Chapter One
Introduction

1.1. Background of the Study:

Nepal is a developing country situated at 26°22' north latitude, 80°4' east to 88°12' east longitude. The total area of the country is 1, 47,181 sq. km. It has an average length of 885km east to west. The north-south width is not uniform. Its width is 241km in maximum & 144km in minimum. [1]

Nepal is a country reach in biodiversity. The country is famous for its Himalayan Ranges situated at the northern border. Nepal is a small landlocked country situated in the heart of Asia. People's Republic of China surrounds it in the north & India in the south, east & west. The capital city, Kathmandu is of a valley in nature surrounded by hills.

The population growth rate of Nepal is 2.25%, low GDP growth rate of just 1.9%. High rate of infant mortality of the world can be seen in Nepal with 48/1000 live birth. The child mortality-under 5 years is 61/1000 live birth. The no. of women deaths due to pregnancy of Nepal is 281/100000 live births. The life expectancy of Nepalese is 62.1 years. The literacy rate of Nepal is at around 50% & the per capita of the country is at U.S. $310. [2]

The foreign trade of the country has to depend on the Calcutta Harbor which is the nearest harbor for the sea route. The cargo also plays a vital role in the foreign trade of the country. Similarly, it has been helping in overall economy of the country. As the tourism industry is one of the important contributor of the

[1] School Atlas for Nepal (Updated & Revised 1997), Oxford University Press, Delhi.

[2] Government of Nepal, Ministry of Finance, Singha Durbar, Kathmandu (July 2008), ***Economic Survey Fiscal Year 2007/08***, Gorkhapatra Sansthan, Dharmapath, Kathmandu.

GDP which is completely depended on aviation business. For the third country foreign trade also, the air services of the country plays a vital role. [3]

1.2. Statement of the Problem:

Nepal is one of the least developing countries of the world. The per capita income of the country is one of the lowest of the world. The industrialization stage of the country is at primitive age. The existing industries are also sick with very low financial performance. As per the population growth, the economy growth is not taking pace. Similarly, there is a very low employment opportunity. As we see an overall business environment of the Nepal is seen volatile & unsuitable for the economic growth. The country has the deficit trade balance. This study will try to answer the following questions:

1. Is the direction of the export & import trade of Nepal with the neighboring country, India is extremely dependent?
2. Is the foreign trade of Nepal has increased the burden to the total outstanding foreign debt of the country?
3. Does the export & import trade of the Nepal have contributed to the GDP of the nation?
4. Is the foreign trade of Nepal is contributing in the tax revenue collection of the country?
5. Are the goods imported in Nepal are mainly the primary commodities or manufactured & capital goods as well as other category of goods as stated by SITC?

1.3. Objectives of the Study:

The main objectives of the study are pointed out below:

i. To find out the overall foreign trade situation of Nepal in brief.
ii. To picture out the export-import situation of Nepal with the neighboring country India and other countries.

[3] Government of Nepal, Ministry of Finance, Singha Durbar, Kathmandu (July 2008), ***Economic Survey Fiscal Year 2007/08***, Gorkhapatra Sansthan, Dharmapath, Kathmandu.

iii. To find out the trade bal. & ratio of import & export of goods with India and with remaining other countries excluding India.
iv. To find out the contribution of foreign trade to the GDP of Nepal.
v. To find out the situation of overall foreign trade as per the SITC group.
vi. To find out the load on total foreign debt of Nepal by import business.
vii. To find out the contribution of international trade to Nepal's total tax revenue collection.
viii. To recommend appropriate strategy to extend the foreign trade of Nepal.

1.4. Significances of the Study:

The significances of the study are:

i. The study will be helpful for the students of foreign trade management and international marketing.
ii. The study will be helpful for the researchers & the students who want to know the actual situation of trade between India & Nepal. Similarly, situation of trade between Nepal & other countries.
iii. The study helps to know the future researcher about the SITC group foreign trade situation of Nepal.
iv. The study helps to know the researcher about the load on total foreign debt that the Nepal is bearing from the import trade.

1.5. Limitations of the Study:

There are certain limitations of this study which are:

i. The study is concentrated only on the international trade with the neighboring country India & other countries only.
ii. The data analyzed & presented in the report covers from the F/Y 1992/93 to F/Y 2007/08(First 8 months).
iii. The detail analysis on the import and export of the SITC group of Nepal has not been done in the study.
iv. The recommendations in this study are from the data interpretation of the certain period, so tit may be limited or un-applicable in coming days.

1.6. Organization of the Study:

The whole study will be divided into five chapters.

