261,109 (57%)	43,445,613 (11.6%)	117,899,148 (31.4%)	375,605,870 (100%)
2010/11	259,162,277 (65.2%)	46,629,754 (11.7%)	91,743,911 (23.1%)	397,535,942 (100%)
2011/12	321,346,419 (64.5%)	53,126,367 (10.7%)	123,688,289 (24.8%)	498,161,074 (100%)
Share in Average	60.80%	10.04%	29.16%	100%

includes trade with Hong Kong SAR and Macau

Source: NRB and TEPC Nepal

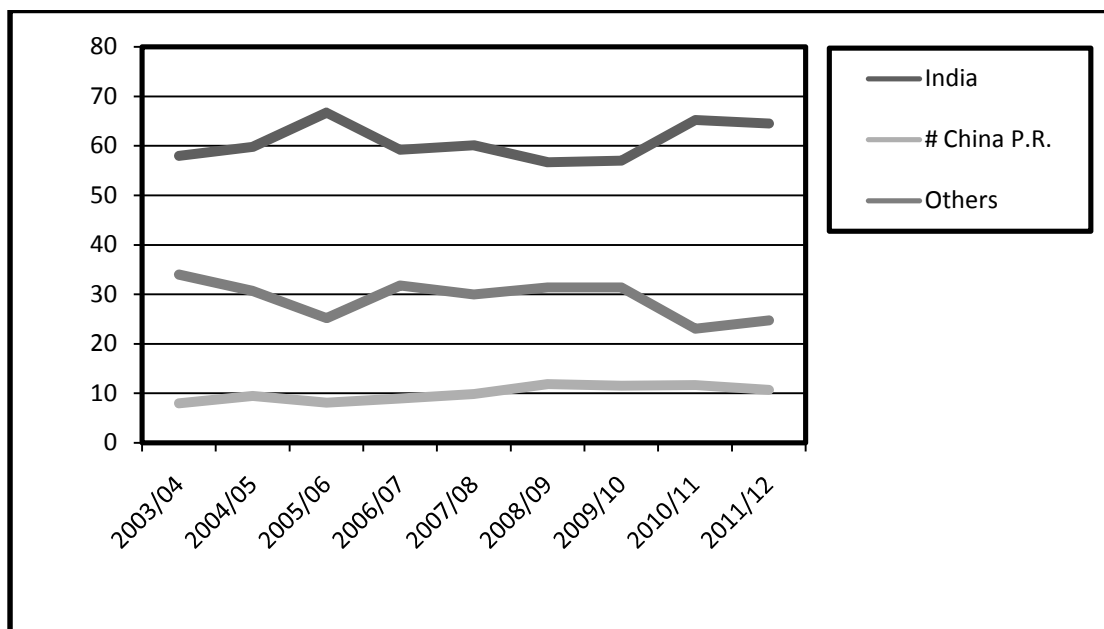
This table (6) clearly shows the import trade of Nepal with India, China and Overseas in rupees and share in percent during the study period from FY 2003/04 to FY 2011/12. In the FY 2003/04, in the total import trade of Nepal, share of import from India was about 58 percent, share from China was about 8 percent and that from Overseas was 34 percent. The share of imports from India in the total imports of Nepal increased to 64.5 percent in the final FY of study period (2011/12). The share of imports from China also increased to 10.7 percent, but from Overseas, it declined to about 24.8 percent in the final FY of study period (2011/12).

During the study period, it is noticeable that the share of imports from India in the total import trade of Nepal is more fluctuating and more or less is in increasing trend. The share of imports from China in the total import trade of Nepal is also increasing by very less value. However, the share from Overseas is in gradual decreasing trend.

Even after the WTO membership, Nepalese trade couldn't be improved in the diversification of imports. Trade dependency of Nepal with India couldn't be improved even after the WTO membership.

Figure 4: Nepal's Import Trade Trend with India, China and Overseas

The graphical representation of the table no. 6 can be presented as follows.



This graph (4) clearly shows the trend of Nepal's import trade with India, China and Overseas during the study period from FY 2003/04 to FY 2011/12. The above graph clearly shows that in the total international import trade of Nepal, the trade share with India is always around 60 percent, with Overseas is around 30 percent and with China is around 10 percent. The import trade lines with India and Overseas are highly fluctuating; however, the import trade line with China is less fluctuating. The imports trade lines with India and China are more or less in fluctuating and increasing trend; however, with Overseas, import trade line is more or less in fluctuating and decreasing trend.

4.3.3 Nepal's Trade Balance With India, China and Overseas

This chapter mainly focuses on the trade balance with India, China and Overseas during the study period from FY 2003/2004 to FY 2011/12. During study period Nepal's trade balance seems not satisfactory which can be represented by the following table.

Table 7: Nepal's Trade Balance with India, China and Overseas

(Values in NRs. 000')

FY	India	# China P.R.	Overseas	Total Trade Balance
2003/04	-47,962,400	-8,516,299	-25,412,222	-81,890,921
2004/05	-49,758,600	-12,127,708	-27,964,100	-89,850,408
2005/06	-66,428,400	-12,010,070	-22,462,580	-100,901,050
2006/07	-74,143,500	-16,515,381	-46,222,434	-136,881,315
2007/08	-103,820,800	-22,488,716	-52,246,401	-178,555,917
2008/09	-121,544,520	-32,314,008	-68,545,564	-222,404,092
2009/10	-174,358,298	-42,065,339	-98,232,630	-314,656,267
2010/11	-216,294,169	-45,704,277	-70,975,053	-332,973,498
2011/12	-270,413,196	-51,885,181	-101,773,636	-424,072,014

Source: NRB and TEPC Nepal

This table (7) clearly shows the trade balance of Nepal. In the FY 2003/04 the total trade deficit was Rs. 81,890,921 thousands out of which Rs. 47,962,400 thousands, Rs. 8,516,299 thousands and Rs. 25,412,222 thousands were the trade deficit with India, China and Overseas respectively. Even after the WTO membership, trade deficit is more or less in increasing trend and

reached to Rs. 424,072,014 thousands in the final FY of study period out of which Rs. 270,413,196 thousands, Rs. 51,885,181 thousands and Rs. 101,773,636 thousands were trade deficit with India, China and Overseas respectively.

