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NEPAL'S FOREIGN TRADE WITH INDIA: PROBLEMS AND
PROSPECTS

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APPROVAL LETTER

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ACRONYMS

ADB	:	Asian Development Bank
BOP	:	Balance of Payments
BIMSTEC	:	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation
CBS	:	Central Bureau of Statistics
CEDECON	:	Central Department of Economics
c.i.f.	:	Cost, Insurance and Freight
COO	:	Certificate of Origin
FOB	:	Free on Board
GDP	:	Gross Domestic Product
ITC	:	International Trade Center
MFN	:	Most Favored Nation
MOF	:	Ministry of Finance
NLSS	:	Nepal Living Standard Survey
NPC	:	National Planning Commission
NRN	:	Non-Nepalese Residents
PATA	:	Pacific Area Travel Agency
SAARC	:	South Asian Association for Regional Co-operation
SAFTA	:	South Asian Free Trade Area
SAPTA	:	SAARC Preferential Trading Arrangement
SITC	:	Standard International Trade Classification
SSI	:	Small Scale Industry
TRADE	:	Tariff Relief Assistance for Developing Economies
TOT	:	Terms of Trade
TEPC	:	Trade and Export Promotion Centre
UNDP	:	United Nations Development Programme
WTO	:	World Trade Organization

ABSTRACT

Foreign trade plays a significant role in the economic growth and development of a country. India is the biggest trading partner of Nepal. Export and Import both are in increasing trend but export is lower than the import. This results higher trade deficit which causes deficit in balance of payment. Nepal is facing huge trade deficit problem in recent years. This study attempts to explore the trends and patterns of imports, exports and balance of trade between Nepal and India. The research is primarily based on secondary data. Data are collected from Nepal Rastra Bank, Trade promotion centre, Central Bureau of Statistics, Ministry of Finance and Ministry of Commerce and Supplies.

The trend analysis covers the period from FY 2000/01 to FY 2010/11. The volume of export was Rs.26,030.20 million in FY 2000/01 and reached to Rs.38952.70 million in FY 2010/11. The volume of import was Rs.54700.90 million in FY 2000/01 and reached to Rs.239,831.90 million in FY 2010/11. The percent share export and India on total trade of Nepal was found to be 46.8 percent and 39.1 percent respectively 2000/01. Similarly the percent share of export and import in respect in the total trade between Nepal and India was realized 65.5 percent and 57.6 percent respectively for the year 2009/10. The share of export to India on total export was realized as 67.0 percent in the year 2010/11. Similarly the share of import from India on total import of Nepal came to be 66.91 percent in the year 2010/11. This reveals that share was import from India is following the increasing trend.

Nepal is an underdeveloped country like other LDCs. She is facing the problem. It cannot uplift the economic situation automatically. She needs the support of other countries. India a great growing economic powerhouse of the world can be of great helps in its development. The major prospects of indo-Nepal trade are: Hydro resources, Tourism, Education, and communication technology, Nepal India a joint venture initiative etc. And the major problems of Nepal-India trade are: landlockedness, trade deficit inadequate market, problems related to transit, production bottlenecks, and foreign economic policy constraints.

ABBREVIATIONS

ADB	:	Asian Development Bank
BIMESTIC	:	Bengal Initiatives for Multi-Sectoral Technical and Economic Cooperation
BOP	:	Balance of Payments
CBS	:	Central Bureau of Statistics
CEDA	:	Central for Economic Development and Administration
CEDCON	:	Central Department of Economic
CPI	:	Consumer Price Index
DC	:	Department of Custom
DER	:	Dual Exchange Rate System
EPZ	:	Export Promotion Zone
FNCCI	:	Federation of Nepal Chamber of Commerce and Industry
FY	:	Fiscal Year
GDP	:	Gross Domestic Production
GON	:	Government of Nepal
ICT	:	Information and Communication Technology
IMF	:	International Monetary Fund
MOF	:	Ministry of Finance
NPC	:	National Planning Commission
NRB	:	Nepal Rastra Bank
SAARC	:	South Asian Association for Regional Co-operation
SITC	:	Standard International Trade Classification
T.U.	:	Tribhuvan University
TEPC	:	Trade and Export Promotion Center
WPI	:	Wholesale Price Index
WTO	:	World Trade Organization

CHAPTER - I

INTRODUCTION

1.1 Background

It is obvious that Nepal is a least developed country in the world. The landlocked geographical complexion and least developed economic condition prove that Nepal is a dependent country in the world. But it is not economically a failure one. Because many important global agreements like WTO and SAFTA are signed by Nepal to present its approaches in global economy. Nepal has also promoted and enhanced the mutual trade and economic co-operation among contracting states by inter-alias. Being as a least developed country, Nepal must emphasize on foreign trade. It helps to earn foreign exchange through foreign aid, remittances, foreign trade and tourism. But besides them foreign trade is considered as a major source of foreign exchange. It creates specialization in production and provides the benefits to the economy.

Generally, a country imports the goods that cannot be produced cheaply at home. Every countries can not produce all kinds of goods efficiently. Each country has to depend on others for import and export of raw materials, manufactured goods, and technology and so on. Thus, foreign exchange can be earned from foreign trade which can be spent on the import of machinery and equipments. Foreign trade helps to accelerate the pace of economic growth. Hence, the economists have rightly referred to foreign trade as 'engine of growth'.

Nepal was ruled by the hereditary prime ministers of the Rana family for 104 years right form (1946-1950) and the country remained in complete isolation. So, during this period Nepal's foreign trade was mainly confined to India. But after the start of democracy in 1950, the country entered into a new era and established diplomatic relations with many countries. It turned Nepal to open market economy to diversify the foreign trade and economic relations.

Since 1950s, many efforts were carried out to diversify Nepal's foreign trade. The main thrust of the policy was towards import substituting industrialization. During this period, Nepal's foreign trade regime was in contradiction in the sense that it was more or less free with India and controlled with the rest of the world. The main objective of the policy was to protect domestic industries from imports of foreign goods. Similarly, the government had taken several measures such as export subsidy, dual exchange rate system and bonus voucher system in order to expand and diversify the export of Nepal. These measures helped Nepal to diversify the foreign trade to some extent. But when Nepal faced the balance of payment crisis in mid 1980s, it approached to IMF and World Bank for support to wake up from BOP crisis. Along with financial assistance the Structural Adjustment Program (SAP) and Structural Adjustment Loan (SAL) Programs were introduced. These carried packages of conditionality of Nepal return for the financial assistance. These institution pressurized Nepal to accelerate the economic reforms.

After the restoration of democracy in 1990, many processes of economic reforms were accelerated. Nepal started rationalization and simplification of its import tariff structure, bringing both tariff rates and tariff slabs lower. Similarly, additional duties were also eliminated. Export Duty Draw Back System and Bonded ware house System were also introduced. In 1992, the new trade policy came into existence which made trade more or less free, replacing earlier import substituting industrialization policy.

Over the past years, Nepal had followed a liberal and open policy in all the sectors. Mainly in the trade sectors, all the trading partners were given equal chance to compete and sell their products in Nepalese market. No country is allowed to monopolize.

An assessment of trade policy of 1992 shows that Nepal has not achieved much: Nepal has performed poorly in export sectors. Only few items such as carpets, garments and Pasmina played a dominant part in overseas export, while primary and agricultural products played dominant role in export to India.

The history of foreign trade between Nepal and India is as old as the existence of these two countries. For a long time, India remained as a major trading partner of Nepal in term of present volume. The reasons behind this fact are Nepal's open boarder with India, existence of traditional, historical, cultural and religious ties with India. Being as the third largest country in the world, India can purchase goods produced in Nepal and also can sell the goods needed by it.

Since the historical periods, Nepal-India trade and economic relations is the product of the old age culture, geographical situation and economic ties which maintain trade relation between the two countries.

Nevertheless, the mutual understanding and proper communication have never been so easy between the two countries. The relation between the two countries from the past has often been uneasy because of constraint geographical position of Nepal.

However, Nepal is very hopeful with India. Nepal's main exports to India are agro products such as jute, rice, herbs, paddy, hand knitted woolen carpets, oil seeds, tea, tobacco, firewood, timber, readymade garments, animal ghee, spices, hides, skins and handicrafts product. The prime imports from India to Nepal are petroleum products, textiles, cements, mineral oil tea, medicinal and pharmaceutical products, packed food, beverage including tobacco, vehicles, machinery equipment, iron, steel, gems and jewelry, chemicals, engineering goods and computer software. In addition to these a large variety of manufactured products are also annually imported into the country. A large volume of luxurious and semi-luxurious are also imported by Nepal from India but these goods are extremely unnecessary and avoidable.

1.2 Statement of the Problem

Although foreign trade plays crucial role in the development process of the less develop country, but Nepalese foreign trade hasn't achieve the enormous benefits from foreign trade even after entering on the path of development. Overdependence on agriculture sectors and slow growth of non-

agriculture sectors, Geographical constraint and exportable items are extremely confined to primary, manual products and herbals are the serious problems on other hand increasing import and decreasing export day by day shows that poor performance of Nepalese foreign trade.

To improve foreign trade government is making continuous efforts to liberalize and modernize trade system and procedures. Since the beginning of 1980s, Nepal has adopted the policy of economic liberalization as a result, most of the economic sectors are open for private sector. Foreign investment in most of the economic activities including banking, agro based industries, tourism, communication, Hydroelectricity is permitted.

Measures of trade facilitation is another effort of the government to increase the external trade. Facilitation measures can reduce these hindrances and words that end need serious consideration by all countries including by those in south Asia. It is however, important that trade facilitation is looked at from a broader perspective rather than a narrow framework of customs administration only review of country's foreign trade with major trading partners including regional land neighbors and overseas partners regarding existing trade infrastructure, supports services regulatory frameworks and bilateral, regional and global commitments it is a necessary condition to analyze how trade and transport operations are carried out? This exercise can help identify obstacles and costs incurred in international trade. Such understanding will support the formulation of trade facilitation measure. A study conducted by Prof. Dr. Bishwambher Pyakurel States that priorities in Nepal's trade facilitation may include.

-) Trade facilitation intuitional structure
-) Collect feedback from industry players.
-) Revise trade and customs law and regulations.
-) Simplify, standardize and harmonize import-export and custom procedures.
-) Implementing effective trade and customs enforcement.
-) Implement effective information dissemination:

) Applying information and communication technology (ICT)

) Review and assessment of result.

Although government is making a continuous efforts to liberalize and modernize trade system and procedures but export trade is not promote properly.

In view of all these, it is self-important to study Nepal-India trade focusing on its trade agreement, trend, structure and determinants of trade between two countries during 2001 - 2011. At the same time, it is imperative to arise the pertinent question what is the recent trade scenario of Nepal with India similarly, another question is how Nepal should achieve maximum benefit in compatible with the World Trade Organization (WTO) and South Asian Free Trade Area (SAFTA) provision. Hence the study of Nepalese foreign trade with India would valuable lights on the problems of promoting Nepal- India trade.

1.3 Objectives of the Study

The main objective of the study is to examine the role of foreign trade particularly with India in economic growth and development of Nepal. It also explores the trend and patterns of import and export position and balance of trade with India within the study period. The specific objective of the present study are listed below.

- (i) To show the structure and composition of Nepal's foreign trade with India.
- (ii) To analyze Nepal's trend of trade with India.
- (iii) To identify the problems and prospects in expansion of Nepal India trade.

1.4 Significance of the Study

Foreign trade plays a significant role in the economic development of developing countries like Nepal. Nepal has been facing huge trade deficit with India and rest of the world. In the context of globalization and liberalization, Nepal's entry in WTO has increased the importance of foreign trade. Although Nepal is facing large trade deficit and unfavorable position of balance of payment, trade relation and volume of trade have been increasing nowadays. This study mainly focuses on the trade relation with India. India has been Nepal's largest trading partner since a long before. So Nepal and India have made trade and transit treaties to enhance trade relations between two countries. This study mainly concentrates for the period of FY 2000/01 to FY 2010/11 in the analysis of export and import composition and to investigate their effects in the Nepalese economy. Nepalese trade is vulnerably drowned into heavy trade deficit mainly with India and also with the rest of the world. Hence to cope with this problem, Nepal should correct the balance of payment situation by promoting exports and minimizing imports. The government should promote the domestic industries to fulfill the domestic demand which will diminish import at a level. This study also focuses on opportunities and challenges of foreign trade of Nepal with India. The significance of the study is to review major trade and transit treaties and explore the trends of import from India and export to India and the balance of trade between the two countries.

1.5 Limitations of the Study

This study is an academic research conducted in partial fulfillment for the degree of Master of Arts (M.A.) in Economics. The study deals with the current condition of foreign trade with India. This study is limited to the availability of statistical data, time, resources, budget and updated literature concerning the study area. Other limitations are listed below:

- (i) The study period is limited to FY 2000/01-2010/11
- (ii) Simple statistical tools have been applied for the analysis.
- (iii) The study is based on secondary data.
- (iv) This study is limited in the size, composition and trend of trade between Nepal and India.
- (v) It is not possible to study the illegal trade of good between India and Nepal though it is very frequent because of open border.

1.6 Organization of the Study

The present study has been divided into five chapters. The first chapter includes background of the study, statement of the problem, objectives, significance of the study, limitations of the study and organization of the study. The second chapter includes review of literature. The third chapter includes research methodology. The fourth chapter includes problem and prospects of Nepal and India trade. The fifth chapter includes summary and conclusion with some suggestion.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Background

Foreign Trade is fundamental part of economic and social development of the country. In the today's world of economic liberalization and globalization trade has become the engine of economic growth and development. The main purpose of foreign trade towards the developing country is to uplift the sluggish economic condition up to self sustainable rate of economic growth. In the developing country like Nepal domestic resources are inadequate to meet the rising demand for goods and production is insufficient to fulfill the demand. The level of capital formation of these countries is very low because of the low income level. Deficit financing is also not effective due to inflationary pressure. Foreign trade, therefore, is advantageous towards the acceleration of economic growth of the country.

The concept of foreign trade evolved with the origin of human civilization. Especially mercantilists were in the favor of foreign trade. The classical economists were the follower of the doctrine of laissez faire which supports the idea of economic liberalism. The classical and neo-classical economists had particularly emphasized the growth promoting effects of international trade. Trade was considered to be not simply a device for achieving productive efficiency; but also the engine of growth.

The world economy was severely affected during the depression of 1930 and Second World War. At the same time many countries were boundless from the colonization. These all incidents revived the interest of the whole world not only towards the establishment of peace but towards the economic development, raising the living standard of people and concept of foreign trade. The importance of foreign trade has increased with the concept of globalization and liberalization. International trade organizations are playing a significant

role in promoting and developing the international trade especially for the developing countries.

The literatures related to foreign trade with India are not so abundant. But we try to review some of the literature relating to the Nepalese foreign trade with India and rest of the world that are found in the form of books, journals, research papers, published articles and unpublished thesis and dissertations. But the literature will be concerned with the terms of trade with India. Thus, this chapter is limited to the review of literature related to Nepalese foreign trade with India only. Some relevant literatures related to trade are also reviewed during the research period.

Gajendra Mani Pradhan (1990), in his book “*Transit of Land Locked Countries and Nepal*” presented that trade relations of Nepal are affected due to various impediments. Transportation and communication system of Nepal were not developed well. Thus the trade relations of Nepal with its neighboring countries had been influenced by both its geographical features and economic factors. Two neighboring countries –China on the north and India on the three remaining directions have had trade relations with Nepal since ancient time – Documents on the ancient trade relations between India and China describe Kathmandu as being on the main route to Tibet. Hence Nepalese trade happened with Indian and Tibetan territory with several treaty of trade and transit with both the countries. The commerce of the country developed a great extent – during the reign of Amsuvarma a Nepalese Thakur ruler during the period 595 – 640 AD. During that time, the art, craft, culture and trade prospered in good commercial contacts of India and Tibet. During the medieval period of the Nepalese history the king himself was engaged in entrepot trade and earns huge profits. Due to the British domination in India, Nepal was in a state of relative economic and political seclusion from India. Nepal had trade relation with China the Tibetan region and the northern Indian states.

Nephil Matangi Maskay (2004), in his paper “*Balance of Payments situation and its impact on Nepalese Economy*” stated that harnessing the power of the external sector can be a powerful locomotive for economic growth. However the harness the external sector, it is important to be aware of the account of external transactions, i.e. the Balance of Payments; to accurately assess its present situation and guide its contribution to the domestic economy for effective contribution to sustainable economic growth and development.

BOP is simply a statistical record that accounts for the flows of income and expenditure between nations. The main characteristics of BOP are that it is (i) a system of double entry book keeping (must always balance) and that (ii) credits are payments received from foreign country, while debits are payments made to a foreign country. The accounts of BOP are calculated by adding the Current Account (CA), Capital Account (CA) and Official Settlement Balance (OSB).

Nepal remained fairly a closed economy until 1950. There had been vibrant trade with India and Tibet which was not captured. Most of the trade was conducted with India as those with other trading partner such as Tibet occurred through barter and did not enter the BOP system for Nepal. Hence NRB Bulletin represents that in FY 1975/76 trade with India was captured 82.2 percent of total trade. So the “U” shaped trend in terms of Indian share in Nepal’s total trade is interesting. The paper utilizes two empirical tools to examine the impact of BOP situation on the Nepalese economy – a model perspective using the monetary approach to the balance of payments; and empirical analysis to the economic growth of the country. The evidence suggests that external sector has had a positive effect on Nepalese economic growth.

Binod Kumar Karmacharya (2004) in his paper “*Performance of Nepal’s Foreign Trade*” stated that despite its landlockedness, Nepal is an economy that is heavily trade dependent. Foreign trade – notably exports was the engine of growth. Nepal’s trade performance over recent years has been highly variable. Nepal’s foreign trade has been gradually increasing since

1980's. It was particularly in the export sector that Nepal's dependence on India has lessened for certain period from mid eighties to mid nineties with the rapid growth of exports to third countries, the share of Nepal's export confined to India has declined dramatically. After a long decline in relative importance of Nepal's dependence on exports to India has recently increased sharply. Over half of Nepal's exports are now marketed in India where market access has improved on the basis of a preferential trade treaty signed in Dec 1996.

Nepal as 90 percent of its total exports goes to only three destinations i.e. US, Germany and India. On the import front markets are relatively more diversified. More than 10 countries supply 90 percent of Nepal's import. Nepal is performing merchandize trade in terms of both recorded (formal) and also unrecorded (informal) transaction.

He presented the merchandize trade in percentage which clearly shows that in 1960, total export in India and third countries were 99.8 and 0.2 percent respectively. The direction that took place in 2002, the total exports to India and other countries was 60.1 and 39.9 percent respectively. Similarly in 1960, the total imports from India and other countries were 94.2 and 5.8 percent respectively. It came in 2002, the total import from India was 42.5 percent and from third countries was 57.5 percent. The total trade had been calculated and found that 48.1 percent total trade was conducted with India and 51.9 percent with third countries in 2002.

Increasing competitiveness is a key to enhancing export performance in Nepal. Good macroeconomic policies, lower transport costs, reform in the mobility of labour and capital, rising productivity and efficiency with help to promote Nepal's trade. Finally, social harmony, political instability and the return of peace will make a significant difference for export growth.

Ratnakar Adhikari (2004), in his paper, "*Nepal's Entry into WTO: How to overcome the challenges?*" presented that Nepal has been inducted into the membership of WTO, it is a great achievement for Nepal to open its trade diversification towards the global market. The WTO is a rule-based trading system that rests on the principle of reciprocity, non-discrimination,

transparency and special and different treatments (S&DT) for the weaker nations.

Nepal's entry into the rule-based multilateral trading system provides an opportunity for this small country to better integrate itself into the world economy. The membership into WTO offers tremendous market opportunities for the Nepalese product to be expanded to the developed countries' market. The efforts made to focus on addressing the supply side constraints by all the stakeholders including government private sector and Civil Society Organizations.

Since non-discrimination principle of WTO, Nepalese goods will receive same treatment as the goods of other countries as well as those of importing country in the market. The limited Nepalese export markets, namely India, Germany and the USA make its foreign trade vulnerable. Nepal can explore other destinations for exporting its products in the international market. Tariff is not only means of protection to domestic industries but the government can make use of trade remedy measures such as anti-dumping, countervailing, safeguards and BOP measures. It is not only to enhance the ability to competitiveness of the domestic sector but also to provide them temporary protection, if required in order to help them build their capacity and enhance their ability to compete in the global market.

Since Nepal became a member of WTO, it has started its trade diversification to the global market through WTO. But there are many challenges to be involved in the international trade through it. It is our great achievement that our traditional foreign trade was heavily dependent upon India. Through the liberalization and globalization practice, Nepal can expand its trading partners around the global market especially focus on the developed countries.

Ram Sharan Adhikari (2004), in his unpublished M.A. dissertation "*A study on Nepalese Foreign Trade*" described the scenario of period FY 2001/02 which explores the structure, trend and composition of foreign trade of

Nepal. In his writing, it is clearly seen that import is higher than export. Overall BOP deficit is unfavorable for Nepalese economy.