First chapter deals with introduction, which includes general background, focus of the study, statement of the problem, objective of the study, significance of the study and limitations of the study.

Second chapter deals with the review of available literature. It includes conceptual/theoretical review and review of related studies.

Third chapter explains the research methodology used in the study, which includes research design, population and sample, source of data, data collection techniques.

Fourth chapter deals with data presentation and analysis, which includes the presentation and analysis of the data and major findings of the study.

Ultimately, fifth chapter discusses summary of main findings, conclusions and recommendations.

Chapter Two
Review of Literature

2.1. Description of Subject for Study:
2.1.1. Concept of International Trade:

International trade is concerned with the exchange of goods & services with foreign countries. It consists of exports & imports between nations across international borders. The emergence of market-driven economies in many counties of the world has increased the importance of international trade. [4] It has appeared as the engine of globalization. It is an important mode of international business.

No country can be self-sufficient in all the goods & services. Nor can all the products be produced efficiently in all the countries. Specialization in production is needed to gain the benefits of comparative advantage.

The basic of international trade is the comparative advantage in price rations between countries, Price ratios are based on cost structures. Factor endowments can also be a source of comparative advantage.

[4] Rugman, Alan M. & Richard M, Hodgetts (2003) ***International Business.*** Delhi: Pearson pp.154

International trade is important to achieve macroeconomic objectives of economic growth, price stability, employment generation, & BOPs. It promotes efficient utilization of resources through economies of scale. Trade deficits create imbalances in the economy. All countries aim for a favorable trade balance.

The volume of international trade is increasing. It more than doubled between 1990 & 2003. Its structure is also changing; Trade in services is increasing in importance compared to merchandise trade. (***Agrawal, 2062:59***)

The term "international business" includes all types of business that take place between two or more countries, Examples of international business are imports & exports, banking services in more than one country, air services across the border, insurance policies sold in more than one country, & managerial services provided to foreign firms in foreign countries. Following this definition, firms doing any type of business (trading, investment, or production) in more than one country can be labeled as international firms. This suggests that firms do not have to necessarily invest nor do they need to be physically present in foreign countries in order to become international firms. (***Pradhan, 1993:1***)

2.1.2. Evolution of International Business:

International business started even before the mercantile era of the eighteenth century. It evolved in the form of cross-border trading & was confined only to imports & exports for a long period of time, After the World War I, the way of doing international business began to diversify into many different forms such as licensing, manufacturing contract, & production in foreign countries.

The reason for growing international trade is explained by the theory of comparative advantage propounded by Adam Smith & David Ricardo. The theory advocates international free trade. The basic idea of this theory is that a country will benefit if it specializes in the production of those goods which it can produce & export relatively efficiently & imports the goods which other countries produce relatively efficiently. According to this theory, a country can trade internationally only the products of economic activity but nit the factors of production such as labor & capital. The underlying assumption of this theory is that only the products of economic activity are internationally mobile &the factors of production are not. But this assumption does not seem to be realistic in the context of modern world business. Since the fifties, the capital, material as well as labor have been internationally more mobile than ever before.

The possibility of capital & labor movement across countries has made it possible to put together the globally inexpensive capital, the appropriate managerial skill, inexpensive labor & supplies & the appropriate technology at the places where they can be most productively utilized to produce goods & services efficiently, This is one of the reasons why foreign direct investments have grown so rapidly creating a keen competition in all national markets. (***Pradhan, 1993:1***)

2.1.3. Theories of International Trade:

Various theories of international trade have been propounded. The important theories are: (***Agrawal, 2062:60-62***)

2.1.3.1. Mercantilist Theory:

This theory was popular in the 18th century. It advocated that a government should encourage exports & restrict imports. The positive balance of trade leads to flow of wealth for the well-being of the country. Its fundamental principles are nationalism, bullionism & favorable BOPs.

This theory is simple. However, it ignored production efficiency through specialization.

2.1.3.2. Absolute Cost Theory/Classical Theory (Adam Smith, 1776):

This theory states that countries specialize in products of absolute cost advantage. Countries can benefit from trade by concentrating on products in which they have absolute cost advantage.

For e.g.:

Country	Labor Unit	Cotton Production	Jute Production

Nepal	1 man day	10 units	5 units
Bangladesh	1 man day	5 units	10 units

Nepal should specialize in cotton production & Bangladesh should specialize in jute production because of absolute cost advantage. Nepal should export cotton in exchange for jute from Bangladesh.

This theory explains that the countries can increase their efficiency through specialization because of three reasons:

- Labor could become more skilled by repeating the same tasks.
- Labor would not lose time in switching from the production of one kind of product to another.
- Long production runs would provide incentives for the development of more effective working methods.(***Shrestha, 2008:31***)

This theory ignores absolute cost advantage in both products by a country.