4.3.4 Proportion of Share of Trade Balance of Nepal with India, China and Overseas

This chapter focuses on the proportion of share of Nepal's trade balance with India, China and Overseas during the study period from FY 2003/04 to FY 2011/12. It is calculated from the table (7) is following:

Table 8: Share of Trade Deficit of Nepal with India, China and Overseas

(Values in %)

FY	India	# China P.R.	Overseas	Total Trade Deficit
2003/04	58.57	10.40	31.03	100.00
2004/05	55.38	13.50	31.12	100.00
2005/06	65.84	11.90	22.26	100.00
2006/07	54.17	12.06	33.77	100.00
2007/08	58.14	12.60	29.26	100.00
2008/09	54.65	14.53	30.82	100.00
2009/10	55.41	13.37	31.22	100.00
2010/11	64.95	13.73	21.32	100.00
2011/12	63.77	12.23	24.00	100.00
Average	58.99	12.70	28.31	100.00

Source: NRB and TEPC Nepal

Above table (8) clearly shows the trend and share of balance of trade of Nepal with India, China and Overseas. In the study period, trade is in negative balance. In the beginning of the study period i.e. FY 2003/04, trade deficit occurred with India which is 58.57 percent, with China is 10.40 percent and with Overseas is 31.03 percent. During the study period, even after the WTO and other regional agreement, it is clearly seen from the above data that the Nepalese trade deficit with India is always above the 50 percent of total trade. Also, the trade deficit with India, China and Overseas is fluctuating up and down. In the final FY 2011/12, the trade deficit with India, China and Overseas reached to 63.77 percent, 12.23 percent and 24.00 percent respectively.

In an average, trade deficit with India is about 58.99 percent, with China is about 12.70 percent and with Overseas is about 28.31 percent. This implies that the trade deficit is more or less in increasing trend instead of occupying the decreasing trend. Also, it indirectly implies that the trade dependency with India is increasing.

4.3.5 Proportion of Annual growth rate of Nepal's Trade Balance with India, China and Overseas

This chapter focuses on the annual growth rate of Nepal's trade balance with India, China and Overseas during study period from FY 2003/04 to FY 2011/12. The annual growth rate of trade balance with India, China and Overseas table is computed from the table (7).

Table 9: Proportion of Annual growth rate of Nepal's Trade Balance with India, China and Overseas

(Values in %)

FY	India	# China P.R.	Overseas	Total Trade Balance
2003/04	-	-	-	-
2004/05	3.75	42.41	10.04	9.72
2005/06	33.50	-0.97	-19.67	12.30
2006/07	11.61	37.51	105.78	35.66
2007/08	40.03	36.17	13.03	30.45
2008/09	17.07	43.69	31.20	24.56
2009/10	43.45	30.18	43.31	41.48
2010/11	24.05	8.65	-27.75	5.82
2011/12	25.02	13.52	43.39	27.36
Average	24.81	26.40	24.92	23.42

Source: NRB and TEPC Nepal

Above Table (9) shows the annual growth rate of trade balance with India, China and Overseas during the study period from FY 2004/05 to FY 2011/12. In the FY 2004/05, total annual growth rate in Nepalese Trade Balance was about 9.72 percent in which annual trade change rate with India was 3.75 percent, with China was 42.41 percent and with Overseas was 10.04 percent. The annual growth rate of Nepalese trade balance is highly fluctuating. The annual growth rate of Nepalese trade balances with India and Overseas occupy more or less increasing trend, however it with China occupy more or less decreasing trend. In the final FY 2011/12, total annual growth rate of Nepalese trade balance increased to about 27.36 percent; it with India increased to about 25.02 percent, with China decreased to about 13.52 percent and with Overseas increased to about 43.39 percent.

In an average, total annual growth rate of Nepalese trade balance is about 23.42 percent; it with India is about 24.81 percent, with China is about 26.40 percent, and with Overseas is about 24.92 percent.

4.4 Nepal's International Trade and Economy

This chapter includes indicators, which provides information on the significance of international trade relative to the overall economy. In this chapter to trace out the relationship between international trade and economy; following index are calculated.

4.4.1 Nepal's Trade Dependence Index

Trade dependence index means the value of total international trade as a percentage of gross domestic production. It measures the share of international trade in the national economy. It is calculated by using formula of appendix two.

