

**A STUDY ON THE FOREIGN TRADE AND WTO IN
THE CONTEXT OF NEPAL**

A Thesis

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**Submitted To:
Office of the Dean
Faculty of Management
Tribhuvan University**

**In Partial Fulfillment of the Requirements for the Degree of
Master of Business Studies (MBS)**

New Baneshwor, Kathmandu,

April, 2009

VIVA-VOCE SHEET

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A study on the Foreign Trade and WTO in the context of Nepal and found that the thesis to be an original work of the student and written in accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of Masters in Business Studies (MBS).

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DECLARATION

I hereby declare that the thesis entitled “**A study on the Foreign Trade and WTO in the context of Nepal**” submitted to Nepal Commerce Campus, Faculty of Management, T.U., is my original work done in the form of partial fulfillment of the requirements for the Master’s Degrees of Business Studies (MBS). Under the supervisor of Mr. Gopal Thapa Nepal Commerce Campus

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ACKNOWLEDGEMENTS

This piece of research is a **Master's Degree** thesis especially prepared as partial fulfillment of **MBS** course under **Tribhuvan University** of Nepal. This thesis work has aimed to analyze "*A study on the Foreign Trade and WTO in the context of Nepal*". I would like to express our deep gratitude to my thesis Supervisor Mr. **Gopal Thapa**, Nepal Commerce Campus for his valuable guidance, suggestions and inspirational encouragement that enabled me to complete this thesis in time. He has also guided me while collecting information through concerned department and office. I am always in debts to **Dr. Bihari Binod Pokharel**, Chairperson of Research Department of Nepal Commerce Campus for his inspiration to select this topic to fulfill the partial requirements of Master's Degree of Business Studies (MBS).

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ABBREVIATIONS

A.D.B./N	:	Agriculture Development Bank Nepal
BIMST-EC	:	Bay of Bengal Initiative for Multi-sectoral Technical And Economic Cooperation
BOP	:	Balance Of Payment
CBS	:	Central Bureau of Statistics
CEDA	:	Centre for Economic Development and administration
EEC	:	European Economic Community
e.g.	:	Example Gratia, for example
ESCAP	:	Economic and Social Commission for Asian and pacific
EEZs	:	Especial Economic Zones
Etc	:	etceteras, and so forth
FNCCI	:	Federation of Nepal Chambers of Commerce and Industry
GATT	:	General Agreement on Trade and Tariffs
GDP	:	Gross Domestic Production
HMG/N	:	His Majesty's Government of Nepal
Ibid.	:	Ibidem, in the same place
ITC	:	International Trade Centre
i.e.	:	idest, that is
LDC	:	Least Developed Country
MOICS	:	Ministry of Industry, Commerce and Supply
NCC	:	Nepal Chamber of Commerce
NCC	:	Nepal Commerce Campus
NPC	:	National Planning Commission
OECD	:	Organization of Economic Cooperation and Development
Op. Cit.	:	Opere citato, in the work mentioned
SAARC	:	South Asian Association for Regional Cooperation
SAFTA	:	South Asian Free Trade Arrangement

SAPTA	:	South Asian Preferential Trade Agreement
SITC	:	Standard International Trade Classification
STCL	:	Salt Trading Corporation Ltd.
TPC	:	Trade Promotion Centre
TU	:	Tribhuvan University
UN	:	United Nation
UNCTAD	:	United Nations Conference on Trade and Development
WTO	:	World Trade Organization

CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Nepal is rectangular in shape and lies between 80°4' and 88°12' East longitude and 26°22' and 30°27' North latitude. It has an area of 147181 Square km. It is 885Km long and 145 to 241 km wide. From three sides, Nepal is surrounded by India. From northern side, it has been bordered with China. Nepal is the least developed and landlocked country with per capita income of Nepalese is USD 350. After introduced Open Sky and Liberal Economic Policy around 2040s B.S., there have been different organizations established at private sector. For the smooth development of the country, private sector plays vital role. Two types of business mainly exist in the market i.e. product oriented and service oriented but second types of business are going increasing tendency in the current market.

Nepal is a least developed country by means of high population growth rate 13% and low per capita income. Capital is a necessary factor for the development of a least developed country like Nepal. Capital formation and economic development is a very difficult and challenging task for Nepal due to numerous constraints. Reduction of widespread poverty is Nepal's biggest challenge. About 38% of the population lives below the poverty line, per capital income being \$350, which makes it one of the lowest per capital income generating countries. The poor economy of the country is reflected by the Gross Domestic Product (GDP) rate, which was recorded 12% in fiscal year 2005/06 The development of any country depends upon the economic development. Nepal as a developing country is trying to embark upon the path of economic development by developing all sectors of the economy.¹

Nepal is least developed and land locked country. More than 80% people live in rural area and same percent people are directly and indirectly engaged in agriculture sector out of 2,75,00,000 populations. 83% of land covered ragged mountain and hilly region out of 1, 47,181 square kilometer. 38% of populations live in poverty line and

¹ World Bank, *'Nepal Sahayata Rananitiko Pragati Bibaran*, ,pp38-39 2007

40% National GDP received from agriculture sector and 70% covered foreign trade from this sector.²

Before defining the meaning of foreign or international trade, we have understand the meaning of International marketing for making the clarity of foreign trade in effectively and fruitfully.

International marketing is a broad part of the overall marketing system. International Marketing is the performance of business activities designed to plan, price, promote, and direct the flow of a company's Goods and services to consumer or users in more than one nation for a profit. The only difference in the definitions of domestic Marketing and International Marketing is that Marketing activities take place in more than one country. This apparently minor difference “- - - in more than one nation - - -” accounts for the complexity and diversity and diversity found in International operations.³

According to Shyam K. Shrestha “The performance of business activities that direct the flow of a country's goods and services to consumers or users in more than one nation is called international trade.”⁴

So, the transaction of goods and services between the people of different countries is called foreign or international trade.

The objective of International marketing, like in domestic marketing, is also to satisfy the consumers or users. In international marketing also the collection of activities like product, pricing, distribution, promotion and marketing intelligence contributes its essential parts.

Although the goals and principles of international marketing are the same as those of domestic marketing, international marketing distinct and complicated challenges and

² *South Asian Human Development Report*, 2005.

³ Philip R. Cateora, *International Marketing*, McGraw- Hill International Editions, Singapore, 1997, P.3.

⁴ Dr. Shyam K. Shrestha, *Export Market Management in Nepal: A case study*, Padma Academic Publication, Kathmandu, 1995, P.2.

responsibilities than those of domestic marketing. Similarly, although the basic functions are identical in both markets, implementation of the firm's marketing program can be very different; that is, managing the international marketing can be significantly different from managing the domestic marketing.

The basic problem which arise during managing the International marketing is environment (including different national polices of different political and legal formalities and practices, different monetary units, different levels of technology, different cultural and social practices etc.). The marketing environment of Nepalese markets may be quieting different from that of the USA, Japan and European markets. So whatever marketing plans and programs are prepared for Nepalese markets may be ineffective to cope with the different levels of uncertainty encountered in foreign markets. Due to these differences, a marketing manager of international business needs to acquire competence broader than that required for marketing in a specific foreign country and distinctly different from that demanded by domestic marketing management.⁵

The transaction of goods and services between the people of different countries is called foreign or international trade. In other words, foreign or international trade means the purchase of goods and services by one country from other countries. The basic principle of foreign trade, the goods and services should be crossed through the national border. Foreign trade includes both export and import trade. Thus export trade is goods and services sold to other countries, on the other hand, import are the purchasing of goods and services through other countries in comparatively advantages.

Generally, a country export the goods that can be produced at lower cost and import the goods that can not be produced cheaply at home country. All the countries can not produce all goods in efficiently. This is the basic reason behind the need of foreign trade. Some countries are rich in natural resources. So, they export raw materials and import industrial products. Some countries like Japan, America, Germany, Italy, France, Canada, and Australia are rich in latest technology, so they export industrial

⁵ .Ibid

goods and import raw material from other countries. But Nepal has not able to do above basic principle in foreign trade. The foreign trade creates specialization in production and provides of specialization.⁶

1.1.1 Historical Perspective of World Trade.

The international trade originated in the early period of civilization. Trade was widely practiced prior to recorded history. Christopher Columbus and Marco polo are remembered for development of World trade. The Hudson Bay Company and the East India Company developed modern firm of world trade. While economic factors are considered important instrument of world trade, trading ideas, cultural patterns and technological progress are also traded from one country to another country. Trading cities made wide range of contributions to civilization. Administration of business and trading required commercial laws and business practices. The following are the systematic development procedure of the world trade.⁷

(I) Mercantilism

The renaissance or rebirth of learning promoted world trade. Exploration and discovery in several areas gave impetus to international trade. Colonies developed powerful states where evolved. The doctrine of mercantilism propagated the idea that the only way to grow is to amass wealth by exploiting colonies. The country, which could amass maximum amount of wealth, would be most powerful in encouraged development of powerful naval forces and exploitation of resources of other countries. Accumulation of gold and silver increased the wealth of a nation. The empire exploited the colonies and accumulated wealth. The colonies and other countries on being exploited adopted the method of protection viz. Subsidy, tariff, fixed pricing and control of production.

Industrial revolution developed the industrial capacity of European industries. It led to a chain of development and innovations at different levels in many countries. The

⁶ G. D.Pant and Dr. Shyam Joshi, *Introduction to Quantitative Techniques and Nepalese Economy*, Nabin Prakashan, Kathmandu, 2060, P. 168.

⁷ op. cit 3, P.7

world trade developed significantly. The industrialized nations emphasized exploitation of raw materials, agricultural products and other available resources to amass wealth.

(II) World War I

In the beginning of twentieth century, the foreign trade was developed. The laissez faire was replaced by protective policies. The innovations and discovery created renaissance in the areas of world trade. The demand for military products increased. There was political chaos in the world, which caused starvation, social disorganization and economic depression. However, the world trade continued to increase but in different fashion.

(III) Post World War I

Protective tariffs were imposed immediately after World War I in different countries. It provided the government to collect a large amount to meet the deficit. The tariff deduction was done on bilateral basis. The restriction on import was exercised to protect the indigenous industry. The world trade had increased with slower speed up to the Great Depression in 1929, but decreased thereafter. Unemployment, economic insecurity and financial instability haunted various countries. The protection policy was another reason to curtail world trade. Many nations adopted protection policy to protect their indigenous industries. The laissez faire and economic liberty were ignored to recover the economic depression. The adoption of multilateral agreements and bilateral trade has improved the situation slightly.

(IV) World War II

In 1939, the world again plunged into war. Many industrialized nations were partly to involve the war. Destruction of industrial capacity and human resources followed. It decreased the world trade of industrial products, but increased the demand of war materials.

(V) Post World War II

The world trade pattern changed after World War II. There was continuous and extraordinary growth of trade. The whole world was divided into communist and non-communist nations. There were some barriers in communist nations. Barriers known as “Iron curtain” were imposed in the USSR and East Europe. Similarly, barriers known as “Bamboo curtain” were effective in the People’s Republic of China. The types of trade, terms of trade and the volume of trade were decided by the above barriers. The industrialized countries have provided assistance to developing countries. The colonial rule was almost abolished from Asia and Africa.

The revival of economy, gradual liberalization of trade restriction, reduction in custom and export promotion activities have provided impetus to the export volume. Loans and grants assigned by the developed countries to the developing countries helped to develop world trade. The industrialized countries were in a position to expand their export but developing countries could not increase their share in world trade till 1972. The world trade developed significantly thereafter. The growth rate of export of developing countries was increased by 26% during 1970-80. On the other hand, export of developed countries increased by only 18.8% during the said period. There was further improvement in the export of developing countries to the level of 28% in 1981. Export and imports of Asian developing countries continued to grow during 1980-84.

(VI) Formation of Agreements

The price-hike of oils has compelled various nations to adopt quotas. World trade was brought under some kind of quantitative restriction. Several products have been brought under rigorous restriction in 1984. The protectionist measures brought down the world-trade and developing countries found it difficult to export and meet import obligation. The export of developed countries was adversely affected. Therefore the hike-minded nations formed some organizations.

The general agreement on Tariffs and Trade (GATT) [now, it is called WTO] was an important organization which was formed on the above grounds. The tariffs have been significantly reduced. The bilateral agreements have also eased the problems. General Scheme of Preference (GSP) was extended to lessen the tariff protection amongst its

member- countries, export promotion activities were allowed to be propagated by foreign countries. The industrialized countries have freely allowed the competition and other measures.

The problems of world trade were mainly tariff barriers and exchange. Shortage of foreign exchange compelled various nations to adopt bilateral trade agreement whereby the two countries mutually agree to reduce tariff and to pay the proceeds in their respective currencies. Fixing of exchange rate was also agreed. The uncertainties of floating rates have necessitated the capital borrowing countries. Inter firm trade or multinational trades have contributed to world trade. However the influence of multinationals led to adoption of legislation to protect the indigenous economics.

(VII) The First Decade of the 21st Century and Beyond

Trends already under way in the last decade of the 20th century are destined to change the patterns of trade for years to come. The economy of the industrialized world have begun to mature and the rates of growth will be more in the future than they have been for the past 20 years.

The organization for economic co-operation and Development (OECD) estimates that the economics of OECD members' countries will expand about 3% annually for the next 25 years, the same rate as in past 25 years. Conversely, the economics of the developing world will grow at unprecedented rates from an annual rate of 4.5% in the past quarter century to a rate of 6.7% for the next 25 years. Their share of world output will rise from about one-sixth to nearly one-third over the century. The World Bank estimates the five countries i.e. (Brazil, China, India, Indonesia, and Russia) whose share of the World trade barely a third of that of the European Union, will by 2020 be 50% higher than that of the EU.

Export and investment are on steadily acceleration growth curve in emerging markets where the greatest opportunities for growth will be China, for example each project by the World Bank to have the World's largest economic by 2010 and, it continues the reform program started in the 1990s, it should eliminate of absolute poverty by 2020.

As much as 50% of the expected increase in global exports, from approximately \$4 trillion in 1993 to \$7 trillion in 2005, will come from developing countries.

Demand in Asia for automobiles is expected to more than triple, from 16 to 58 million in less than a decade. Such increases in customer demand are not limited to automobiles. The shopping list of the hundreds of millions of households that will enter or approach the middle class over the next decade will include washing machines, televisions, and all the other trappings of affluence. Similar changes are expected to occur in Latin American and Eastern Europe as well.

1.1.2 WTO and Its Membership

The World Trade Organization (WTO) was created on 1 January 1995 after the abolition of the General Agreement on Trade and Tariffs (GATT) ending its 47 years long history. The GATT was established in January 1948, as a provisional agreement and organization, to correct the protectionism measures adopted by many countries since the early 1930's and to liberalize trade after the Second World War. The original member countries of GATT were 23 out of 50 participating countries. Now a days, the world is like a small village in the sense of international trade after WTO.

The Nepal is the first least developed member of WTO from the full-fledged from 23 April 2004 or 2061 Baisak 11. The two countries made history by becoming the first two least developed countries (LDC) to obtain WTO member by virtue of accession.