2.1.3.3. Comparative Cost Advantage Theory (David Ricardo, 1917):

David Ricardo argued that absolute production costs are irrelevant; it is the relative production cost that makes trade possible between the two countries. He further explained that gains from trade will occur even in a country that has absolute advantage in all products because the country must give up less efficient output to produce more efficient output.

David Ricardo has propounded "Comparative Cost Theory of International Trade." This theory is popularly known as "Classical Theory of International Trade". According to this theory, a country in the long run tends to specialize in the production & export of those commodities in which it has got a comparative advantage or where its costs are lower than in other countries; & it tends to obtain by import those commodities which can be produced at home at a comparatively disadvantage or where the costs of imported commodities are lower than the commodities produced at home. (***Shrestha, 2008:33***)

This theory states that countries should specialize in products of comparative cost advantage.

For e.g.:

	Labor hours required to produce	
Countries	**1 gallon wine**	**1 yard cloth**
Portugal	80	90
England	120	100

For Portugal, Comparative cost of 1 gallon of wine is 80:120 & for 1 yard of cotton is 90:100. Portugal should specialize in production of wine because of comparative cost advantage.

Assumptions of Ricardian Theory are:

- Labor is the only factor of production
- All labor is uniform in quality
- Labor is perfectly mobile within country
- Free competition exists among labor
- There is full utilization of labor
- No transport & other costs are involved in production

Criticism of the Comparative Cost Theory: ***(Dewett & Chand, 1988:477-478)***

1. The theory is based on the assumption of constant costs.
2. It is based on static assumptions of fixed tastes, identical production functions between trading countries & fixed supplies of land, labor, capital, etc.
3. It ignores transport costs.
4. There are no other costs except labor costs. It assumes that there are no other costs except labor cost.
5. The factors of production are perfectly mobile inside a country but perfectly immobile between one countries & other.
6. Complete specialization is not always possible.

7. Trade is said to arise out of difference in relive factor prices, but trade also tends to narrow these differences.
8. Trade may also flourish between countries with similar factor endowments.
9. The theory concerns itself with one side of the question only, i.e. the supply side.
10. The trade between two countries may be dictated by strategic or military considerations & not by comparative costs.
11. The theory is dangerous. It takes only two countries & two commodities & applies uncritically the generalization so obtained to world at large.

2.1.3.4. Opportunity Cost Theory (Gottfried Haberier, 1933):

This theory states that cost of producing a particular good is the goods which have to be foregone to obtain this good. Countries should specialize in production of goods in which they have opportunity cost advantage for international trade.

Production possibilities curves of various countries are indicators of opportunity cost.

2.1.3.5. Factor Proportions Theory/H-O Theory (Heckscher-Ohlin):

The modern theory of international trade is an extension of the general equilibrium theory of value. This analysis known as the 'factor-proportions-analysis' has been given by Bertil Ohlin & it has replaced the traditional comparative cost theory. Factor Proportion Theory was developed by two economist-Eli Heckscher & Bertil Ohlin. After their names this theory is popularly known as "Heckscher-Ohlin Theory".

The classical theory's comparative cost advantage explains that ac country tends to specialize in the production of commodities for which it enjoys a comparative advantage or where its costs are lower than in other countries. But this theory fails to answer why do comparative cost differences arise? And why such production cost ratios differ at all?

However, the Factor Proportion Theory has tried to answer these questions. This theory has explained the basis of international trade in terms of factor endowments. ***(Shrestha, 2008:36)***

This theory states that international trade is based on differences in comparative costs determined by:

- Relative differences in factor endowments in different countries.
- Difference in costs of factors of production.

According to this theory, countries with relatively large labor forces will concentrate on producing labor-intensive goods, whereas countries with relatively more capital will concentrate on producing capital-incentive goods.

Assumptions of Factor Proportion Theory are:

- There should be two countries, two commodities & two factors of production.
- Quantitative heterogeneity but qualitative homogeneity of factor endowments.
- Perfect competition in commodity & factor markets.
- Fully utilized resources.
- Production functions are same for two commodities but differ in factor intensities.
- Free trade between tow countries
- Factors of production are immobile between two countries.