Table 10: Nepal's Trade Dependence Index

(Values in NRs. 000')

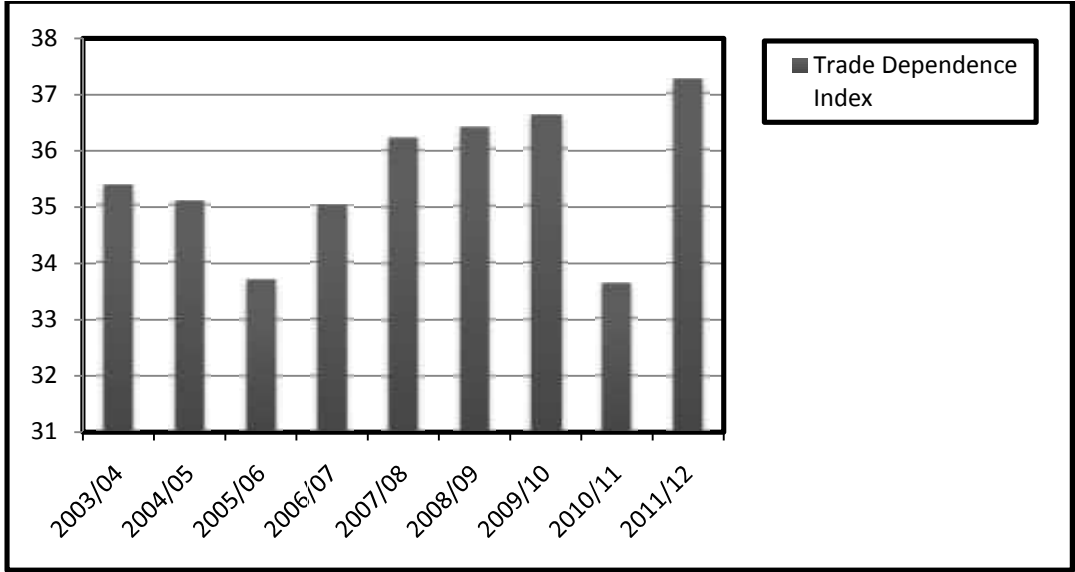
FY	Gross Domestic Production	Total International Trade	Trade Dependence Index (%)
2003/04	536,749,000	189,789,749	35.36
2004/05	589,412,000	206,738,050	35.08
2005/06	654,084,000	220,454,798	33.70
2006/07	727,827,000	254,735,509	35.00
2007/08	815,658,000	295,504,635	36.23
2008/09	988,272,000	359,597,796	36.39
2009/10	1,192,774,000	436,555,473	36.60
2010/11	1,374,953,000	462,098,386	33.61
2011/12	1,536,000,000	572,250,135	37.26
Average			35.47

Source: NRB, TEPC and CBS Nepal

This table (10) clearly indicates the share of international trade in GDP of Nepal during the study period from FY 2003/04 to FY 2011/12. In the FY 2003/04, out of total GDP of Rs. 536,749,000, the share of international trade was about 35.36 percent. With the increasing GDP, the share of international trade in the total GDP of Nepal is fluctuating. In the first three FYs (2003/04-2005/06) the share of international trade gradually decreases to 33.70 percent. After that, the share increases steadily for the next four FYs (2006/07-2009/10) to about 36.60 percent. The share suddenly decreases to 33.61 percent in the FY 2010/11, which is the minimum share percent. In the final FY 2011/12, the share drastically increased to about 37.26 percent, which is the maximum share percent.

In an average, the share of international trade in the average GDP of Nepal is about 35.47 percent. Notably, the above data represent the fluctuating nature of share of international trade in the gradually increasing GDP of Nepal.

Figure 5: Nepal’s Trade Dependence Index



This graph (5) clearly indicates the trend of share of international trade in GDP of Nepal during the study period from FY 2003/04 to FY 2011/12 of table (10). This notably shows the overall fluctuation in the trade dependence index of Nepal. From the figure, it is clearly identified that the trade dependence index gradually decreases during the first three FYs (2003/04-2005/06). For next four FYs (2006/07-2009/10), the trade dependence index covers the increasing trend. But in the FY 2010/11, the trade dependence index suddenly decreased to the minimum value. In the final FY 2011/12, the trade dependence index drastically increased to the maximum value.

In this way, during the study period the trade dependence index occupy the fluctuating trend.

4.4.2 Export Propensity Index of Nepal

Export propensity index refers to the ratio of total export to GDP which is defined as a percentage. It measures the share of total export in the national economy. It is calculated by using formula of appendix two.

Table 11: Export Propensity Index of Nepal

(Values in NRs. 000')

FY	Gross Domestic Production	Export	Export Propensity Index (%)
2003/04	536,749,000	53,949,414	10.05
2004/05	589,412,000	58,443,821	9.92
2005/06	654,084,000	59,776,874	9.14
2006/07	727,827,000	58,927,097	8.10
2007/08	815,658,000	58,474,359	7.17
2008/09	988,272,000	68,596,852	6.94
2009/10	1,192,774,000	60,949,603	5.11
2010/11	1,374,953,000	64,562,444	4.70
2011/12	1,536,000,000	74,089,060	4.82
Average			7.33