His study gave the total volume of trade as Rs.154,333.8 million where total export trade was Rs.46,944.8 million and total import trade was Rs.107,389.0 million. The total volume of export trade was Rs.46,944.8 million in which Rs.27,956.2 million (59.6%) with India and Rs.18,988.6 million (40.4%) with other countries. Similarly The total volume of import trade was Rs.107,389.0 million in which Rs.56,622.1 million (52.7%) with India and Rs.50766.9 million (47.3%) with other countries. The trend of import exceeds the total export. The overall trade is in increasing trend. The import-export ratio was seen 0.44 in FY 2001/02.

Regarding the export composition of Nepalese foreign trade, the share of primary goods, in nominal value is increasing continuously but its share of total export is noticed to have almost unchanged. But manufactured goods increased significantly. The direction of foreign trade shows the share of exportable and importable commodities and change in direction with strategy of trade diversification. The deficit trade balance looks unfavorable.

Major conclusions drawn were as landlocked ness geographical location, open boarder and free flow of goods, backward agriculture sector, trade deficit problem, limited trade routes etc. are the major hurdles of Nepalese foreign trade. He recommends that to enhance Nepalese foreign trade, emphasize on domestic industries and its protection, trade diversification with other countries than India, attempts to decrease trade deficit, encourage private sector, open market policies etc. should be adopted by the government of Nepal to expand its trade.

Dhan Bahadur Neupane (2005), in his unpublished M.A. dissertation "*A study on Nepalese Foreign Trade – A case study of Nepal*" showed that Nepal is performing its trade activities in increasing trend per year. Both the volume and size of trade increase. In one hand import and export trade has been increased and import exceeds export. On the other hand the balance of trade is

deficit and the margin becomes higher. Nepal's greatest trading partner is India but the import portion is always greater than export.

His study showed that foreign trade occupies a greater space in the Nepalese economy. In the FY 2003/04 the total volume of trade was Rs.190,187.8 million where total export trade was Rs.53,910.7 million and total import trade was Rs.136,277.1 million. The total volume of export trade was Rs.53,910.7 million in which Rs.30,777.1 million (57.1%) with India and Rs.23,133.6 million (42.9%) with other countries. Similarly The total volume of import trade was Rs.136,277.1 million in which Rs.78,739.5 million (57.8%) with India and Rs.57,537.6 million (42.2%) with other countries. The export to other countries was weaker in comparison to India. The trade balance of Nepal was Rs.{-82, 366.4} million. The trade balance was Rs.{-47,962.4 million} with India and Rs.{-34404.0}million with other countries. Hence it is proved that India is Nepal's chief trading partner and trade deficit is increasing, with it.

His major conclusions were public attraction of imported goods, negligence of agriculture sector, open boarder and free flow of goods between Nepal and India, tariffs for only revenue but not for the protection of domestic industries, limited transit routes may be the hindrances of successive foreign trade of Nepal. He recommends that the protection of domestic industries, emphasis to private sector, improve trade deficit, curtail in imports and trade diversification to other countries, emphasis on cash crops, using open market policy etc, are the chief measures to be taken to enhance Nepalese foreign trade.

Laxmi Kanta Sharma (2005), in his article, "*Globalization in Theory and Practice*" stated that globalization is a key idea for business theory and practice, and entered academic debates. Globalization is commonly used as a short hand way of describing the spread and connectedness of production, communication and technologies across the world. It is also used by some to refer to the efforts of the International Monetary Fund (IMF), the World Bank (WB) and other to create a free market for goods and services around the globe.

Through the globalization practice, the developing countries can get benefits with an attempt of foreign trade to the worldwide market. It is an important practice for reducing poverty in the developing countries. Globalization, in Nepal is regarded as the useful structural change in Nepalese economy to increase efficiency, enhance the income of the people and promote equitable distribution. The case of Nepal has shown that there is the need for the stability of the internal macroeconomic environment to use the opportunities of globalization.

Hence trade can be spread all over the world with the globalization practice. The under developing and developing countries have enough supply of labour which when utilized properly can provide significantly in the development of their countries. From the recent trend of foreign employment and its large amount of remittance income with in the country can be mobilized and used in productive sector. Therefore, globalization is a key factor for the economic development of developing countries like Nepal

Nepal Rastra Bank (2009), "*Economic Report 2008/09*" stated that some new trade policies have been formulated to strengthen the foreign trade. The policies related to the policy provision of WTO, SAFTA and BIMSTEC. The policy has given emphasis to tourism, education, and health and information technology under the service trade. For the first time the policy has released the provision of initiating legal arrangements for the protection of Nepalese goods under Intellectual Property Rights Act. With regard to trade in goods, readymade garments, carpets, Pashmina and handicrafts have given more priority. The focus has been given to tea, leather goods, vegetable seeds, cardamoms, lentils/pulses and floriculture, ginger and medicinal herbs among others.

In 2008/09, the external sector i.e. trade sector depicted a mixed performance. Although there was an increase in exports there was significant growth of in trade deficit, as the rate of growth of imports was much higher than exports. Owing to the sharp rise in remittances, both the current account and the balance of payments posted a surplus in the FY 2008/09. The

composition of total trade revealed that trade with India and other countries formed 58.2 percent and 41.8 percent respectively. The respective shares in the previous year were 64.3 percent and 35.7 percent respectively. Export to India was increased by 13.5 percent to Rs.67.25 billion as against a decline of 0.2 percent of the previous year.

The export of readymade garments, shoes and sandals, toothpaste, GI pipe and noodles to India took an upward trend while the export of vegetable ghee, thread, zinc sheet, jute goods and wire declined significantly. Similarly, while there was an increase in the exports of pulses followed by pashmina, woolen carpets, handicrafts and herbs to other countries, there was decline in the exports of silverware and jewelleryes and Niger seeds.

World Bank (2009), in the report, “*Global Economic Prospects 2009*” has presented that Global Economic Prospects finds the global economy at a crossroads transitioning from a sustained period of very strong developing country led growth to one of substantial. Uncertainty as a financial crisis rooted in high income countries has shaken financial markets too are at a crossroads with the very high prices of 2007 and early 2008 having fallen by more than half in many instances.

Over the long run, demand for commodities is not expected to outstrip supply. Even though per capita incomes are expected to continue rising rapidly, population growth is slowing and with it is less than the global GDP growth. As a result, the pace at which commodity demands should also ease. On the energy side, policies to combat carbon emissions would help slow the depletion of hydrocarbon resources by speeding both demand side and supply side substitution toward cleaner energy resources. If successful in slowing global warming these could also help prevent the very large agricultural productivity predicted by some in the second half of this century.

Similarly, the recent boom in commodity prices has challenged policy makers in both producing and consuming countries. Moreover higher food prices are estimated to have increased global poverty by some 130 – 155 million people. Most countries responded to the food crisis by expanding

existing social safety net – programs, which made good sense given to the profound and long term consequences that increased malnutrition could generate.

World trade volumes are expected to contract in 2009. This decline is driven first and foremost by a sharp drop in demand, as the global financial crisis imposes a rare simultaneous recession in high income countries and sharp slowdown across the developing world. At the same time, the credit crunch is restricting export finance. Already there is anecdotal evidence that commercial bank trade credits are drying up and that export receipts are becoming more difficult to insure. Similarly, exporting firms may cut back on shipments if the access to credit lines is limited. Finally, the crisis has been associated with sharp; unpredictable swings in exchange rates which also will hamper trade.

WTO (2010), in the report, “*World Trade Report 2010 – Trade Policy commitments and Contingency Measures*” has stated that in 2010, from the last few months trade has been contracted more than at any time since 1930s, “Great Depression” a glimpse, reflecting the global economic downturn provoked in the first instance by the collapse of major financial institutions. Trade growth will be strongly negative and unlikely to see sustained economic growth until 2010. The world trade report 2010 focuses primarily on certain contingency measures available to WTO members in the import and export of goods.

The report further said that signs of sharp deterioration in the global economy were evident in the second half of 2009 and the first few months of 2010 as a world trade flows sagged and production slumped, first in developed economies and then in developing economies. World output measured by real domestic product (GDP) also slowed appreciably, falling to 1.7 percent in 2009 from 3.5 percent a year earlier.

Maitree (Nov, 2010), in its report entitled, “*India Nepal Trade*” has explained that India is Nepal’s largest trade partner and sources of foreign investments. India provides transits for almost entire third country trade of Nepal. India accounts for about 60% of Nepalese merchandise trade, 30% of

trade in services, 44% of direct foreign investment, almost 100% of petroleum suppliers for significant share of inward remittances on account of pensioners and workers.

Nepal's main imports from India are petroleum products (31.02%), motor vehicles and spare parts (14.9%), machinery and spare (14.05%), medicines (18.9%), cold rolled sheet in coil (17.4%) cement and M.S. Billet. Nepal's main exports to India are textiles (24.1%), Zinc sheet (6.8%), Threads (5.8%), polyester yarn (28.6%), Juice (25.9%), readymade garments (4.1%), Jute goods (27.5%), and other semi-processed and processed food products in the FY 2010/11.

India's service exports to Nepal includes education, transportation, travel, recreation, communication, insurance, professional and technical services, business services, construction services, royalties and license fees. Indian firms are the largest investors in Nepal, accounting for 44% of total approved Foreign Direct Investment (FDI) commitments.

There are about 150 operating Indian ventures in Nepal that include ITC (International Trade Center), Dabur India, Hindustan Unilever, VSNL (Varat Sanchar Nigam Limited), TCIL (Telecommunications Consultant India Limited), MTNL (Mahanagar Telephone Nigam Limited), State Bank of India, Punjab National Bank, Life Insurance corporation of India, Asian paints etc. Surya Nepal (ITC) is the largest private sector company in Nepal following by Siprodi Trading Pvt. Ltd. (dealer of TATA motors) at number two, Arati Strips (Bhusan Group) at number three, Jagadamba Steels at number five and Dabur Nepal at number seven in FY 2010/11.

With India's independence, the Indo-Nepal bilateral trade entered a new phase. The bilateral trade grew at a rapid pace in the period of 1950-1996. Coming on the heel of economic liberalization in both India and Nepal in early 1990s the Trade Treaty of 1996 can be considered a turning point in the trade relations between the two countries. It bestowed a special relationship, providing Nepalese goods non-reciprocal preferential access to the Indian market. The recent revised treaty of trade 2009, not only helped diversify and

expand Nepal's industrial base but also attracts Indian investments and increase trade volumes. The treaty helps to add a new dimension in India Nepal relations. It will not only reduce the huge trade deficit of Nepal with India but will as further increase the access of Nepalese products to India.

ADB and UN (Nov, 2011), in its report, "*Designing and Implementing Trade Facilitation in Asia and the Pacific*" stated that the bilateral framework for trade and transit is provided by the India-Nepal treaty of trade and agreement of co-operation to control unauthorized trade. The treaty of trade renewed in March 2007, India provides, on a non-reciprocal basis, duty-free access to the Indian market for all Nepalese manufactured articles barring a short negative list (cigarettes, alcohol and cosmetics). Since March 2002, the Nepalese manufactures are subject to the conditions that exports meet the domestic value addition requirement of 30 percent, and that their harmonized system of classification is changed at four digit level in the course of manufacture or processing in Nepal. After the March 2002 revision annual quotas have been prescribed for duty-free exports for four sensitive items: vegetable fats (100,000 tons), acrylic yarn (10,000 tons), copper products (10,000 tons) and zinc oxide (2500 tons).

The Treaty of Transit renewed in March 2006, provides for port facilities to Nepal at Kolkata /Halide and specifies 15 transit routes between Kolkata/Halide and India Nepal boarder. The international obligation is for only one transit route to the sea but Nepal has also been offered facilities at the Bombay port and Kendal port for third country trade. Three inland customs depots (ICDs) – Bhairawaha, Biratnagar and Birgunj have been put in place of facilitate Nepal's transit trade through India as well as to facilitate boarder trade on the land route between India and Nepal. In addition, India has provided 22 entry/exit points along the India-Nepal boarder for bilateral trade and for India Nepal transit.

The creation of integrated check points at the four check points on the India-Nepal boarder (Raxual-Birgunj, Jogbeni-Biratnagar, Bhairawaha-Sunauli and Nepalgunj Road-Nepalgunj) is one of the most important endeavors for

achieving this objective agreed upon by the two governments. The two governments envisage world class infrastructure at these boarder points for a smooth flow of people and goods across the boarder. So it is considered as the trade facilitation between India and Nepal.

WTO (2011), in the report, “*World Trade Report 2011 – Trade in Natural Resources*” stated that Natural Resources are at the root of much economic activity, they are a key component of many economies, and their share in world trade is growing. Natural resources make profitable trading opportunities among nations in the world. Natural resources represents a significant and growing share of world trade, and it properly managed, can provide a variety of products that contribute greatly to the quality of human life.

Natural resources trade differs from trade of manufacture goods in some notable respects. Being more or less homogeneous in nature, natural resources are open to centralized trading that facilitates exchange transactions entails the information of a unified price. Standard trade policy unlike other goods which includes export taxes, tariffs, quantitative restrictions, other non-tariff measures and subsidies. However, interventions many differ in certain ways on account of the particular characteristics of natural resources market.

The WTO legal and institutional framework has contributed to the expansion of global trade in natural resources. The tension between rising demand for natural resources due to population and income growth in one hand, and their scarcity and exhaustibility on the other, is a challenge facing modern society. This tension seems likely to increase, especially as the global economy recovers from recession and the circle of development and industrialization continue to widen. The importance of natural resources to virtually every aspects of human activity, and the particular characteristics of these products make it vital that government work together to find common ground and appropriate trade-offs. Such co-operation should aim to ensure sound resource management, equity and mutual gain. Well designed rules on trade are not only about securing the standard gains from trade, they are also a

key component of co-operations in domains such as environmental protection and domestic policies to manage the scarce resources.

WTO (2011), in the report, “*Annual Report 2011*” has presented that in the year 2010, the WTO began regular monitoring of global trade developments, covering all trade and trade related measures implemented by WTO members and observers in the context of the global financial and economical crisis. Many economies went to recession and the volume of world trade flows in 2010 fell at an unprecedented rate of more than 12 percent. Nevertheless, there were instances of new trade restricting measures. In some cases, import tariffs were increased and agriculture export subsidies reintroduced. In other cases, governments initiated trade remedy actions, such as anti-dumping and safeguard measures, and put in place new non-tariff barriers to trade. The longer term impact of the global crisis will continue to be felt in 2010 and beyond especially in labour markets. All time of rising unemployment, governments face increased pressure to protect the domestic industries and domestic jobs. The recent global economic recovery, in particular in emerging economy, may seem to be faster and stronger than expected but there are still significant risks for its sustainability.

In recent years, the number of technical regulations and standards adopted by countries has grown significantly in response to consumer’s demand for safe, high-quality products and the need to curb pollution and environmental degradation. The agreement on agriculture aims to reform trade and to make WTO members’ policies more market-oriented. The rules and commitments apply to the area of market access, domestic support, export competition as well as export restrictions and prohibitions.

MOF (July, 2011), “*Economic Survey FY 2010/11*” stated that the current situation facing deficit in the overall BOP with negative growth rate of export and substantial increment in import, attention needs to be focused on export promotion through improving policy, institutional and structural aspects. Nepal, on the side, has to diversify market as well as product through identifying export potential products, seeking appropriate market for such

products and enhancing competitive capacity and import substitution is needed by increasing domestic production of agro based products including rice, milk, fruits and vegetables and construction materials including cement on the other hand.

Appropriate strategy needs to be in place to promote export to the European market and India for major exportable items especially readymade garment, carpet and other potential items. Export of ready-made garment, which is taking place even in India in the recent years, is affected with additional duties levied from time to time by the government of India and effective initiations are to be taken to remove such trade barriers. In addition export promotion is to be focused with major trading partner countries on bilateral prudential agreement/negotiation basis as it will be easier to obtain favorable trade facilities and terms in bilateral arrangement compared to collective arrangements. Export trade needs to be simplified by established internationally recognized quarantine points to certify the quality of exportable agricultural products of Nepal.

NRB (Nov, 2010), in its report, “*Current Macroeconomic Situation – (based on the three months data of 2010/11)*” stated that merchandise exports increased by 5.9 percent to Rs.16.87 billion during the three months of the FY 2010/11. Export to India increased by 11.8 percent during the months of FY 2010/11 in contrast to a drop of 11.3 percent in the same period of last year. Increase in the exports of jute goods, zinc sheet, M.S. pipe, wire, plastic utensils, textiles, threads, ayurvedic medicine, juice, toothpaste and readymade garments among others.

Merchandise imports, on the other hand, grew by 3.6 percent to Rs.92.98 billion during the three months of the FY 2010/11. Imports from India grew by 31.9 percent during the review period compared to a growth of 26.8 percent in the same period last year. The import of hot rolled sheet in coil, sugar, chemical fertilizers, fruits, dry cell battery and vegetables among others increased from India.

Total trade deficit during the three months of FY 2010/11 expanded by 3.2 percent to Rs.76.11 billion. Trade deficit had risen by 50.7 percent in the same period last year. Trade deficit with India rose by 36.6 percent during the review period compared to a growth of 41.2 percent in the same period last year.

The overall BOP recorded a deficit of Rs.6.88 billion during the first three months of FY 2010/11 compared to a deficit of Rs.14.54 billion in the same period last year. The current account balance also registered a deficit of Rs.2.17 billion compared to a deficit of 12.33 billion in the same period last year. The reduce speed in the growth rate of trade deficit and a considerable growth of transfer income particularly grants, remittances and pension led to such a decline in the current account deficit. Likewise, the workers' remittances increased by 16.0 percent to Rs.60.01 billion compared to its growth of 11.1 percent in the corresponding period of the previous year.

NRB (Dec, 2010), in its report, "*Current Macroeconomic Situation – (based on the four months data of 2010/11)*" stated that merchandise exports increased by 8.3 percent to Rs.24.64 billion during the four months of the FY 2010/11. Export to India increased by 10.7 percent during the months of FY 2010/11 in contrast to a drop of 18.9 percent in the same period of last year. Increase in the exports of M.S. pipe, threads, jute goods, plastic utensils, wire, textiles, zinc sheet, ayurvedic medicine and juice among others.

Merchandise imports, on the other hand, grew by 2.0 percent to Rs.121.35 billion during the four months of the FY 2010/11. Imports from India grew by 27.7 percent during the review period compared to a growth of 30.3 percent in the same period last year. The import of petroleum product, M.S. Billet, chemical fertilizers, hot rolled sheet in coil, vehicles and spare parts, other machinery and parts, medicine, electrical goods and vegetables among others increased from India.

Total trade deficit during the four months of FY 2010/11 increased marginally by 0.7 percent to Rs.99.71 billion. Trade deficit had risen by 46.5 percent in the same period last year. Trade deficit with India rose by 31.7

percent during the review period compared to a growth of 51.7 percent in the same period last year. The overall BOP recorded a deficit of Rs.5.03 billion during the first four months of FY 2010/11 compared to a deficit of Rs.15.78 billion in the same period last year. The current account balance also registered a deficit of Rs.1.92 billion compared to a deficit of 14.78 billion in the same period last year. Deceleration of in the growth rate of trade deficit and an improvement in the growth rate of transfer income particularly grants and remittances led to such a decline in the current account deficit.

2.2 Nepal's Trade Relation With India

2.2.1 Historical Background

Until 1951 Nepal had very little contact with countries other than India, Tibet, and Britain. Movement of goods or people from one part of the country to another usually required passage through India, making Nepal dependent on trade with or via India. The mountains to the north and the lack of economic growth in Tibet (China's Autonomous Region) meant very little trade was possible with Nepal's northern neighbour.

Prior to 1951, there were few all-weather roads, and the transportation of goods was difficult. Goods were able to reach Nepal by railroad, trucks, and ropeways, but for other parts of the country such facilities remained almost non-existent. This lack of infrastructure made it hard to expand markets for trade and pursue economic growth. Since 1951 Nepal has tried to expand its contacts with other countries and to improve its infrastructure, although the lack of significant progress was still evident in the early 1990s.

India continued to be reflected in the early 1990s. As a result of the lapse of the trade and transit treaties with India in March 1989, Nepal faced shortages of certain consumer goods, raw materials, and other industrial inputs, a situation that led to a decline in industrial production.

Nepal's economy is for all time attached to India. Nepal's geographical position and the scarcity of natural resources used in the production of

industrial goods meant that its economy was subject to fluctuations resulting from changes in its relationship with India. Trade and transit rights affected the movement of goods and increased transportation costs, although Nepal also engaged in unrecorded border trade with India. Real economic growth averaged 4 percent annually in the 1980s, but the 1989 trade and transit dispute with India adversely affected economic progress, and economic growth declined to only 1.5 percent that year as the availability of imported raw materials for export industries was disrupted.

Agricultural domination of the economy had not changed by 1991. What little industrial activity there was largely involved the processing of agricultural products. Since the 1960s, investment in the agricultural sector has not had a parallel effect in productivity per unit of land. Agricultural production continued to be influenced by weather conditions and the lack of arable land and has not always kept pace with population growth.