This theory basically explains that a country will specialize in the production & export of those goods whose production requires relatively a large amount of the factors with which have the country is relatively well endowed. Therefore, those countries which have an abundance of labor will specialize in the production & export of 'capital-intensive' products, & countries which have an abundance of land will specialize in the production & export of 'land-intensive' products. ***(Shrestha, 2008:36)***

This theory can be clearly explained with the help of the following example:

Country	**Supply of capital**	**Supply of labor**	**Exchange ratio of capital with labor**
A	20 units	25 units	0.8
B	15 units	12 units	1.25
Exchange ratio between "A" & "B"	1:0.75	1:0.48	

In the above example, figures clearly show that, even though country A has more capital in absolute term, country is more richly endowed with capital because the ratio of capital to labor in country A(0.8) is lower than in country B(1.25), Therefore, country A will specialize in the production & export of labor-intensive products & will import capital-intensive products. While country B will specialize in the production & export of capital-intensive products. Both the countries will benefit if they exchange goods accordingly. ***(Shrestha, 2008:36-37)***

Criticism of Heckscher-Ohlin's Theory: ***(Dewett & Chand, 1988:479)***

1. It is based on over-simplified assumptions, it is unrealistic.
2. It remains a partial equilibrium analysis & has failed to develop a comprehensive general equilibrium analysis.
3. The theory gives undue importance to supply & attaches less importance to demand.
4. It may be pointed out that if demand conditions are given due weight, the commodity price-ratios may not correspond to cost ratios.

5. The difference of relative factors endowments are only given importance but differences in production techniques or in factor qualities, consumers' demand, etc, are also important in this connection.
6. The prices of the factors of production (e.g., the raw materials) are determined by the prices of final goods by the consumers.

2.1.3.5.1. Leontief Paradox:

The first serious attempt to test 'Heckscher-Ohlin' theory empirically was made by Prof. Wassily W. Leontief, a Harvard University economist, in 1953. Leontief, who was later awarded the Nobel Prize in Economics, reached the paradoxical conclusion that the United States, the most capital-abundant country in the world by any criteria, exported labor-intensive, & imports capital-intensive commodities. This result, which came to be known in the literature as 'Leontief Paradox', took the profession by surprise & stimulated an enormous amount of empirical & theoretical research.

To perform his test, Leontif (in 1953) used the 1947 input-output table of U.S. economy. He aggregated industries into 50 sectors (38 or which traded their products directly on the international market) & factors into two categories-labor & capital. Then he estimated the capital & labor requirements for the production of a representative bundle (one million dollars' worth) of U.S. exports & a representative bundle (one million dollars' worth) of commodities (also one million dollars' worth). He surprised himself with the discovery that U.S. import replacements required 30 percent more capital per worker than U.S. exports.

Several economists on his methodological & statistical grounds criticized Leontief. In particular, Swerling, an economist complained that 1947 was not a typical year; the post-war disorganization of production overseas had not been corrected by that time, & the results were biased both by the capital-labor ratios of a few industries.

Leontief repeated the test in 1956 using the average composition of U.S. exports & imports, which prevailed in 1951. At this time he collected the information of comparatively more sectors of commodity groups. He found that U.S. import replacements were still more capital intensive relative to U.S. exports, even though their capital intensity over U.S. exports was reduced to only 6%.

After this result, several economists tried to test on the validity of Factor Proportion theory of international trade.

In 1959 two Japanese economists-Tatemoto & Ichimura studied Japan's trade pattern & discovered that Japan, a labor-abundant country (during the period), exports capital-intensive & imports labor-intensive commodities.

In 1961 Stopler & Roskamp applied Leontief's method to the trade pattern of East Germany & found that East Germany, a labor-intensive country, exports are capital-intensive relative to its imports. In the same year, Wahl studied Canada's pattern of trade & found that Canadian exports are capital-intensive relative to Canadian imports. Since most Canadian trade is with the Unites States, Wahl's result apparently runs against the Factor-Proportion theory.

In 1962, Bharadwaj studied India's trade pattern & found that Indian exports are labor-intensive relative to Indian imports. Nevertheless, when he considered the Indian trade with United States are capital-intensive relative to Indian imports from the United States.

In 1971 Baldwin, using the 1958 U.S. production structure but the 1962 composition of U.S. exports & imports, found that the U.S. import-competing sector was 27% more capital intensive relative to the U.S. export sector. ***(Shrestha, 2008:37-38)***

The empirical testing of Factor Proportions Theory found that USA had abundance of capital compared to labor. But it was exporting less capital-intensive goods. It was a paradox.