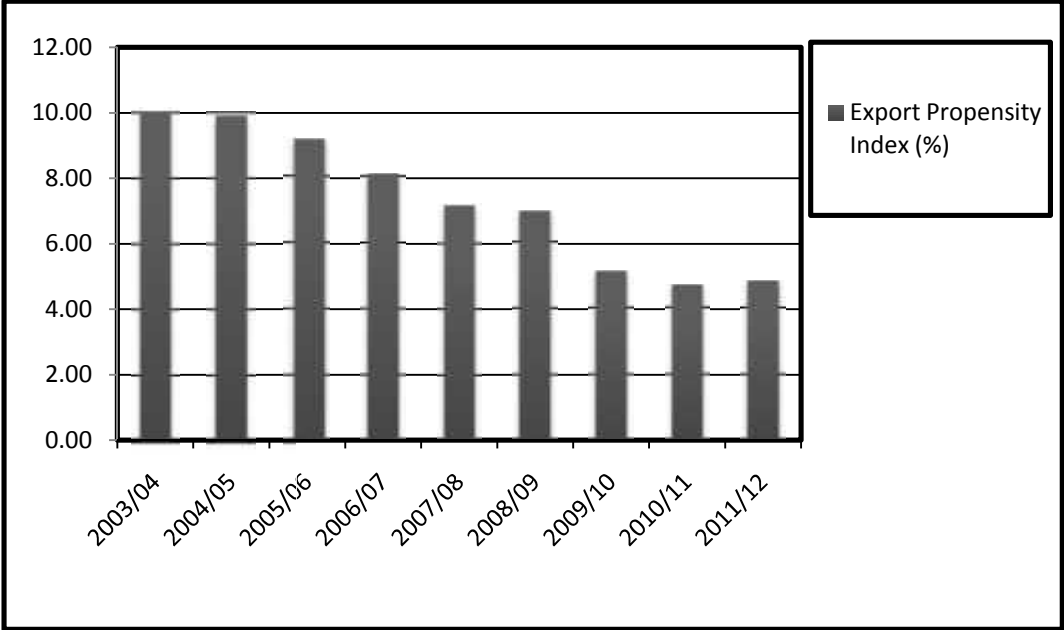
Source: NRB, TEPC and CBS Nepal

Table (11) clearly shows the share of total export in the national economy of Nepal during the study period from FY2003/04 to FY 2011/2012. In the FY 2003/04, out of total GDP of Rs. 536,749,000 thousands, share of export is about 10.05 percent. After this FY export propensity index is gradually decreasing and reached to about 4.70 percent in the FY 2010/11. However, in the final FY 2011/12, export propensity index improved by nominal value and reached to 4.82 percent.

During the study period, the average export propensity index is about 7.33 percent, which cannot play significant role in the national economy of Nepal.

Figure 6: Export Propensity Index of Nepal

The data in the table (11) can be figurized as follows:



This graph (6) clearly indicates the trend of share of export in GDP of Nepal during the study period from FY 2003/04 to FY 2011/12. From the above figure, it is clearly indicated that the trend of export propensity index is always decreasing except in the final FY of the study period.

Export plays the important role in the total GDP of a nation. However, the decreasing trend of export propensity index in Nepal clearly shows the condition that, even after the WTO membership, the production is not achieved for the import substitution.

4.4.3 Import Penetration Index of Nepal

Import penetration index is the ratio of total import to domestic demand as a percentage. It measure the what degree of domestic demand is satisfied by imports. It is calculated by using formula of appendix two.

Table 12: Import Penetration Index of Nepal

(Values in NRs. 000')

FY	Gross Domestic Production	Export	Import	Domestic Demand (GDP+M-X)	Import Penetration Index (%)
2003/04	536,749,000	53,949,414	135,840,335	618,639,921	21.96
2004/05	589,412,000	58,443,821	148,294,229	679,262,408	21.83
2005/06	654,084,000	59,776,874	160,677,924	754,985,050	21.28
2006/07	727,827,000	58,927,097	195,808,412	864,708,315	22.64
2007/08	815,658,000	58,474,359	237,030,276	994,213,917	23.84
2008/09	988,272,000	68,596,852	291,000,944	1,210,676,092	24.04
2009/10	1,192,774,000	60,949,603	375,605,870	1,507,430,267	24.92
2010/11	1,374,953,000	64,562,444	397,535,942	1,707,926,498	23.28
2011/12	1,536,000,000	74,089,060	498,161,074	1,960,072,014	25.42
Average					23.25

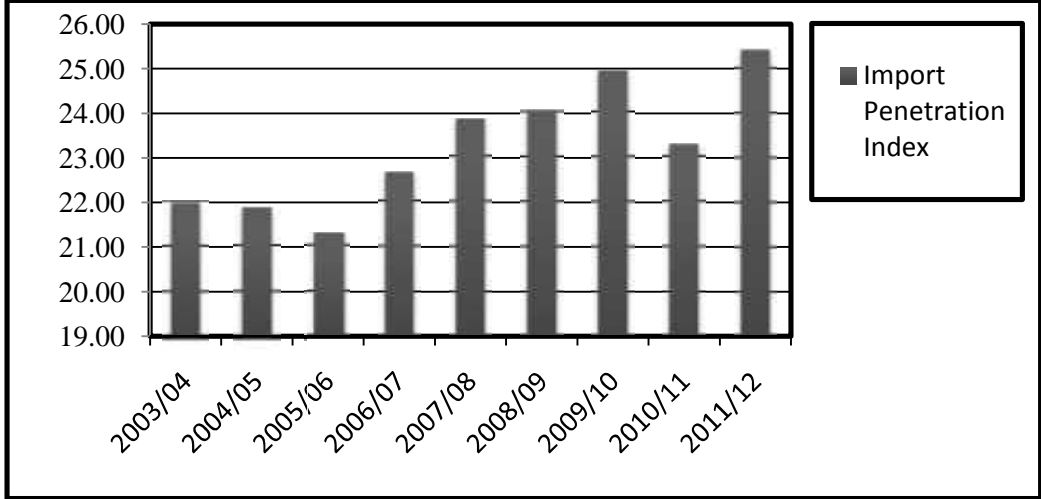
Source: NRB, TEPC and CBS Nepal

The above table (12) represents GDP, Export and import for the period of 2003/04 to 2011/2012. Domestic demand is computed by adding import and subtracting export in GDP of Nepal. The table clearly shows the role of import in the domestic demand of Nepal. In the FY 2003/04 IPI was 21.96 percent where as domestic demand was Rs. 618,639,921 thousands. For the next two fiscal years, IPI decreased and reached to minimum value of 21.28

percent in the FY 2005/06 even after the domestic demand increased and reached to Rs. 754,985,050 thousands in the same fiscal year. Notably, the IPI occupy the increasing trend for the next four fiscal years (2006/07-2009/10) and reached to about 24.92 percent in the FY 2009/10. But in the FY 2010/11, IPI decreased to about 23.28 percent. Finally, in the final FY 2011/12, the IPI drastically increased to about 25.42 percent, which is the maximum value.