Nepal suffers from an underdeveloped infrastructure. This problem is exacerbated by a weak public investment program and ineffective administrative services. Economic development plans sought to improve the infrastructure but are implemented at the expense of investment in direct production and result in a slow growth rate. Further, economic growth does not keep pace with population growth. Largely dependent on agriculture, economic growth also is undermined by poor harvests. The growth of public Expenditures during the first half of the 1980s doubled the current account deficit of the balance of payments and caused a serious decline in international reserves.

Nepal's traditional trade was with India. In the 1950s, over 90 percent of its foreign trade was confined to India. Goods moved by land for at least a few hundred kilometres through India, and a good relationship with India was essential for the smooth transport of goods to and from foreign countries. Most of Nepal's basic consumer goods were imported from India, and most of its agricultural exports went to India. India also met the basic needs of Nepal's industries with supplies of coal, cement, machines, trucks, and spare parts.

The March 1989 impasse in negotiations for trade and transit treaties with India seriously damaged Nepal's economy. The transit treaty had allowed goods from third countries entering at Calcutta to pass through to Nepal and exempted them from customs and transit duties. The treaty allowed trade to transit at twenty-one border points, and primary commodities were essentially duty-free in both directions. Imports from India had no quantitative restrictions and low tariffs.

As a result of the breakdown in negotiations, only two trade and transit points remained open--both in eastern Nepal. Nepal's exports to India were subjected to high tariffs, and imports from India also carried increased costs. The dispute was not solved until June 1990 when Nepal and New Delhi agreed to restore economic relations to the status quo ante of April 1, 1987.

Although India remained an important trade partner in 1991, foreign trade with India has been on the decline vis-à-vis other countries since 1960. Trade with India decreased from more than 70 percent in 1975 to about 27 percent of total trade in 1989. However, the trade deficit with India in this period increased at an annual rate of about 11 percent.

To increase exports, Nepal introduced some fiscal and monetary measures, including the Export Entitlement Program and the Dual Foreign Exchange rate, along with cash grants, income tax rebates, and low tariffs. Until the trade and transit dispute of 1989, exports had increased by 11 percent or more per year since 1975. Nepal's major exports were clothing, carpets, grain, and leather goods. In 1989-90 the carpet industry was responsible for producing 54 percent of Nepal's exports. In FY 1988, India received 38 percent of Nepal's exports; the United States 23 percent, Britain 6 percent, and other European countries 9 percent.

Imports increased at a faster rate than exports. Since 1970s, the foreign trade deficit had increased in most of the years. Nepal's primary imports were petroleum products, fertilizer, and machinery; boots and shoes, cement, cigarettes, iron and steel, medicines, salt, sugar, tea, and textiles were the other chief imports. India supplied 36 percent of imports, Japan 13 percent, European

countries 4 percent, and the United States 1 percent in FY 1988. Receipts from service and transfer payments were insufficient to finance trade deficits. This imbalance has resulted in an increase in the current account deficit. In March 1989, the government introduced the Open General Licence as a step to support the Structural Adjustment Program. It included inputs for existing industries--raw wool, cotton yarn, and cotton fabrics. The program also allowed supports for petroleum products, coal, tractors, buses, and trucks. In May 1990, however, Nepal deleted all goods except raw wool, cotton yarn, petroleum products, coal, and newsprint from Open General Licence imports.

The government also introduced an auction system for the import of goods. The goods were classified in three categories: industrial raw materials, semi luxury items, and luxury items. Premiums were assigned and foreign exchange quotas allocated for each category. The premium for raw materials was lower than that for luxury items.

The Economic plans generally increase output and employment; develop the infrastructure; attain economic stability; promote industry, commerce, and international trade; establish administrative and public service institutions to support economic development; and introduce labour-intensive production techniques to alleviate underemployment and poverty. The social goals of the plans were improving health and education as well as encouraging equitable income distribution. Although each plan had different development priorities, the allocation of resources did not always reflect these priorities. The first four plans concentrated on infrastructure--to make it possible to facilitate the movement of goods and services--and to increase the size of the market for trade. The plans were followed periodically and by now tenth plan have already been completed and interim plan is now underway. Different strategies and objectives were planned for the promotion of trade in Nepal in different plans.

First Five-Year Plan (1956-61) emphasized on the establishment of industries producing the basic necessities and exportable items. This focussed on the development of industrial sector, to enhance production and to expand export. An Import-Export Advisory Board was established comprising with the

combination of private sector and the government.

After Parliament, which had been established under the 1959 constitution, was suspended in 1960, the Second Plan failed to materialize on schedule. A new plan was not introduced until 1962 and covered only three years, 1962-65. The Second Plan also emphasized on increasing industrial productions, employment creation and diversification of trade. There were improvements in industrial production, road construction, telephone installations, irrigation, and education. Stress was given to reduce the import and increase the foreign exchange earnings and to improve the BOP situation.

The first two plans were developed with very little research and a minimal data base. Plans were not detail and specific, and contain only general terms. The administrative machinery with which to execute these plans also was inadequate. The National Planning Commission, which formulated the second plan, noted the difficulty of preparing plans in the absence of statistical data. Further, as was the case with the first plan, the bulk of the development budget depended on foreign aid--mostly in the form of grants. The failure of these plans was indicated by the government's inability to spend the budgeted amounts.

The Third Five-Year Plan (1965-70) also focused on transport, communications, and industrial and agricultural development for the development of trade. Emphasis was given for export promotion to earn the foreign exchange so that capital goods required for the industrial growth could b imported in adequate manner. The plan stressed on the increase in the production of existing and potential exportable goods, expansion of trade towards the overseas countries and maintenance of quality. The third year plan devised the different policies with regard to trade such as:

- (a) Increasing in exports by 100% within the next five years by giving priority to the production of exportable goods such as paddy, jute, oil seeds, and also to there that could be exported to other countries.
- (b) Changing in volume of import by reducing the consumer goods and encouraging the domestic production of consumer goods.

(c) Diversification of trade with third countries by trade treaties and Least Developed Countries (LDC) by different measures. But these policies failed to materialize the goals. Almost 5 % of the export and 925 of import trade was confined with India by the end of plan period.

The Fourth Five-Year Plan (1970-75) stressed on the provision of provision of necessary assistance as an incentive to promote the export of manufactured goods. The major target of the plan was to promote the export of manufactured and processed goods rather than the traditional and primary goods. The plan emphasized on export of semi processed and processed goods instead of exporting them in the form of raw materials.

The Fifth Five-Year Plan (1975-80) gave top priority to agricultural development, and emphasis was placed on increasing food production and cash crops such as sugar cane and tobacco. Increased industrial production and social services also were targeted. Important policies were made to regularize and guide the internal and external trade for economic and social development. Emphasis was given to manage and supply regularly consumer goods as well as development materials, to change the trade structure and diversify the trade on country wise and good wise basis.

The Sixth Five-Year Plan (1980-85) set forth the trade related objectives separately for export and import business. The plan emphasized on providing the employment and income resources to the people through export trade. The plan highlighted on increasing the export capacity and support balance of trade, and develop the international relations through technology and skill development. The basic objective of the sixth five year plan was to purpose the principle of diversification only on the basis of economic gain and losses. The immense effort was made to acquire the country's imports from cheaper sources and export would be directed to those countries where the prices are most favourable on the basis of international trade situation.

The Seventh Five-Year Plan (1985-90) encouraged private sector participation in the economy to improve the trade performance of the country. The plan targeted increasing productivity of all sectors, expanding opportunity

for productive employment, and fulfilling the minimum basic needs of the people. The commitment was made to make the BOP situation more favourable through expansion and development of export sector. It made historic commitment to maximize the foreign trade to the national economy by making the transit system more efficient and less expensive. The major objectives of the seventh five year plan with regard to trade sector were:

- (a) To improve the BOP situation gradually through the expansion and development of export sector.
- (b) To continue creating necessary infrastructures to make the imports of goods essential for the development of the nation.
- (c) To maximize the benefits of foreign trade by making transit system more effective and less expensive.

The different policies were devised to materialize these objectives. The major policies were:

- (a) Diversification and Expansion of export trade by devising a systemic program on the basis of periodic evaluation of emerging trends.
- (b) Enhancement of private sector participation in the export sector.
- (c) Stress was given to import those products which were essential for national development and daily consumption.

Because of the political upheaval in mid-1990, the new government postponed formulating the next plan. The July 1990 budget speech of the minister of finance, however, implied that for the interim, goals of the seventh plan were being followed.

In accordance with the policy to consider foreign trade as an inseparable medium of economic development but not as a medium of supplying necessary goods only, the Eighth Plan stressed on the overall adjustment of policies and programs for development of commercial sector along with productive sectors of the economy. Accordingly, emphasis was put on the adjustment of commercial sector with the tax policy, customs policy, policy regarding professional organizations in the public sector and privatization policy in order to make foreign trade open, transparent and simplified.

For the promotion of export and for providing facilities to the exporters, Nepalese currency was made full convertible in current account during the Plan period. In order to increase the export of Nepalese industrial products in Indian markets, simple provision of export on preferential treatment on the basis of certificate of origin of product was made after the amendment in Nepal-India Trade Treaty. For importing necessary raw materials and machinery equipment at a cheaper price from India for Nepalese industries, provision was made for allowing import of such commodities in convertible foreign currencies.

The Ninth Plan (1997-2002) had the trade related objectives as to make the maximum utilization of commerce sector for economic development of the country, to expand the benefits of foreign trade to the rural areas, to diversify the international trade and strengthen backward linkages in order to make export trade stable. To fulfill these objectives, emphasis was given to enhance the export products that have comparative advantages and reduce trade deficit gradually by emphasizing production of products based on locally available resources and materials and export promotion of low volume and high value products. During the plan period, Nepal India trade treaty was signed with very favorable positions to Nepal's export to India which helped to expand the trade activities with the country in a very favorable manner. During the same period export promotion seminar was held in Katmandu with a view to expand to foreign trade to various countries and to familiarize the Nepal's trading image in the international markets.

The National Planning Commission (NPC) on 17th December formally announced the operation of the Tenth Five Year (2059-2064). The tenth plan with the objective of expanding foreign trade, policies and programs were directed towards making the trade sector liberal and market oriented. The long term vision of the plan had been set as "the trade sector would be integrated to the globalization and liberalization process and would be made competitive and market oriented to develop it as a strong foundation of the national economy". Another important event organized during the tenth plan was "Export Year-2003" which helped to expand the national market in the international arena.

The Tenth Plan had prime objective of achieving the economic growth in between 4.3 and 6.2 percent. The Plan had set a target to narrow down the poverty to 30 percent from 38 percent in the next five years.

2.2.2 Trade Policies

The government of Nepal has formulated the effective trade policies for the betterment of trade performance in Nepal. Here are some of the trade policies of the Nepal.

1. The role of public sector will be minimized and used as a catalyst to expand the role of private sector in trade.
2. A liberal and dynamic trade policy will be pursued with the objective to improve balance of payments position by promoting exports to increase foreign exchange earnings as well as by fulfilling internal demand of economic and quality products.
3. Production of quality goods and services will be increased for internal consumption as well as for exports through effective and appropriate utilization of economic resources.
4. Special efforts will be made to promote and diversify trade both in the range of commodities and country destinations.
5. Liberal procedures will be adopted for encouraging interactions between trade and industry for sustained export promotion and for fulfillment of internal demand through increased domestic production. Emphasis will be given on modernizing management and technology, on promoting market and on attracting direct foreign investment in order to identify and develop new products as well as raise the production and quality of the traditional products.
6. The public sector trading corporations will gradually be privatized taking into considerations the development and efficiency of the private sector.
7. In support to above policy measures, necessary steps-as pre-conditions-relating to foreign exchange, monetary and fiscal policies will be taken

up towards convertibility of the Nepalese currency in trade and service sectors. For this purpose, major changes will be made in the administrative procedures to make them simple, transparent and dynamic.

8. Taxation system will be simplified by introducing necessary changes in order to foster competition in trade.
9. Emphasis will be laid on institutional development and information network as well as on monitoring system and quality improvement for the promotion of foreign trade.
10. The existing trade treaties and agreements with various countries and international agencies will be effectively implemented and new ones will be concluded, as and when necessary, for the promotion of international trade.

The policy reforms made in the direction of gradually integrating the Nepalese economy into the global economic system while encouraging foreign trade and investment remained promising during the Eighth Plan period. Particularly in this period, appropriate commercial policies formulated and the policy to make trade production- and export-oriented adopted. With this arrangement, except for few commodities that were sensitive from the viewpoint of public security and health, the import of all other commodities made open and the adjustments in the import tariff structure made accordingly. In the context of growing foreign trade, while considering the benefits to be obtained from broad and liberal world market, Nepal participated as an observer in World Trade Conference in Maracas (Morocco) in 1994. The Conference was held with an objective of transforming the decisions of the Eighth round (Uruguay Round) of General Agreement in Tariffs and Trade negotiations. It has already been decided that Nepal take the membership of World Trade Organization that came into existence since January 1995 and, for that matter, in addition to preparation, a commitment has also been expressed to gradually make adjustments in necessary aspects.

In accordance with the policy of making import trade more production- and export-oriented, an arrangement was made in this period in order to be able to import some industrial machinery and raw materials from India in convertible currency in addition to Indian currency. In the context of close traditional economic relationship with India and the need for transforming huge and liberalized Indian market into the great possibility of export expansion, a new trade and transit treaty with India was concluded. As a result, the past arrangement of the composite proportion of labor and commodity content was completely abolished in the export trade with India. With this arrangement, in addition to primary commodities produced in Nepal, semi-finished and finished goods can also enter into Indian market without any duties and quantitative restriction, and the number of commodities remained in the negative list in the past is limited only to three. Export trade and industries producing export-oriented goods were made tax-free. Bonded warehouse, back-to-back letter of credit and exchange facility of export earnings was arranged. An arrangement of using some part of export earnings for the import of raw materials was made; and up to RS one million loan flows to the export sector was taken as the priority sector loan and interest was charged thereupon accordingly.

2.2.3 Trade Relation Between India and Nepal

India and Nepal are close yet burdened with difficulties stemming from geographical location, economics, the problems inherent in big power-small power relations, and common ethnic, linguistic and cultural identities that overlap the two countries' borders. New Delhi and Kathmandu initiated their intertwined relationship with the 1950 Indo-Nepal Treaty of Peace and Friendship and accompanying letters that defined security relations between the two countries, and an agreement governing both bilateral trade and trade transiting Indian soil.

i) 1970–1980

In 1978 India agreed to separate trade and transit treaties, satisfying a long-term Nepalese demand. In 1988, when the two treaties were up for

renewal, Nepal's refusal to accommodate India's wishes on the transit treaty caused India to call for a single trade and transit treaty. Thereafter, Nepal took a hard-line position that led to a serious crisis in India–Nepal relations. After two extensions, the two treaties expired on March 23, 1989, resulting in a virtual Indian economic blockade of Nepal that lasted until late April 1990. Although economic issues were a major factor in the two countries' confrontation, Indian dissatisfaction with Nepal's acquisition of Chinese weaponry in 1998 played an important role. Treaties and letters exchanged in 1959 and 1965, which included Nepal in India's security zone and precluded arms purchases without India's approval. India linked security with economic relations and insisted on reviewing India–Nepal relations as a whole. Nepal had to back down after worsening economic conditions led to a change in Nepal's political system, in which the king was forced to institute a parliamentary democracy. The new government sought quick restoration of amicable relations with India.

ii) 1990s

The special security relationship between New Delhi and Kathmandu was reestablished during the June 1990 New Delhi meeting of Nepal's prime minister Krishna Prasad Bhattarai and Indian prime minister V.P. Singh. During the December 1991 visit to India by Nepalese prime minister Girija Prasad Koirala, the two countries signed new, separate trade and transit treaties and other economic agreements designed to accord Nepal additional economic benefits.

Indian-Nepali relations appeared to be undergoing still more reassessment when Nepal's prime minister Man Mohan Adhikari visited New Delhi in April 1995 and insisted on a major review of the 1950 peace and friendship treaty. In the face of beginning statements by his Indian hosts relating to the treaty, Adhikari sought greater economic independence for his landlocked nation while simultaneously striving to improve ties with China. India sponsored Nepal's admission to the U.N.O. in 1990.

iii) 21st century

Nepal remains poor and deprived in 21st century while India has acquired a central place in the world with a very high growth rate. In 2005, after King Gyanendra took over, Nepalese relations with India soured. However, after the restoration of democracy, in 2008, Prachanda, the Prime Minister of Nepal, visited India, in September 2008. He spoke about a new dawn, in the bilateral relations, between the two countries. He said, "I am going back to Nepal as a satisfied person. I will tell Nepali citizens back home that a new era has dawned. Time has come to effect a revolutionary change in bilateral relations. On behalf of the new government, I assure you that we are committed to make a fresh start." He met Indian Prime minister, Manmohan Singh, and Foreign Minister, Pranab Mukherjee. He asked India to help Nepal frame a new constitution, and to invest in Nepal's infrastructure, and its tourism industry.

In 2008, Indo-Nepali ties got a further boost with an agreement to resume water talks after a 4 year hiatus.^[1] The Nepalese Water Resources Secretary Shanker Prasad Koirala said the Nepal-India Joint Committee on Water Resources meet decided to start the reconstruction of breached Kosi embankment after the water level goes down.^[2] During the Nepal PM's visit to New Delhi in September the two Prime Ministers expressed satisfaction at the age-old close, cordial and extensive relationships between their states and expressed their support and cooperation to further consolidate the relationship. The two issued a 22-point statement highlighting the need to review, adjust and update the 1950 Treaty of Peace and Friendship, amongst other agreements. India would also provide a credit line of up to 150 crore rupees to Nepal to ensure uninterrupted supplies of petroleum products, as well as lift bans on the export of rice, wheat, maize, sugar and sucrose for quantities agreed to with Nepal. India would also provide 20 crore as immediate flood relief. In return, Nepal will take measures for the "promotion of investor friendly, enabling business environment to encourage Indian investments in Nepal." In 2010 India extended Line of credit worth \$ 250 millions & 80,000 tones of

food grains. Furthermore, a three-tier mechanism at the level of ministerial, secretary and technical levels will be built to push forward discussions on the development of water resources between the two sides.^[3] Politically, India acknowledged a willingness to promote efforts towards peace in Nepal. Indian External affairs minister Pranab Mukherjee promised the Nepali Prime Minister Prachanda that he would "extend all possible help for peace and development."^[4]

In 2008, the Bollywood film *Chandni Chowk to China* was banned in Nepal, because of a scene suggesting the Gautama Buddha was born in India.^[5] Some protesters called for commercial boycott of all Indian films.^[6]

Nepal and India has a long and traditional relation. It has naturally promoted social and cultural relationship among the general people of both the nations, through matrimonial relation as well. So the border demarcation issues and the problem of border management can be solved through from the level of the general people to the levels of intellectuals, diplomats and politicians, if they make lively interactions with each others. They can highlight the issues, make convince to others by discussions. It can be made good understanding to solve the problem and issues, segment by segment grasping the difficulties of other side. But the most important thing is the dedication and willingness to resolve the issues, since border business is a matter of equal participation from both the parties. Nothing can be happened if only one nation is willing, eager and hurried. It needs the equal spirit from both sides. Moreover, it must have time bound program and monitoring of work from upper level is also important. Effective instruction from higher level to the lower and grass-root level field teams must flow in due time. Particular problem of particular segment of the border must be solved in such a fashion that this is resolved forever and no question will be raised in future. So far as the border management is concerned, Open border system has created so many problems and it has affected in social and economic aspects for both Nepal and India. The most sensitive issues these days are the free movement of the terrorists and transportation of illegal arms and ammunitions across the open border. This is

quite harmful for both the countries. An uncontrolled, unrestricted and opened border constitutes the breeding ground for terrorism, criminal, illegal and anti-social activities. Keeping in view the welfare and development of general people of both the nations, there is an urgent need to manage and regulate the free movement of people. It needs to check and stop transportation of smuggled goods across the unpatrolled open border. The time has been changed much from peacefulness to disturbing and troublesome. General people of both the countries are feeling panicky and fearfulness due to current circumstances in the South Asian region. It has to be made joint efforts to review the impact of open border system through dialogues and negotiations. It must come to the conclusion jointly to make the border restricted for the terrorist, controlled for smugglers, obstructed for the girl traffickers, checked for the criminals, stopped for narcotic holders but managed for the genuine passengers and regulated for legal export and import

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Conceptual Framework

This research is aimed to study the contribution and significance of foreign trade with India in the economic development of Nepal. Since this is a research study, this comprises the development of foreign trade from the history to the present. As the volume of trade is increased which results trade deficit. This study tries to give the clear idea about how the foreign trade would be beneficial in Nepal for reducing heavy trade deficit. Along with the research findings, the necessary suggestions and recommendations are also mentioned.

3.1.1 Research Design

This is an “ex post facto” type of research study conducted with the help of secondary data. The secondary data are collected from the different national and international sources. This study aims to explore the efforts made by foreign trade sector basically trade with India in national trade development and its share in total trade. The study focuses on the flow of goods to India and other different destination, their size, commodity composition and basic policies to promote and diversify Nepal's export to India and other countries. For the analysis of such aspects mentioned above descriptive and analytical research design has been used.