2.1.3.6. Linder's Representative-Demand Hypothesis:

Staffan Burenstam Linder, a Swedish economist & politician, makes argument that income growth affects demand & trade. 'Linder's Representative-Demand Hypothesis' draws causal arrows from income to tastes to technology to trade, a follows: a rise in per capita income shifts a nation's representative-demand pattern towards luxuries that the nation can now afford, as Engel's law also implied; this new concentration of demand on affordable luxury manufactures causes producers to come up with even more impressive improvements in the technology of supplying those goods in particular; their gins in productivity actually outrun the rises in demand that caused them, leading the nation to export these very luxury goods & to which they specialize in consuming.

Linder has expounded a descriptive per capita income theory of international trade, which claims predictive power. The range of a country's exportable products is determined by internal demand. In the rich industrial countries, manufactures are developed that are consumed at home & exported other rich countries. The prediction is that there will be large trade flows between per capita rich countries & small flows between rich & poor.

Linder's theory basically states two facts:

- Domestic demand is a prerequisite to a product's exportation, a proposition about the export product mix; and
- Trade is likely to be most intensive between countries with similar patterns of domestic demand, a proposition about the volume of trade.

Linder argues that a manufactured product will not be generally exported until after a domestic demand for the product exists, because a clear domestic need for the product must exist before it can be produced either for home consumption or for exports overseas. In other words, exporters will tend to direct their products to countries with similar demand pattern. But demand patterns in two countries are likely to be similar only when average per capita incomes in these two countries are about the same & conversely. It clearly reveals that the scope of trade is potentially greatest between countries with the same per capita income levels &, per capita income differences are a potential obstacle to trade.

Linder concedes, however, that the law of comparative advantage is pertinent to trade in primary products. In the case of such products, relative factor proportions are the determinants of costs; & since the product is undifferentiated, the technology & other variables that affect trade in manufactures do not pertain. Linder's explanation is consistent with much of the observed pattern of trade. ***(Shrestha, 2008:40-41)***

2.1.3.7. Modern Trade Theories:

These theories advocate that the only necessary condition for the gains from trade is that price ratios should differ between countries.

2.1.4. Trade Theories and their Implications:

Trade theories provide logical explanations about why nation's trade with each another, but such theories are limited by their underlying assumptions.

Most of the world's trade rules are based on a traditional model that assumes that:

- Trade is bilateral.
- Trade involves products originating primarily in the exporting country.
- The exporting country has a comparative advantage; &
- Competition primarily focuses on the importing country's market.

However, today's realities are quite different for the following reasons:

First: Trade is a multilateral process.

Second: Trade is often based on products assembled from components that are produced in various countries.

Third: It is not easy to determine a country's comparative advantage, as evidenced by the countries that often export & import the same product.

Finally: Competition usually extends beyond the importing country to include the exporting country & third country.

(Shrestha, 2008: 41)

2.2. Need and Importance of Foreign Trade:

Foreign Trade is essential & it plays an important role for the rapid economic development. The development history of the recently developed counties (especially European Countries) also shows that the development of these countries was highly co-related with foreign trade. [5] They developed the new technology & they manufactured goods in the low cost. But they need markets for their products & they needed raw materials to their industries. As a result of this development, many countries of Asia & Africa came under their colonial rule. These colonies supplied raw materials in exchange for manufactured goods produced in those developed countries. However the terms of trade were not in favor of developing countries could not advance with the same speed of developed countries.

The need & importance of foreign trade depends upon the nature of resource endowments, location & the size of the nation. For a small developing country like Nepal, foreign trade plays a vital role in its economy. Because of the mountainous topography, lack of resource endowments & a small domestic market, the nation does not have the capacity to support on efficient seal of production. The lines of production in which the country can specialize are

[5] Ragner, Murkse (Third Edition, 1976) ***Trade Theory and Development Policy.*** London: Mac Million & Co. Ltd. pp.707-712

severely limited. The small size of the domestic market restricts the range of the products which can be profitably produced. But at this stage of development no country can be isolated. A nation has to import commodities that cannot be produced at home or in which it has least comparative advantage or no comparative advantage & export the surplus that cannot be absorbed in the internal market. Therefore, unlike other resource developing countries like Nepal has to rely more on foreign trade for her rapid economic development. Machinery & plants along with a last of other basic materials needs for development that cannot be produced at home to be imported. To finance these imports the country has to earn foreign exchange. Of course, these can be also met by foreign loans but these loans have to be returned after a year. To earn sufficient foreign exchange for financing such imports & obligations, the country has to export goods & services. Thus, export can help to pay for mounting import expenditure generated by development al needs as well as the foreign debt obligations. Besides materials transaction foreign trade is a good means for transmitting new skills. New knowledge & technology are essential for economic development. Hence, the foreign trade plays a strategic role in the process of economic development of the country.