Figure 7: Import Penetration Index of Nepal

Table 12 can be figurized and presented as follows.



The above graph (7) clearly indicates the overall fluctuation in the IPI of Nepal during the study period from FY 2003/04 to FY 2011/12. The trend of IPI is decreasing for the three fiscal years from FY 2003/04 to 2005/06. From the next four fiscal years from 2006/07 to 2009/10, the IPI occupy the increasing trend. In the FY 2010/11, IPI suddenly decreased and then in the final FY 2011/12, IPI drastically increased to the maximum value. The overall indication suggests that the trend of IPI is more or less increasing, which indirectly refers that the dependency of domestic demand is upon the overall import trade.

4.5 Statistical Analysis

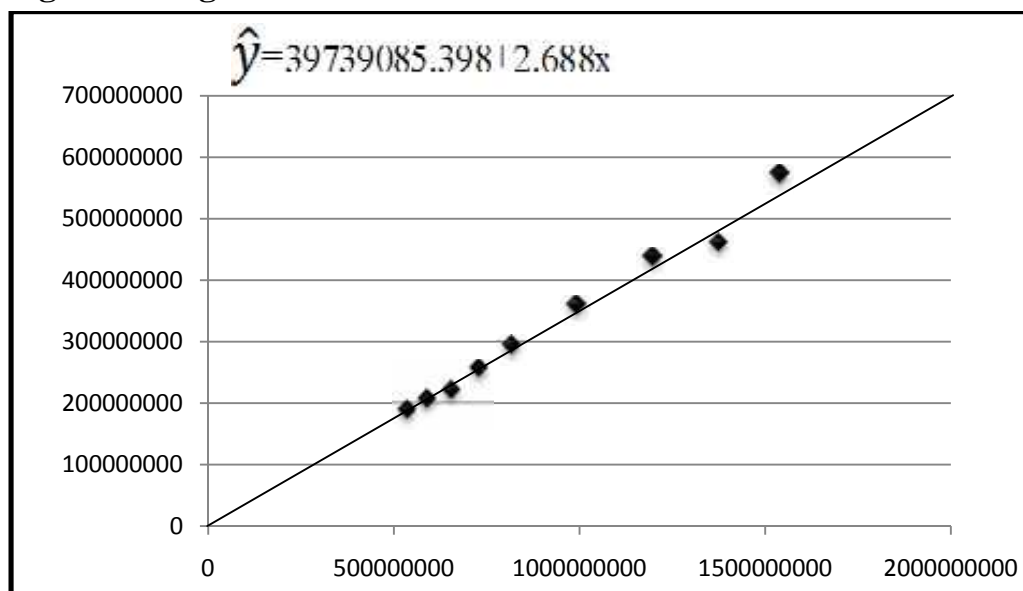
This chapter focus on determine of correlation coefficient and regression analysis to identify the trend of international trade and GDP of Nepal.

4.5.1 Correlation and Regression Analysis Between International Trade and GDP of Nepal

Correlation coefficient: 0.9941

Regression equation: $\hat{y} = 39739085.398 + 2.688x$

Figure 8: Regression Line



Above correlation coefficient, regression equation and regression line are obtain from appendix one.

Correlation coefficient $r=0.9941$ denote that the high degree of positive correlation between international trade volume and GDP, and the regression line shown as figure 8, in which dotted line represents the regression line which means that the expansion of international trade can promote national economy. In the other hand, the regression coefficient of total GDP and international trade is 2.688, which means that the every NRs 1 increase in international trade can increase NRs 2.688 in GDP.

4.6 Analytical Study of Nepal's International Trade Related Policies and Reforms

In the era of globalization platform Nepal also entered into the WTO since 23 April, 2004 as well as many other regional and international trade treaties and agreements like SAFTA and BIMSTEC. Nepal has bilateral relationship with 81 countries and Nepal has signed BIPPA with India, Mauritius, Finland, France, Germany and the United Kingdom. After entering WTO, BIMSTEC, SAFTA etc. Nepal has to reduce its tariff and non-tariff barriers according to international arrangement. Despite being the member of multilateral and regional organization, the country unable to improve international trade pattern and cannot diversify. Nepal has also suffered from huge trade deficit, negative balance of payment.

With this changing context, a new trade Policy was introduced by the Government of Nepal in April, 2009 replacing the existing trade policy, 1992. This comprehensive and updated policy was supported and brought into implementation after the WTO membership of Nepal. It is consistent with the WTO principles and adheres to the principles of liberal, open and transparent economic system. It emphasizes the private sartorial competitive economy. The main objective of this policy was to support the economic development and poverty alleviation initiatives through the enhanced contribution of trade sector to the national economy. This policy includes the provision to establish and expand the SEZ for the export promotion with the view of attracting

domestic and foreign investment. The new trade policy has addressed trade in services and intellectual property besides the emphasis on goods. In order to create conducive environment for trade in the country, this policy includes an exhaustive list covering from institutional strengthening to legal and procedural reforms. These measures and provisions are supposed to enhance country's trade both internally and externally. This policy broadly classified potential of Nepalese exports into two categories: Special Focus Area and TAD. Under Special Focus Area, four products are included, most of which have already been established in the export market. In the TAD, fifteen products are listed.