3.1.2 Sources of Data

The major sources of data information are Nepal Rasta Bank (NRB), Trade and Export Promotion Centre (TEPC), Central Bureau of Statistics (CBS), Ministry of Finance (MOF), Various issues of Economic Journals published by Department of Economics, Prithvi Narayan Campus & Central Department of Economics, Tribhuvan University. Moreover, Quarterly Economic Bulletin and regular publication of NRB have been intensively used

to get information regarding SITC classification of exports and imports of Nepalese foreign trade with India and rest of the world. Economic survey published by MOF, annual report of NRB, CBS publications and statistical Year Book of Nepal, are used as sources of data for the study. Apart from these, annual reports of United Nations Development Program (UNDP), Asian Development Bank (ADB), World Trade Organization (WTO), United Nations (UN) etc are reviewed to complete the research work.

3.1.3 Data Collection

For the accomplishment of this research study, required materials including books, research papers, journals, published articles and unpublished theses and dissertations are collected from wide areas. These collected materials and other relevant literature are studied and reviewed thoroughly. On the basis of such study and review of literature, this thesis is prepared. For the accomplishment of this research study, required materials including books, research papers, journals, published articles and unpublished theses and dissertations are collected from wide areas. These collected materials and other relevant literature are studied and reviewed thoroughly. On the basis of such study and review of literature, this thesis is prepared.

3.1.4 Data Processing

The data collected from the sources mentioned above have been processed with the help of spreadsheet program in computer for analysis. Since this study covers the systematic presentation of volume, composition and direction of Nepal-India trade, facts are arranged systematically as obtained through secondary sources. It is done with the help of ratios and percentages to make them comparable and explanatory by using the method of descriptive analysis. GDP is measured at current price.

This study comprises a structure of Nepal-India trade with respect to its size and commodity composition. It attempts to analyze the current trade deficit

problem and its measures. The data on the size and commodity composition of Nepal–India trade have been systematically presented in tables.

3.1.5 Analysis of Data

To fulfill the specific objectives, the analysis of data is basically done with the help of table based on classified data. The main features of data are explained with the help of percentage composition, average and ratio, diagrammatic tools etc are also used as per requirement of the text. Finally, some formulas have been used in the analysis and calculation of data which are presented below.

(i) Price Index:

In order to calculate Price Index the following statistical formula has been used.

$$I = \frac{P_i}{P_o} \times 100$$

Where, I = Price Index

P_i = Export Price or Import Price of the Current Year.

P_o = Export Price or Import Price of the Base Year.

(ii) Net Barter Terms of Trade (TOT):

In order to calculate Net Barter Terms of Trade the following formula has been used:

$$N = \frac{P_x}{P_m} \times 100$$

Where,

N = Net Barter Terms of Trade

P_x = Price Index of Exports

P_m = Price Index of Imports

Analysis of Terms of Trade:

If $N < 100$, Export performance is weak compared to Import

If $N > 100$, Export performance is better than Import

If $N = 100$, both Exports and Imports are taking the same direction.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

4.1.1 Volume of Trade and Trade Balance in Nepal

The total trade volume of Nepal in FY was Rs.171,341.30 million, the total export was Rs.55654.10 million and the total import was Rs.115,687.20 million. The gradual increase in the volume of trade until the FY 2002/3 and FY 2003/04 the volume of trade was increased in Rs.190,187.80 million, where total export was 53,910.70 million and total import was 136,277.10 million. It seems that there was higher import than export. The volume was increased till FY 2008/9. But in the FY 2009/10 and FY 2010/11, though the total volume of trade was increased but export performance was almost the same, only import portion was increased at higher amount. In the FY 2010/11, the total volume of trade was Rs.416,540.00 million in which import was Rs.358,404.80 million and export was Rs.58,135.20 million. So the Nepalese foreign trade volume increases almost all fiscal years except 2003/04 and FY 2005/06 with slight fall in export. In the FY 2001/02, both the volume of export and import decreased. There was higher import than export. So Nepal is facing trade deficit in all fiscal years.

The trade deficit of Nepal is also increasing. The total import always exceeds total export. Hence there is always trade deficit problem in each

succeeding fiscal year. The deficit trade balance in FY 2000/01 was Rs.-60,033.10 million. The trade balance seems negative and with increasing trend till FY 2010/11. In the FY 2000/01 and FY 2001/02, the trade balance remained almost same. It was Rs.60,033.10 million and Rs.60444.20 million respectively. The Total trade balance in FY 2010/11 was Rs.300,269.60 million. The total trade balance looks negative and reached to 4.2 fold increment in comparison to the FY 2000/01. Hence the trade balance looked unfavorable during the study period (Table 4.1.1).

Table 4.1.1

Volume of Trade and Trade Balance of Nepal (2000 – 2010/11)

(Rs. in Million)

FY	Exports	Imports	Total Trade	Trade Balance
2000/01	55,654.10	115,687.20	171,341.30	-60,033.10
2001/02	46,944.80	107,389.00	154,333.80	-60,444.20
2002/03	49,930.60	124,352.10	174,282.70	-74,421.50
2003/04	53,910.70	136,277.10	190,187.80	-82,366.40
2004/05	58,705.70	149,473.60	208,179.30	-90,767.90
2005/06	60,234.10	173,780.30	234,014.40	-113,546.20
2006/07	59,383.10	194,694.60	254,077.70	-135,311.50
2007/08	59,266.50	221,937.70	281,204.20	-162,671.20
2008/09	67,247.10	284,571.00	351,818.10	-217,323.90
2009/10	550,68.60	339,085.10	394,153.70	-284010.50
2010/11	58,135.20	358,404.80	416,540.00	-300269.60

Source: Economic Survey 2011/12 and Nepal Rasta Bank, Quarterly economic Bulletin 2011

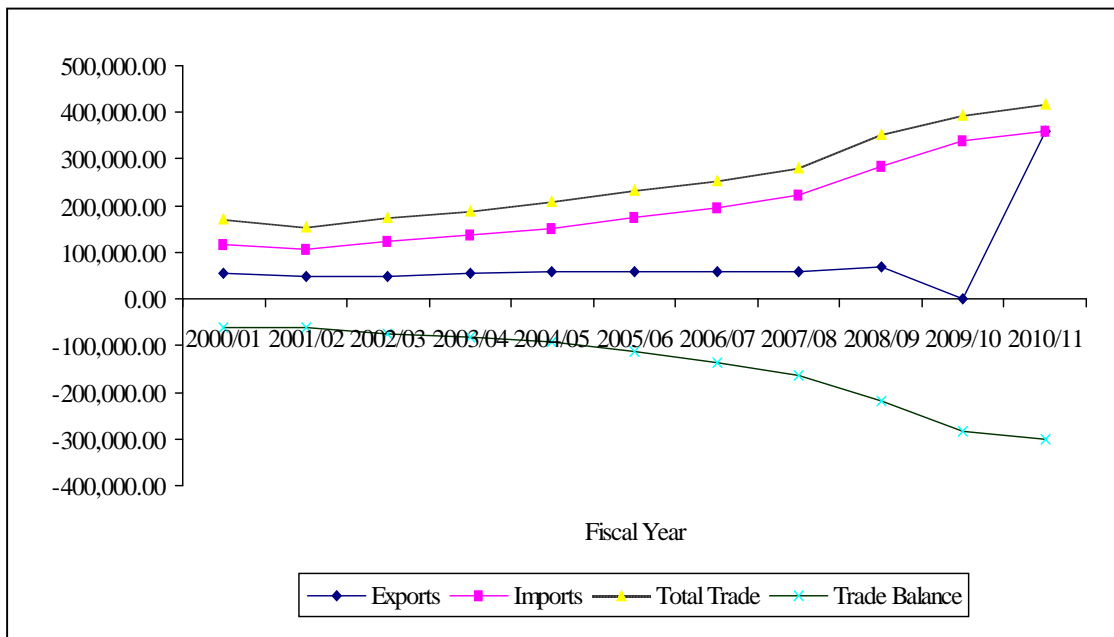


Figure 4.1.1: Total Volume of Trade and Balance of Trade

4.1.2 Composition of Nepal's Export Trade

Nepalese export trade has been increased now-a-days with India and other countries. The percentage share of total export to India and other countries has been presented below.

The Export with India was Rs.26, 030.20 million (46.8 percent) and Rs.29, 623.90 million (53.2 percent) with other countries in FY 2000/01. It reached to Rs.38, 952.70million (67 percent) with India and Rs.19182.50 million (33.00 percent) with other countries in FY 2010/11. The average export trade with India was 61.66 percent and with other countries was 39.08 percent. The maximum share with India reached in FY 2006/07, it was Rs.41728.80 million (70.3 percent) and minimum share with India was Rs.26030.20 million (46.8 percent) in FY 2000/01. Similarly, the maximum share of the export trade with other countries was Rs.29623.90 million (53.2 percent) in FY 2000/01 and the minimum share was Rs.17564.30 million (29.7 percent) in FY 2006/07. So the table shows that Nepalese export performance with India is in increasing trend. Export to other countries, the share is decreasing in comparison to the initial FY 2000/01 of the study period. The government of Nepal should attempt to expand its export trade with other countries than India (Table 4.1.2).

Table 4.1.2
Percentage Share of Total Export to India and Other Countries

FY	Total Export (Rs. in Million)	Export to India (Rs. in Million)	Export to Other Countries (Rs. in Million)	Export to India (in %)	Export to Other Countries (in %)	Total Export (in %)
2000/01	55,654.10	26,030.20	29,623.90	46.8	53.2	100
2001/02	46,944.80	27,956.20	18,988.60	59.6	40.4	100
2002/03	49,930.60	26,430.00	23,500.60	52.9	47.1	100
2003/04	53,910.70	30,777.10	23,133.60	57.1	42.9	100
2004/05	58,705.70	38,916.90	19,788.80	66.3	33.7	100
2005/06	60,234.10	40,714.70	19,519.40	67.6	32.4	100
2006/07	59,383.10	41,728.80	17,654.30	70.3	29.7	100
2007/08	59,266.50	38,555.70	20,710.80	65.1	34.9	100
2008/09	67,247.10	40,964.10	26,283.00	60.9	39.1	100
2009/10	55,068.60	36,081.80	18,986.80	65.50	43.50	100
2010/11	58,135.20	38,952.70	19182.50	67.00	33.00	100
Average				61.66	39.08	-----

Source: Calculated Value and Nepal Rastra Bank, Quarterly Economic Bulletin, 2011/12

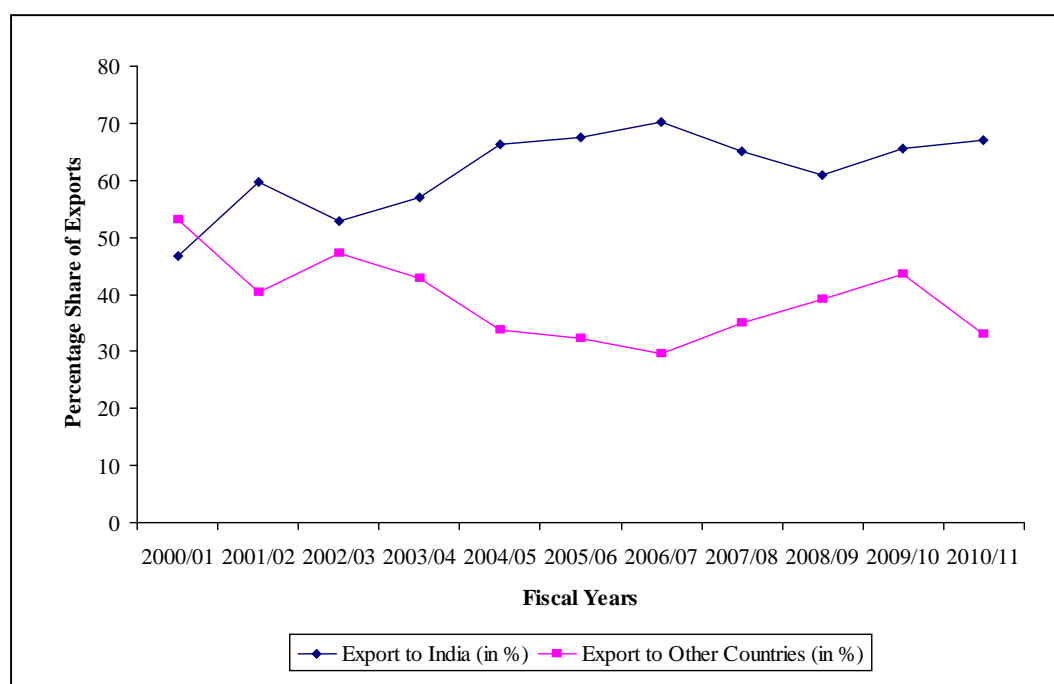


Figure 4.1.2: Export Percentage to India and Other Countries.

4.1.3 Composition of Nepal's Import Trade

Nepalese import trade has also increased as the export trade. But the value of import has been increased dramatically in these days. It has occupied a larger space in Nepalese trade sector. The percentage share of total import from India and other countries has been presented below.

The import from India was Rs.54, 700.90 million (47.3 percent) in FY 2000/01. It increased to Rs.23, 9831.90 million (66.91 percent from India.) in FY 2010/11. The percentage share and the value both have been increased. Similarly, there was Rs.60981.30 million (52.7 percent) import trade with other countries in FY 2000/01 and it reached to Rs.118572.90 million (33.09 percent) in FY 2010/11. The average share of import with India was 61.79 percent and with other countries was 38.39 percent. The maximum share of import trade from India was Rs.239, 831.90million (66.91 percent) in FY 2010/11 and the minimum share of import with India was Rs.54, 700.90 million (47.3 percent) in FY 2000/01. Similarly, the maximum share of import from other countries was Rs.60,981.30 million (52.7 percent) in FY 2000/01. The minimum share of import with other countries was Rs.118572.90 (33.09 percent) in FY 2010/11. The table shows that import trade has been increased in value and percentage share with India. Nepal's import trade is heavily dependent with India. There was only 47.3 percent share in FY 2000/01 but it reached to 66.91 percent in FY 2010/11. Similarly, the percentage share of import from other countries was 52.7 percent in FY 2000/01 and it fell down to 33.09 percent in FY 2010/11. Hence import from India. (Table 4.1.3)

Table 4.1.3

Percentage Share of Import From India and Other Countries

FY	Total Imports (Rs. in Million)	Imports from India (Rs. in Million)	Imports from Other Countries (Rs. in Million)	Imports from India (in %)	Imports from Other Countries (in %)	Total Imports (in %)
2000/01	115,687.20	54,700.90	60,981.30	47.3	52.7	100
2001/02	107,389.00	56,622.10	50,766.90	52.7	47.3	100
2002/03	124,352.10	70,924.20	53,427.90	57.0	43.0	100
2003/04	136,277.10	78,739.50	57,537.60	57.8	42.2	100
2004/05	149,473.60	88,675.50	60,798.10	59.3	40.7	100
2005/06	173,780.30	107,143.10	66,637.20	61.7	38.3	100
2006/07	194,694.60	115,872.30	78,822.30	59.5	40.5	100
2007/08	221,937.70	142,376.50	79,561.20	64.2	35.8	100
2008/09	284,571.00	163,892.40	120,678.60	57.6	42.4	100
2009/10	339,085.10	195,227.10	143,858.00	57.6	42.4	100
2010/11	358,404.80	239,831.90	118,572.90	66.91	33.09	100
Average				61.79	38.39	----

Source: Calculated Value and Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-2011

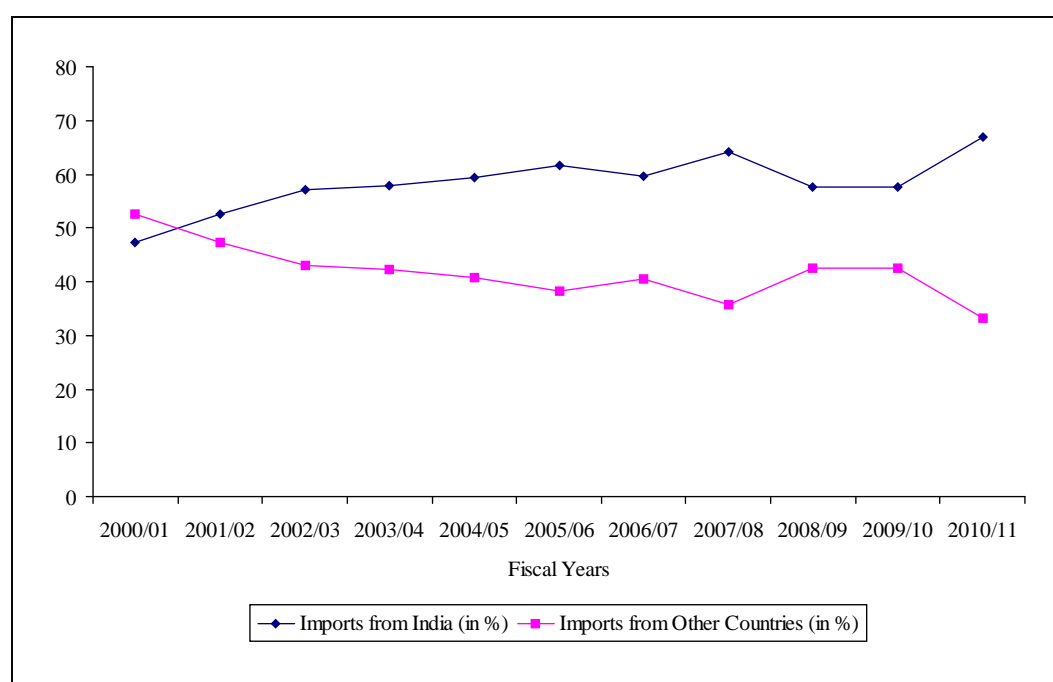


Figure 4.1.3: Import Percentage from India and Other Countries

In conclusion, Nepalese trade, basically export was weaker than the import trade. The percentage share in both export and import, there is greater part of trade dependent on India. But export value is much lower than the import value and the balance of trade seems negative. So the government of Nepal should give emphasis on the expansion of export trade.

4.1.4 Trade Balance with India

Till 1970, 99 % of Nepal's total export and 88 % of total import trade of Nepal was confined to India alone. Both export and import trade was increased in terms of commodity and value from FY 2000/01 to FY 2010/11. The following table shows the glimpse of trade scenario of trade with India during the study period.

The volume of export and import is in increasing trend. But the export trade is weaker than the import. Thus, the balance of trade seems deficit and it is also increasing significantly in each subsequent fiscal year. The trade balance was Rs.19,180.80 million in FY 2000/01. The balance of trade with India was Rs.28665.90 million in FY 2001/02. Similarly the trade balance was Rs.74, 143.50 million in FY 2006/07 and Rs.122, 928.30 million in FY 2008/09. Again the balance of trade with India was Rs.159, 145.30 million in FY 2009/10. And Rs.103,820.80. Finally, the balance of trade was increased to Rs.200, 879.90 million in FY 2010/11. The share of export to total trade is in increasing trend till FY 2001/02 in which share of export was Rs.27956.20 million i.e. 73.8 percent. But it decreased to Rs.26430.00 million i.e. 52.9 percent of total export. In FY 2001/02, the India's share in export on total trade hyper-jumped to 73.8 percent of total trade. Which again declined on succeeding period to 52.9 percent but still more than 60% share has been occupying on total export trade with India. After FY 2002/03, the share of export took a positive direction of increasing trend.

At the same time period, the total volume of import has increased to 5.1 fold. The share of import with India seems little fluctuating. Till the FY 2001/02 the share of import was on average of 37.4 percent. But it jumped to

72.1 percent in the FY 2001/02 and decreased to 57.1 percent on the succeeding period. After FY 2002/03, the percentage share of import is around 60 percent. Still the share of import on total import was 66.91 percent at the FY 2010/11. Hence, the import percentage and value is in increasing trend (Table 4.1.4, Figure 4.1.4).