Till now eight successive GATT trade rounds agreement have been completed, the latest agreement being the Uruguay Round Agreement which was concluded in December in Marrakesh, Morocco in April 1994 with the agreement to establish the WTO along with several other decisions. The agreement is the longest one, which took seven and half years to conclude. Nepal has also been member of WTO since 2004. After introducing WTO member, Nepal has to promise and fulfill as per the provision of WTO's requirements and Nepal also can play a role at least developing country.

There are two types of trade barriers in international trade or market, trade barrier and non-trade barrier; both barriers can reduce the foreign trade. After entering into WTO, each country has to reduce those types of trade barriers as per the provision of WTO by given time frame upto the limit of trade barriers.

The first Ministerial Conference held on 9-13 December 1996 also announced the adoption of a comprehensive and integrated WTO plan of action for the least developing countries.

1. Provision of duty free access, on an autonomous basis, aimed at improving their overall capacity to respond to the opportunity has offered by the trading system.
2. Enhancing conditions for investments and providing predictable and favorable market access conditions for the products of least developed countries.
3. To fasten the expansion and diversification of their exports to the markets of all developed countries.
4. Organization of meeting with UNCTAD and the ITC as soon as possible in 1997, with the participation of aid agencies, multilateral financial institutions and least developed countries to faster an integrated approach to such countries.⁸

1.1.3 Trends of Foreign Trade

Before 1970 AD, the foreign trade of Nepal was totally to India and little volume was in Tibet and third countries trade was almost nil. After introducing Trade Promotion Centre in 1971 AD, then Nepal could diversify her foreign trade in different countries. At the side of Nepal Government, as per the requirement of foreign trade, Nepal could be agreement at least 17 countries around the world and can exchange goods more than 80 countries. Nepal has made transit treaty to India in 1991 and each 7 years that treaty automatically will be affected. For providing exchange currency at the time of doing foreign trade, Dual Exchange System, Exchange Convertible System (1985) and Full Convertible System (1993) was introduced regularly.

⁸ . WTO FOCUS, No.15, January 1997, P.9.

Comparing 51 years foreign trade status of Nepal, total export in FY 1956/57 was 95.47 million and 60074 million in FY 2005/06 which was increased 630 times. Another side, total import was 169.89 in FY 1956/57 and 162840 million in 2005/06 which was increased 958.5 times. Recent years, Nepal suffers big trade deficits i.e. 102766 million in FY 2005/06.

1.1.4 Nepal's Ancient Trade History

Nepal's ancient trade history was almost with Tibet by using barter system at the time of beginning Malla and Lichchhavi regime. For the detail, it would be categorized in three separate country wise as follows:⁹

With Tibet (China)

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

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

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

⁹ . Bhai Kaji Tuladhar, *A Case Study on Export Trade of Nepal*, Kathmandu, 2025, PP.7-9.

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

With India

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

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

With Overseas

Nepal trade with overseas countries does not go back into history due to relative backwardness of the economy as well as the political and physical isolation in the country. Before 1951, the foreign trade of Nepal was limited namely in UK, USA, and France. Before the world war, Nepal used to import from the countries, such as England, Japan, Singapore and export her agricultural products like jute. Indo-Nepal trade treaty of 1950 required Nepal to follow a common traffic policy with India and with respect to other countries respective of her peculiar condition and requirement.

After 1960 Nepalese overseas trade become possible, for the foreign currencies were needed for development. Nepal's export had to be promoted by diversifying her trade.

Since exports pay imports, the topmost priority should naturally go to the boosting of exports. Generation of sizable export surplus is a prerequisite for export drive. It will be attained only through increasing production of traditional oilseeds and raw jute being our major traditional exports; the maximization of their production should be sought for.¹⁰

1.1.5 Nepal's Recent Major Partners of Foreign Trade

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

The major export items of Nepal for India are vegetable ghee, jute product, toothpaste, polyester yarn, pulses, timber, copper product while the major export items for third countries includes readymade garment, woolen carpet, woolen and pashmina goods, handicraft, herbal products, Nepali paper etc. Similarly, the major items import in Nepal are petroleum product, electronics and electrical goods, gold and silver, fabric and readymade garments, medical equipment and medicine, constructive product, sophisticated and deluxe items, machinery and equipment, car, bus, trucks and airplane and its parts etc.¹¹

1.1.6 Importance of Nepal's Foreign Trade:

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

¹⁰ *ibid.*, P.9.

¹¹ *Ibid.*

reversal among others, have restricted the country in improving its international competitiveness.¹²

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

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

“Nepal may be transit point for neighboring big two countries (India and China). Nepal could also benefit in the long run from the transit point, just as Mexico did after reaching a free trade agreement with the US and Canada.”¹³

On the foremost objectives of every country to get involved in foreign trade is to accelerate its economic development. Only through trade a country can earn foreign exchange and in return can import goods, which cannot be manufactured by itself. For both developing and under developed nations, foreign trade in the economic development of a country can be seen in the following perspectives.¹⁴

1. Advantage of Specialization
2. Technological Progress
3. Importation of Technology know-how
4. Access to Raw Materials
5. Expansions of Market
6. Rising in Employment and Income Level
7. Foster Healthy Competition

¹² Dr. Bhuwaneshwor Pant, Deputy Director, Research Department, Nepal Rastra Bank, *Economic Review Occasional Paper*, April 2005, P. 86.

¹³ Dr. Posal Raj Pandey, *The Himalayan Times*, June 19, 2005.

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

8. Attraction of Foreign Investment
9. Reducing Dependency on Domestic Market
10. Gaining International Market Experience
11. Exploiting Excess Product Capacity
12. Expanding Research and Development
13. Increase Sales and Profit

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

1.1.7 Problems of Nepal’s Foreign Trade

The major problems facing by Nepal are as follows:

1. Inadequate Infrastructure: Infrastructures play a vital role for the development of the nation but there are so many problems, which are high transportation cost, inadequate transport service and inadequate and unsatisfactory warehouse facilities
2. Low productivity: Both of industrial as well as agricultural sector have low productivity rate with comparison other countries.
3. Ever-widening trade gap: Nepal has been facing widely trade gap not only to India and China but also to overseas trade both in export and import trade.
4. Weak export base: The export goods of Nepal have very low quality and base of export is also very weak.
5. Policies related problems: It may be paged exchange rate regime with India, complicated documentation procedure, higher transportation cost, limited freedom on foreign exchanging earning, lack of trained human resources and capacity building, absence of adequate legal provisions, difficulties on procurement of raw material, non-implementation of the announced policy and delayed refund of duty drawback and advanced VATE deposit.

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

6. Lack of innovation desire of entrepreneurs: Due to political instability and poor industrial environment, there is lack of innovation desire of entrepreneurs.

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

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

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

In many developing countries, however, the import substitution policy is not successful. There are two reasons for this: 1) there is comparatively low production of these goods that are imported; 2) difficulties are encountered in financing the foreign exchange component of the investment needed for the production of import-substitution goods.

Nepal is the second richest country in hydro-electricity in the world. Nepal can sell its hydro-electricity to neighboring countries for earning foreign currency to reduce the

¹⁶ . Anneo Kruger, *Trade Policy as an Input to Development*, American Economic Review, May1980, p.55

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

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

1.1.8 Exporting Procedures in Nepal

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

1.1.9 Agreed Routes for Mutual Trade (Between India and Nepal)

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

- | | |
|---------------------------------|--------------------------------|
| 1.Pashupatinagar/Sukhia Pokhari | 2.Kakarbhitta/Naxalbari |
| 3.Bhadrapur/Galgalia | 4.Biratnagar/Jogmani |
| 5.Setobandha/Bhimnagar | 6.Rajbiraj/Kunauli |
| 7.Siraha, Janakpur/Jayanagar | 8.Jaleswar/Bhitamore (Sursand) |
| 9.Malangawa/Sonabarsa | 10.Gaur/Bairgania |
| 11.Birgunj/Raxaul | 12.Bhairahawa/Nautanwa |
| 13.Taulihawa/Khunwa | 14.Krishnanagar/Barhni |

15.Koilabas/Jarwa

16.Nepalgunj/Nepalgunj Road

17.Rajapur/Katerniyaghat

18.Prithvipur/Sati(Kailali)/Tikonia

19.Dhangadhi/Gauriphanta

20.Mahendranagar/Banbasa

21.Mahakali/Jhulaghat (Pithoragarh)

22.Darchula/Dharchula

Nepalese manufactured Articles Allowed Entry into India free of Customs Duties on a fixed Quota Basis.

S.N	Nepalese Article	Quantity in MT (Per Year)
1	Vegetable fats (Vanaspati)	100000 (one hundred thousand)
2	Acrylic Yarn	10000 (ten thousand)
3	Copper products under	7500 (seven thousand five hundred)
4	Zinc Oxide	2500 (two thousand five hundred)

The newly trade and payment agreement with China has signed in 1974. China and Nepal mutually agreed to use the following three trading points:

- (A) Kodari/nyalam
- (B) Rasuwa/Kyerong
- (C) Yari (humla)/Purang

Trade Diversification

After 1970, especially after the establishment of TPC in 1971, Nepal followed the policy of trade diversification both country-wise and commodity-wise. It was essential for Nepal both for earning foreign exchange to meet the cost of imports and promoting exports to the overseas countries where Nepalese products have greater demand. As a result, country's dependence on India has declined and currently, Nepal has trade agreements with 17 countries and trade relations with more 80 countries. However, due to lack of exportable products Nepal has not been able to adopt commodity-wise diversification successfully although the government has offered several packages of export incentives. The new export strategy aims at correcting the

previous malpractices and promoting exports through trade diversification strictly for national economic benefits and nothing else.

Constitution of New Export Promoting Institutions

A principal feature of the new export strategy, as outlined in the government's new trade policy, is the creation of three powerful bodies at national level. They include Board of Trade, Foreign Trade Policy and Research Institute, and Nepal Trade Promotion Organization. They act as strong and effective institutional base for the promotion and the growth of export trade. The Trade of Board is chaired by the Minister of Commerce and Supplies and consists of representatives from the private sector and government agencies. This body is responsible to sort out problems that may arise in the course of policy implementation, to ensure coordination among related agencies, and to bring necessary reforms. The proposed Institute will act as a technical wing of the Ministry of Commerce to identify and develop products, to provide training, and to undertake research and studies for the promotion of Nepal's foreign trade. And, the Nepal Trade Promotion Organization will be instituted by reconstituting the existing Trade Promotion Center, in joint collaboration between government and private sectors to provide necessary services, information and to conduct other promotional activities for export promotion and import management.

Fiscal and Monetary Measures

In order to promote export, the new export strategy has given certain tax rebates and made duty drawback provisions. According to the new provision, the duty drawback scheme for the refund of import duty paid on the importation of raw materials and intermediate goods required for the production of the exportable products will be effectively implemented. Duty on import of raw materials will be fully exempted. Similarly, income tax on income from export will be exempted, and income earned from exports to India on the basis of letter of credit or agreed banking document will also be free from income tax. Similarly, exports will be free from all charges except the service charge.

Simplification of Export Procedure

One of the problems faced by the exporters is the necessary complication and time consuming activities in the export procedures such as licensing and customs procedures. In order to simplify these procedures export goods have been classified under three headings like: (a) Products banned for exports, (b) products whose export is subject to quantitative restrictions and (c) Products that can be exported openly. In case of goods falling in category (c) no license will be required. Product relating to inspection of export goods will be simplified and streamlined and the principal customs officials will be provided with enough warehouse facilities.

Abolition of Export Valuation System

The existing export valuation system will gradually be abolished after the full convertibility of the Nepalese currency since the export valuation system does not serve the basic objective in a scientific manner.

Establishment of Export Promotion Zone (EPZ)

In the promotion of exports, Export Promotion Zone (EPZ) has been established. No duty will be levied on the raw materials and auxiliary imports used by industries established in such EPZ. Industries exporting more than 90 percent of their production will be granted similar facilities as given to the industries established in EPZ.

Formulation of Annual Indicative Export Plan and Programme

Previously, Trade Promotion Center used to formulate and annual export plan and programme to give a proper direction to Nepal's export trade. But since few years such a plan and programme has not been launched due to technical problems. The newly launched trade policy has made provision to formulate an annual indicating export plan and programme again.

Role of Private Sector

The private sector, which has dominant role in the country's foreign trade, has been given specially priority in the new export thrust. In order to promote exports in the International market the new export strategy aims at creating healthy competition among the exporter. They are receiving support through export incentive, expanded export services and relaxed export formalities. More over arrangements are made each year to suitably reward and honour the best exporter as token of appreciation of there contribution to promoting and developing the export trade of the country.

Although the result of the new strategy will not be measurable in terms of expanded exports for several years to come, the launching of the new course of action has already given a strong boost to the export development process In Nepal. Both government officials and businessmen are aware of the prime importance of exports to the country's growth and have begun to take steps necessary for the strategy to succeed.

In this study, I would conduct the information before and after democracy in Nepal. The export scenario of that specified time is not same. The trade deficit was gone huge amount regularly from beginning to now.

1.1.10 Routes and Transit Agreement with India and China

Nepal and India has agreed to use mutual trade by using 22 routs and India agreed to allow 15 routs for overseas export via India which is clearly mention the transits and trade agreement of Nepal and India in 2002.

The treaty of trade and transit arrangement between the two countries Nepal and India has been recently signed in 2002 that has mentioned several trade arrangements as follows:

1. Strengthen cooperation and trade by exploring and undertaking all necessary measures.

2. Provide preferential treatment on 14 primary products including agricultural products, forest products, horticultural products, rice, pulses, timber, live animals, birds, fish, bees, honey, raw wool, milk, herbal medicines, yak tails, etc., on reciprocal basis.
3. Prevention against infringement and circumvention of the laws, rules and regulations of either country in regard to foreign exchange and foreign trade.
4. Accord unconditionally to each other treatment no less favorable than that accorded to any third country with respect to (a) customs duties and charges of any kind imposed on or in connection with importation and exportation, and (b) import regulations including qualitative restrictions.
5. Automatic renewal of the treaty for the next five years upon the expiry of the treaty unless either of the parties intends to terminate it.
6. Help promote the industrial development of Nepal by granting free of customs duty and quantitative restrictions for some industrial products manufactured in Nepal on non-reciprocity basis.
7. Implement harmoniously the recently signed treaty through mutual consultations.

1.1.11 Role of Regional Cooperation in Foreign Trade

A regional market, also called multinational market, is created when a number of individual countries agree to take positive steps to reduce or eliminate trade barriers among the participating countries. Some of the examples of such market include SAARC, SAFTA, ASEAN, EEC, LAFTA, NAFTA, CACM, BIMESTIC etc. In this study I would describe only that cooperation which is related to Nepal such as SAARC, SAFTA and BIMESTIC.