In 2003, Nepal launched a comprehensive study of its trade sector called the DTIS, which could not be well implemented due to the technical, financial and political limitations. Finally, in the year 2010, DTIS was replaced by NTIS which aimed to complement Trade Policy 2009. The NTIS, in order to face the major identified challenges, has set these major objectives: strengthen the trade negotiations, the technical capacity of domestic NTB, other business environment supporting institutions, the export capacity of inclusive export potential goods and services as well as strengthen the Government's capacity to coordinate and manage TRTA and Aid for Trade and to better implement the NTIS. It has also recommended 258 action plans with identifying 12 commodities, 7 services, and 10 major potential markets that can contribute significantly in the promotion of export and

improve its contribution to GDP. The Government, with firm determination to fully implement the recommendations, has formally adopted NTIS as its mid-term national trade development strategy. MOCS has started its implementation process in coordination with the development partners.

The thirteenth periodical plan FY 2070/71-2072/73 has kept the Regional and International Agreements, Trade Policy 2009 and NTIS 2010 in higher priority. This periodical plan has targeted to implement those agreements, policy and reforms by arranging the national, sectorial and international wise institutions and also, to create the coordination among the existing and newly establishing institutions.

4.7 Opportunities and Challenges to Nepal After Accession in WTO

WTO was established in 1995, January 1st with the objective of making the international trade fair and liberal. In the overall international trade of the world, trade among the WTO member countries covers more than about ninety percent, and at the condition of membership of neighboring countries; India, China and most of the SAARC countries, Nepal had secured its place in WTO in 2004, April 23rd. After getting the WTO membership Nepal has to face the following opportunities and challenges.

Opportunities to Nepal after WTO accession:

- Help in the trade expansion of Nepal by increasing the competitive advantage and making the linkage of Nepalese economy with international economy.
- Being LDC, Nepal gets special priority and services to enhance the export trade. So, Nepal gets chance to diversify its existing export trade trend.
- In spite of being a land locked country, Nepal gets guarantee of freedom of trade transit to have a link with international market.
- Easier implementation of bilateral, multilateral and BIPPA agreements which facilitates the accessibility of FDI.
- Settlement of bilateral and other trade related disputes in the WTO platform which protects trade related rights. After the WTO membership, free international trade becomes a trade right.

- The special benefit given by WTO to the LDC's like Nepal include agricultural, technical, institutional, and other supports can be easily utilized by Nepal.

Challenges to Nepal after WTO accession:

- Being a poor, under developed and small land locked country, Nepal cannot utilize the services and facilities provided by WTO, as a result of which the other nations are benefited.
- After becoming the WTO member, it is compulsory to reduce the government subsidy to the zero level, as a result of which inequality in the overall development occurs increasing the price and decreasing the production level.
- In spite of taking part in the international trade platform, due to the low production and lack of qualitative products, Nepal cannot take competitive advantages from the international market.
- For the expansion and diversification of own trade, dependency with the donor nations and agencies increases.
- Lack of suitable and advanced technologies, inefficient skill, knowledge and HR, unsuitable and undeveloped institutional infrastructures, are the challenges in the accessibility of Nepalese market in the international economy.
- Challenges to provide intellectual property right to the own local products.
- Challenges in the implementation of the commitments by Nepal done with WTO.

4.8 Major Finding

The major findings of the study on the basis of framework and the objectives stated in chapter one, the comprehensive survey of the existing literature of the subject included in the chapter two, the research design included in the chapter three and the systematic data presentation and analysis in chapter four are presented below:

- In the study period, international trade of Nepal is not so satisfactory which is clearly represented by analysis of chapter four even after WTO membership. (*Table 1*)
- The study shows that in the beginning FY of study period 2003/04 total trade was Rs. 189,789,749 thousand and trade deficit was Rs. 81,890,921 thousand which gradually is in increasing trend and in the FY 2011/12 the total trade and total trade deficit is Rs. 572,250,135 thousand and 424,072,014 thousand respectively. (*Table 1*)
- After the WTO accession the share of export is in decreasing trend and import is in increasing trend as a result of which the result Nepal has been suffering from high trade deficit. In an average, during the study period, total export and total import are 20.74 percent and 79.26 percent respectively with about 58.52 percent trade deficit. (*Table 2*)
- In an average during the study period, annual growth rate of Nepal's international trade is in increasing with more fluctuating trend of about

- 4.8 percent, 16.59 percent, 14.03 percent and 21.34 percent of total export, total import, total trade and trade balance respectively. *(Table 3)*
- In the FY 2003/04 the export to import ratio is 0.3972 which is gradually decreasing trend and obtain 0.1487 times in FY 2011/12 and in an average during the study period it is 0.27 times which represent the poor condition of import payment capability condition of Nepal. *(Table 4)*
 - In the beginning of study period India alone cover 57 percent of total export trade and after following period it is increasing in fluctuation trend and china and overseas cover 4.5 percent and 38.5 percent respectively which is reverse trend after the following year. In an average of the study period, the share of export trade with India, China and Overseas is 65.83 percent, 3.51 percent and 31.77 percent respectively. In the side of import trade during the study period, the share of imports from India in the total import trade of Nepal is more fluctuating and more or less is in increasing trend. *(Table 5)*
 - The share of imports from China in the total import trade of Nepal is also increasing by very less value. However, the share from Overseas is in gradual decreasing trend. The average share of import trade with India, china and overseas is 60.80 percent 10.04 percent and 29.16 respectively. *(Table 6)*
 - In the side of total trade balance, in an average of the study period India alone covers about 58.99 percent with range 55.38 percent to 65.84 percent, China cover about 12.7 percent and overseas covers 28.31

percent among total trade deficit. The annual growth rate is 24.81 percent, 26.40 percent and 24.92 percent with India, China and Overseas respectively with less or more fluctuating trend. (Table 7, 8 and 9)