2.2.1. Trade as an Engine of Growth:

Trade is considered to be not simply a device for archiving productivity efficiency but also an engine of growth. [6]

Considering the classical economist more generally Hlamyint has distinguished several views. [7] According to him developing countries have surplus primary products which cannot be processed & consumed within the nation. Under such a situation foreign trade have as a rent for surplus. This brings up economic

[6] Robertson, D.H. (1949) ***The Future of International Trade-Reading in the Theory of International Trade.*** London: Balkiston & Co. pp.501

[7] Hlamyimt. (1949) ***The Classical Theory of International Trade and the underdeveloped countries*** Economic Journal, June 1958 . pp.317-337

development in less developed countries. So, the underdeveloped countries can be beneficial from the foreign trade. Further he has analyzed foreign trade in terms of the static comparative last theory & dynamic productive theory. The later theory explains development to international trade by interpreting trade is a dynamic mechanism which widens the extent of the market & division of labor efficiency, permits a greater use of machinery, stimulates innovation, overcomes technical indivisibilities, raises the production of labor & trading country to entering imcreasing returns & economic development.

It is recognized that there exists a significant relationship between a country's export & its growth, Most of the countries that we now think as advanced have been at one time dependent on just as narrow range of export as the present least developed countries are. Their development was promoted by export led sectors.

2.3. Advantage of International Trade:

The advantages of international trade rest on international division of labor. There is world-wide specialization in industries which results in increased total production & other advantages which are as follows: ***(Dewett & Varma, 1999:437)***

i. The productive resources of the world are utilized to the best advantage.
ii. A country is able to consume goods which it cannot produce at all, or only at an impossibly high cost.
iii. Violent price fluctuations are toned down.
iv. Shortages in times of famine & scarcity can be met from imports.
v. Countries economically backward but rich in unused resources are able to develop their industries.
vi. Trade develops racial sympathies.
vii. The existence of international trade promotes peace.

2.4. Disadvantage of International Trade:

In theory, no one can dispute the advantages of international trade. But, in practice, the other side of the picture cannot be ignored. Some countries, especially those which are at a lower stage of industrial development, have had a bitter experience of international trade. The disadvantages are: ***(Dewett & Varma, 1999:438)***

i. The worst effect of foreign trade on backward countries is the destruction of their handicrafts & cottage industries.
ii. The empire-builder follows the trader.
iii. Dependence on foreign goods creates difficulties in time of war when the country is cut off by enemy action.
iv. Extreme specialization which makes a country depend on one or two industries only is bad.
v. Countries which sell primary commodities & buy manufactured goods in returns are losers.
vi. Foreign trade may completely exhaust a country's natural resources.
vii. Imports of harmful drugs & luxuries, as opium in China, ruin the health of the nation.
viii. Through foreign trade, the economic troubles of one country are transmitted to others. E.g. the collapse of American markets in 1929 resulted in a world-wide depression.
ix. Trade rivalry leads to war & friction. E.g. Germen & British desire to extend their market lead to several wars, even two world wars.

2.5. Problems of International Trade:

The problems of international trade are: ***(Agrawal, 2062:65-67)***

1. Protection

Countries resort to protection through tariff, para-tariff & non-tariff barriers. They can be: [8]

a. Tariff

i. Export Tariff
ii. Import Tariff
iii. Specific Duty

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[8] Rugman, Alan M. & Richard M, Hodgetts (2003) ***International Business.*** Delhi: Pearson pp.162-164

iv. Compound Duty
v. Transit Tariff

b. Para-tariff
i. Border Charges
ii. Fees
iii. Local Taxes

c. Non-tariff
i. Quotas
ii. Subsidies
iii. Local Content Requirement
iv. Technical/ Bureaucratic Barriers
v. Procurement Policies
vi. Exchanges Controls

2. Laws and Institutions

Every country has its laws, regulations & institutions. They regulate the conduct of international trade. They impact trade as follows:

a) Bilateral: They regulate trade between two countries on a bilateral basis. For e.g., the Treaty of Trade regulates trade between Nepal & India. Such agreements are enforced by individual countries; they constrain flexibility & freedom of international trade.

b) Regional: They regulate trade at regional level. They are enforced by a group of countries by establishing preferential trading arrangements, free trade areas or customs union. SAARC, ASEAN, NAFTA & EU are examples.

c) Multilateral: They regulate international trade worldwide. They are enforced by international institutions, such as WTO.

Law & institutions provide both constraints & opportunities to international trade.

3. Foreign Exchange Problems

Every country has its own currency & financial system. International trade involves use of different currencies. Not all currencies are freely convertible. Currency values keep on changing, especially for countries subject to floating exchange rates. The risks of changes in currency value need hedging. This adds to costs of international trade.