The South Asian Association for Regional Cooperation (SAARC) is a regional organization established in December 1985 with a view to accelerate the process of

economic and social development in member states through joint action in agreed area of cooperation. The Member of SAARC is Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. The actual process of establishing SAARC was initiated in 1980 when the late president Ziaur Rahman of Bangladesh called for a summit meeting that year to put forward the offer made by late King Birendra which was the main achievement to facilitate the foreign trade before Democracy. But it doesn't meet its objective properly.¹⁷

It was only during the sixth SAARC summit in 1991 that Sri Lankan government, with the view to expand intra-regional trade, proposed for the first time to established SAPTA by 1997. Now the improvement version of SAPTA was converted into the SAFTA. The SAFTA agreement was signed at the 12th SAARC summit in January 2004. It is to come into force on January 1, 2006. The SAPTA aims at (a) enhancing mutual trade and economic cooperation, (b) eliminating trade barrier, (c) promoting conditions of fair competition, (d) building effective mechanism for implementation and resolution of disputes and (e) furthering regional cooperation.

During the fifth meeting of experts in October 2004, it was agreed in principle to evolved common RoO for the SAFTA.

After restoration of democracy in Nepal, Nepal entered into different regional trade related organization, which is the main achievement of elected government. Before the democracy, Nepal had not adopted liberalization policy. Nepal only traded with traditional partners India and Tibet before the democracy. Trade had not been diversifying to overseas at that period.

With reference to regional and multilateral agreement, the country should undertake a two-pronged strategy according priority to multilateral trade organizations under the WTO as well as to strive for effective and meaningful regional trading arrangement such as the SAFTA and BIMST-EC FTA which it is currently pursuing.

¹⁷ *Economic Review*, 2005, NRB, P 94-95.

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

The draft agreement consists of 27 articles and encompasses areas such as rules of origin for BIMST-EC FTA, the trade liberalization program, custom and trading procedures, sensitive list, global safeguard and BIMST-EC's transitional safeguard, among others. The members are to develop a modality for dispute settlement arrangement, anti- dumping measures subsidy and countervailing measures and non-tariff measures to foster trade in the region.¹⁸

1.2 Statement of the Problems

Nepal is a developing country. In the development process of less developed country, foreign trade plays vital role for long-term sustainable economic growth. More than 80 percent of population depends on agriculture but the contribution of agriculture remains only 40 percent of total GDP. Agricultural product is basically primary product and they have a constant demand in the market of Nepal's exporting partners. On the other hand, industrial products are unable to meet even the domestic demand, causes our industrialization is still infant and just creeping onwards.

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

It has only 17 countries to where been bilateral agreement for foreign trade of Nepal. Nepal followed very late liberal economic policy i.e. export/import policy of Nepal

¹⁸ . ibid.

after restoration of democracy. And Nepal entered into WTO membership only before one year. So Nepal's foreign trade, policies and facilities are still in infant age.

The trade sector remains one of the least attended sectors of the economic various measures like Export Exchange Entitle Scheme, Dual Exchange Rate, direct cash subsidy and frequently change in other procedural aspects such as the licensing system and tariff structure were made amid much fanfare but with little impact. Importers always dominate the nature of trade, export. A developing country, like Nepal depends on foreign trade for the achievements of national target and economic growth in order to afford fast growing import needs. There are some problems related to this thesis study:

1. What are the reasons of Nepal faced trade deficit both in India and Overseas?
2. Can Nepal diversify its trade both in country wise as well as commodity wise?
3. Has been fulfilled the requirement of WTO's provision by Nepal?
4. Can Nepal play role as least developing country provided by WTO provision?
5. Can Nepal Government fulfill the requirement of foreign trade to the public?
6. What are the major problems faced in foreign trade in the context of Nepal?

1.3 Objectives of the Study

The major objectives of this study are to find on the study on Scenario of foreign trade and Government Supports. So these, objectives, the following objectives have been fixed.

1. To evaluate the present situations and major issues of Nepalese foreign trade and WTO,
2. To analyze the factors affecting the trends of Nepalese foreign trade,
3. To examine the opportunities and threats suffering from WTO and
4. To suggest Government, Department and all concerned for the proper growth and development of Nepalese foreign trade and WTO.

1.4 Focus of the Study

This research study is the analytical as well as descriptive study about "A Study on the foreign trade and WTO in the context of Nepal". This thesis will be more

beneficial to the foreign traders, policies-makers, industrialist, businessmen, and general public or private sectors as well as public sectors. This thesis is also significant to the management students and important material for library.

“Thesis is the main process, which provides clear information or fact or exact position of the subject matter, achieving or bearing loss and circumstance.”¹⁹

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

Foreign trade plays a significant role in economic development of developing and other countries. Foreign trade provides around 13 percent GDP of overall national income and also provides directly or indirectly employment to the numbers of population.

1.5 Limitations of the Study

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

The study mainly based on secondary data particularly export/import data provided by concerned department that is not sufficient for the good research study. This study has the following limitations.

- (i) This study is mainly based on secondary data. So, the limitations of secondary data may exist.
- (ii) It can't cover all data of foreign trade, WTO's provisions and agreements of foreign trade of Nepal.
- (iii) It has time frame and resource constraints.

¹⁹ . Narayan Khatiwada, Unpublished Degree Thesis: *The Challenges and Opportunities of the WTO in the Nepalese Context*, TU, 2004, p.26.

CHAPTER -II

2.0 Review of Literature

Review of Literature means reviewing the research study or others relevant report in the related area of the study. Scientific research must be based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. The library is a rich storage base for all kinds of published materials including thesis, dissertations, and business report and government publication.¹

For this research study the related literature survey is done by consulting various journals, articles, newspapers, thesis, reports and others more relevant books to foreign trade, concept of foreign trade, trade policies about Nepal and rest of the world have been collected compiled and reviewed.

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

2.1. The Theoretical/Conceptual Review

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

¹ Howard K. Wolf and Prem R. Pant, *Social Science Research and Thesis Writing*, Second Edition, Kathmandu, 1999, P. 30.

2.1.1 New Trade Policy-2049 (1992)

After the restoration of democracy in Nepal, the first elected government changed the existing trade policy (1982) and gave the name: The trade policy 2049, which would be, categorized the following heads and sub-heads.²

Objectives of Trade Policy 2049 (1992)

The main objectives of new trade policy (2049) are as follow.

1. To enhance the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere.
2. To diversify trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable.
3. To expand trade on a sustained basis through gradual reduction in trade imbalances.
4. To co-ordinate trade with other sectors by expanding employment-oriented trade.

For achieving above objectives, the HMG/N introduced the following policies. They are:

Basic Policy

The main features of basic policy are as below.

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 payment position by promoting exports to increase foreign exchange earning as well as b fulfilling internal demand of economic and quality product.

². *Nepal Trade Directory*, TPC, 2002.

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 countries 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 promotion market and on attracting direct foreign investment in order to identify and develop new products as well as raise the production and quality of the traditional products.
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 (full) convertibility of the Nepalese currency in trade and service sectors. For this purpose, major changes will be made in the administrative procedures to make them simple, transparent and dynamic.
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.

Export policy

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

1. The production and quality of exportable products will be raised to make them competitive in the international market.
2. Necessary efforts will be made to increase and diversify exports of goods and services will the objectives of increasing foreign exchange earnings.

3. Exports will be promoted by raising the production and quality of traditional as well as new product. Similarly, more emphasis will be placed on the export of profitable but processed and finished products. For the export promotion of these products, new markets will be identified.
4. Foreign exchange earnings will be increased and identifying and increasing the production of new products will create opportunities for gainful employment.
5. Service-oriented activities will be promoted to increase foreign exchange earning.
6. Encouragement will be given to the export of hydro-electricity on a profitable basis.
7. For the effective utilization of manpower, stress will be given to the development of appropriate and potential skills to promote service sector as well as export of skilled manpower in an organized way.
8. Appropriate monetary, foreign exchange and fiscal policies will be formulated and necessary changes will be made in the administrative procedures to make them procedures to make them liberal, simple and dynamic in order to implement above policies on an efficient, smooth and transparent basis.

Export Strategy

The export strategies in new trade policy are as follows:

1. Licenses will not be required for the export of products other than banned or quantitatively restricted items as listed. In the case of quantitatively restricted products, arrangement for issuance of export license will be made in consultation with the private sector. Quantitative restrictions in the export of such products will gradually be removed through appropriate taxation measures.
2. For export promotion, improvements will be made in the existing transit transport network and its infrastructure. Administrative procedures will also be made transparent, smooth and efficient.
3. For the promotion of export, container service will be introduced and the existing bonded warehousing system will be further expanded and improved.

4. The duty drawback scheme for the refund of import duty paid on the importation of raw materials and intermediate goods required for the production of exportable products will be effectively implemented. In this context, duty on import of raw materials will be fully exempted taking into consideration the needs, or the bonded warehousing system will be introduced for the storage of such materials.
5. Exports will be free from all charges except the service charge. However, the provisions of Para 1 above will be applicable in respect of the export of essential products.
6. For the promotion of exports, Export Promotion Zone (EPZ) will be established. No duty will be levied on the raw materials and auxiliary imports used by industries established in such EPZ. Industries exporting more than 90% of their production will be granted similar facilities as given to the industries established in EPZ.
7. As a preparatory step towards full convertibility of the Nepalese currency in trade and services, Exporters will have to sell in the stipulated percentage the amount of foreign exchange earned through exports of goods and services to commercial banks at a rate remaining balance to Nepal Rastra Bank at an exchange rate fixed by the Government. No license will be required and no quantitative restriction will be imposed on the imports of raw materials (except stipulated) required for the export-oriented and import-substituting industries. But for the import of such materials, foreign exchange rate will be made available by the commercial banks at the rate fixed by market mechanism. Exporters will be allowed to open a foreign exchange account in the banks for the purpose of spending certain percentage of one's foreign exchange earning in trade promotion activities.
8. Export Valuation System will gradually be abolished after the full convertibility of the Nepalese currency.
9. Quality will be tested from time to time in order to improve the standard of exportable products and necessary information will be made available for this purpose.
10. Simple and convenient procedures relating to pre- and post- shipment credit will be adopted on priority basis.

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

Deemed Exports

If any producer earns foreign exchange by selling one's own products to projects run under bilateral or multilateral aid or if such finished or semi-finished products are sold to EPZ, such sales will be granted facilities at par with exports. Customs duty, sales tax and excise duty levied on such sales be refunded and the income generated from such sales will be exempted from income tax. In addition, foreign exchange earned from such sales can be sold at the rate fixed by the market mechanism after submitting the stipulated percentage amount to Nepal Rastra Bank at the rate fixed by the Government.

Import Policy

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

Import Strategy

The import strategies in new trade policy are as follows:

1. Imports will be gradually tied up with exports with a view to creating an well-organized and sustained foreign trade sector by narrowing the gap between exports and imports.
2. The existing import licensing and control system will be simplified. Quantitative restrictions on imports will gradually be replaced through the tariff media.
3. Imports of all products other than banned or quantitative restricted items as listed in Annexure no. 2 will be made free.
4. An annual indicative plan will be formulated to manage imports through auction, to allocate required foreign exchange for it, and to monitor its utilization.
5. Import procedures and documentation will be made short and simple.
6. Special efforts will be made to reduce transit costs, and also to minimize pilferage and demurrage.
7. Import of all goods except some limited items will be allowed through purchases of foreign exchange at the rate fixed by the market mechanism in order to make Nepalese currency fully convertible, and to gradually tie up exports and imports.
8. Necessary vigilance will be made to prevent deflections in foreign trade.

Import Licensing Arrangement

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

Import formalities would be as Follows:

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

Foreign Exchange Arrangement

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

1. Nepal Rastra Bank will make foreign exchange available at the rate fixed by the Government for import of goods as per notification issued by His Majesty's Government in the Nepal Gazette, and to meet the Government expenses. Import of such products will be allowed as spelt out under the Para (c) in the process of increasing the convertibility percentage of the foreign exchange.
2. Foreign exchange required for the import of goods under auction will be made available by Nepal Rastra Bank. In the process of increasing convertibility percentage of foreign exchange, goods, which are under the auction, will be gradually allowed to be imported under the para (c), and the number of such goods will be gradually reduced and brought under the purview of market mechanism.
3. Commercial banks will make foreign exchange available at the rate fixed by the market Mechanism for the payment of all imported goods including industrial raw

materials, spare parts and services and for payments of foreign loans and interests of the non-government sector. Nepal Rastra Bank will not make a separate foreign exchange provision for this purpose.

Internal Trade Policy

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

Miscellaneous

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

2.1.2 Trade Liberalization

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

- a) Liberalization of industrial and trade policies will boost industrial efficiency by providing greater access to imported intermediate inputs, capital goods, and technology, exposing local procedures to both internal and international

³ *Economic Review*, Occasional Paper, April, NRB, 2005, PP. 87-88.

- competition, thereby forcing them to lower costs, and removing curbs on the growth and size of firms so as to exploit the scale economies; and
- b) Improvement in efficiency and the subsequent reduction in costs will stimulate domestic demand and enable Nepal's industrial goods to compete abroad, thereby relaxing demand side constraints on industrial growth.

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

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

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

In the past, long and open border with India restricted the country's flexibility in framing and implementing independent economic policies. Consequently, Nepal had been subjected to negative spillover effects of inward looking and inefficient

industrial system in India. But this gradually changed in the early 1990s when India embarked upon bold trade liberalization programs, including the drastic lowering of barriers to imports of capital goods and other inputs into production. Subsequently, Nepal also started to capitalize on the opportunity to open up as carried out by India.

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

2.1.3 Plan Objectives and patterns

Although the Nine Plans (1997-2002) had laid down certain objectives such as:

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

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

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

The main strategies for attaining these dual objectives are through making the export trade competitive and market-oriented, the diversification of both country-wise and commodity-wise trade and the strengthening of the inter linkages between industry,

⁴. *ibid.* pp.89-92

commerce, agriculture and other economic sectors. The core policies are to generate competitiveness in the commerce sector in line with global and regional trade agreements, to ensure easy market access for Nepalese manufactured products, to expand transit facilities, to set up Export Processing Zone (EPZ) and to accord priority to exports of hydropower, software, labor and other services.

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

- 1) dependence on a few commodities and markets;
- 2) reliance on import of raw and semi-finished materials;
- 3) weak backward and forward linkages of the production of exportable products;
and
- 4) Rising trend in the volume of trade deficit. To tackle these problems, the plan has laid down the following policy measures:

A) Exports will be augmented through commodity-wise and country-wise diversification through the identification of exportable commodities of comparative advantages.

B) For generating employment opportunities and rising income of the rural people, stress will be accorded on increasing the production and export of agro-based industrial products and enhancing their qualities.

- 1) There will be special arrangements for market, information dissemination, and technology financial support and transport facility. Standardization of the exportable commodities will be made at the international level and their competitiveness in the world market will be enhanced.
- 2) HMG will provide ample support to the private sector by disseminating information concerning present and prospective export markets, flowing of trade information and intensifying the monitoring and evaluation process.
- 3) The arrangement of tax-free EPZs together with the provision of necessary acts and laws will be made for promoting the export sector.
- 4) To make the country's external trade more simplified, economical, reliable, and business-oriented, the existing acts, laws, institutional process and coordinating system will be assessed and reformed.

- 5) Export of hydropower, computer software and labor and other services will be given due thrust in addition to commodities listed as exportable.
- 6) In order to acquire advantages from the membership of the WTO, the trade sector will be made competitive in such a way so as to be consistent with various trade agreements.
- 7) Nepal's trade will be integrated with the global trade regime by developing a multi-modal transport system.