- The role of international trade in the GDP of Nepal in the beginning of study period is 35.36 percent and it is in less or more increasing trend with nominal value and reached 37.26 percent in the FY 2011/12. In an average Nepal's trade dependence index is only about 35.47 percent. (Table 10)
- Export propensity index of Nepal is very low which reflects the poor condition of export role in the GDP. In the FY 2003/04, EPI was 10.05 percent and after that it is gradually decreasing by 4.82 percent in FY 2011/12 and 7.33 percent in an average of the study period. (Table 11)
- Nepal's import penetration index of Nepal in FY 2003/04 was 21.96 percent which is in increasing in fluctuation trend by 25.42 percent. And in an average of the study period IPI is 23.25 percent. IPI reflects the degree of domestic demand is satisfied by imports. (Table 12)
- From the above analysis done in the chapter four, the relationship of International trade and GDP measured by correlation coefficient value is found to be 0.9941, which reflects the highly positive relationship between international trade and GDP. In the other hand, the regression coefficient of total GDP and international trade is 2.688, which means that the every NRs 1 increase in international trade can increase NRs 2.688 in GDP and the marginal outputs of international trade is

comparably high. It further emphasized the importance of developing of international trade in the growth of economy. (Appendix 1 and Figure 8)

- After the about five year of accession period of WTO, Government of Nepal has introduced Trade Policy 2009 as a replacement of existing trade policy with the main objective to support the economic development and poverty alleviation initiatives through the enhanced contribution of trade sector to the national economy.
- Under new trade policy provision of SEZ with special concession and many more facility, special focus area with four products are included and thrust area development with fifteen products are listed.
- Government of Nepal has also lunched NTIS with aimed to complement Trade Policy 2009. For the achievement of four challenges as an objective, it has also recommended 258 action plans with identifying 12 commodities, 7 services, and 10 major potential markets that can contribute significantly in the promotion of export and improve its contribution to GDP.
- The Thirteenth Periodical Plan has formulated objectives, working policy and strategy for the effective implementation of the plans and policies put forward by NTIS 2010 and Trade Policy 2009.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Research Summary

International trade is the exchange of goods, services and capital across international territories. International trade plays vital role in the domestic economics of a nation. Nepal has entered into the open international trade after 1990s decade, before which Nepalese trade was limited within India and China. However, Nepalese international trade was further emphasized after the WTO accession.

The objectives of the research are to study and analyze the general structure and trend of Nepalese international trade, its impact on the GDP and major concurrent related plans and policies. To fulfill the targeted objectives of the study, secondary data are used in the analytical, descriptive and quantitative approach. For the more accurate and preferential data and information of this research, library work, web searching and organizational visit are done.

During the study period, the trade deficit was found to be increasing due to the high dependency of Nepalese trade in the import trade more than the export trade, which finally reached to about Rs. 424,072,014,000 in FY 2011/12. In an average, during the study period, the Nepalese trade is found to have high dependency to India, about more than 60 percent. In the Nepalese GDP, during the study period, an average contribution of

international trade is about 35.47 percent, out of which export covers about 7.33 percent. In the Domestic Demand, import covers about 23.25 percent.

Even after the WTO membership, Nepalese international trade is not so satisfactory. To address those trade deficit problems, government of Nepal has introduced Trade Policy 2009 and NTIS 2010 in coordination with development partner. The current 13th periodical plan focused and emphasized the existing trade policies and NTIS towards their implementation.

5.2 Conclusion

The analysis of various aspects of the topic in this research led me to conclude some key findings. The qualitative and econometric analysis done above also allows me to conclude the impact of WTO on the international trade of Nepal. The overall study of the international trade and trade policies of Nepal helped a lot to draw the conclusion that even after the WTO membership, Nepal's trade could not overcome the trade deficit problem in the accelerating global trade platform.

The total trade of Nepal during the study period seems to be increasing. During the study period from FY 2003/04 to FY 2011/12, with the average annual growth rate of total trade of Nepal of about 14.03 percent, the total trade increased to about Rs. 572,250,135 thousands in the final FY 2011/12. Also, with the average annual growth rate export of Nepal of about 4.00 percent, the total export reached to about Rs. 74,089,060 thousands in the FY 2011/12. Similarly, in the final FY 2011/12, the import trade reached to about Rs. 498,161,074 thousands with the average annual growth rate of about 16.59 percent. As a result of this, the trade deficit reached to about Rs. 424,072,014 thousands in the final FY 2011/12 with the average annual growth rate of about 21.34 percent.

Overawing the international trade data of Nepal with India, China and Overseas individually, it has been found that the export trade with India increased by about 1.65 times that at the FY 2003/04 to reach about Rs. 50,933,222 thousands, with China by 0.51 times to reach about Rs. 1,241,186

thousands, and with Overseas by 1.06 times to reach about Rs. 21,914,652 thousands which finally resulted to about Rs. 74,089,060 thousands, which is about 1.37 times that in the FY 2003/04, in the final FY 2011/12. Similarly, in the final FY 2011/12, the import trade with India increased to Rs. 321,346,419 thousands which is about 4.08 times, with China to Rs. 53,126,367 thousands which is about 4.855 times, and with Overseas to about Rs. 123,688,289 thousands which is about 2.68 times that in the FY 2003/04, this finally resulted to the total import trade of about Rs. 498,161,074 thousands which is about 3.67 times that in the FY 2003/04.