Table 4.1.4
Balance of Trade with India (2000/01-2010/11) (Rs. in Million)

FY	Exports	Imports	Trade Balance	% share on Total Exports	% share on Total Imports
2000/01	26,030.20	45,211.00	-19,180.80	46.8	39.1
2001/02	27,956.20	56,622.10	-28,665.90	73.8	72.1
2002/03	26,430.00	70,924.20	-44,494.20	52.9	57.1
2003/04	30,777.10	78,739.50	-47,962.40	57.1	57.8
2004/05	38,916.90	88,675.50	-49,758.60	66.3	59.3
2005/06	40,714.70	107,143.10	-66,428.40	67.6	61.6
2006/07	41,728.80	115,872.30	-74,143.50	70.3	59.9
2007/08	38,555.70	142,376.50	-103,820.80	65.1	64.2
2008/09	40,964.10	163,892.40	-122,928.30	60.9	57.6
2009/10	36081.80	195227.10	-159145.30	65.50	57.6
2010/11	38952.00	239831.90	-200879.90	67.00	66.91

Source: Economic Survey 2011/12 and Nepal Rastra Bank, Quarterly Economic Bulletin

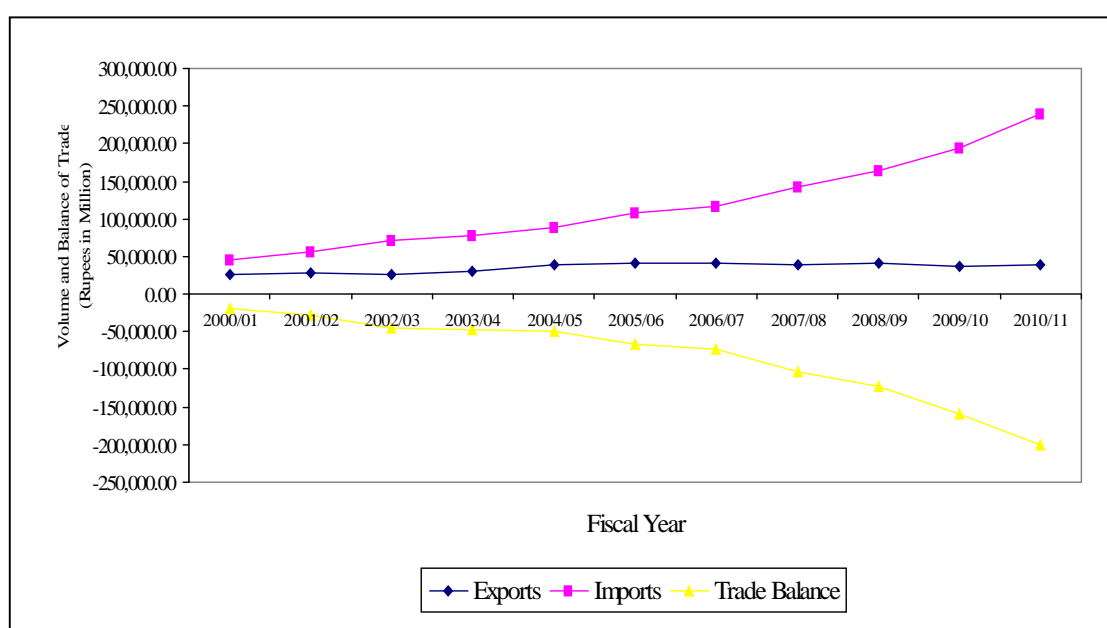


Figure 4.1.4: Trade Balance with India

4.1.5 Volume of Trade with India

The total volume of export trade with India was Rs.26, 030.20 million in FY 2000/01. It has increased to Rs.38952.00 million in FY 2010/11. The volume of trade has increased to Rs.41720.80 million in the fiscal year 2006/07. But in FY 2007/08 the total volume of export trade has been decreased in comparison to other fiscal years. But the export has increased at the FY 2008/09 than the previous FY 2007/08. But in FY2009/10 the total volume of export trade has been decreased in other fiscal year. But export has increased at the FY 2010/11. As we know that Nepal has weak performance in export trade. The total volume of import trade to India in 2000/01 was Rs.45; 211.00 million is increased to Rs.239, 831.90 million in 2010/11. That is 5.1 times increment in import trade. The total trade deficit with India was Rs.19, 180.80 million in FY 2000/01 which has increased by Rs.200, 879.90 million FY 2010/11.

There has been significant increment in both export and import trade values. But the value of export has increased slowly but the value of import has increased at higher rate. So the trade deficit is increasing rapidly. The share of total export trade with India seems lowest that is 46.1 percent in FY 2000/01. It was increased to 67.003 percent in FY 2010/11. However, the share of total export took positive direction from 2000/01 and continuous increment till FY 2001/02. In the FY 2001/02, the total share of export trade with India jumped to 73.8 percent on total export. But it was decreased to 52.9 percent in FY 2002/03 which was 20.9 percent less than the previous fiscal year. The export trade with India has slightly increased from the FY 2003/04 (57.1 percent) to FY 2006/07 (70.3 percent). Again, the export percentage tends to decline to 65.1 percent in FY2007/08 and increased to 65.52 percent in FY 2009/10 and 67.03percent in FY 2010/11. So total export trade has increased with India and other countries. But, in the FY 2010/11, the share of export to India has occupied about 67.03 percent to the total export. The percentage change in trade deficit has been presented in terms of deficit of trade. The percentage change in deficit shows the performance of trade in every successive fiscal year. But this

has been increased to 4.0 percent in FY 2000/01. It has continuously increased and reached to 49.5 percent in FY 2001/02. The major cause was larger import and smaller export. Then the change increased to 55.2 percent in FY 2002/03. The increment was due to decline as compare to in export and massive increase in import. But the change was decreased to 7.8 percent and 3.7 percent in FY 2003/04 and 2005/06. It respectively increased to 33.5 percent in FY 2006/07 and declined to 11.6 percent in FY 2007/08. It again increased to 40.0 percent in FY 2008/09 and declined to 18.4 percent. It is increased to 29.46 percent in FY 2009/10 and in FY2010/11 it declined 26.22 percent. It signifies that the trade balance of Nepal is increasing in terms of volume and percentage both. The government should give emphasis on export trade and minimize the import of luxurious goods. Similarly, the government should implement strong policies and strategies to strengthen export and reduce trade deficit (Table 4.1.5, Figure 4.1.5).

Table 4.1.5
Volume of Trade with India (2000/01 – 2010/11) (Rs. in Million)

FY	Exports	Imports	Total Trade	Trade Balance	% Change in Trade Balance	% Share on Total Exports	% Share on Total Imports	Export as a % of Import
2000/01	26,030.20	45,211.00	71,241.20	-19,180.80	----	46.8	39.1	57.6
2001/02	27,956.20	56,622.10	84,578.30	-28,665.90	49.5	73.8	72.1	49.4
2002/03	26,430.00	70,924.20	97,354.20	-44,494.20	55.2	52.9	57.1	37.3
2003/04	30,777.10	78,739.50	109,516.60	-47,962.40	7.8	57.1	57.8	39.1
2004/05	38,916.90	88,675.50	127,592.40	-49,758.60	3.7	66.3	59.3	43.9
2005/06	40,714.70	107,143.10	147,857.80	-66,428.40	33.5	67.6	61.6	38.0
2006/07	41,728.80	115,872.30	157,601.10	-74,143.50	11.6	70.3	59.9	36.0
2007/08	38,555.70	142,376.50	180,932.20	-103,820.80	40.0	65.1	64.2	27.1
2008/09	40,964.10	163,892.40	204,856.50	-122,928.30	18.4	60.9	57.6	25.0
2009/10	36,081.80	195,227.10	231,308.10	-159,146.10	29.46	65.52	57.6	18.48
2010/11	38,952.00	239,831.90	243,783.90	-200,879.90	26.22	67.03	67.00	16.24
Average						63.03	59.31	31.73

Source: Calculated Value and Nepal Rastra Bank, Quarterly Economic Bulletin, - 2011/12

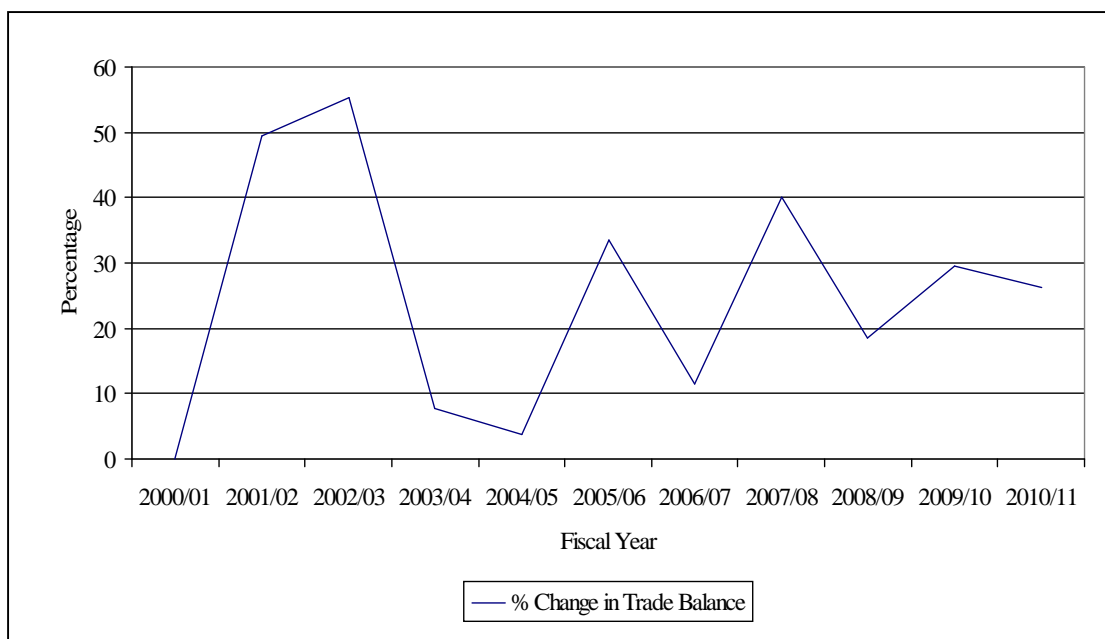


Figure 4.1.5: Percentage Change in Trade Balance

4.1.6 Composition of Nepal's Trade by SITC Classification

The composition of Nepal's trade is analyzed on the basis of Standard International Trade Classification (SITC). The analysis lies on composition of import and export of Nepal.

4.1.6.1 Composition of Nepal's Import

During the study period, the share of food and animals (SITC – 0) has a fluctuating trend. The share of food and live animals in FY 2000/01 was 5.3 percent and it was 7.4 percent in FY 2010/11. Tobacco and Beverages (SITC – 1) have a minimum share. The percentage share was less than one percent except FY 2000/01 (i.e. 0.8 percent). In terms of the structure of total imports, manufactured items (SITC 5-8) continued to lead total imports. Minerals, fuels and lubricants (SITC - 3) have steady growth. It was 10.0 percent in FY 2000/01 and the share reached to 20.5 percent in the FY 2010/11. Crude materials, inedible except fuels (SITC-2) have the significant share in total imports. It was 4.0 percent in FY 2000/01 and the share reached to 4.9 percent in FY 2010/11. Manufactured goods classified by materials (SITC - 6) have a large share in total imports. It was 36.6 percent in FY 2000/01 and the share

reached to 23.05 percent in FY 2010/11. Machinery and transport equipments (SITC-7) have the share around 11 - 25 percent. It was 20.4 percent in FY 2000/01 and the share reached to 21.4 percent in FY 2010/11. While goods classified under SITC-8 has also a minimum share with fluctuating trend to total import. In the FY 2002/03 it was to 35.8 percent from 6.4 percent in FY 2000/01. But it fell down to 3.7 percent in the succeeding period. Like wise SITC-9 has also a fluctuating trend. The higher share of manufactured imports compared to primary imports indicated the poor development of the economy (Figure 4.1.6.1, Table 4.1.6.1).

Table 4.1.6.1
Composition of Imports of Nepal on the basis of SITC Classification
(in Percentage)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	8.7	1.0	7.1	10.0	3.8	14.3	29.3	20.6	4.9	0.3	100.0
2001/02	10.0	0.8	6.5	8.4	4.1	13.3	31.7	18.9	6.2	0.1	100.0
2002/03	5.3	0.8	4.0	10.0	5.0	11.5	36.6	20.4	6.4	0.0	100.0
2003/04	5.9	0.7	6.3	14.2	7.3	11.5	30.6	18.2	5.3	0.1	100.0
2004/05	5.1	0.4	4.6	10.9	4.2	7.8	19.0	11.3	35.8	0.8	100.0
2005/06	6.3	0.8	7.7	16.1	6.3	12.1	26.8	18.9	3.7	1.3	100.0
2006/07	6.6	0.7	7.5	20.0	4.0	12.8	24.8	17.6	5.1	1.0	100.0
2007/08	7.7	0.7	6.1	21.0	5.9	14.2	23.4	15.1	6.0	0.1	100.0
2008/09	6.6	0.5	4.5	18.7	6.2	13.9	24.7	18.7	6.0	0.1	100.0
2009/10	7.1	0.6	3.8	19.8	4.2	12.1	25.9	21.6	4.8	0.0	100.0
2010/11	7.4	0.5	4.8	15.8	3.2	10.5	26.8	24.0	7.0	0.0	100.0
Average	7.0	0.7	5.7	15.0	4.9	12.2	27.2	18.7	8.3	0.3	

Source: NRB Quarterly Economic Bulletin 2011 and Economic Survey 2011/12

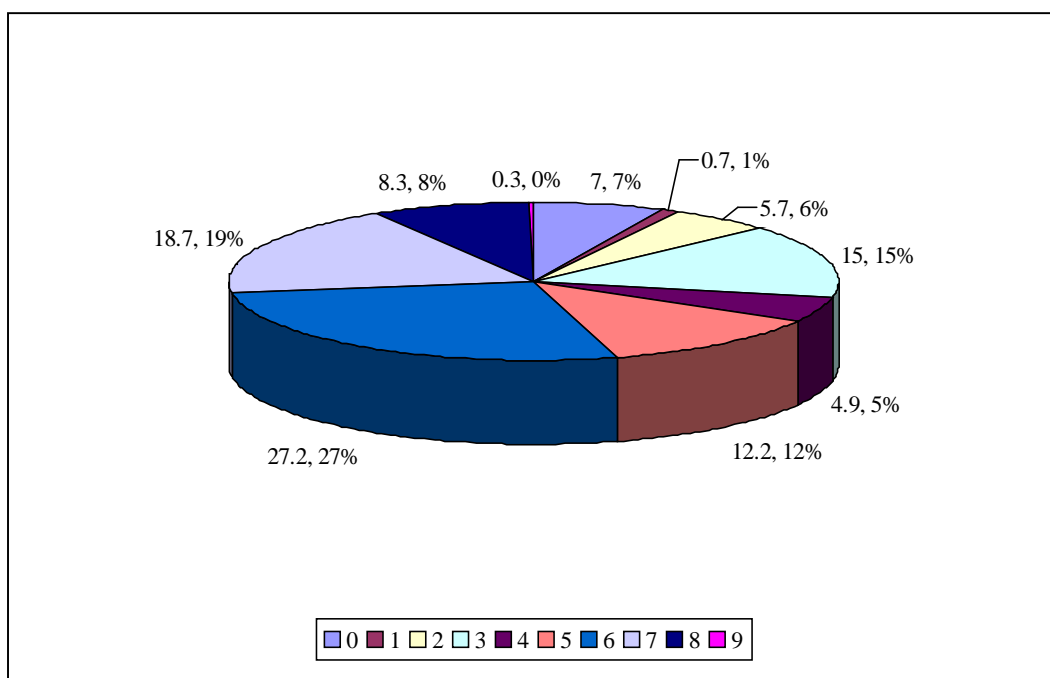


Figure 4.1.6.1: Percentage Share of SITC Import of Nepal (in Average)

4.1.6.2 Composition of Nepal's Exports

Major SITC Commodity Groups

- 0 = Food and Live Animal
- 1 = Tobacco and Beverages
- 2 = Crude Materials, Inedible Except Fuels
- 3 = Mineral, Fuels and Lubricants
- 4 = Animal and Vegetable Oil and Fats
- 5 = Chemical and Drugs
- 6 = Manufactured Goods Classified Mainly by Materials
- 7 = Machinery and Transport Equipment
- 8 = Miscellaneous Manufactured Articles
- 9 = Commodity and Transaction not Classified According to Kind.

The Nepalese export trade sector was characterized by high domination of primary goods over manufactured goods. In the year 2000/01, the share of food and live animals (SITC-0) was 8.6 percent of the total export which reached to 22.6 percent in FY 2010/11. The commodity under (SITC-1) has a

minimum share less than one percent. The share was 0.1 percent in FY 2000/01 and it was only 0.2 percent in FY 2010/11. The share of crude materials (SITC-2) was 1.3 percent in FY 2000/01 and it reached to 3.0 percent in FY 2010/11. The share of primary goods (0-4) was 17.4 percent in FY 2000/01 and reached to 32.2 percent in the FY 2010/11. Thus, under the primary goods (SITC 0-4) the commodity groups 1 and 3 have negligible contribution.

Manufactured goods classified mainly by materials (SITC-6) have relatively greater magnitude. The share was 34.00 percent in FY 2000/01 which increased to 52.1 percent in FY 2010/11. The percentage share of SITC-6 is tending to increase and remained 52.1 percent at the end of the FY 2010/11. But it took 42.1 percent and 53.9 percent in FY 2008/9 and FY 2009/10 respectively. The export of chemical and drugs (SITC-5) was 7.3 percent in FY 2000/01 and decreased to 4.1 percent FY2010/11. Miscellaneous manufactured articles (SITC-8) have also the significant share in total export. It was 41 percent in FY which came down to 11 percent in FY goods.. Under SITC-9 has a minimum share in total export. According to the table, the share of primary goods has been increasing continuously but share in total export has been noticed almost unchanged. However the manufactured goods increased significantly and now its share is large in Nepalese trade. Moreover, in the study period, neither the percentage share of export has increased nor the percentage share in the import has decreased significantly. It seems that the share of import has increased in comparison to the share of export. So the balance of trade seems to be unfavorable during the study period (Figure 4.1.6.2, Table 4.1.6.2).

Table 4.1.6.2
Composition of Exports of Nepal on the basis of SITC Classification (in Percentage)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	8.6	0.1	1.3	0.0	7.4	7.3	34.0	0.6	40.7	0.0	100.0
2001/02	10.9	0.3	1.3	0.0	15.8	7.0	37.1	0.8	26.8	0.0	100.0
2002/03	12.2	0.3	1.6	0.0	8.6	6.6	35.6	0.4	34.6	0.1	100.0
2003/04	11.6	0.1	1.3	0.0	6.3	7.2	43.8	1.1	28.5	0.0	100.0
2004/05	11.9	0.1	1.5	0.0	8.6	6.3	48.7	0.4	22.6	0.0	100.0
2005/06	11.9	0.0	2.0	0.0	7.1	6.1	47.4	2.0	23.4	0.0	100.0
2006/07	11.9	0.0	2.3	0.0	7.5	6.9	51.2	2.1	18.1	0.0	100.0
2007/08	22.2	0.0	2.3	0.0	3.5	4.8	50.0	1.5	15.7	0.0	100.0
2008/09	28.3	0.5	2.8	0.1	1.0	4.6	42.1	0.9	19.8	0.0	100.0
2009/10	21.6	0.3	4.06	00	4.3	2.75	53.9	1.2	15.0	00	100.0
2010/11	22.6	0.2	3.00	00	5.4	4.16	52.6	0.5	13.9	0.9	100.0
Average	15.79	0.1	2.1	0.0	6.9	5.8	44.9	1.0	23.55	0.0	

Source: NRB Quarterly Economic Bulletin 2011 and Economic Survey 2011/12

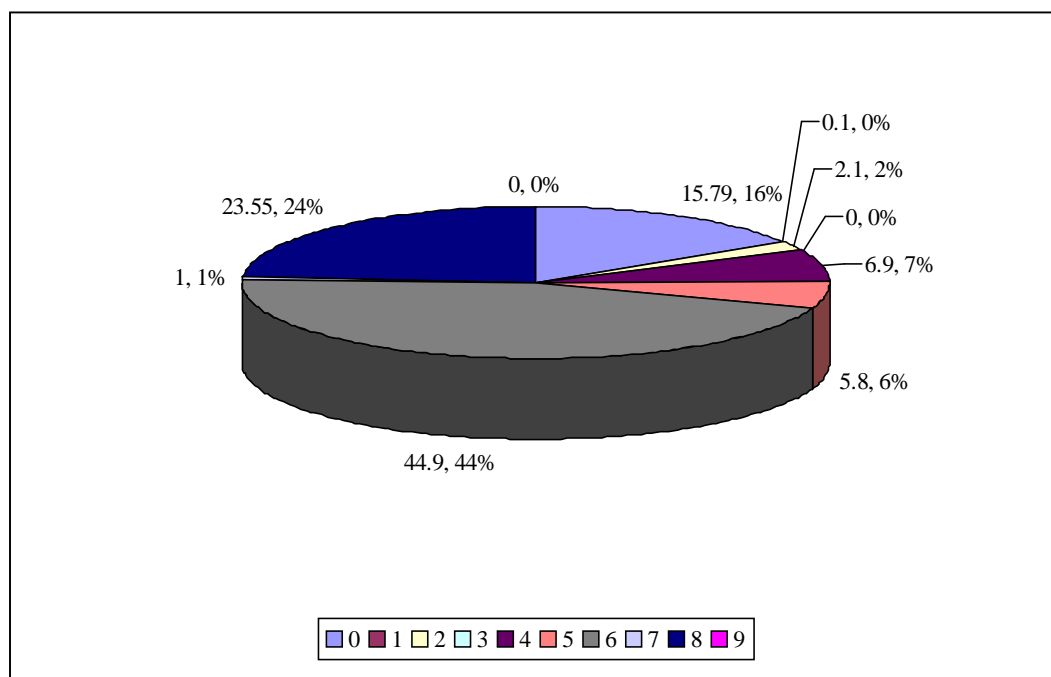


Figure 4.1.6.2: Percentage Share of SITC Exports of Nepal (in Average)

4.1.7 Composition of Major Commodities with India

The composition of major commodities of trade signifies the patterns of goods that are being exported and imported. It also shows the level of development of a country. In the early stage of development primary goods dominated the import and export. Nepalese export commodity composition has highly diversified than import commodity composition. The composition of Nepal-India trade is analyzed on the basic of SITC groups.