2.1.4 Towards Market-led Economy

During the period of 1980s, the market-led economy policy became popular in the world and it has got world wide acceptance in the recent years in one form or the other. This trend-affected Nepal's economic policy too since the government had no other options than to surrender to the market. Finally, on March 4, 1992, government as the first step towards the path to market-led economy, introduced '*The Convertible Exchange Policy*' with a view to improve the supply system of industrial raw materials in the country and, improve the competitive position of the Nepalese traders in the world market. ⁵

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

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

On April 13, 1993, government once more made exchange adjustment. According to this provision Nepalese currency once more devalued with US dollar and revalued

⁵. Dr. Shyam K. Shrestha, *International Marketing Decisions: Nepalese Perspective*, Buddha Academic Enterprises Pvt. Ltd., Kathmandu, 2003, P.176.

against the Indian currency and established their exchange rate at 1 IC= 1.60NC. Along with this adjustment program the government announced '*Full Convertible Exchange System*'.

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

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

The ten –year trade figures depicts that India's share in Nepal's trade has been gradually rising. The total share in foreign trade, India covered around 60 percent during the last four years. With regard to the Nepal-India Transit Treaty signed between the two countries on January 5, 1999, there is the provision of the automatic renewal of the transit treaty every seven years. Under this treaty, India provides port facilities at Calcutta and Haldia for the country's trade with overseas countries. Fifteen transit routes to Calcutta/Haldia are specified.

Nepal can also utilize the facilities at Mumbai port (including the Jawaharlal Nehru port trust) and Kandla port for third country trade. Moreover, import insurance is needed only for the sensitive goods. The godown facility at Calcutta airport and the provisions permitting Nepali importers to hand over the original copy of Customs Transit Declaration at the Indian customs should ease the import and export of goods.

SAARC was set up when the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka formally adopted its Charter on December 8, 1985. The agreement on SAPTA took off only in December 1995. The

⁶ *Economic Review*, Occasional Paper, April 2005, NRB, p.94-96.

SAPTA accord attempted to reduce tariffs and non-tariff barriers among the SAARC member countries.

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

1. Enhancing mutual trade and economic cooperation;
2. Eliminating trade barriers;
3. Promoting conditions of fair competition;
4. Building effective mechanism for implementation and resolution of disputes;
5. Furthering regional cooperation.

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

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

Nepal officially became the 147th member of the WTO on April 23, 2004. By joining the WTO, Nepal can fully enjoy the rights that all members have under the WTO agreements, such as non-discrimination by other WTO members and the ability to use the WTO's dispute settlement procedure. Board commitments were made in 11 services sectors and 70 sub-sectors out of a total of 170 classified by the WTO. Nepal accepted an average tariff binding of 42 percent in agricultural products and around 24 percent in industrial goods.⁷

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⁷. *ibid.* P.97.

services sectors and 70 sub-sectors out of a total of 170 classified by the WTO. Nepal accepted an average tariff binding of 42 percent in agricultural products and around 24 percent in industrial goods.

Among the commitments on legislation with respect to the trade regime, Nepal agreed to amend or enact 38 various acts and regulations to become compatible with WTO provision. For instance, the countries are required to implement fully the provisions of the Agreement on Sanitary and Phytosanitary Measures and Agreement of Technical Barriers to Trade (TBT) by January 1, 2007. With respect to the Agreement on Trade – Related Intellectual Property Right (TRIPs), as a LDC, Nepal need to develop a new Industrial Property Act, which will include all the substantive provisions of the TRIPs agreement. It would encompass all categories of industrial property and would incorporate the basis for an adequate enforcement and be promulgated no later than January 1, 2006. The country has to introduce legislation on anti-dumping, countervailing duties and safeguard measures within one year from the date of accession, in order to safeguard its local industries against unfair trading practices by the exporting countries.

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

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

The Framework Agreement on BIMST-EC FTA was signed on February 8, 2004 at Bangkok during the 5th BIMST-EC Economic Ministers' Meeting. The FTA agreement would first start on trade in goods from 2006, while the FTA on trade in services and investment would begin from 2007.

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

2.2 Review of Related Previous Studies

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

2.2.1 Review of Previous Studies

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

Ms. Supriya Shah has written in her Degree thesis about The study of Nepal Foreign Trade 1965-66 to 1996-97, Kathmandu in 1999, submitted to the Faculty of Economic Department, T.U for partial fulfillment for the Degree of Master's of Arts.

This thesis has only 69 pages and only secondary data has been used to analyze the research but not based on commodity wise and country wise. SITC group takes the information of foreign trade. The relevant statistical data was processed in lotus relevance 5 spreadsheet for window in this research; she used mathematical terms, foreign trade multiplier, and linear equation and regression analysis. In this thesis, it would be helped in the side of analyzing data.⁸

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

⁸. Supriya Shah, unpublished Degree thesis, *Nepal Foreign Trade 1965/66 to 1996/97*, Kathmandu, TU, 1999, PP33-60.

80.87. The multiple regression analysis result shows those total imports and categorized by income and foreign aid. The marginal propensity to import and saving on average are 0.3143 and 0.1413. The import multiplier is 2.19.

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

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

Thesis on "A Study on Nepalese Foreign Trade and its Changing Scenario, 2001", it has I to VI chapters and has been taken 10 years export/import data from 1990/91 to 1998/99 only country wise like India and Overseas. It has no any footnote. Santosh Dahal did not show any charts and diagrams and it has only 69 pages. The main objectives of this study are: to analyze the trends of Nepalese foreign trade, to show the structure of the composition of trade between Nepalese and rest of world (India and Overseas) and to recommend suggestion for follow-up section.⁹

For this thesis, the above thesis would provide the valuable information about the analyzing and presentation data, summary, conclusion and recommendation. The data were gathered in this thesis by using country wise data such as India and Overseas, which is also fruitful, the guideline for preparing this type of thesis.

⁹ Santosh Dahal, Unpublished Degree Thesis, *A study on Nepalese Foreign Trade and it's Changing Scenario*, T.U,2001, P.6

Ganesh Prasad Neupane has written another thesis about Nepal foreign trade: the Changing Scenario of Size, Composition and Direction for the partial fulfillment of Degree of Master's of Art, TU.¹⁰

He also did not mention footnote. It has V and I to VII chapters in this thesis but chapters IV, he categorized its sub-topic according to extra style. He has also pointed the trade trends as plan-wise from first plan to eight plans for the imports/exports, total trade and balance of trade. He has also provided information about history of Nepalese foreign from the time of beginning Malla and Lichchhavi regime which is the most beneficial for conducting this thesis. The valuable information about the trade and trade trends have been included for making of this thesis more subjective.

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

1. To measure the export performance of Nepal between 1971-90,
2. To examine Nepal's export policy management in the different plan period,
3. To evaluate the role played by export related institutions in the country in the field of export management,
4. To assess the export supply management in Nepal and to evaluate Nepal's export markets and their management and
5. To suggest export management model for Nepal.¹¹

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

¹⁰ Ganesh Prasad Subedi, Unpublished Degree Thesis, *Nepal Foreign Trade: The Changing Scenario of Size, Composition and Direction*, Kathmandu, 2003, T.U, PP.25, 55-59.

¹¹ Suman Kumar Regmi, Thesis of Doctor of Philosophy, *Management of Export Trade in Nepal, 1993*, T.U, P.13

R.B. Thapa pointed out transit problem, limited resources hindering the development of Nepalese foreign trade. He dealt with the trade routes, trade agreements, incentives for trade diversification and others institutional in the development of foreign trade and gives the glimpse of Nepalese foreign trade from 1961/62 to 1982/83 by using only secondary data information.¹²

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

Bijaya Kumar Rana, in this thesis, foreign trade data was used from 1973/74 to 1982/83 and through table seems GDP ratio 5.4% of Gross Domestic Production, export to import ratio with the given period was 43%. Only simple statistical tools and mathematical tools were used to analyze the collected secondary data.¹³

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

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

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

Nepal and India: The first commercial treaty to be signed between the two countries dates as far back as 1792 when India was under the British rule. In accordance with this treaty, a British resident was stationed at Kathmandu in order to

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

¹³ Bijaya Kumar Rana, unpublished Degree thesis, *Export Performance of Nepal*, TU, 1985, P.42.

promote trade and commerce between the two countries. But the resident was called back two years later as a result of war between Nepal and British India. With the treaty of Sughauli, the state of hostilities ended and a British envoy was allowed to be stationed at Kathmandu.

Nepal and China: There was a series of wars between Nepal and Tibet and finally the war came to an end after the treaty of 1850. According to this treaty, Tibet had to pay an annual tribute of Rs.10000 to Nepal and Tibet had to give up her extra-territorial right and concessions to Nepal. But with the signing of 1956 treaty with the People's Republic of China, Nepal's relation with Tibet entered a new phase.¹⁴

Basis of Trade and Transit: A Nepalese Perspective has illustrated that selling the company's products abroad is more complicated than selling them in the local market. Once the firm desires to sell its products in foreign markets, it has to follow up several exports procedures as an obligation.¹⁵

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

¹⁴ Bhaikaji Shrestha, Unpublished Case Study, *Export Trade of Nepal*, TU, 2025, PP. 24-27.

¹⁵ Bijendra Man Sakya, *Basics of Trade and Transit: A Nepalese Perspective*, Kathmandu, and P.97.

CHAPTER –III

3.0 Research Methodology

In this study analytical as well as descriptive methodology will be applied to make the study of " A Study on the foreign trade and WTO in the context of Nepal " more fruitful and effective. The research methodology is the most necessary part of conducting any research. It provides the valuable information and data about the concerned study and also helps for presenting and analyzing the collected information and data.

3.1 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy and procedure.¹

This study mainly focuses on the " A Study on the foreign trade and WTO in the context of Nepal ". For this purpose, the research design of the study is used for analytical as well as descriptive method of data collection. Comparative data of various years about foreign trade composition and strength and weakness in Nepal, are presented in such a way, so as to make the research informative to the readers.

Before conducting research, research design makes easy to identify the problem to report writing with the help of collection, tabulation, analysis and interpretation of data.

3.2 Sources of Data

Data may be primary or secondary for any research. In this research I have collected only secondary data through books articles, bulletins, reports, thesis reports, manual from government and non-government sources and national as well as international organizations or institutions. In other words, data would be collected through NRB

¹ Claire Selltiz and Others, *Research Method of Social Science*, (New York: Rinehart and Winston, 1962), P. 50.

reports, WTO report, TPC reports, MOICS reports, MOF reports and others government and non-government reports etc.

3.3 Methods of Data Collection

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

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

3.4 Data Collection Technique

Data has been collected through sampling method of secondary sources. The secondary source has been export/import trade data as country wise and commodity wise. The data has been taken for ten years i.e. from FY 1996/97 to 2005/06, which would be collected from NRB, TPC, MOICS, MOF and other public as well as private sectors.

3.5 Organization of the Study

This thesis would be divided in five chapters and other sub-chapters. The first chapter includes introduction chapter and second chapter is review of literature. The third chapter is categorized as research methodology and fourth chapter explains data presentation and analysis. The last chapter (Fifth) includes summary, conclusions and recommendations.

Introduction topic has been categorized in sub-heads as background of the study, problems of the study, objectives of the study, significance of the study and limitations of the study. The background of the study has been also divided for gathering more information and making effective of the study. The sub-heads are

historical background, Nepal ancient trade history, history of international trade, meaning of foreign trade, development of trade in world trade perspective, trends of foreign trade, Nepal's recent major partners of foreign trade, importance and problems of foreign trade and agreed routes for mutual trade between India and Nepal.

Chapter two (review of literature) is the essential for conducting the thesis writing. This chapter has been divided in two fundamental topics such as theoretical/conceptual review and review of related studies. The conceptual review would be gathered concept of foreign trade, policies related foreign trade and facilities provided by Nepal Government for foreign trade. The type of review: review of related studies would also be divided to previous thesis, books, journals, news and bulletins etc.

The third chapter is research methodology and it includes research design, sources of data, and method of data collection, data collection procedures and chapter plan.

The fourth chapter is data presentation and analysis, which included data presentation, data analysis and interprets through above sources and it has also been divided as volume, composition and direction of foreign trade. For theoretical and descriptive analysis, major issues and problems of foreign trade and analytical study of Nepalese foreign trade policies and reform would be mentioned.

The fifth and last chapter is summary, conclusions and recommendations based on the facts and analysis presented in the fourth chapter. On the basis of the study; various recommendations and suggestions have also been presented for considerations.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Method of Analysis

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

4.2 Presentation of Data

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

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

4.2.1 Volume of Foreign Trade

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

In this review, the foreign trade data have been taken from FY 1996/97 to 2005/06 (ten year). The trade data, which is given below in, table number 1, the value of import is greater than the value of export, and it seems all fiscal year and increasing gradually. The total volume of trade in the fiscal year 1996/97 was RS 116189.9 million that went on increasing in subsequent years rather than fiscal year 2000/01. It was slightly decreased to RS. 154333.8 million. And in 2005/06 was RS. 222915.5 million. Comparing export to import, the huge amount is differed regularly in fiscal year 1996/97 to 2005/06, which is being suffered huge trade deficits, by Nepal. The growth in the total volume of trade is combined effort of total volume of export and import but the weight of the export and import in the total volume of trade should be taken into consideration.

The total volume of trade in each and every year has remained quite low and less effective in speeding up the volume of trade. The total growth of export has oscillated over the time running from Rs.22636.5 million in 1996/97 to Rs.60074.8 million in the year 2005/06. The volume of export has fallen in 1996/97, 2001/02 and 2002/03 compared to the proceeding respective years.

On the other hand, the total volume of import went up Rs93553.4 million from 1996/97 to RS.162840.7 in 2005/06. During the year 1996/97 to 2005/06, the share of import increased more than two times or in value was 69287.3 million rupees. The study period, import side shows a steadily increasing from the year 1996/97 to 2005/06.

Total Foreign Trade Balance of Nepal

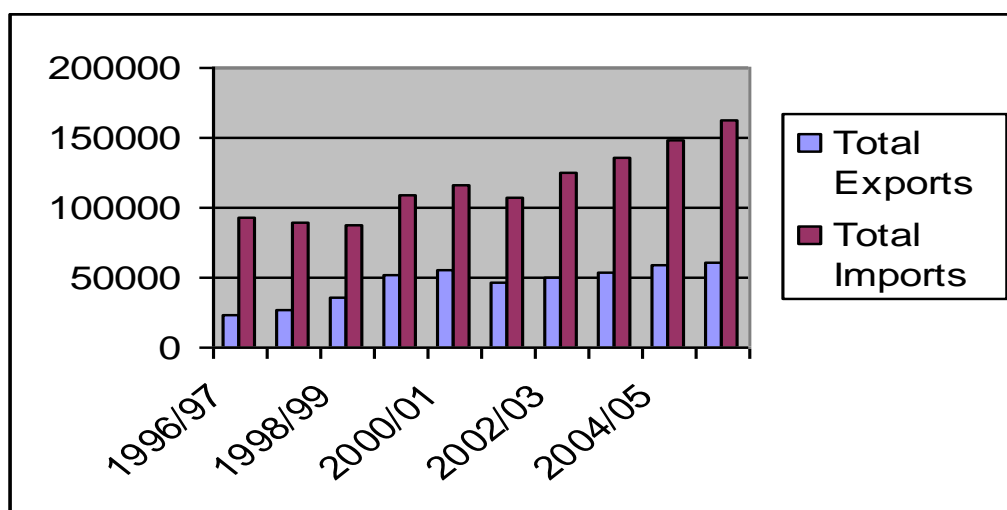
F.Y 1996/97 to 2005/06

Table No: 1

(Value in million Rs.)