- Many developing countries have foreign exchange control regulations. They adversely affect international trade.
- Countries also face balance of trade & BOP problems which constrain international trade. Countries with trade deficits resort to import restrictions or import substitution practices.

4. Transit Problems

Land-locked countries face transit problems. They restrict accessibility to markets for international trade. Such problems also add to the cost of products. Export documentation, customs clearance, demurrage charges, damages & pilferages related to transit adversely affect the competitive position of land-locked countries in international trade. Transit delays constrain meeting of deadlines for exports. The use of many intermediaries also adds to costs of exports.

5. Unfair Competition

International trade is subject to intense competition. However, unfair competition is one of its major problems. In order to capture markets, some countries resort to dumping. They sell their products at less than fair value. China provides example of dumping practices.

- Corrupt & unethical practices have also appeared as serious problems for international trade, Under-the-table deals are increasing.
- Domestic industries in developing countries suffer adversely from unfair competition.

6. Government Policies

Government policies relating to foreign trade differ from country to country. They change with the changes in the political & economic environments.

Changing government policies create problems for international trade. Bureaucratic hurdles constrain implementation of foreign trade policies.

7. Information Gap

Many developing countries lack up-to-date information for international trade. They lack institutional mechanism to monitor movements & changes in international markets. Market development is constrained by lack of market research. The information gap has led to overdependence on few countries for international trade.

8. Poor Quality Control

Developing countries have not been able to control the quality of exportable products. Unscrupulous exporters tarnish the image of their products by exporting low quality products. An interesting example is hand-knotted woolen carpets & Pashmina shawls of Nepal. The high image of these products in the European market has been adversely affected by the export of products made from waste wool.

- The system of labeling & quality certification are also lacking in many developing countries. ISO certification is lacking.
- Poor quality control of exportable products is a big problem of international trade.

2.6. Doctrine of Free Trade: [9]

A policy of no restriction on the movement of goods between countries is known as the policy of Free Trade. Restrictions placed with a view to safeguarding home industries constitute the policy of protection. In the words of Adam Smith, this term 'free trade' has been used to denote "that system of commercial &, therefore, neither imposes additional burdens on the latter, nor grants any special favors to the former."

[9] Dewett, Kewal Krishan & Varma, J.D. (Reprint 1999) Twenty-Fourth Revised Edition, ***Elementary Economic Theory,*** Ram Nagar, New Delhi-110055, India:: S Chand & Company Ltd pp.439

Free trade, however, does not require the removal of all duties on commodities. It only insists that they shall be imposed only for revenue & not at all for protection.

In words of Cairnes, "If nations only engage in trade when an advantage arises from doing so, any interference with their free action in trading can only have the effect of debarring them from an advantage."

Long before that wrote Adam Smith: "If a foreign country can supply us with a commodity cheaper than we ourselves can produce, better buy it from them with some part of the produce of our own industry, employed in a way in which we have some advantage." He continued further: "Whether the advantage which one country has over another be natural or acquired is in this respect of no consequence. As long as one country has those advantages & the other wants them, it will always be more advantageous for the latter rather to buy of the former than to make."

The only exception that Adam Smith would make was industries necessary for defense. These might be protected since **"defense is more important than opulence."**

The doctrine of free trade is the extension of the doctrine of division of labor to the international field. In the words of Adam Smith again, "Individuals find it to their interest to employ their industry in a way in which they have some advantage over their neighbors." And he adds, "What is prudence in the conduct of every private family can scare be folly in that of a great kingdom."

In short, the free trade theory is that such a policy enables every country to devote itself to those forms of production for which it is bets suited on the basis of comparative advantage.

2.7. Arguments in Favor & Against of Protection: [10]

2.7.1. Arguments in Favor of Protection:

Protection aims at helping some industries against foreign competition. This is done either through duties on imported goods, or bounties to domestic producers. An import duty makes the foreign articles sell at higher prices & so helps the home manufactures. This method is used with the following objectives:

i. To help infant industries.
ii. To keep money at home.
iii. To get an inflow of gold.
iv. To develop 'key industries'.
v. To attain self-sufficiency.
vi. To secure diversification of occupations.
vii. To prevent dumping of foreign goods.
viii. To create employment.
ix. To correct adverse balance of payments.
x. For the country's defense.
xi. To safeguard the interest of high-wage labor.