4.1.7.1 Composition of Exports to India Classified by Major Commodity Groups

In these days, composition of trade between Nepal and India has been changed. In the past, agro based and forest based primary commodities occupied a larger space but at present manufactured products replaced them. The export composition of trade has been presented below.

The Nepal's export of major commodities to India according to SITC categories. During the study period, the share of food and live animals (SITC-0) It was 15.3 percent in FY 2000/01. It came down to 13.8 percent in FY 2004/05. It reached to 23.3 percent in FY 2010/11. Tobacco and beverages show the fluctuating nature. The highest contribution of such group in FY 2010/11, at that time it was 0.80 percent and the minimum share in FY 2006/07.

Similarly, export of crude materials, inedible except fuels, (SITC-2) shows the increasing tendency till the FY 2000/01 and then there are ups and downs. In the FY 2010/11, the amount was 3.5 percent. There was minimum share in other fiscal years. The share of animal and vegetable oil and fats (SITC-4), was 15.1 percent in FY 2000/01 and it came down to 0.8 percent in FY 2010/11. The maximum amount was recorded 25.8 percent in FY 2001/02. In case of chemical and drugs (SITC-5) it was 15.3 percent in FY 2000/01 and it reached to 6.2 percent in FY 2010/11. The share in percentage seems in decreasing trend. The manufactured goods classified mainly by materials (SITC-6) took 34.2 percent in FY 2000/01 and reached to 60.9 percent in FY

2010/11. The export was increased significantly after the FY 2002/03. Machinery and transport equipment (SITC-7) it took 0.8 percent in FY 2000/01 and reached to 0.8 percent in FY 2010/11. The percentage share was less than one except FY 2001/02 (1.1 percent) . Miscellaneous manufactured articles (SITC-8) there were 16.2 percent in FY 2000/01 and it reached to 4.6 percent in FY 2010/11. The maximum export amount was recorded to 16.2 percent share in FY 2000/01. Export of commodity and transaction not classified according to kind (SITC-9) occupied negligible place to export in all fiscal years. It was only Rs.9.1 million in FY 2004/05 and 2.5 million (0.01 percent) in FY 2005/06. Then the share was zero (Figure 4.1.7.1, Table 4.1.7.1).

Table 4.1.7.1
Composition of Exports to India on the basis of SITC Classification (in percentage)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	15.3	0.3	2.7	0.0	15.1	15.3	34.2	0.8	16.2	0.0	100.00
2001/02	16.2	0.5	2.0	0.0	25.8	11.6	35.7	1.1	7.1	0.0	100.00
2002/03	17.7	0.4	2.6	0.0	15.3	12.0	43.1	0.4	8.4	0.0	100.00
2003/04	14.9	0.1	1.9	0.0	10.4	11.8	52.7	0.7	7.4	0.0	100.00
2004/05	13.8	0.1	1.9	0.0	12.5	9.2	54.9	0.2	7.4	0.0	100.00
2005/06	15.5	0.0	2.9	0.0	10.2	8.8	53.9	0.3	8.5	0.0	100.00
2006/07	14.2	0.0	3.1	0.0	10.4	9.5	56.9	0.4	5.3	0.0	100.00
2007/08	19.8	0.0	3.1	0.0	5.2	7.0	59.5	0.8	4.6	0.0	100.00
2008/09	24.8	0.8	3.6	0.1	0.8	7.2	51.2	1.2	10.3	0.0	100.00
2009/10	21.5	00	5.3	00	0.5	4.1	63.6	1.3	3.73	00	100.00
2010/11	23.3	00	3.5	00	0.8	6.2	60.9	0.8	4.6	0.04	100.00
Average	17.9	0.2	2.9	0.0	9.7	9.3	51.5	0.8	7.6	0.0	100.00

Source: NRB Quarterly Economic Bulletin 2011 and Economic Survey 2011/12

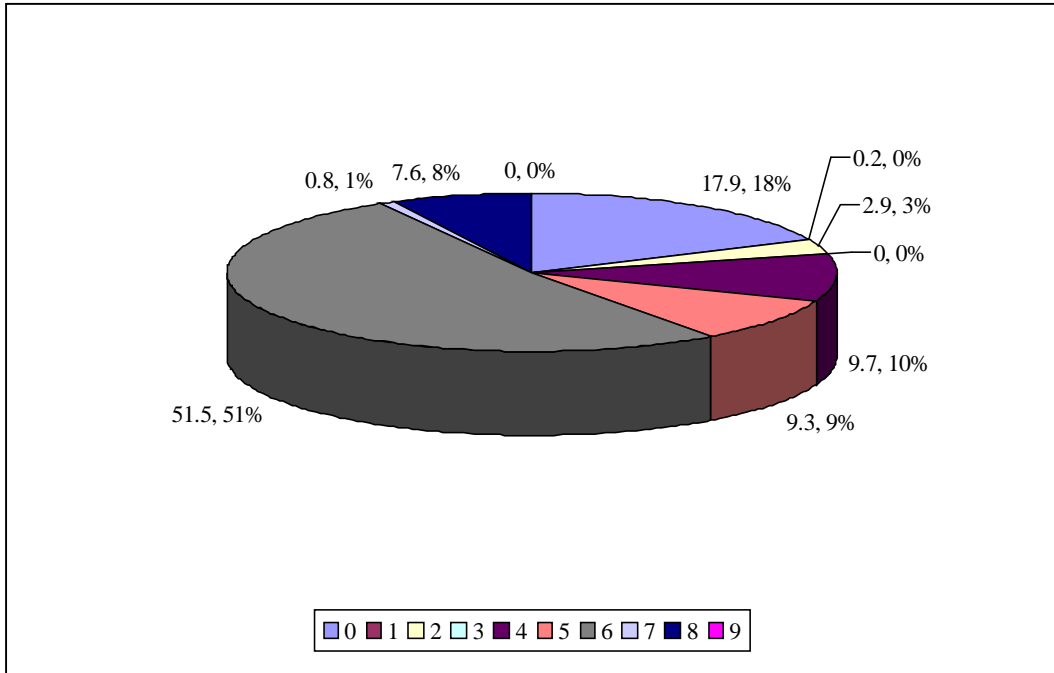


Figure 4.1.7.1: Percentage Share of SITC Export to India (in Average)

4.1.7.2 Composition of Imports with India Classified by Major Commodity Groups

The composition of Nepalese import from India openly shows the increasing tendency during the study period. The total import from India was Rs.54700.90 million in FY 2000/01 and it reached to Rs.239, 831.90 million in FY 2010/11. It was five fold increments till FY 2010/11.

The share of food and live animals (SITC-0) was 8.1 percent in FY 2000/01 and it reached to 8.4 percent in FY 2010/11. There has been fluctuating trend during the study period. Tobacco and beverages (SITC-1), occupied 1.2 percent in FY 2000/01 and it came down to 0.8 percent in FY 2010/11. The import of SITC-1 looked almost same in the study period though the share was less than 1 percent after FY 2002/03. Crude materials, inedible except fuels (SITC-2) it took 4.3 percent in FY 2000/01 and it reached to 6.03 percent in FY 2010/11. The share was almost same during the study period. Minerals fuels and lubricants (SITC-3) it was 19.8 percent in FY 2000/01. It reached to 29.9 percent in FY 2010/11. There was significant rise in the import

share after FY 2000/01. Animals and vegetables oil and fats (SITC-4) had the low share in total import. It was less than 1 percent during the study period. There was 0.8 percent in FY 2000/01 and negligible share in FY 2010/11.

In terms of chemicals and drugs (SITC-5), there was significant rise in almost all fiscal years. It was 12.1 percent in the FY 2000/01. It reached to 9.8 percent in FY 2010/11. Though the amount was increased but the percentage share was decreased than the previous fiscal years. Manufactured goods classified mainly by materials (SITC-6) occupied 33.1 percent in FY 2000/01. The amount was increased in each succeeding period but the percentage share was decreased. The amount recorded 25.6 percent in FY 2006/07 and it reached to 6.9 percent in FY 2010/01. Machinery and transport equipments (SITC-7) it was 15.9percent in FY 2000/01. The percentage share decreased up to 11.2 percent in FY 2005/06. The percentage share came to 16.3 percent in FY 2010/11. Miscellaneous manufactured articles (SITC-8) recorded 4.8 percent in FY 2000/01. It reached to 7 percent in FY 2010/11. The percentage share was not more than 7 percent (in FY 2010/11) and minimum share of 2.7 percent (in FY 2003/04). The commodities under (SITC-9) had a carelessness contribution on import trade. The lowest share was Rs.0.1% in FY 2000/01 and the highest share was 0.4 percent in FY 2003/04. It was 0.1 percent in FY 2010/11 (Figure 4.1.7.2and Table 4.1.7.2).

Table 4.1.7.2
Composition of Imports from India on the basis of SITC Classification
(in Percentage)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	8.1	1.2	4.3	19.8	0.8	12.1	33.1	15.9	4.8	0.0	100.0
2001/02	8.8	1.1	5.3	26.1	0.0	9.1	33.1	13.3	3.1	0.1	100.0
2002/03	9.3	0.8	6.1	27.6	0.1	9.6	31.7	11.9	2.9	0.0	100.0
2003/04	8.1	0.9	5.9	27.4	0.1	10.3	29.0	15.1	2.7	0.4	100.0
2004/05	7.6	0.8	5.3	33.3	0.1	11.8	25.5	12.5	3.1	0.0	100.0
2005/06	9.4	0.7	5.1	33.3	0.1	12.6	23.8	11.2	3.8	0.0	100.0
2006/07	7.1	0.6	4.1	30.7	0.1	12.6	25.6	16.0	3.2	0.0	100.0
2007/08	6.9	0.6	3.3	30.3	0.2	10.8	28.8	16.2	3.0	0.1	100.0
2008/09	8.1	0.8	5.3	26.8	0.0	9.1	24.7	20.3	5.0	0.1	100.0
2009/10	7.3	1.1	6.6	25.1	0.1	10.2	24.2	20.1	5.3	0.0	100.0
2010/11	8.4	0.8	6.0	30.0	0.0	9.8	23.2	16.3	7.0	0.0	100.0
Average	8.1	0.8	5.2	28.2	0.1	10.7	27.5	15.3	3.9	0.1	

Source: NRB Quarterly Economic Bulletin 2011 and Economic Survey 2011/12

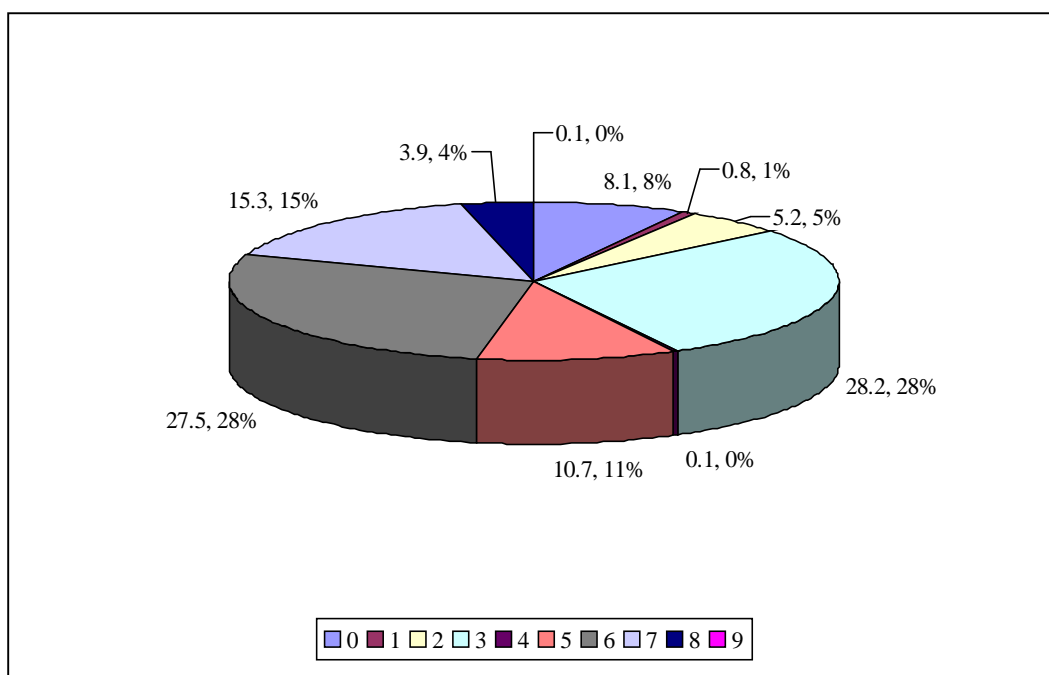


Figure 4.1.7.2: Percentage Share of SITC Import from India (in Average)

4.1.8 Exports and Import of Major Commodities with India

The analysis of trade with India on the basis of major commodities that are selected on the basis of volume. Major 15 commodities are taken into consideration for the analysis. The export and import of major commodities are presented below.

4.1.8.1 Exports of Major Commodities to India

The exports of 15 major commodities are selected on the basis of volume. The volume of copper wire rod was Rs.356.6 million in FY 2002/03. It decreased to percent in FY 2003/04. The volume was increased by 163.99 percent in FY 2004/05. But again it decreased by 42.31 percent and 32.64 percent in FY 2005/06 and FY 2006/07 respectively. It dramatically increased by 199.97 percent in FY 2008/09 and decreased it was 7.39 percent. It increased to 11.2 percent in FY 2009/10 and again in FY2010/11 decreased to 112.3 percent. The volume of G.I. Pipe was Rs.357.2 million in FY 2002/03. It was increased to 115.31 percent in FY 2002/03. It decreased in FY 2004/05 by 23.78 percent. But it increased to 22.48 percent and decreased by 75.39 percent in FY 2005/06 and FY 2006/07. It rose by 89.91 percent and in FY 352.28 percent in FY 2008/09 and decreased in FY2009/10 by 93.41 and increased in FY 2010/11 by 29.5 percent. The share of Vegetable was Rs.3812.3 million in FY 2002/03. It decreased by 22.38 percent in FY 2003/04. It rose to 56.67 percent in FY 2004/05 but decreased by 16.70 percent in FY 2005/06. It rose slightly by 7.12 percent and decreased continuously by 48.45 and 99.57 percent in FY 2007/08 and 2008/09 respectively. It was decreased in 2009/10 and increased in 2010/11 by 93.41 percent and 73.3 percent. The volume of Juice was Rs.600.1 million in FY 2002/03. The trend was in increased trend but with minor percentage. It increased by 31.11 in FY 2003/04. And at last it increased by 2.31 percent in FY 2008/09 than the pervious FY. And decreased in FY 2009/10 by 11.5 percent and increased in FY 2010/11 was 25.9 percent. The volume of Jute goods was Rs.1899 million and decreased by 0.86 in FY 2003/04 percent. It was increased by 4.55 percent

in FY 2006/07 but decreased by 6.32 percent and 50.34 percent in FY 2007/08 and FY 2008/09 and increased by 55.7 percent and 27.5 percent in FY 2009/10 and 2010/11 respectively. The volume of M.S. Pipe was Rs.548.2 million. It increased till FY 2003/04 by 55.38 percent. But it decreased by FY 2004/05 and FY 2005/06 and FY2008/09. It was increased by FY 2006/07 and FY 2007/08 and FY2009/10 and 2010/11 percent in 620.80 and 28.56 and 17.82 and 26.29. The volume of Medicine (Ayurvedic) was Rs.743.1 million. It is decreased by 60.9 percent in FY 2000/04. Again it has a fluctuation trend and finally it increased by 75.1 percent in FY 2010/11. The volume of Pashmina was Rs.475.6million was in FY 2002/03. It was in decreasing trend till FY 2010/11 which was decreased by 30.5 percent than in previous fiscal year. And it was increased by 19.38 percent. The volume of plastic utensils Rs.807.7 million and increased by 47.63 percent in FY 2002/03. It increased till the FY 2004/05 which was 14.19 percent. But it decreased till FY 2007/08 which was 27.10 percent. It was increased FY2010/11 was 71.5 than in the previous fiscal year. The volume of pulses was Rs.880.4 million in FY 2002/03 and decreased by 34.22 percent. The fluctuation shows at the final FY 2010/11 which was increased by 3.01 percent than in the previous fiscal year. Similarly, the volume of Soap was Rs.469.2 million in FY 2002/03 and increased by 15.0 percent in FY 2000/04. It was seemed in fluctuation trend and finally in FY 2010/11, the volume was decreased by 8.5 percent than in the previous fiscal year. The volume of textiles was Rs.878.2 million and increased by 102.7 percent. It decreased in FY 2005/06 by 28.10 percent and 30.82 percent in FY 2007/08. And finally it was increased by 9.9 percent than in the previous FY 2010/11. The volume of Thread was Rs.1235.2 million in FY 2002/03. It started to increase and till FY 2003/04 which was increased by 32.56 percent. It decreased by 14.25 percent in FY 2005/06. It was decreased by 38.92 percent in FY 2008/09 and finally increased by 17.3 in FY 2010/11. The volume of Tooth Paste was Rs.1002.8 million in FY 2002/03. It was increased by 47.47 percent in FY 2003/04. It started to decline and in FY 2007/08, it was

decreased by 28.31 percent than in the previous fiscal year. But it was tremendously increased by 30.8 percent in FY 2010/11(Appindix E,F).

4.1.8.2 Imports of Major Commodities from India

The imports of 15 major commodities are selected on the basis of volume. The volume of Agricultural Equipments and Parts was Rs.689.9 million in FY 2002/03. It decreased by 27.9 percent in FY 2003/04 and 13.3 percent in FY 2004/05. It decreased till the FY 2010/11 which was 6.7 percent than the previous fiscal year. The volume of Cement was Rs.2934.7 million which was decried by 21 percent in FY 2003/04. This fluctuation seemed in FY 2008/09 which was increased by 72.5 percent and dispersed by 9.4 percent in FY 2010/11 than in the previous fiscal year. The volume of Chemicals was Rs.1906.6 million and it increased by 34.5 percent in FY 2003/04. It was decreased by 6.6 percent in FY 2004/05. It was increased by 9.5 percent in FY 2010/11. The volume of Hot-rolled sheet in coil was Rs.2639.2 million in FY 2002/03 and increased by 139.3 percent. The increment remained till FY 2004/05 which was increased by 22.6 percent. It decreased by 80.5 percent in FY 2005/06. The increment trend came to FY 2010/11 which was 17.39 percent than in the previous fiscal year. The volume of Hot-rolled sheet in coil was Rs.2639.2 million which decreased by 21.9 percent in FY 2003/04 and 72.4 percent in FY 2004/05. It again increased by 101.3 percent. Finally it increased by 24.7 percent in FY 2010/11 then in previous fiscal year. The volume of M.S. Billet was 3573.2 million which increased by 17.6 percent in FY 2003/04. It was found in increasing trend but decreased in two fiscal years, 19.2 percent in FY 2004/05 and 32.3 percent in FY 2008/09. It was increased by 25.1 percent in FY 2010/11. The volume of M.S. Wire Rod was Rs.939.3 million in FY 2002/03 which increased by 14.8 percent. It was also seemed in increasing trend except two fiscal years. It was decreased by 30.7 percent in FY 2005/06 and 22.05 percent in FY 2010/11. The volume of Medicine was Rs.3225.7 in FY 2002/03 million in which increased by 3.6 percent in FY 2003/04. This was seemed increasing trend in each fiscal year. It was

incremented by 18.9 percent than in the previous fiscal year. The volume of Other Machinery & Parts was Rs.2571.8 million in FY 2002/03 which increased by 28.1 percent in FY 2003/04. It was decreased by 11.3 percent in FY 2005/06 than in the previous fiscal year. Finally it increased by 14.05 percent in FY 2010/11. The volume of Petroleum products was Rs.18811.6 million in FY 2002/03 and increased by 7.2 percent in FY 2003/04. It increased till FY 2005/06 which was 29.2 percent. But it decreased to 0.3 percent in FY 2006/07. It again increased by 21.6 percent in FY 2007/08 and 31.02 percent in FY 2010/11. The volume of Textiles was 4186.1 million in FY 2002/03 which decreased by 21.8 percent in FY 2003/04. It again decreased till FY 2007/08 which was 5.1 percent. It increased by 52.8 percent in FY 2008/09 and decreased by 24.1 percent in FY 2010/11. The volume of Thread was Rs.1105.8 million in FY 2002/03 but it decreased by 9.2percent in FY 2003/04. This fluctuation in trend continues and reached to FY 2010/11 which was decreased by 5.8 percent. The volume of Tobacco was Rs.534.3 million in FY which 2002/03 and increased by 23.5 percent in FY 2003/04. This fluctuation reached to FY 2008/09 with an increase by 44.6 percent. It was increased by 1.6 percent in FY 2010/11. The volume of vegetables was Rs.772.8 million in FY 2002/03 which decreased by 4.5 percent in FY 2003/04. Again it increased by 21.8 percent in FY 2004/05 and 26.7 percent in FY 2005/06. But It decreased by 9.1 percent in FY 2006/07. It increased by 40.7 percent in FY 2007/08 but decreased by 44.0 percent in FY 2008/09. It was increased by 8.2 percent in FY 2010/11. The volume of Vehicles & Spare Parts was Rs.3857.8 million in FY 2002/03 which increased by28.3 percent in FY 2003/04. It again increased by 8.3 percent in FY 2004/05. But it decreased by 2.7 percent in FY 2005/06. Then, it increased by 87.9 percent, 21.2 percent and 36.1 percent and 32.4 percent in FY 2006/07, FY 2007/08, FY 2008/09, 2009/10, and decreased by 14.9 percent in FY 2010/11 respectively(ApendixG,H).