FY	Total Exports	Total Imports	Grand Total	Trade Deficits
1996/97	22636.5	93553.4	116189.9	-70896.9
1997/98	27513.5	89002.0	116515.5	-61488.5
1998/99	35676.3	87525.3	123201.6	-51849.0
1999/00	51623.0	109772.9	161395.9	-58149.9
2000/01	55654.1	115687.2	171341.3	-60033.1
2001/02	46944.8	107389.0	154333.8	-60444.2
2002/03	49930.6	124352.1	174282.7	-74421.5
2003/04	53910.7	136277.1	190187.8	-82366.4
2004/05	58443.8	148294.2	206738.0	-89850.4
2005/06	60074.8	162840.7	222915.5	-102765.9

Source: NRB & TPC



Above Table No. 1 shows the trade deficit through out the study period. The tendency of trade deficit increased in 1996/97 FY and decreased in last remaining three years and again increased. The minimum trade deficit is 51849.0 million rupees in fiscal year 1998/99 and maximum trade deficit is 102765.9 million rupees in the year 2005/06.

Above Figure, the graph is about total export and import from the year 1996/97 to 2005/06. The share of export, comparing import is less than half. The share of import shows always greater than share of export. Therefore, Nepal's always suffering form

trade deficits during study period. But the total volume of both export and import are increasing except the fiscal year 2001/02.

Total Foreign Trade Balance of Nepal India and overseas

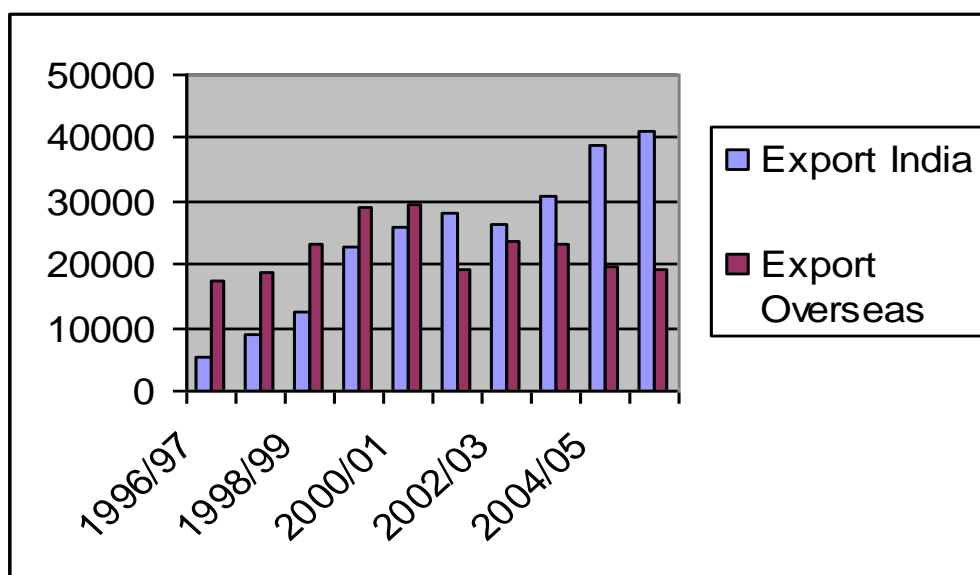
F.Y 1996/97 to 2005/06

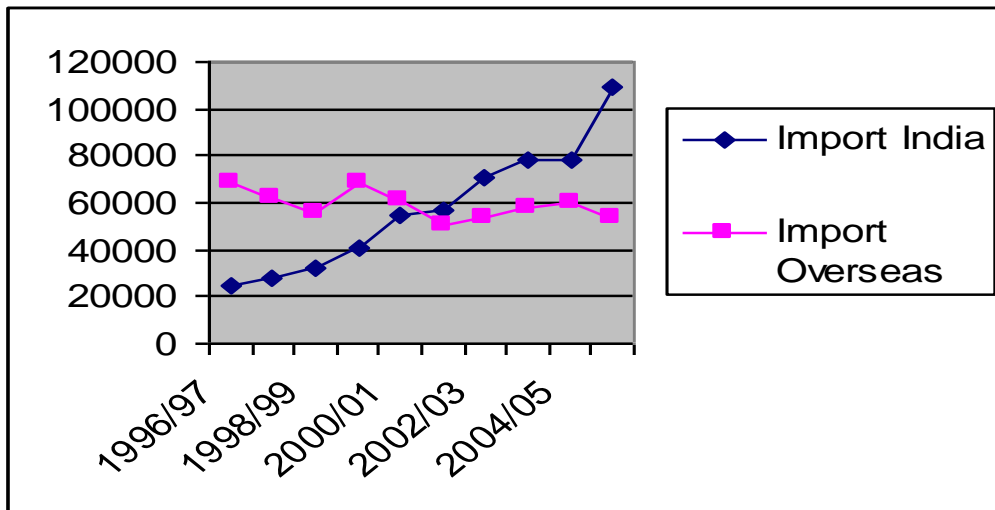
Table No: 2

(Value in million Rs.)

FY	Export		Total	Import		Total
	India	Overseas		India	Overseas	
1996/97	5226.2	17410.3	22636.5	24853.3	68700.1	93553.4
1997/98	8794.4	18719.1	27513.5	27331.0	61671.0	89002.0
1998/99	12530.7	23145.6	35676.3	32119.7	55405.6	87525.3
1999/00	22618.7	29004.3	51623.0	40928.1	68844.8	109772.9
2000/01	26030.2	29623.9	55654.1	55025.4	60661.8	115687.2
2001/02	27956.2	18988.6	46944.8	56622.1	50766.9	107389.0
2002/03	26430.0	23500.6	49930.6	70924.2	53427.9	124352.1
2003/04	30777.1	23133.6	53910.7	78739.5	57537.6	136277.1
2004/05	38916.9	19526.9	58443.8	78739.5	59618.7	148294.2
2005/06	41012.6	19062.2	60074.8	109305.9	53534.8	162840.7

Sources; NRB





Through above Table No.2, comparing exports and import yearly figure, the share of India's export is increasing steadily except 2002/03 and overseas data are fluctuating (up and down). After 2000/01, the share of export to overseas is decreasing and before 2000/01 the share overseas was reverse tendency. However, the total foreign trade is increasing steadily through out the study period.

Figure clearly shows about export to India and overseas from the year 1996/97 to 2005/06. The export to India is increasing continuously and export to overseas also is the same result but at the beginning, the overseas share of total export was more than India. Remaining three years, India has been increased more than overseas. Under figure no. 3 shows the total import from India and Overseas from FY 1996/97 to 2005/06. Comparing India and Overseas, India is lower in beginning study periods and is greater recently year. But import is greater than export of both India and Overseas.

Above Figure shows the total foreign trade at the side of import. The date has been taken from FY 1996/97 to 2005/06. Trade volume of overseas is greater than India till FY2000/01 and then the import volume of overseas is less than India. But the total volume is increasing steadily throughout study period.

Total Foreign Trade Balance of Nepal

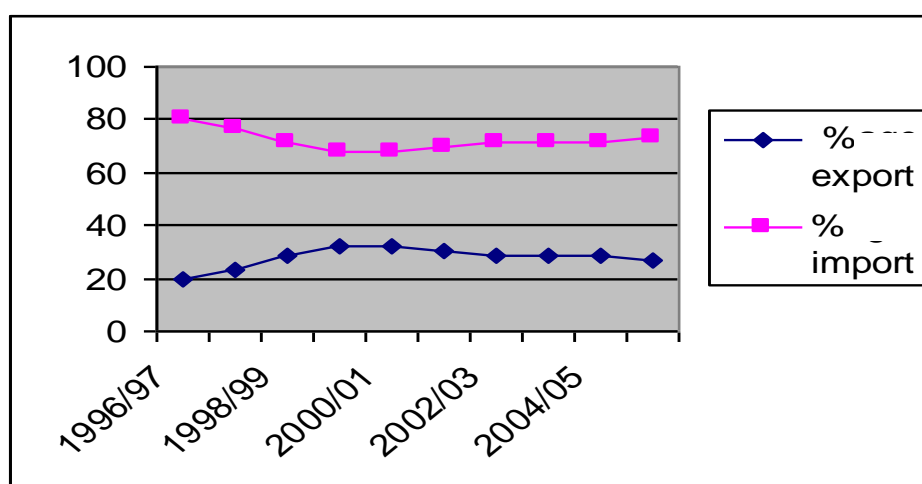
F.Y 1996/97 to 2005/06

(In percentage) Table No: 3

(Value in million Rs)

FY	Exports	% export	Imports	% import	Total Trade
1996/97	22636.5	19.5	93553.4	80.5	116189.9
1997/98	27513.5	23.6	89002.0	76.4	116515.5
1998/99	35676.3	29.0	87525.3	71.0	123201.6
1999/00	51623.0	32.0	109772.9	68.0	161395.9
2000/01	55654.1	32.5	115687.2	67.5	171341.3
2001/02	46944.8	30.4	107389.0	69.6	154333.8
2002/03	49930.6	28.6	124352.1	71.4	174282.7
2003/04	53910.7	28.3	136277.1	71.7	190187.8
2004/05	58443.8	28.3	148294.2	71.7	206738.0
2005/06	60074.8	26.9	162840.7	73.1	222915.5

Source: - Trade Promotion Center & Nepal Raster Bank



Above Table No. 3 has been shown total import and export in both value and percentage. The export is increasing steadily except FY2001/02 and 2002/03 but in the side of import, the volume is increasing throughout the study period. The maximum value of export was 60074.8 million Rupees in 2005/06 and minimum value of export was 22636.5 million Rupees in FY 1996/97. But import is greater than export in both value and percentage. In the average, the import share is not less than three times throughout the study period. The maximum percentage of export was 32.5 in FY 2000/01 and maximum percentage of import was 80.5 in FY 1996/97. So, above Table No.3 clearly shows Nepal has to trade deficits from foreign trade.

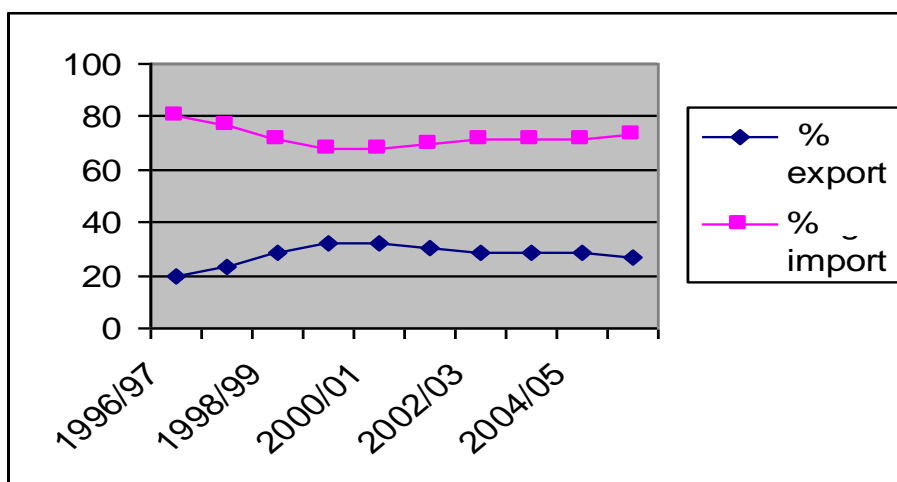
Export/ Import Ratios

F.Y 1996/97 to 2005/06

Table No: 4

FY	% Export	% Import	Export to Import Ratio
1996/97	19.5	80.5	0.25
1997/98	23.6	76.4	0.31
1998/99	29.0	71.0	0.38
1999/00	32.0	68.0	0.44
2000/01	32.5	67.5	0.46
2001/02	30.4	69.6	0.44
2002/03	28.6	71.4	0.39
2003/04	28.3	71.7	0.39
2004/05	28.3	71.7	0.39
2005/06	26.9	73.1	0.37

Source: Mention as per Table No.1



Above Table No. 4 shows the total export and total import through out study period (FY 1996/97 to 2005/06 in percentage. In FY 1996/97 the share of export was 19.5 and import share was 80.5 percent. Comparing above table the maximum export share was 32.5 percent in FY2000/01. And minimum percentage of export share was 19.5 in FY 1996/97. On the other hand, the table shows the ratio of export to import. The ratio was always below than 1 or not more than 0.5. The maximum share of ratio was 0.46 in FY 2000/01 and minimum share of ratio was 0.25 in FY1996/97. The ratio table also gives us export trade is not satisfactory through out study period. The trend of both export and import of Nepal from FY 2002/03 to 2005/06 were same ratio or percentage.

Figure No. 4 shows about the relation of export and import percentage from FY 1996/97-2005/06. Through out ten years figure, the import covers around 70 to 80 percent and export covers hardly 20 to 30 percent through out the study period.

Figure gives us export to import ratio that the balance of payment, there should be minimum 1:1 ratio among export and import but the ratio is always below than 0.5 (import to export ratio). In the Figure of, the ratio of study period later years is better than former years. So foreign trade is going to improving direction but not satisfactory. We have to export more for improving our trade balance and for earning more foreign currency.

India - Overseas Exports/ Imports Ratios

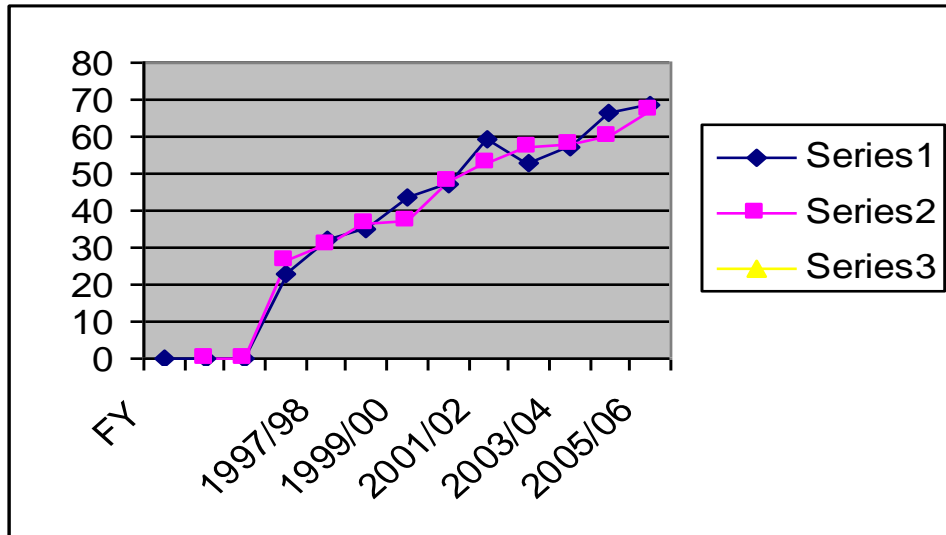
F.Y 1996/97 to 2005/06

(In Percentage & Ratio)

Table No: 5

FY	India			Overseas		
	% Export	% Import.	Ratios	% Export	% Import.	Ratios
1996/97	23.1	26.6	0.87	76.9	73.4	1.05
1997/98	32.0	30.7	1.04	68.0	69.3	0.98
1998/99	35.1	36.7	0.95	64.9	63.3	1.02
1999/00	43.8	37.3	1.17	56.2	62.7	0.90
2000/01	46.8	47.6	0.98	53.2	52.4	1.01
2001/02	59.6	52.7	1.30	40.4	47.3	0.85
2002/03	52.9	57.0	0.93	47.1	43.0	1.09
2003/04	57.1	57.8	0.99	42.9	42.2	1.02
2004/05	66.6	59.8	1.11	33.4	40.2	0.08
2005/06	68.3	67.1	1.02	31.7	32.9	0.96

Source: NRB and Computation.