The relative difference between the trend of the Nepal's export and import trade, trade deficit is gradually increasing. In the final FY 2011/12, out of total trade deficit of about Rs. 424,072,014 thousands which is 5.18 times than that in FY 2003/04, the trade deficits with India, China and Overseas are Rs. 270,413,196 thousands, Rs. 51,885,181 thousands and Rs. 101,773,636 thousands which are 5.63 times, 8.09 times and 4.00 times than that in the FY 2003/04 respectively. From the overall study it is found that in the total international trade of Nepal, India has covered more than sixty percent, China covered about ten percent and Overseas covered about thirty percent of it.

From the study done above it is also found that Nepal's import payable capability is so poor that export to import ratio is always less than unit value. From the FY 2003/04 to FY 2011/12, the export to import ratio is gradually decreasing from 0.3972 times to 0.1487 times. In an average, this value is about 0.27 times.

In an average, from the study of share of international trade in the GDP of Nepal, trade dependence index is found to be about 35.47 percent. Also, during the study period, the maximum trade dependence index is found to be about 37.26 percent in the final FY 2011/12. During the study period from FY 2003/04 to FY 2011/12, the share of total export in the GDP is more or less decreasing from 10.05 percent to 4.82 percent, which finally resulted the average export propensity index of about 7.33 percent. The average share of import trade in the total domestic demand is found to be 23.25 percent. Import penetration index is fluctuating and more or less increasing to reach about 25.42 percent in the final FY 2011/12, which is the maximum share. From the analysis done in the chapter four, the relationship of International trade and GDP measured by correlation coefficient and regression line reflects the highly positive relationship between international trade and GDP and important role of international trade in the national economy also.

In order to have trade diversification, government of Nepal has lunched trade policy 2009 replacing the existing trade policy 1992. Also, government of Nepal has lunched Nepal Trade Integration Strategy 2010 to support the trade policy 2009 with the replacement of DTIS in coordination with foreign agencies. In the Thirteenth Periodical Plan, objectives, working policy and strategy have formulated for the effective implementation of the plans and policies put forward by NTIS 2010 and Trade Policy 2009. In order to widen the area of performance in the global trading platform, Nepal has involved in the bilateral relationship with eighty-one countries, and also has signed BIPPA with six countries.

5.3 Recommendation

Even after the entry in the global trade platform, Nepal's international trade trend and structure does not seem so satisfactory. Gradual increment in the trade deficit suggests the fact that the export trade of Nepal could not substitute its import trade, and Nepal's trade is highly dominated by import trade. Even after the formulation of different plans and policies, Nepal's trade could not take positive direction towards the trade diversification and import substitution measures by avoiding the various barriers on it. Therefore, for the promotion and diversification of Nepal's international trade, there is the great essence of immediate actions by the concerned authorities.

Hence, on the basis of analysis of secondary data and major findings of the research, following measures, to the concerned parties especially to government, are recommended for positive directions and competitive advantages from the international trade of Nepal.

- In coordination with all the stakeholders of the nation, political and economic stability, settlement and consistency must be assured.
- Formulate the national integration policy associating industrial, commerce and other related areas.
- The plans, policies and international commitments should be fully implemented.
- The priority should be given to increase the industrial security, settle labor dispute, and increase adequacy of electricity and other trade related infrastructures.

- By decreasing the transaction and transportation cost, the price and quality should be maintained competitive in the international market.
- By eliminating all the national and international syndicate and cartelling, competitive market accessibility of product and services should be established.
- In order to promote export trade, institutional arrangement, production plan and effective international marketing should be provided to the products included in the special focus area like Readymade garments, carpets and woolen goods, pashmina and silk product and handicraft goods.
- Though Nepal has many available mineral resources like Magnesium, Lead and Zinc deposits, limestone, etc., most of them are not in the industrial use. These industrial raw materials can be properly utilized via industrial planning and policies resulting in the recovery of most of the related internal demands. Therefore, new plans and policies, regarding the excavation and proper mobilization of these mineral resources, should be formulated and strictly implemented.
- Foreign direct investment and NRN investment should be encouraged through the strict implementation of bilateral, multilateral, BIPPA and other international trade related agreements, and the provisions of investment security.
- International marketing and institutional production facilities along with the TRIPS right should be provided to the fifteen products included in

the Thrust Area Development according to their geographical suitability.

- Foreign trade promotion programs, transit and logistic programs, export processing and SEZ promotion programs, publicity and promotion programs and HR development programs should be implemented in the effective way.
- In order to get special benefits from the WTO, institutional arrangement and policy improvement should be brought.
- Establish trade promotion academy for trade related studies, research, export promotion, product and manpower development and identification of other exportable products.
- Modernizing and providing the international level facilities to the existing dry ports, new facilitative and modernized dry ports should be constructed in the transit points of Nepal.
- Government should introduce new technological and scientific ideas on the industrial sectors as well as should promote e-marketing, e-commerce, and other information technologies.
- Provision of Surveillance at borders where goods are smuggled can be control smuggling practices across the borders, especially with India. In this regard, public cooperation should also be sought.
- By discouraging the existing unequal trade related bilateral and multilateral treaties, international trading should be done according to the WTO rules and regulations in the way of economic diplomacy.