From the above analysis, it is proved that the export trade of Nepal was fluctuating with certain ups and downs. It is clearly seen that the volume is

decreased in every commodity with certain increment. So the government should take immediate initiation and strong actions to enhance export trade which will help in reducing deficit trade balance. Export is seen weaker and in decreasing trend which results larger trade deficit. Import, in one hand, is extremely increasing but the export, on the other hand is decreasing. This brings huge deficit in trade balance. The government should adopt strong trade policies with strong export policy and strategies to strengthen the export trade to minimize the larger trade deficit. The government should implement the recent trade policies and trade & transit treaties for enhancing export trade. It is essential to explore new global market and increase competitiveness by trade diversification towards SAARC countries and third countries to increase export and control over import to reduce deficit in trade balance which will help to achieve surplus BOP strength the economy of Nepal.

4.2 Problems and Prospect of Nepal-India Trade

4.2.1 Background

Because of its geography, history, culture and tradition, India has remained Nepal's major trade partner. Till the decade of 1960s, before adopting trade diversification policies almost all trade was used to be with India. Nepal's trade with India seems quite substantial, and it has influence in the economic development of the country. There is wide scope for trade expansion between Nepal and India. Because of the geographical proximity both countries can export and import goods required by each other at a minimum cost. However, there persist many ups and downs in trade flow and structure. For the diversification of trade, desired goal cannot be achieved without smooth operation of traffic in transit. During the operation of this, Nepal is facing many practical problems from initial stage. So, problems related to trade with India are generally of two kinds, one legal and next is illegal with the signing of trade treaty in 1996. Most of the problems seemed to resolve. On the other, as common boarder of Nepal and India is open it is

highly vulnerable for illegal movements of goods and services of big economy (India) to small economy Nepal.

The trade relationship with India is very important for Nepal. If it can be operated smoothly it can help to diversify trade and bring prosperity to Nepal. So, that there are number of prospects of Indo-Nepal trade which would have positive effect of Nepal's rapid economic development. It is true to say Nepal's bilateral trade with India creates the market for Nepal's production and helps to diversify Nepal's foreign trade.

4.2.2 Problems of trade with India

There is nothing as such that trade relation with India offers Nepal on a golden place. It has been dissatisfied by many problems, which are as follows.

i) Landlockeness

The very nature of its geographical location i.e., landlocked ness makes her suitably handicapped and her trade with India substantially unequal. It is the main bottleneck in expanding Nepal's foreign trade. Everything Nepal wants to export must be routed through India. Nepal also has to face the transportation problems such as shortage of railways while importing goods from India. Because of this, sometimes there is a considerable delay in getting Indians good in Nepal, which immediately affects in price level of the country.

There has not yet been any remarkable change in such geographical structure of trade. Therefore it is not surprising that Nepal is exporting such commodities, which are deficient in her other areas.

ii) Trade deficit

It has been found that Nepal's trade deficit wit India is increasing constantly which is stranded as the serious problem. For instance trade imbalance with India. Nepal's import from India has been increasing tremendously but is export to India has not been increasing as per her expectation. Because Nepal's exported items are limited and primary products on the other imported items from India are specially manufacturing and

industrial products. As a result of being import costly and high quality products vis-a-vis export of low quality products trade deficit has been widening with has adverse bearing on the balance of payment. For the good and healthy trade relation between two neighboring country it is not a good sign. The experience of Nepalese exporters has shown that Nepal's ability to sell her manufactures goods to Indian market depends to greater extent to India's willing to accept them, which hinders development of the manufacturing sector of Nepal.

iii) Inadequate market

The major problems for unfavorable balance of trade of Nepal can be located are not finding proper market for Nepalese manufactures goods in the Indian market. There could be various reasons in this aspect. The prominent factors may include in business term inability to compete in India market on the grounds of quality, price, supply, capacity etc. In trade terms, it could be quantitative restrictions, product disqualification etc. It is to be understood that, unless sizeable export of manufactured products do not find market; the proportionate to trade balance cannot be reduced. Therefore inadequate market for Nepalese manufactured goods can be seen as one of the major problems.

iv) Problems of informal trade

As common boarder of Nepal and India is open, it is highly vulnerable for illegal movement of goods and persons. Due to the open boarder, it is frequently reported that goods and articles are imported and exported through unofficial 51 transit points, smuggling has been major stumbling block in the area of Indo-Nepal trade because it is felt that smuggling between two countries is increasing. Through there is no precise estimate of its volume, it constitutes large volume. Due to illegal inflow of goods, Nepalese industries could not compete in the market causing the Nepalese industries in the verge of collapse, Even with the many agreement to control unauthorized trade between two countries, it is not effectively solved the problem. Thus, informal trade is a major problem of these two countries.

v) Trade diversification

A very serious problem, which we would like to highlight for action is the problem of diversification. The need for changes in the existing order of Indo-Nepal trade seems to be somewhat obvious from the point that both of these countries are making impressive strides in exports and they are also trying to be self-sufficient at the home front. This means that both these countries have wider vision of exports mainly those items, which are in demand in the outside markets.

The recent trends in Indo-Nepalese trade show that still these countries are trading in traditional commodities in which they have comparative cost advantage. Hence, trade diversification in both commodities wise and country wide is the main problem for Nepal.

vi) Problems related to transit

As India is practically a single transit country for Nepal, the problems related to it are mostly with India. It means that Nepal has to deal with transit difficulties within India. Landlocked states are geographically at a disadvantage in comparison to the coastal states for they are bereft of an important means of communication i.e. the sea routes, which are important for foreign trade, consequently, such states as Nepal are generally backward. The lack of territorial access to the sea compounded by remoteness and isolation from World markets is a major cause of their development. No nation today can live in isolation. Trade routes today are the lifeline of a nation. Our country is deprived of such facility, where transport cost is very high.

G.M. Pradhan (1990) has identified some problems in his book *Transit of Landlocked Country and Nepal*. He points out: Inadequate infrastructure facilities, difficulties to transit facility, the rail transit, insurance policy etc.

vii) Production bottlenecks

It has been seen that although there is a demand for the items to be traded in both the countries, produced do find it difficult to meet such demands. Both countries fail to promptly supply the orders. The complaint pertains to production bottlenecks. A joint committee may be set up to look after the prompt supply of quality products at the agreed prices.

viii) Foreign economic policy constraints

Nepal has not been able to checkout an independent policy depicting its economic aspirations, the Nepalese official exchange rate with the dollar is basically determined by India. In another words, Nepal is the unique situation of keeping an artificial exchange rate with the dollar area in order to have equilibrium with the Indian rupee. It is therefore a serious constraint.

ix) Lack of understanding and good faith

For the smooth and continuous trade flows, a certain degree of good and understanding is needed. It depends upon the mutual co-operations. And the bilateral trade relation between Nepal and India. There is lack of such things. So, the good trade relationship between these nations showed be national to resolve such problem.

x) Frequent revision in duties and rules

It is notable thing that, market structure is in uncertainty. It is affected by many non- market variables. Rule and regulation related to export and import duties etc. also play vital role in the foreign trade, it has been frequently noted that the rules, procedures and duties are revised through the government budget. Also the provisions of trade and transit treaties have been changed between two parties. Such types of regular medications create confusion among the business communities. As we have seen that the treaty 1916 has removed the obstacles in the former treaty signed in 1991 for five years. It did not permit Nepalese products with less than 50 present raw materials to enter India. Our export to India therefore was negligible.

After the 1996 Treaty Nepalese products could enter India free of customs duty and quantitative restriction. The removal of 50 percent of Nepalese raw materials was an important aspect of the Treaty. It led to the establishment of many big industries keeping the Indian market in view. But as the renewal of this treaty 2002, with enough provision for a new time, export of three items has decreased sharply in recent years. Therefore trade is also governed to a large extent by trade regulations and related administrative procedures.

4.3 Prospects

Nepal and India are the same in many respects even though India is relatively more developed country. She has been endowed with much wider and richer resource base and has already made a significant stride in infrastructural, scientific and industrial development. It is doubtlessly a big power in the region because of its size, military set up and political system. In relation to the size of the country and its resource endowments, foreign trade will continue to be very important in the Nepalese economy, where there are various natural resource such as water especially of hydroelectricity, mines, mineral and gorgeous flora and fauna to augment tourism sector. But due to the lack of capital and skill manpower the country is facing the emerging problem of capital deficiency and unemployment. Even having enough resources the country is in critical phase of low equilibrium trap. There is scope for rapid development, which is possible with the mutual co-operation with India. Both countries can share mutual benefits by investing in the potential areas, which in turn becomes the means of cooperation. These are as follows:

i) Hydro resources

Nepal has relatively abundance of fresh water, which gives rise to its comparative analysis in hydroelectricity. The country has 8300M.W. of hydropower potentialities out of which 4200M.W could be economically viable. The generation of hydroelectricity can be seen most vital not only to cope with the rising electricity demand but also for the extra demanding

resulting from the substitution of fossil fuels that may be demanded necessary. Hydro resources is the most important exportable commodity and India is the market for its generation of electricity. Thus it can become the engine of economic growth by promoting cheap electricity input which can provide the basis for competitive manufacturing industries for cheap manufactured exports. Nepal's electricity has been called white gold with the connotation that Nepal can easily become wealthy as some of the oil and mineral rich countries of the Middle East and Africa.

Hence hydroelectricity can be attractive for foreign investment. And by exporting more hydro resources to India, the BOP will improve.

At present, the integrated Nepal Power System (INPS) has a total installed capacity of some 706 MW of which 652 MW (92%) is generated from hydro resources. The power sector presents the most severe infrastructure constraint for economic growth. In fiscal year 2010/2011, peak demand was 946 MW, versus 885 MW in the prior year. In the same fiscal year, annual energy demand increased 10% from the previous year to 4,833 GWh of which 982 GWh (about 20% of demand) was curtailed as load shedding. Domestic generation accounted for 3,157 GWh, and 694 GWh was met with net imports from India. Thermal power generation represents less than 1% of grid-connected. This represents some improvement over the 2008/2009 fiscal year when system capacity shortage was about 50% of the demand at the peak-load (813 MW) period during the winter months. System losses.

National Energy Strategy Nepal 2010, WECS

New annual report 2011

ii) Tourism

The prospect of tourism is enormous in Nepal, where she has comparative advantage. Nepal is blessed by nature with her beautiful flora and fauna, various lakes, rivers and mountains, which are very important for Tourism. So, Nepal a dreamland for tourists which is filled up with wonderful natural beauty. Tourism sector has emerged as one of the dynamic and

promising sector in the country providing employment opportunities and income generation. It is thus the pertinent sector that could give the new lease of life to the Nepalese economy. This sector provides room for economic cooperation in a number of areas like tourism infrastructure, hotels and resorts and amusement center etc. Investment in these areas offers very promising prospects for profitable investment. As India is the neighbour country, she could also gain the benefits from tourism development in Nepal.

iii) Education

Skillful and educated manpower is the demand of today in respective field and areas. India is extending cooperation in the education and training since long back. Both countries can share the technical knowledge and professionals talents in both academic pursuits and technical specialization. From that, these countries would have win-win benefit.

iv) Mineral exploitation

Study has shown that Nepal possesses various types of mines and mineral. Exploitation of such hoarded resources needs immense amount of capital and investment. Due to lack of skilled manpower and sufficient capital these resources have not yet been exploited. With the good cooperation with India these resources could be harnessed so that it can offer the prospects for cooperation and investment.

v) Information and communication technology

Information and communication technology is the backbone of development. India has already moved in the advance stage in the ICT development, particularly in software development. The demand for ICT is likely to increase in future as well. Thus, this has been one of the prominent services trades having potential of high value addition. A couple of joint center in this sector has already emerged. In view of comparatively cheap about and growing demand for information technology, this sector offers a wide scope to go hand in hand to serve common interest.

vi) Nepal-India joint-venture initiatives through FDI

Joint venture is defined as the form of association; increasing commercial and industrial collaboration in which two countries share possibilities for the operation of a company by providing a risk capital.

Nepal offers prospects for joint venture projects for Indian entrepreneurs. The number of joint venture is increasing in Nepal as consequences of the policy change in the pattern of investment and ownership of project in this respect, the trade treaty with India, close economic linkage between the two countries have manifested themselves through Indian investment and joint venture in Nepal. It is also noted that there are over 265 approved Indian joint ventures in Nepal, of which are operational, with a cumulative total Indian investment lying between to 40 percent of total foreign direct investment in Nepal. A number of Indian companies, including Dabur Hindustan Lever, Colgate have published their manufacturing base in Nepal with the objective to export are finished products to India.

Hence, joint venture between both countries signifies a healthy development in indo-Nepal economic cooperation.

4.4 Major Findings of the Study.

In course of undertaking this research work the following facts are found.

1. Regarding trade between Nepal and India it has been a long practice between the two countries.
2. India is a close neighbor of Nepal so Nepal's trade is found to be very much dependent on India. Similarly Nepal and India export and Import a numerous items to one another.
3. In respect of the trend of Nepal's trade with India we came to realize that the amount of exports is always lower the amount of Imports. Nepal's export is of high volume but low value where as its import is of low volume high value. On this part, the amount of import is following the increasing trend though export is also increasing but at slow pace.

4. Nepal and India has a long history in multi-dimensional relationships between the countries. Nepal is also rich in many natural and human resources. No doubt India is growing fast harnessing its resources.
5. There have been a no of possibilities in the development of Nepal's water resources, mineral resource, human resource, tourism sector development, education, communication technology etc.
6. Despite of having a lot of possibilities and potentialities for the economic development of Nepal with the joint ventures of the two countries namely Nepal and India, we have been facing the problems like, Landlockness, illegal trade through boarder, inadequate market, transit problems, investment friendly policies and unnecessary political interference. So, Nepal and India should work together developing mutual understanding so as to maximize the benefits to both the countries by utilizing the resources available in Nepal.

CHAPTER - V

SUMMARY, CONCLUSION AND SUGGESTIONS

5.1 Summary

The study starts with past trading practices of Nepal. The history of trade relation between Nepal and India is very old and very close. This trade relation has major influence in economic development of both countries. Since the past, Nepal has been a prime trading partner of India. Being as a big country India can purchase the goods produced in Nepal and can also sell the goods needed by Nepal. But it is not quiet beneficial to concentrate in trade flow and structure between these two countries. In the past, contents of domestic materials and labour were seen as major problems by both countries in their own perspective. After the signing in the trade treaty of 1996 AD, much of the problems seemed to have resolved. Furthermore the agreement on the control of unauthorized trade has been contributing in controlling informal trade between two countries especially in Nepal-India borders. Due to the positive impact of the trade treaty 1996, the export of manufacturing articles such as vegetable ghee, acrylic yarn, copper wire, and zinc oxide to India were increased tremendously but there are some quantitative restrictions.

The purpose of the study is to analyze the Nepalese foreign trade and economic relations with India. The analysis of Nepalese foreign trade has shown that higher trend of import, poor export performance, primary nature of exportable goods, unfavorable trade balance, unfavorable terms of trade and infant industries are some of the worst realities in the foreign trade sector of Nepal. The study offers a clear outlook regarding the volume, composition, direction and trade balance of Nepalese foreign trade especially with India. The volume of Nepalese foreign trade is found increasing steadily but the contribution of export in total volume of trade is very low and limited to few items like woolen carpets, readymade garments. Similarly, the trade deficit is

also increasing highly in recent years. Recent trade policies and strategies are executing in action, but the foreign trade balance is not in favor of Nepal, export is highly dominated by import along with the increasing volume of trade. The share of export and import in the total volume of trade in FY 2000/01 Rs.55,654.10 million (32.48 percent) and Rs.115,687.20 million (67.5 percent) respectively. It signifies a deep dominance of import on Nepalese trade. During the study period, the share of export is in decreasing trend. It shows 30.42 percent in FY 2001/02, 28.20 percent in FY 2004/05, 21.08 percent in FY 2007/08 and 19.11 percent in 2008/09 and 13.9 percent in FY 2009/10 and 13.95 percent in FY 2010/11. Similarly the share of import is in increasing trend. It shows 69.58 percent in FY 2001/02, 71.80 percent in FY 2004/05, 78.92 percent in FY 2007/08 and 80.89 percent in 2008/09 and 86.02 percent in FY 2009/10 and 86.04percent in FY 2010/11 . The volume of export increased from Rs.55,654.10 million to Rs.58135.20 million. Similarly the volume of import increased from Rs.115,687 .20 million to Rs.358404.80 million. In these years, Nepal improved in export but the dominance of import over export is still significant.

The volume of trade with India is in increasing trend. The volume of export is Rs.26,030.20 million in FY 2000/01 and reached to Rs.38952.70 million in FY 2010/11. The volume of import was Rs.54700.90 million in FY 2000/01 and reached to Rs.239,831.90 million in FY 2010/11. The percentage share on total export and import was 46.8 percent and 39.1 percent in FY 2000/01 respectively. The share was 73.8 percent and 72.1 percent in FY 2001/02, 67.6 percent and 61.6 percent in FY 2005/06, 65.1 percent and 64.2 percent in FY 2007/08 and 60.9 percent and 57.6 percent and 65.50 percent 57.6 in FY 2009/10 and 67.0 and 66.91 percent in FY 2010/11 respectively. Similarly export as percent of import was 57.6 percent in FY 2000/01, and 16.24 percent in FY 2010/11. The average in export was 63.03 percent, in import, it was 59.31 percent and export as percentage of import was 31.73 during the study period.

The problem and prospects of Nepal – India trade is another objective of the study, Nepal is an underdeveloped country like other LDCs. She is facing the problem. It can not uplift the economic situation automatically. She need the support of other countries. India a great growing economic powerhouse of the world can be of great helps in its development. The major prospects of indo-Nepal trade are: Hydro resources, Tourism, Education, mineral exploitation, information and communication technology, Nepal India a joint venture initiative etc. And the major problems of Nepal-India trade are: landlockedness, trade deficit in adequate market, problems related to transit, production bottlenecks foreign economic policy constraints etc.

5.2 Conclusion

Nepal is one of the least developed countries not only in the world but also in the south Asia. We are increasingly facing the problem of vicious circle of poverty and economic backwardness. The foreign trade sector especially export trade which is the engine of growth has been deteriorating.

Foreign trade, which is considered as an engine of economic growth, is not in favor of Nepal. Nepal's foreign trade has always been dominated by imports. The balance of trade has always been adverse to Nepal. However the previous old treaties of trade and transit were in favor of Nepal for the expansion of trade. Though India is Nepal's biggest trading partner, the balance of trade with India is not favorable for Nepal. Import is always higher than export. Hence, there are many problems related to Nepal's trade with India. The main problems identified are as follows:

-) The agricultural sector, which is the mainstay of Nepalese economy, has been extremely unsatisfactory. There is no adequate development in agricultural sector. Agro-based industries are not established and managed well. It is only subsistence level of agricultural production and even required agro product is to be imported from neighboring country.
-) Similarly, industrial sector is still in its infant stage because of economical and technological bottlenecks. Though there are many

efforts made for the development of industrial sector, this sector in Nepal is still negligible because it requires heavy investment and whose output can be harvested only after a long period.

-) Because of the increased attraction on imported goods, productivity of the country has been deteriorating. Nepalese producers' still use old age technology hence the quality of the product is also not satisfactory and they are unable to compete in international market and even in national market.
-) Nepal's foreign trade policy is directed more towards import expansion rather than export promotion and import substitution. Experts and skilled manpower (for policymaking) in the concerned fields are kept hidden so the illegal traders are getting advantage of import and export.
-) Landlockedness is one of the biggest bottlenecks in Nepal's trade expansion. Although it is a natural and permanent type of problem, the solution of this problem is to be resolved through political and economic diplomacy, particularly with India.
-) Open boarder and free flow of goods between Nepal and India are also the serious obstacles for Nepalese products because Indian products are cheaply available in Nepalese market. There is no discrimination between domestic and foreign goods in Nepalese market. The consumers prefer foreign and cheap goods rather than domestic goods. Open boarder with India is inexorable to goods smuggling practice. So the illegal traders are getting advantage of duty free imports and exports.
-) Nepal is encountering fundamental trade deficit problem with India and rest of the world that may have a long-term effects on the country's economy. The main cause behind it is import always exceeding export. Such deficit is usually covered by the increased foreign loans and grants, which may further deteriorate the country's economy and further development.
-) In Nepalese trade sector, there exists absence of attention in the production of consumer goods to reduce imports.