From the table and figure, it is stated that the share of export and import separately in India and Overseas during the period of F.Y. 2096/97 to 2005/06, from the beginning year both the share of export and import of India was less than Overseas export and import and the later year the result was changed exact adverse i.e. India covered more percentage than Overseas both in export and import due to the nearest reason is entering WTO membership and dropped garment and carpet export to the third countries which covered only 70 percent of total third countries export. The minimum export and import to India were 23.1 and 26.6 percent in F.Y. 2096/97 and it was regularly increased through out the study period and up to 68.3 and 67.1 percent in FY 2005/06.

On the other hands, the share of foreign trade of overseas was exact opposite direction comparison with India's trade through out the study period i.e. the maximum export and import were in beginning year and the minimum share of export and import of Overseas were later study period which is decreasing steady throughout the study period. The maximum export and import were 76.9 and 73.4 respectively and similarly the minimum share of export and import were 31.7 and 32.9 respectively of FY 1996/97 and 2005/06.

4.2.2 Plan wise Foreign Trade Composition:

Till 1995, Nepal was kept in a state of virtually isolation from outside world. Nepal's development efforts have been guided by long-term development plan since 1956. It

was only after 1956 that the country launched its first five-year plan and got into process of development. The country has been completed nine five year plan and one three –year plan over five decades. Now, tenth five-year plan is running from 2002/03. Various policies and strategies were

changing in various plans. But the foreign trade balance is not much favorable. The following table shows the plan wise scenario of the foreign trade.

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

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

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

Similarly, the total export in tenth plan was 233839.9 million and total import in the same plan was 734564.1 million and trade deficit was 500724.2 million in tenth plan. The trend of export, import and trade deficit were increasing trends through out all economic plan. The maximum export and import was in tenth plan and minimum export and import was in second plan because the second plan was 18th month plan and trade deficits also was decreased in second plan i.e.188.2 million.

**Plan-wise Scenario of Foreign Trade
From First to Ten Plan
Table No: 6**

(Value in million Rs.)

Plan	Export	Import	Total Trade	B/L of Trade
First Plan 1956/57-1960/61	628.1	1237.2	1865.3	-609.1
Plan Gap Year 1961/62	256.2	444.4	700.6	-188.2
Second Plan 1962/63-1964/65	1019.5	2027.4	3046.9	-1007.9
Third Plan 1965/66-1969/70	2256.1	3353.0	5609.1	-1096.9
Fourth Plan 1970/71-1974/75	3127.1	5549.0	8676.1	-2421.9
Fifth Plan 1975/76-1979/80	5844.0	12824.1	18668.1	-6980.1
Sixth Plan 1980/81-1984/85	8676.7	29928.9	38605.6	-21252.2
Seventh Plan 1985/86-1989/90	19535.5	68704.6	88240.1	-49169.1
Plan Gap Year 1990/91-1991/92	21094.0	55166.5	76260.5	-34072.5
Eighth Plan 1992/93-1996/97	96716.7	322463.8	419180.5	-225747.1
Ninth Plan 1997/98-2001/02	217411.7	509376.4	726788.1	-291964.7
Tenth Plan 2002/03-2006/07	233839.9	734564.1	968404.0	-500724.2

Source: Economic Survey, 2008, TPC

**Plane-wise Scenario of Foreign Trade
(In Percentage)
Table No: 7**

(Value in million Rs.)

Plan	Total Export	Total Import	Total Trade	% Export	% Import	Total
First Plan	628.1	1237.2	1865.3	33.67	66.33	100.00
Second Plan	1019.5	2027.4	3046.9	33.46	66.54	100.00
Third Plan	2256.1	3353.0	5609.1	40.22	59.78	100.00
Fourth Plan	3127.1	5549.0	8676.1	36.04	63.96	100.00
Fifth Plan	5844.0	12824.1	18668.1	31.30	68.70	100.00
Sixth Plan	8676.7	29928.9	38605.6	22.48	77.52	100.00
Seventh Plan	19535.5	68704.6	49464.4	39.49	60.51	100.00
Eighth Plan	96716.7	322463.8	419180.5	23.07	76.93	100.00
Ninth Plan	217411.7	509376.4	726788.1	29.91	70.09	100.00
Tenth Plan	233839.9	734564.1	968404.0	24.15	75.85	100.00

Source: Economic Survey 2006/07, NRB

Above Table No. 7 have shows plan wise scenario of total foreign trade from first plan to ninth plan. After completion ninth plan both the export and import figures have increased but comparatively import is more increased than export. The percentage of export only covered one third in the average through out the study period. The value of plan wise is growing steadily the study period both export and import.

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

Similarly, the total export in tenth plan was 233839.9 million and total import in the same plan was 734564.1 million and trade deficit was 500724.2 million in tenth plan. The trend of export, import and trade deficit were increasing trends through out all economic plan. The maximum export and import was in tenth plan and minimum export and import was in second plan because the second plan was 18th month plan and trade deficits also was decreased in second plan i.e. 188.2 million.

Trade Indicators (in percent with GDP)

Table No: 8

FY	Export/ Import	Exports/ GDP	Import/ GDP	Trade Deficit/ GDP	Manufactured Exports/ Total Export	Primary Exports/ Total Exports
1996/97	24.2	8.1	33.4	-25.3	83.9	16.1
1997/98	30.9	9.1	29.2	-20.4	79.0	21.1
1998/99	40.8	10.4	25.6	-15.2	78.0	22.0
1999/00	47.6	13.6	28.6	-15.0	83.6	16.4
2000/01	48.1	13.5	28.1	-14.6	82.8	14.4
2001/02	43.7	11.1	25.4	-14.3	71.7	28.3
2002/03	40.2	10.9	27.3	-16.3	77.3	22.7
2003/04	39.6	10.9	27.5	-16.6	80.1	19.9
2004/05	39.5	12.0	26.4	-17.5	80.0	20.0
2005/06	39.5	12.0	26.4	-17.5	80.0	20.0

Source: NRB & TPC and computation

Table No. 8 indicates that there have been some fluctuations in the contribution of exports to the GDP. While exports/GDP stood at 8.1 percent in FY 1996/97, it rose to 13.6 percent in FY 1999/2000 before going down to 10.9 percent in FY 2003/04. And then increased to 12 percent in both in FY 2004/05 and 2005/06.

Similarly, while the contribution of imports in GDP was 33.4 percent in FY 1996/97. It dropped to 27.5 percent in FY 2003/04. The share of manufactured goods exports in total exports has gone down from 71.7 percent in FY 2001/02. Conversely, the share of primary goods exports has climbed up from 16.1 percent in FY 1996/97 to 20.0 percent in FY 2005/06.

4.2.3 Direction and Trends of Nepalese Foreign Trade:

A study of direction and trends of trade is significant because it indicates a country's international relations, facilities for the trade and linking of nations. In the context of Nepal a study of direction and trends of trade is important to show that whether its trade is diversified or limited to a few regions or countries, and to see whether the country trades with capitalist regions only or with socialist and mixed economies like India as well. The direction and trends of foreign trade shows the share of export and import destination wise of exportable and importable commodities. A change in direction with the strategy of trade diversification (country and commodity wise) helps

to narrow down the trade deficits and build a sound footing for the economic development of a country. Region wise exports indicate that Nepal is confined to limited markets. Such as North and Central America, Western Europe and India while export to SAARC countries and other regions are limited.

Through above Table No.1, comparing exports and import yearly figure, the share of India's export is increasing steadily except 2002/03 and overseas data are fluctuating (up and down). After 2000/01, the share of export to overseas is decreasing and before 2000/01 the share overseas was reverse tendency. However, the total foreign trade is increasing steadily through out the study period.

Figure clearly shows about export to India and overseas from the year 1996/97 to 2005/06. The export to India is increasing continuously and export to overseas also is the same result but at the beginning, the overseas share of total export was more than India. Remaining three years, India has been increased more than overseas. Under figure no. 3 shows the total import from India and Overseas from FY 1996/97 to 2005/06. Comparing India and Overseas, India is lower in beginning study periods and is greater recently year. But import is greater than export of both India and Overseas.

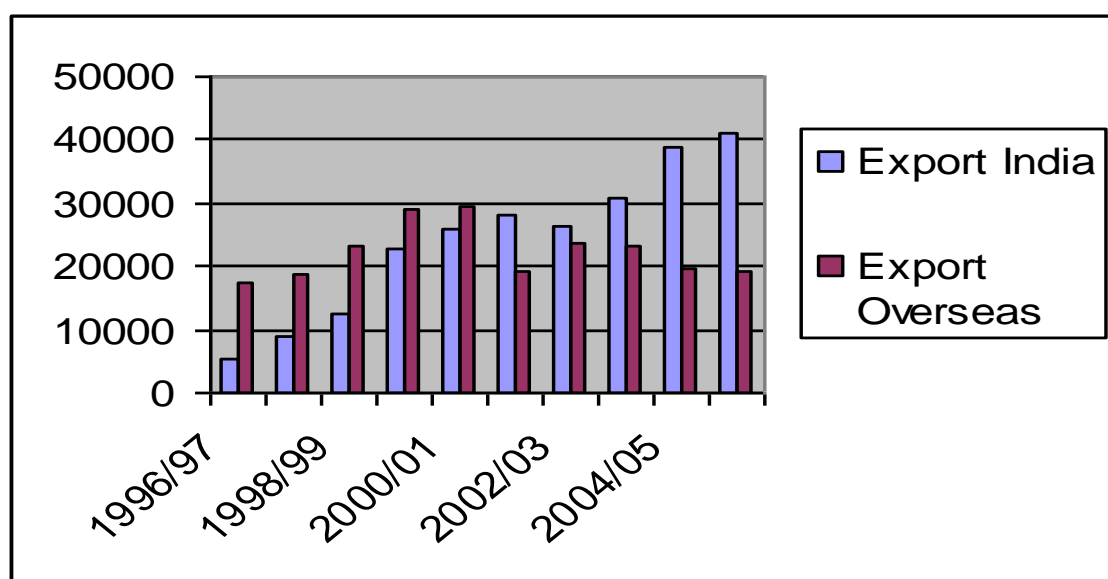
Above Figure shows the total foreign trade at the side of import. The date has been taken from FY 1996/97 to 2005/06. Trade volume of overseas is greater than India till FY2000/01 and then the import volume of overseas is less than India. But the total volume is increasing steadily throughout study period

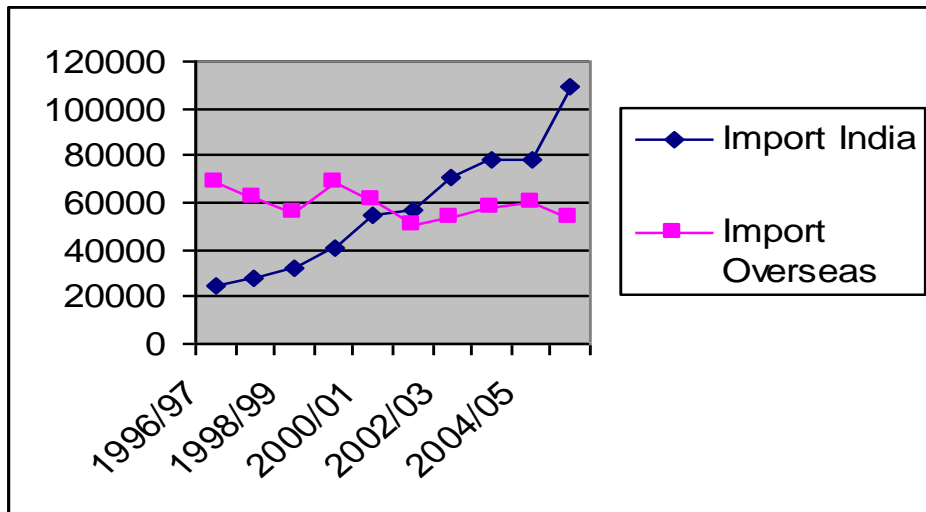
Nepalese export trade with India shows a steady growth during the study period (1996/97 to 2005/06) except in the year 2002/03. In 1994/95 total export to India were 3124.3 million Rupees which went on increasing and reached to 30777.1million Rupees, more than ninth times, in 2003/04. On the other side, total export to overseas countries also shows an increasing tendency accounting 14514.9 million Rupees in 1994/95 as compared to 23133.6 million Rupees in 2003/04.

Nepal Trade Direction: Export and Import
FY 1996/97 to 2005/06
Table No: 9
(Value in million Rs)

FY	Export		Total	Import		Total
	India	Overseas		India	Overseas	
1996/97	5226.2	17410.3	22636.5	24853.3	68700.1	93553.4
1997/98	8794.4	18719.1	27513.5	27331.0	61671.0	89002.0
1998/99	12530.7	23145.6	35676.3	32119.7	55405.6	87525.3
1999/00	22618.7	29004.3	51623.0	40928.1	68844.8	109772.9
2000/01	26030.2	29623.9	55654.1	55025.4	60661.8	115687.2
2001/02	27956.2	18988.6	46944.8	56622.1	50766.9	107389.0
2002/03	26430.0	23500.6	49930.6	70924.2	53427.9	124352.1
2003/04	30777.1	23133.6	53910.7	78739.5	57537.6	136277.1
2004/05	38916.9	19526.9	58443.8	78739.5	59618.7	148294.2
2005/06	41012.6	19062.2	60074.8	109305.9	53534.8	162840.7

Source: TPC, NRB and Computation





Total export to overseas shows a steadily growth during 1996/97 to 2005/06 and decreased remaining of rest years. Total export increased only 1.6 times in the 2003/04 comparing the year of 1994/95.

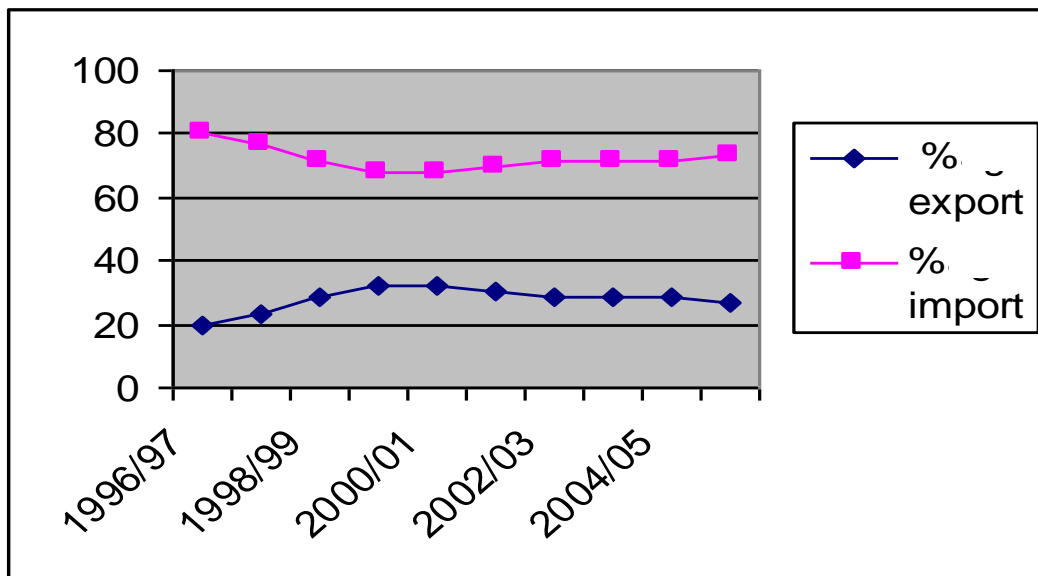
In the import side, India shows a steadily increasing tendency in the study period. During the study period, import of the India increased more than four times.

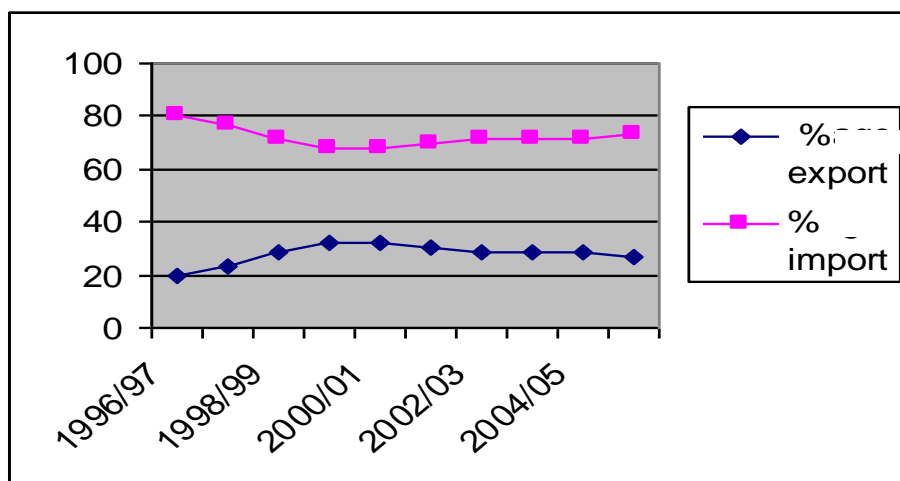
Above Figure No. 7 clearly shows about total foreign trade in the study period, the share of export of India and overseas are increasing steadily and import from India and overseas are decreasing steadily. But comparing export to import in volume from India is growing huge trade deficit through out the study period. From Figure No. 8, export share is only 28 percent but import share is 72 percent in FY 2003/04. Only showing the export and import of 2003/04 in Figure No.8, it is cleared that the share of export covered very small area and import covered more than three times or near three-fourth of total foreign trade.

India - Overseas Exports/ Imports Ratios
FY1996/97 to 2005/06
(In percentage & ratio)
Table No: 10

FY	India			Overseas		
	% Export	% Import.	Ratios	% Export	% Import.	Ratios
1996/97	23.1	26.6	0.87	76.9	73.4	1.05
1997/98	32.0	30.7	1.04	68.0	69.3	0.98
1998/99	35.1	36.7	0.95	64.9	63.3	1.02
1999/00	43.8	37.3	1.17	56.2	62.7	0.90
2000/01	46.8	47.6	0.98	53.2	52.4	1.01
2001/02	59.6	52.7	1.30	40.4	47.3	0.85
2002/03	52.9	57.0	0.93	47.1	43.0	1.09
2003/04	57.1	57.8	0.99	42.9	42.2	1.02
2004/05	66.6	59.8	1.11	33.4	40.2	0.83
2005/06	68.3	67.1	1.02	31.7	32.9	0.96

Source: NRB (2004) and Computation.





**Composition of Regions in the
Total Overseas Exports of Nepal
FY2001/02 to 2005/06**

Table No: 11

(Value in million Rs)

Regions	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06
Asia (Excluding India)	1352	1495	1899	1832	2217
Africa	11	10	478	43	107
America	9725	13100	10274	8151	7711
European Union	6790	6874	7541	6935	7329
Europe(Excluding European Union)	457	402	639	608	728
Oceania	74	100	111	123	183
Total export	18409	21981	20942	17692	18278

Source: TPC and NRB

Above Table No. 11 and Figure is about export trade of Nepal to Region-Wise like Asia (excluding India), Africa, America, European Union, Europe (excluding European Union), and Ocean Regions.

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

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

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

**Composition of Regions in the
Total Overseas Imports of Nepal
FY2001/02 to 2005/06**

Table No: 12

(Value in million Rs)

Regions	FY2001/ 2002	FY2002/ 2003	FY2003/ 2004	2004/05	2005/06
Asia (Excluding India)	36162	38094	38385	2988	31455
Africa	181	131	353	247	286
America	3486	3395	3970	4240	5020
European Union	4051	8027	6559	6179	6317
Europe(Excluding European Union)	1305	1176	1413	1708	2567
Oceania	1599	2142	2555	2751	2442
Total	47584	52965	53235	55014	48087

Source: TPC and NRB

**Composition of Development Regions
In the Total Overseas Exports of Nepal
FY2001/02 to 2005/06**

Table No: 13

(Value in million Rs)

Regions	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06
Eastern Dev. Reg.	5090	7416	6814	5418	4198
Central Dev. Reg.	13316	14556	14125	12263	14075
Western Dev. Reg.	-	8	2	8	-
Mid-Western Dev. Reg.	3	22	-	2	4
Far-Western Dev. Reg.	-	-	-	-	-
Total	18409	21981	20942	17692	18278

Source: TPC and NRB

Above Table No.13 is related total import from different Development Regions. Nepal has divided in five Development Regions. The data has been taken latest five years from 2001/02 to 2005/06 fiscal year. Nepal imported high share from Central Development Region through out the study period. The figure has in million so imports from different regions below than one million has not been included in Table No.15. Kathmandu International Airport and Birgunj customs are in this Central Development Region that it's taken the highest volume of total import.

**Composition of Development Regions
In the Total Overseas Imports of Nepal
FY2001/02 to 2005/06**

Table No: 14

(Value in million Rs)

Regions	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06
Eastern Dev. Reg.	11493	13468	11775	12328	11048
Central Dev. Reg.	35151	38519	40612	40868	35017
Western Dev. Reg.	688	725	587	1549	1760
Mid-Western Dev. Reg.	249	253	241	268	261
Far-Western Dev. Reg.	3	0.00	20	-	-
Total	47584	52965	53235	55014	48087

Source: TPC and NRB

Above Table No. 14 shows the export trade from different development region from FY 2001/02 to 2005/06. There are same trends as import Table

No. 15. Central Development took the maximum share of total export through out the study period. The second share of export has Eastern Development Region. From the Table No. 16, the trends of export from different development regions are not differing but the contribution of share of other regions is not satisfactory.

**Composition of Development Regions
In the Total Overseas Exports of Nepal
FY2001/02 to 2005/06**

(In percentage)

Table No: 15

Regions	FY2001/02	FY2002/ 03	FY2003/ 04	FY2004/05	FY2005/06	Average %
Eastern Dev. Reg.	27.65	33.74	32.54	30.62	22.97	26.17
Central Dev. Reg.	72.33	66.22	67.45	69.32	77.01	73.61
Western Dev. Reg.	0.00	0.03	0.01	0.05	0.00	0.21
Mid-Western Dev.Reg.	0.02	0.01	0.00	0.01	0.02	0.01
Far-Western Dev. Reg.	0.00	0.00	0.00	0.00	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: TPC and NRB

From the above table, it is clearly stated that the percentage hold by different regions through out the study period i.e.FY 2001/02 to 2005/06. Among the five development regions, central development region could hold maximum percentage and second position was eastern development region and other regions could hold little bit percentage i.e. less than one percent. The main reason for took maximum share of export percent in central and eastern development regions are kathmandu airport, Birgunj, Biratnagar and Kakarbhitta customs facilities.

Nepal's Exports to SAARC Member Countries

FY2001/02 to 2005/06

Table No: 16

(Value in Million Rs)

Direction	FY 2001/02	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06
India	27956	26430	31244	38917	41013
Bangladesh	237	411	421	291	234
Bhutan	27	53	78	150	238
Maldives	1	-	-	-	-
Pakistan	61	74	278	229	186
Sri Lanka	-	-	-	6	2
Total	28283	26968	32021	39593	41674
Total Export	47387	50011	54417	58444	60075
%in Total Export	59.7	53.9	58.8	67.1	69.4

Source: TPC and NRB

Above Table No. 16 shows the export trade to SAARC member countries from FY 2001/02 to 2005/06. There is also given total export trade and percentage in total export trade of SAARC member countries. The share of SAARC member countries is growing from 59.7 percent in FY 2001/02 to 69.4 in FY2005/2006 except it decreased the share of export to SAARC countries in FY 2002/03 and 2003/04.

India covered more than 97 percent in export trade so Nepal unable to expand her trade diversification among the SAARC countries. The maximum share of total export to SAARC region was 69.4 percent in FY 2005/2006. Among the SAARC countries the share of export to Maldives and Sri Lanka are almost nil. The second main export country has Bangladesh with very small volume although Fulbari port facility.

**Nepal's Imports to SAARC Member Countries
FY2001/02 to 2005/06**

Table No: 17

(Value in Million Rs.)

Direction	FY 2001/02	FY 2002/03	FY 2003/04	FY2004/05	FY2005/06
India	56622	70924	81652	88675	109306
Bangladesh	643	335	671	206	105
Bhutan	85	36	22	32	127
Maldives	N	N	N	N	N
Pakistan	133	153	191	167	191
Sri Lanka	161	105	139	34	52
Total	57644	71554	82676	89114	109781
Total Import	108635	128228	138753	148294	162841
%in Total Import	53.1	55.8	59.6	60.1	67.4

Source: TPC and NRB

Note: N denotes below than one million.

Above Table No. 17 shows the share of total import from SAARC countries from FY2001/02 to 2005/06 and total import from foreign and percentage in total import. Similarly export, India has taken more than 97 percent in SAARC. The percentage in total import is growing steadily the study period. In 2001/02 has 53.1 and in 2005/06 has 67.4 percent of total import. Comparating export to import there is huge trade deficit from India. The share of import from SAARC countries is growing steadily through out the study period from 53.1 percent to 67.4 percent in FY 2001/02 to FY 2005/06. But the share of import from other SAARC countries is very small percentage or volume that means Nepal could not expand its market in other SAARC countries due to open boarder towards India except north boarder.

**Nepal's Exports to SAARC Member Countries
FY2001/02 to 2005/06
(In percentage)
Table No: 18**

Direction	%in 2001/02	%in 2002/03	%in 2003/04	%in 2004/05	%in 2005/06
India	98.9	98.0	97.6	98.3	98.4
Bangladesh	0.8	1.5	1.3	0.7	0.6
Bhutan	0.1	0.2	0.2	0.4	0.6
Maldives	0.0	0.0	0.0	0.0	0.0
Pakistan	0.2	0.3	0.9	0.6	0.4
Sri Lanka	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100

Source: TPC and NRB

The export in each and every plan has remained quite low and less effective in speeding up the total volume of trade. The total export has increased over the various plans ranking from Rs. 628.1 million in first plan to Rs. 712263.0 million in tenth plan. Total import has steady growth in the subsequent plan till tenth plan. Trade balance deficit has also increasing trend but annual trade deficit improved in third plan over second plan. The total trade variation in tenth plan over ninth plan was 73.44 percent.

The share of export and import in total trade are 33.7 percent and 66.3 percent respectively in first plan. The total share of export tends to decrease from fourth plan to eighth plan and slightly increase in ninth plan and again decreased in tenth plan i.e. 28 percent only.

Total exports increased from Rs.22636.5 in FY1996/97 to Rs.60074.8 million in FY 2005/06. Between FY 2004/05 to 2005/06, export rose by 2.71 percent. Exports to India went up by 5.10 percent while export to other countries fell by 2.43 percent. Still, the share of India in total exports remained at 68.3 percent in FY2005/06 compared to 66.6 percent in FY 2004/05, while the share of other countries in total exports was placed at 31.7percent in FY 2005/06 compared to 33.4percent in FY 2004/05. In FY 1996/97, the contribution of India and other countries to total exports was 23.1 percent and 76.9 percent, respectively.

Total imports, on the other hand, went up to 162840.7 million in FY 2005/06 from Rs. 93553.4 million in FY 1996/97. While total imports catapulted by 8.3 percent in FY 2005/06 in comparison to FY 2004/05, imports from India and third countries soared by 12.7 percent (increased) and 7.3 percent (decreased) respectively. Similarly, as illustrated by Table No. 2, the share of India in total imports stood at 67.1 percent while that of other countries remained at 40.2 percent in FY 2005/06, compared to their shares of 26.6 percent and 73.4 percent, respectively, in FY 1996/97.

Between 1996/97 to 2005/06, trade deficit soared by 47.88 percent. However, when comparing FY 2004/05 and FY 2005/06, trade deficit has gone up by 12.56 percent and reached Rs. 102765.9 million. This was ascribed to the 7.8 percent rise in trade deficit with India and 15.0 percent rise in trade deficit with other countries.

With regard to exports to other countries, Nepal's export to other countries till now was dependent on primary on exports carpets and readymade garments. While carpets and readymade garments formed 80 percent of total exports to other countries in FY 1996/97, these two items accounted for 50 percent in 2005/06. In between FY 1996/97 and FY 2005/06, there has not been much significant change in the commodity composition of exports to overseas countries. One major exportable commodity that emerged during this period was pashmina .

The annual import requirements of Nepal are quite volatile in nature, and primary consist of development goods machinery and equipment, consumer items, petroleum products and industrial raw materials. The import of gold has been declining since FY1997/98 and considerably after FY 2000/01 following the liberalization of gold imports in India. Compared to exports, imports are diversified and several commodities possess similar shares of total imports in the top rung, especially with regard to imports from overseas.

There exists a geographical concentration in Nepal's exports, the top four trading partners in FY 2005/06 being India, USA, Germany, and United Kingdom.

Analogously, the country's imports have been primary from India, Singapore, China, and Thailand.

4.3 Factors affecting Nepal's foreign trade

Nepal is land-locked and least developed country. Although foreign trade gives average 13% GDP of national production, Nepal has been suffering huge trade deficits and trade and transit problems due to various reasons. Nepal has just entered into WTO membership, SAFTA and BIMST-EC as multilateral and bilateral agreement and cooperation. Nepal may be the transit point for the big developed two countries like India and China; it is the main issue point towards the recent year.