-) Nepalese domestic industries can not produce sufficient goods as per the demand of Nepalese market. So the growing population can not attain enough goods from national industries.
-) The volume of Nepalese export of primary products to Indian market is high. But Nepal has been a large market of India for selling those kind of manufactured products exported to Nepal from India. Such a massive domination of import over export created a huge trade deficit with India.
-) The policies are generally formulated in ad-hoc manner and changed frequently. This results into great uncertainty among the entrepreneurs about forthcoming policies for trade expansion.
-) Nepal utilizes only one transit (trade route) route to overseas countries i.e. Kolkata Port. Although Nepal can use other trade routes like Fulbari-Bangladesh through Bangladesh will be an effective way of diversifying trade but no action is forwarded regarding this subject. The alternative route can be used with the infrastructure development to increase the trade with third world countries.

5.3 Suggestions

Foreign trade plays a great role in uplifting national economy. It is the major source of foreign income earning. Though any country may or may not get any economic benefit or loss from foreign trade but none of the countries can exist without performing it. The study of foreign trade is basically presented here under the title of "Nepal's foreign trade with India: problems and prospects (FY 2000/01 to 2010/11). The over all study made on this title through reliable secondary data and authentic information may lead us to put the following recommendations in brief.

-) The trade and transit treaty should be based on international law and convention. Nepal should execute trade and transit treaty in favour of both Nepal and India to expand Nepalese export to India. Similarly, it can help in the export of goods to third countries with trade agreements made with India. India should provide the transit facilities to Nepal

according to international convention recognizing that it is a land locked country and has no option to sea access except via India.

-) Nepal should encourage for high quality production and also there is a need to introduce new exportable commodities and analyze their comparative advantages in relation to foreign products in our national market.
-) Since Nepal has agro-based economy and it should use modern technology in agricultural production and attempt to fulfill the national demands.
-) Those imports, which actually do not contribute in any aspects, economic, social, cultural etc. should be controlled by imposing heavy taxes and domestic industries should be encouraged to produce consumer goods.
-) Appropriate steps should be taken to develop the infant industries and expanding domestic market for domestic manufactures by protecting them from external competition.
-) In order to expand and diversify Nepalese foreign trade, it is essential to control over smuggling practices across the borders, especially in Indo-Nepal boarder.
-) Nepal should give emphasis on the infrastructural development so that natural resources of the country can be properly utilized. Subsequently it can boost up the foreign trade sector.
-) As Nepal has entered into SAFTA, BIMSTEC and WTO, the financial institutions must focus more on institutional reforms in this sector. It is essential to diversify Nepalese trade through international trade organizations. Nepal can achieve more benefits from expanding its trade with other countries than India through such international trade organizations. Concerned and private sector should be given reasonable facilities and incentives for the advancement in foreign trade sector to diversify its trade around the world.

-) Transit facilities should include all the modes of transport like railways, waterways and airways transport as far as possible.
-) Nepal should increase trading activities with SAARC countries. It not only reduces trade concentration with India but works as a milestone towards mutual co-operation with other countries as well. It increases the possibility of joint venture in establishing industries. The commodities, which can be traded with these countries, have to be sorted out on the basis of comparative advantage.
-) Since Nepal is a landlocked country, Landlockedness is a natural and permanent type of problem for Nepal, but it should be solved through the commitments, political and diplomatic efforts by the government. Nepal should formulate strong trade policies for the improvement in export trade with India and other countries as well.
-) India should not think to Nepal as its monopoly market. It must help in the promotion of foreign trade by providing appropriate market to Nepal for Nepalese commodities. There should be equal treatment for Nepalese commodities in Indian market.
-) Import of some traditional items from India should be reduced by increasing their production and distribution within our own country.
-) To reduce imports, domestic industries should be encouraged to produce consumer goods. Increasing tax on imported items can encourage it. Tax system should be made more progressive. Luxury product's imports should be taxed high. Similarly low tax should be levied on export items.
-) Nepal should promote and give emphasis on export oriented industries.
-) Nepal has been suffering from fundamental deficit in its balance of trade. To improve it, Nepal should increase export commodity wise and country wise and reduce import. Export can be increased by improving quality of product, launching new commodities, diminishing cost of production, generating export surpluses, encouraging research and development. On the other hand, to reduce imports, indigenous

production of import substitutes should be encouraged by adopting improved indigenous technology curtailing non-essential and luxury imports and controlling population growth. It should also diversify its imports and exports markets and products via trade agreements and developing friendly relations.

The above measures which are taken sincerely and effectively by trade policy makers; it is helpful in expanding export trade with India and the other countries as well. Thus it may possibly provide measures of some sort of remedy for alleviating a huge trade deficit crisis of Nepal with India. It is suggested to reduce gradual trade deficit, government must immediately take action towards the direction of expanding export by reinventing its policies with strong implementation and monitoring mechanism.

Appendix A
Composition of Imports of Nepal on the basis of SITC Classification
(Rs. in Million)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	5994.4	906.1	4559.6	11269.2	5589.2	12941.9	41188.0	23027.8	7210.2	0.8	112687.2
2001/02	6333.2	717.1	6734.1	15200.8	7887.5	12380.9	32889.1	19513.8	5670.3	62.1	107388.9
2002/03	9370.5	792.2	8479.3	19944.1	7750.5	14319.5	34888.2	20702.1	65582.7	1523.0	183352.1
2003/04	8554.0	1026.8	10550.6	21904.1	8634.4	16544.9	36510.5	25694.2	5103.8	1753.8	136277.1
2004/05	9820.7	1015.6	11207.0	29927.3	6016.3	19179.7	37047.4	26262.1	7551.8	1445.7	149473.6
2005/06	13298.7	1161.8	10562.3	36447.0	10196.6	24750.2	40600.5	26194.6	10417.8	150.8	173780.3
2006/07	12895.9	957.9	8829.3	36362.0	12137.6	26995.9	48145.3	36357.4	11755.0	258.3	194694.6
2007/08	15838.3	1238.3	8365.1	43968.5	9399.1	26863.3	57448.4	48006.4	10726.2	84.2	221937.8
2008/09	21143.8	1411.1	13594.0	45093.6	9004.3	29831.1	76128.0	68213.6	20043.5	108.0	284571.0
2009/10	2376.5	2854.9	19888.9	56781.1	9320.5	39669.6	116129.8	84517.2	21366.6	41.1	374335.2
2010/11	29263.4	2167.1	19480.2	81234.5	14733.8	45272.1	91337.8	85331.5	27234.8	120.3	396175.5

Source: NRB Quarterly Economic Bulletin 2012 and Economic Survey 2011/12

Note:

- 0 = Food and Live Animal
- 1 = Tobacco and Beverages
- 2 = Crude Materials, Inedible Except Fuels
- 3 = Mineral, Fuels and Lubricants
- 4 = Animal and Vegetable Oil and Fats
- 5 = Chemical and Drugs
- 6 = Manufactured Goods Classified Mainly by Materials
- 7 = Machinery and Transport Equipment
- 8 = Miscellaneous Manufactured Articles
- 9 = Commodity and Transaction not Classified According to Kind.

Appendix B
Composition of Exports of Nepal on the basis of SITC Classification
(Rs. in Million)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	4776.6	75.6	751.1	1.3	4104.0	4041.7	18909.3	343.6	22650.9	0.0	55654.1
2001/02	5094.2	145.7	624.5	1.6	7421.4	3308.3	17394.9	364.9	12589.3	0.0	46944.8
2002/03	6100.9	138.7	800.1	5.5	4278.7	3279.0	17794.7	208.2	17281.5	43.3	49930.6
2003/04	6276.9	55.2	714.3	14.5	3375.7	3865.9	23601.7	619.5	15380.1	6.9	53910.7
2004/05	6993.5	31.6	881.6	4.2	5070.3	3677.6	28590.6	207.6	13239.6	9.1	58705.7
2005/06	7192.0	25.0	1223.4	3.2	4284.6	3686.9	28533.0	1201.9	14081.6	2.5	60234.1
2006/07	7055.8	23.2	1368.0	0.0	4454.9	4091.6	30412.2	1240.9	10736.5	0.0	59383.1
2007/08	13164.9	24.3	1350.7	0.0	2062.0	2823.5	29643.3	912.9	9281.7	3.2	59266.5
2008/09	19012.3	354.2	1861.5	41.7	660.5	3090.5	28284.5	625.3	13310.2	6.4	67247.1
2009/10	13145.3	18.4	2469.6	00	267.2	1676.9	33395.2	725.0	9116.5	00	60824.0
2010/11	13155.2	1.7	1923.3	00	409.0	2679.5	33496.5	379.7	10911.1	5.9	64338.5

Source: NRB Quarterly Economic Bulletin Mid-July 2012 and Economic Survey 2011/12

Note:

- 0 = Food and Live Animal
- 1 = Tobacco and Beverages
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- 3 = Mineral, Fuels and Lubricants
- 4 = Animal and Vegetable Oil and Fats
- 5 = Chemical and Drugs
- 6 = Manufactured Goods Classified Mainly by Materials
- 7 = Machinery and Transport Equipment
- 8 = Miscellaneous Manufactured Articles
- 9 = Commodity and Transaction not Classified According to Kind.

Appendix C

Composition of Exports to India on the basis of SITC Classification (Rs. in Million)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	3992.4	66.7	709.6	1.3	3931.4	3995.1	8907.3	197.8	4228.6	0.0	26030.2
2001/02	4542.4	141.4	560.2	1.2	7211.7	3234.2	9971.0	314.6	1979.5	0.0	27956.2
2002/03	4672.3	106.6	682.2	5.2	4053.2	3174.1	11387.7	118.5	2225.7	4.5	26430.0
2003/04	4595.5	42.3	576.5	14.5	3206.4	3624.5	16228.9	219.1	2262.5	6.9	30777.1
2004/05	5389.3	26.5	736.6	3.9	4858.8	3577.7	21353.1	85.7	2876.2	9.1	38916.9
2005/06	6306.7	14.3	1163.3	0.5	4145.7	3564.7	21928.3	111.0	3477.7	2.5	40714.7
2006/07	5944.3	12	1291.6	0.0	4337.2	3977.4	23763.4	185.7	2217.2	0.0	41728.8
2007/08	7617.4	10.7	1181.4	0.0	2023.6	2696.3	22942.2	300.4	1783.7	0.0	38555.7
2008/09	10166.1	329.5	1473.0	40.6	319.6	2957.3	20969.5	490.6	4217.9	0.0	40964.1
2009/10	8591.6	00	2103.3	00	205.5	1648.9	25445.6	528.1	1471.1	00	39993.7
2010/11	10104.5	00	1509.0	00	310.4	2673.7	26396.9	359.4	2006.3	0.2	43360.4

Source: NRB Quarterly Economic Bulletin Mid-July 2012 and Economic Survey 2011/12

Note:

- 0 = Food and Live Animal
- 1 = Tobacco and Beverages
- 2 = Crude Materials, Inedible Except Fuels
- 3 = Mineral, Fuels and Lubricants
- 4 = Animal and Vegetable Oil and Fats
- 5 = Chemical and Drugs
- 6 = Manufactured Goods Classified Mainly by Materials
- 7 = Machinery and Transport Equipment
- 8 = Miscellaneous Manufactured Articles
- 9 = Commodity and Transaction not Classified According to Kind.

Appendix D
Composition of Imports from India on the basis of SITC Classification
(Rs. in Million)

FY	0	1	2	3	4	5	6	7	8	9	Total
2000/01	4412.3	630.1	2375.5	10854.4	418.2	6628.0	18089.8	8686.5	2605.3	0.8	54700.9
2001/02	4989.1	619.3	3010.6	14761.9	23.0	5129.7	18746.4	7527.4	1768.2	46.5	56622.1
2002/03	6598.1	600.1	4297.5	19605.7	55.4	6786.9	22499.6	8444.8	2035.1	1.0	70924.2
2003/04	6357.9	737.9	4628.4	21593.6	107.9	8083.8	22807.5	11923.8	2156.3	342.4	78739.5
2004/05	6750.1	687.5	4670.4	29551.3	64.4	10479.4	22652.0	11073.8	2714.8	31.8	88675.5
2005/06	10108.8	724.5	5437.6	35665.3	152.6	13520.8	25487.4	11974.0	4072.1	0.0	107143.1
2006/07	8220.4	712.6	4764.6	35612.6	65.6	14647.7	29627.5	18513.3	3708.0	0.0	115872.3
2007/08	9757.0	877.1	4700.4	43146.4	229.7	15356.4	40950.9	23064.8	4219.7	74.1	142376.5
2008/09	13293.7	1340.6	8615.1	43860.4	35.7	14918.4	40408.7	33198.7	8113.8	107.3	163892.4
2009/10	15850.9	2370.3	14271.8	54391.1	301.1	22167.4	52459.9	93791.6	11477.2	38.0	217114.3
2010/11	22175.0	2135.6	15772.4	78486.6	00	25706.1	58278.5	42808.6	15948.0	114.4	261925.2

Source: NRB Quarterly Economic Bulletin Mid-July 2012 and Economic Survey 2011/12

Note:

- 0 = Food and Live Animal
- 1 = Tobacco and Beverages
- 2 = Crude Materials, Inedible Except Fuels
- 3 = Mineral, Fuels and Lubricants
- 4 = Animal and Vegetable Oil and Fats
- 5 = Chemical and Drugs
- 6 = Manufactured Goods Classified Mainly by Materials
- 7 = Machinery and Transport Equipment
- 8 = Miscellaneous Manufactured Articles
- 9 = Commodity and Transaction not Classified According to Kind.

Appendix E
Exports of Major Commodities to India
(Rs. in Million)

S.No.	FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Commodities									
1	Copper Wire Rod	356.6	200.8	530.1	305.8	206	617.4	571.8	643.6	302.6
2	G.I. Pipe	357.2	556.3	424	519.3	127.8	242.7	1098.4	567.9	806.6
3	Ghee (Vegetable)	3812.3	2959	4635.9	3861.7	4136.5	2132.3	9.1	4.6	19.4
4	Juice	600.1	786.8	1091.3	1139.6	1591.3	1836.4	1952.2	1750.1	2363.1
5	Jute Goods	1899	1882.6	2693.5	2636.8	2756.8	2582.5	1282.5	2896.7	3998.1
6	M.S. Pipe	548.2	851.8	316.6	105.7	761.9	979.5	571.2	695.1	943.1
7	Medicine (Ayurvedic)	743.1	289.9	205.6	301.1	156.3	132.1	157.7	138.8	576.0
8	Pashmina	475.6	427.7	341.5	210.7	48.3	44	65.9	60.7	46.5
9	Plastic Utensils	807.7	1192.4	1361.6	808.3	415.1	302.6	513.4	181.7	610.0
10	Polyester Yarn	656.9	1114.5	1896.3	3476.3	2241	2618	2499.2	3397.9	2640.9
11	Pulses	880.4	579.1	667.1	643.2	306.9	314.8	381.6	270.6	279.0
12	Soap	469.2	539.6	368	363.6	502.7	424.2	591	404.1	372.2
13	Textiles	878.2	1780.5	2996.6	2154.6	3056.9	2114.8	3191.5	3361.9	3733.5
14	Thread	1235.2	1637.4	2213.7	1898.3	4055.9	4134.8	2525.4	2771.5	3351.1
15	Tooth Paste	1002.8	1478.8	1283	730.8	663.4	475.6	813.2	673.2	972.7

Source: Economic Survey 2011/12 and Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-July 2012

Appendix F
Exports of Major Commodities to India
(in Percentage Change)

S.No.	FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Commodities									
1	Copper Wire Rod	-----	-43.69	163.99	-42.31	-32.64	199.71	-7.39	11.2	-112.3
2	G.I. Pipe	-----	55.74	-23.78	22.48	-75.39	89.91	77.9	-93.41	29.5
3	Ghee (Vegetable)	-----	-22.38	56.67	-16.7	7.12	-48.45	-99.57	-97.8	73.3
4	Juice	-----	31.11	38.7	4.43	39.64	15.4	6.31	-11.5	25.9
5	Jute Goods	----	-0.86	43.07	-2.11	4.55	-6.32	-50.34	55.7	27.5
6	M.S. Pipe	----	55.38	-62.83	-66.61	86.1	28.56	-41.68	17.8	26.2
7	Medicine (Ayurvedic)	-----	-60.99	-29.08	46.45	-48.09	-15.48	19.38	-17.4	75.1
8	Pashmina	-----	-10.07	-20.15	-38.3	-77.08	-8.9	49.77	-8.5	-30.5
9	Plastic Utensils	-----	47.63	14.19	-40.64	-48.65	-27.1	69.66	-182.5	71.5
10	Polyester Yarn	-----	69.66	70.15	83.32	-35.53	16.82	-4.54	26.4	28.6
11	Pulses	-----	-34.22	15.2	-3.58	-52.29	2.57	21.22	-41.01	3.01
12	Soap	-----	15	-31.8	-1.2	38.26	-15.62	39.32	-46.2	-8.5
13	Textiles	----	102.74	68.3	-28.1	41.88	-30.82	50.91	5.8	9.9
14	Thread	----	32.56	35.2	-14.25	53.2	1.95	-38.92	8.8	17.3
15	Tooth Paste	-----	47.47	-13.24	-43.04	-9.22	-28.31	70.98	-20	30.8

*Source: Calculated Value of Table Appendix F & Nepal Rastra Bank,
Quarterly Economic Bulletin, Mid-July 2011/12*

Appendix G
Imports of Major Commodities from India
(Rs. in Million)

S.No.	FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Commodities									
1	Agri. Equip & Parts	689.9	497.5	431.3	671.6	1073.1	1483.8	2481.5	3372.8	3162.3
2	Cement	2934.7	2318.9	2457.4	1933.6	2519.9	2337	4032.1	4414.3	4372.8
3	Chemicals	1906.6	2563.6	2395.2	3281.4	2590.9	2719.8	2764.6	3133.4	3163.5
4	Cold-rolled Sheet in Coil	1392.8	3332.9	4084.5	797.7	2079.6	4005.8	6146.9	6802.6	8235.5
5	Hot-rolled Sheet in Coil	2639.2	2059.9	568.6	1144.8	2052.7	3575.9	3550.1	4111.3	5459.4
6	M.S. Billet	3573.2	4201.5	3393.8	3883.4	4384.2	8145.4	5513.7	13720.7	18337.2
7	M.S. Wire Rod	939.3	1339.3	1536.9	1065.2	1418.7	2595.3	2061	6107.6	5003.8
8	Medicine	3225.7	3340.9	3435.8	4389	4442.5	5434.1	6558.1	7962.8	9807.8
9	Other Machinery & Parts	2571.8	3295.3	3955.6	3509.4	3556.3	4682	7263.8	8416.9	9793.1
10	Petroleum Products	18811.6	20169.5	26053.5	33657.2	33567.6	40815.7	41356.7	51610.4	75080.8
11	Textiles	4186.1	3275.6	2094.7	2051.7	1753.8	1663.6	2542.6	2440.7	1966.1
12	Thread	1105.8	1003.9	2820.8	2166.9	3158.8	3056.3	2597.1	3022.7	2855.3
13	Tobacco	534.3	659.9	569.9	599.6	646.3	732.2	1058.8	1817.1	1846.8
14	Vegetables	772.8	738.4	899.7	1139.6	1035.8	1457.3	816.7	2079.4	2096.6
15	Vehicles & Spare Parts	3857.8	4948.2	5357.1	5213.7	9798.7	11874.6	16157.8	23776.6	20681.4

Source: Economic Survey 2011 and Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-July 2012

Appendix H

Imports of Major Commodities from India (in Percentage Change)

S.No.	FY	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Commodities									
1	Agri. Equip & Parts	----	-27.9	-13.3	55.7	59.8	38.3	67.2	26.4	-6.7
2	Cement	-----	-21	6	-21.3	30.3	-7.3	72.5	8.7	-9.4
3	Chemicals	-----	34.5	-6.6	37	-21	5	1.6	11.8	9.51
4	Cold-rolled Sheet in Coil	----	139.3	22.6	-80.5	160.7	92.6	53.4	9.6	17.4
5	Hot-rolled Sheet in Coil	-----	-21.9	-72.4	101.3	79.3	74.2	-0.7	13.7	24.7
6	M.S. Billet	----	17.6	-19.2	14.4	12.9	85.8	-32.3	59.8	25.1
7	M.S. Wire Rod	----	42.6	14.8	-30.7	33.2	82.9	-20.6	66.3	-22.05
8	Medicine	----	3.6	2.8	27.7	1.2	22.3	20.7	17.7	18.9
9	Other Machinery & Parts	----	28.1	20	-11.3	1.3	31.7	55.1	13.7	14.05
10	Petroleum Products	----	7.2	29.2	29.2	-0.3	21.6	1.3	19.9	31.02
11	Textiles	----	-21.8	-36.1	-2.1	-14.5	-5.1	52.8	-4.2	-24.1
12	Thread	----	-9.2	181	-23.2	45.8	-3.2	-15	14.08	-5.8
13	Tobacco	----	23.5	-13.6	5.2	7.8	13.3	44.6	41.7	1.6
14	Vegetables	----	-4.5	21.8	26.7	-9.1	40.7	-44	60.7	8.2
15	Vehicles & Spare Parts	----	28.3	8.3	-2.7	87.9	21.2	36.1	32.04	-14.9

Source: Calculated Value of Table Appendix F & Nepal Rastra Bank, Quarterly Economic

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