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

To do the better performance of foreign trade, there should be quite political stability in the nation, lot of exportable goods, huge infrastructures, high productivity, sufficient transit, banking and insurance facilities, technological and industrialization nation, participating in foreign trade fair and exhibition regularly etc and so on. But we have not able to provide these kinds of activities for the trading sectors.

Nepal lacks genuine exportable items. There are only two or three major items for export- readymade garments and woollen carpets, the account more than 50 percent of the total overseas trade. So we should introduce more exportable items for improving foreign trade.

It seems to feel that the research and development activities regarding the development of exportable products in Nepal is quite lacking. There is only one government agency undertaking such responsibility- Trade Promotion Centre – but it lacks such activities.

Information's, that are essential for better decision-making, are seriously lacking in Nepal. Most of the information on policy approach and fundamental decisions are not

transparent in Nepal. They are stored in the dark basket by the responsible authorities, both government and private sectors.

Nepal's trade with SAARC member countries is not satisfactory; India alone accounts for more than 97 percent of the total SAARC trade.

India has recently imposed quota system against the major export items of Nepal to India like Vegetable ghee, Acrylic yarn, copper products and zinc oxide.

Nepal has huge trade deficits with both India and overseas countries. The value of Nepal's trade is more than the countries export value. Nepal has trade deficits even with Tibet, the Autonomous Region of China.

No Symptoms have yet seen that Nepal's trade situation will improve in the near future due to the country's internal political crisis and economic downward.

Nepal is China-locked in the north. However, Chinese ports are about 5,000 kms from the Nepalese border. The snowy range of Himalayas stands as a transit barrier between these two giant countries. Tibet, which is one of the nearest neighbours of Nepal, is still in the earliest state of its economic development and lacks transportation and other physical facilities.

Nepal has trade and transit agreements with the People's Republic of Bangladesh, Bangladesh have agreed to provide its Chittagaon and China ports for Nepali cargo. The Bangladesh ports authorities in Chittagaon, Khulna and Chalna are ever ready to assist Nepal in handling the Nepal-bound cargo. Regarding the existing limited storage space in the port of Chittagaon, the Bangladesh River Transport Corporation is willing to haul Nepalese cargo through their well-developed barge and lighting services. The Bangladesh Railways has been providing a rebate of 25 percent in its tariff for Nepalese cargo to compensate for the longer distance compared to the Calcutta route. However, the main obstacle in using the Bangladesh transit route lies in the Radhikapur/Biral crossing between India and Bangladesh, where Nepal has no liaison office. Beside this, Nepal traders have to hold valid passport and visa to launch trade with and Bangladesh. Again, Bangladesh transit route suffers from several basic

logistic problems and during the transit in India, Indian police and officials give unnecessary tension.

Due to the uncomfortable geo-political position of Nepal, it has to accept Calcutta port as the only exit or entry point for Nepali cargo, for which Nepal is compelled to accept the India's hard conditions too. The freedom of transit, which was accorded by the Trade and Transit Agreement of 1960, has not brought yet into actual practice. Whenever, Nepal raises the question of such facility, the Indian government always tries to push unnecessary problems and pressure to Nepal, and try to take reciprocal advantage.

The Nepalese transit-traffic that is subject to the Indian Customs Act for Nepal bound cargo is not justifiable. The Nepalese do not have their separate customs zone. The security problem is out of Nepal's hand. The institutions created in Nepal for transit are not able to deal with such policy issues with the Calcutta authorities.

Operations at Calcutta port pose serious difficulties to Nepalese shippers due to lack of physical infrastructure, congestion in the berths, jetties and warehouses, frequent labour unrest, lack of adequate security, bureaucratic procedures, delays in clearance, shortage of railway wagons and host of other problems.

Nepal may be the transit point of two giant countries like India and China but to do this role, Nepal has not sufficient infrastructure transit facilities, air cargo facilities and other related activities.

Nepal can grave benefits in the global market as the WTO's least developed country but this job has more challenges to obtain its arrangements.

4.4 Major Findings of the Study

In the light of above observation about the study on foreign trade and WTO in the context of Nepal, the following points deserve special consideration.

1. Nepal is one of the least developed countries of the world, which is facing the problem of vicious circle of poverty and economic backwardness. Nepalese foreign trade sector especially export trade, which is considered to be the engine of growth, has been deteriorating rather than improving.
2. The value of import is increasing massively than the value of export through out the study periods. Although the government has introduced several policies to give a proper direction to the nations export trade. It is not moving in the right track and it is creeping under so many problems.
3. Because of the increased attraction on imported goods, productivity of the country has been deteriorating. The qualities of the products are also not satisfactory so they are unable to compete in the international market.
4. The agricultural sector, which is the backbone of Nepalese economy, has been extremely disappointing. Similarly industrial sector is still in infant stage. Industrial sector in Nepal is still looked at as a neglected sector because it requires heavy investment and whose output can be tasted only after a long period.
5. Trade policies are formulated ad hoc in character and are changed frequently resulting benefit for unscrupulous sections or short-term profit seekers only.
6. Landlockedness, Nepal's geographical position, is one of the biggest bottleneck in its trade expansion. Although it is a natural and permanent type of problem for landlocked country like Nepal, it should be solved through the political/diplomatic efforts and commitment. Because such type of event, Nepal may isolate from external affairs at any time.
7. Nepal has a fundamental trade deficit problem with both India and overseas countries in both study periods that may have a long- term effect on the country's economy. Such deficit is usually covered by the increased foreign loans and grants, which may further deteriorate the country's economy.
8. 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 in the dark so the illegal traders are getting advantage of import and export.

9. Free flow of goods between Nepal and India is creating a serious problem for Nepalese products in both studying periods because Indian products are available cheaply in Nepal. And there is no discrimination between domestic and foreign goods in Nepalese market.
10. In Nepalese trade sector, tariff is levied just to enhance revenue not to provide protection to domestic industries. There exists absence of attention in the production of consumer goods to reduce import.
11. Nepalese domestic industries can not produce enough for Nepal's growing population's demand.
12. Nepal utilizes only one transit to (trade route) trade with overseas countries other than India and China. Although Nepal can use other trade routes like Fulbari Banglaband through Bangladesh but no action is forwarded regarding this.
13. The role of export in relation to export led, export- import ratio, foreign aid and debt service ratio, BOP, foreign currency and employment generation has not been satisfactory. The share of agriculture production has dominated in GDP of Nepal.
14. The export of agriculture production has been declining, as growth in agricultural production has hardly been able to keep pace with population expansion.
15. Nepal is least developed and land-locked country so that Nepal has suffered transit problems for India and Overseas trade.
16. The readymade garments and woollen carpets are the major exportable goods of overseas trade. It takes more than 50 percentages in overseas trade. So it is not beneficial for the under developing country like Nepal.

- 17.** Nepal's trade with SAARC member countries is not satisfactory; India alone accounts for more than 97 percent of the total SAARC trade.
- 18.** Nepal has huge trade deficits with both India and overseas countries. The value of Nepal's trade is more than the countries export value. Nepal has trade deficits even with Tibet, the Autonomous Region of China.
- 19.** Nepal can expand her trade diversification at least country wise and commodity wise.
- 20.** Government of Nepal should reduce her tariffs and formulate adjusted Acts and policies immediately as per WTO and others commitments.
- 21.** Nepal has primary exportable goods but manufactured, deluxe, luxury and other sophistic and valuable items are being imported from other countries.
- 22.** Dry ports, transit facilities, infrastructure, policies and commitments of WTO are not satisfactory for the foreign trade.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

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

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

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

To justify thesis writing and the collected review of literatures, there should be necessary to conduct research methodology. Therefore, in chapter three, the analytical and descriptive research methodology have been applied with taking secondary data

by sampling method through concerned department like TPC, NRB, MOICS, MOF and others.

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

Data has been taken from FY 1996/97 to 2005/06 as country wise, commodity wise, region wise, plan wise, from TPC and NRB. The collected data has been presented in both tables and figures. The trade both export and import is growing steadily but comparing export to import, the volume of export is lessor than the import i.e. less than 1. Comparing India and overseas about export and import, the share of India is growing steadily through out study period but overseas trade has not same direction.

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

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

There exists a geographical concentration in Nepal's exports, the top four trading partners in FY 2003/04 being India, USA, Germany, and United Kingdom. Analogously, the country's imports have been primary from India, Singapore, China, and Thailand.

5.2 Conclusion

The major objective of the study is to provide a bird's view of various aspects of Nepalese trade with India, Tibet and Overseas. The volume of trade found to be increased steadily but the weight of export in total volume of trade is very low. The analysis of Nepal's foreign trade has shown that landlockness primary nature of export, poor export performance, unfavorable terms of trade, poor industrialization are some of the worsen realities in the foreign trade sector of Nepal. The share of export and import in the total volume of trade in FY 2005/06 was 26.9 and 73.1percent respectively, which indicates a more dominance of import in Nepalese foreign trade.

1. Although trade is considered as an engine of growth in economic development of a country, in Nepal these prevails a big gap between the objectives and vision and the current state of affairs in the trade sector.
2. Though Nepal is already a member of the WTO, the institutional and legal structures to implement the WTO agreement have not been properly developed.
3. Market and product concentrations of export led to volatile export proceeds. Structural difficulties of trade related services and infrastructures have obstructed to materialize potential comparative advantages.
4. Analysis of Nepal's foreign trade has shown the share of export and import in the total volume of trade in 2003/04 28.35 and 71.65 percent respectively, which indicates a more dominance of export in Nepalese foreign trade.
5. The ratio of foreign trade export to import is always less than 1, which clearly shows import exceeding. It is not beneficial for the developing country like Nepal. The huge trade deficit affects for our economic development.
6. The trends of foreign trade of Nepal, Nepal can diversify its trade as country wise well as commodity wise after the restoration of democracy system of Nepal.
7. But Nepal is a primary product producing country. The export side, only readymade and carpet products have taken more than 70 percent share and

America and Germany two foreign countries hold more share of overseas export.

8. Nepal entered into WTO after one year and also entered into SAFTA, BIMSTEC. Now, it is growing to build transit point of India and China, which is more beneficial for developing and land-locked country.
9. The plan wise scenario also shows us the trade is increased but in the comparison exports to import, Nepal is not enabling to be balance of trade.
10. The direction of foreign trade shows the share of exportable and importable commodities. A change in direction with the strategy of trade diversification helps to be narrow down the trade deficit and build a sound and strong economic development of the country.
11. The average GDP of national development, foreign trade takes 10 percent out of national income.
12. Now days, the share of foreign trade, India is growing but third country is not equally growing due to entering WTO and others transit barriers. The share of foreign trade in SAARC country, India has maximum in both export and import side (not below 97 percent of that sector). Now it is also issuing point about foreign trade.
13. Nepal policy regime has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been executed.
14. Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the country in improving its international competitiveness.
15. The movement of trends of foreign trade of Nepal is not favorable during the study period, which clearly shows that Nepal is still far away from gains of international trade.
16. The sluggish growth of export price relative the rapid growth of import price leave Nepal's trends of trade always unfavorable, less than 1.
17. As a whole, Nepal's foreign trade situation suggests that government immediately take concerted steps to expand its trade and improve the

country's foreign trade trends in the year to come with the help of private sector. The delay decision making in this regard may well prove to be quite costly to nation. The policies related foreign trade would also change according to foreign trade demand.

5.3 Recommendations

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

1. It is necessary to make appropriate export plan with production plan of the country, which helps to increase productivity and exportable goods. Therefore, the comprehensive survey should be conducted to inquiry the whole wealth of nation.
2. Nepal Government should workout bilateral agreements with importing countries for fixing of quota of export and diversification of products, and for possible adjustments in GSP tariff application to compensate for transport cost differentials arising from Nepal's land-locked position.
3. Dry ports, transit facilities, infrastructure would be made soon for helping the foreign trade and sustains the existing facilities.
4. Participating in international fairs and sending trade delegation to potential markets as well as increased publicity for Nepalese products in international media will help to expand the market of Nepalese products.
5. Nepal should negotiate with India officials on the matters of reducing prevailing port charges, simplification of customs procedures, about the transit facilities for third countries.
6. Private sectors should be given reasonable facilities and incentives because it plays dominant role in the country's export trade. They often complain that the

government has never been able to fulfill its commitments: such situation should not be developed in the country.

7. Nepal is land-locked, it must not depend only Calcutta port for its foreign trade, it should developed and searched for alternative routes in other countries as well, including the northern neighboring country China. The best possible option is using the Fulbari Bangladesh. To expand the favorable foreign trade Nepal should improved its trade and transit treaty with India.
8. Since Nepal has been suffering from fundamental deficit in its balance of trade. To improve it Nepal should increase exports and reduce imports, export can be encouraged by improving the quality of products, reducing cost of production, generating export surplus, encouraging research and development, re- obtaining quota system of garment in USA. On the other hand to reduce import indigenous production of import substitution should be encouraged by adopting improved indigenous technology curtailing non-essential and luxurious imports and controlling population. It should also diversify its imports and exports markets and products via trade agreements and developing friendly relation to the other countries.
9. Nepal has just entered into WTO membership. So Nepal should arrange its own Act, rules and regulations, different trade and industrial Acts and policies, tariff and non-tariff barriers, certificate of rules of origin of product, product standardization, product price according to the requirement of WTO objectives and policies. These procedures should be done for SAFTA, BIMST-EC and other bilateral agreement also.
10. HMG/Nepal should simplify the procedures for exporters by establishing a single office, which can issue trade documents required by the agencies concerned. Adopting of international procedures regarding banking and insurance.
11. Nepal is the second richest country of hydro-electricity of the world. Nepal should sell its hydro-electricity to the neighbouring countries for earning foreign currency for the reduction of balance of trade. There are many foreign

investors are interesting with jointly invest in hydro-electricity projects. Therefore, Nepal Government should introduce a special policy for foreign investors.

- 12.** Nepal is being trade of green vegetable and fruits to the golf countries, Thailand, Singapore, Malaysia etc. The salt trading corporation could able to establish a branch office in Doha, Qatar for promoting green vegetable and fruits. So Nepal Government should give full facilities and arrangement to exporters of these type of products.
- 13.** Now days the world is like a small village by global networking. Nepal can not be isolating from it. The e-commerce business is being popular due to it so Nepal has to grave foreign market through running e-commerce business in the western countries.
- 14.** The garments and woolen carpets has been hold the maximum export shares in overseas trade of Nepal. It is not beneficial for the developing and land-locked country like Nepal so the Nepal Government should take seriously for expanding other exportable products in the third countries.
- 15.** Nepal's foreign trade situation suggests that government immediately should take concerted steps to expand its trade and improve the country's foreign trade trends in the year to come with the help of private sector. The delay in decision making in this regard may well prove to be quite costly to nation. The policies related foreign trade would also change according to foreign trade demand.
- 16.** Nepal-policy regime has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been executed. Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the

country in improving its international competitiveness. Therefore, Nepal has to more diversify her both country wise and commodity wise of exportable goods.

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

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