2.7.2. Arguments against Protection:

Protection is not an unmixed blessing. It has some positive disadvantages or dangers too. Some of these dangers are given below:

i. Home manufactures become lethargic. Protection acts like an opiate.
ii. A loss in public revenues.
iii. Burden on consumers. A poor consumer should be penalized to enrich the already rich manufacturer. Thus, inequalities of wealth distribution are further aggravated.
iv. Tariff is said to be the mother of trusts.
v. Danger of corruption.
vi. Inefficient concerns perpuated.

[10] Dewett, Kewal Krishan & Varma, J.D. (Reprint 1999) Twenty-Fourth Revised Edition, ***Elementary Economic Theory,*** Ram Nagar, New Delhi-110055, India:: S Chand & Company Ltd pp.439-442

vii. Misdirection of resources.
viii. Vested interests are created.
ix. Danger of retaliation from aboard.
x. Choice limited.

2.8. Nepal's International Trade:

Nepal started to institutionalize its trade statistics in the fiscal year 1956/57 when it initiated its development plan. Its trade relations with India & Tibet are very old. Now, it has established its trade relations with more than 100 countries. Similarly, it has acquired financial support from many countries & donor agencies, Realizing the fact that foreign trade is an appropriate means for rapid economic development, the country is giving importance to the sustainable development of the external sector adopting trade promotion policies in different times, Consequently, the volume of trade has been increasing gradually. [11]

2.8.1. Structure of Nepal's Foreign Trade:

No country can be self-sufficient. Nor can all the products be produced efficiently by all the countries. Specialization is essential to gain benefits of comparative advantage through trade.[12]

The importance of a country's foreign trade is determined, in the main, by its need for imports, & that, in turn, depends on several factors, such as: [13]

- Its possession or lack of the raw materials used in manufacture.
- The density of its population & whether its people can be nourished on the produce of its own soil.

[11] Kaflke, Shiba Devi (Baishak 14, 2063) ***Evolution of Trade Policies of Nepal,*** Nepal Rasrta Bank, Baluwatar, Kathmandu, Nepal,pp40-41

[12] Agrawal, Govinda Ram (Dr.), (January 2007) New Edition, ***Dynamics of Business Environment in Nepal***, M.K. Publishers, Bhotahity, Kathmandu, Nepal. Pp.203

[13] Walton, L.E. (Thrid Edition October 1967) ***Foreign Trade And Foreign Exchange- Their Theory and Practice,*** Macdonald & Evans Ltd. 8 John Street, London, W.C.i

- The extent to which it has become industrialized.
- The standard of living attained by the people.

Oxford Dictionary defines "trade" as buying & selling of goods; exchange of goods for money or other goods. Foreign trade is thus the trade between another or from other countries. The transaction of products through exports & imports between countries is called foreign trade. Trade serves as an "engine of growth". It promotes market expansion, technology transfer & product specializations. It generates income, employment, & foreign exchange earnings. Foreign trade is conducted at wholesale level. But this has not been applied to the developing country, Nepal.

Nepal presents a unique foreign trade scenario. Historically, the trading relations with India & Tibet have been strong. Till 1951, Nepal was kept in a state of virtual isolation from the outside world. It was only in 1956 that the country launched its first Five Year Plan & got into the process of development. But till 1960, no attempt was made to diversify the country's overall trade. Till 1970s, Nepal's exports were mainly primary products & imports were finished products & imports were finished goods. The country's overall trade was confined to India alone. Since 1970s, Nepal has followed a policy of trade diversification. After the establishment of Trade Promotion Center in 1971, the shares of India's trade gradually declined & the share of overseas improved. [14]

The foreign trade of Nepal is growing. But the growth is seen not favorable to the economy of the country. Imports exceed exports. Nepal's adverse trade balance is increasing rapidly. Nepal has been experiencing adverse balance of trade since 1960.

2.8.2. Country-wise & Commodity-wise of Nepal's Foreign Trade:

[14] Shrestha, Shyam K. (Dr.), (2008) Third Edition ***International Marketing Decisions-Nepalese Perspective,*** Anamnagar-32 (Buddha Academic Building), Kathmandu Nepal: Buddha Academic Enterprise Pvt. Ltd.

During the Malla Regime, the foreign trade of Nepal was fully dominated with the neighboring countries India & Tibet Autonomous Region. The foreign trade of the country was boosting rapidly. But after 1960, the country started to face the adverse trade balance.

The country-wise structure of Nepal's foreign trade is also changing. Trade relations limited to two neighboring countries have been extended. Trade relations have been developed with more than 100 countries. But India is still the most important trading partner of Nepal. It shares total trade is 50-60% of the total foreign trade of the country. [15] For smoothing the trade relationship with India Nepal has signed the Nepal-India Commercial Treaty which will be automatically renewed for further next five years since 6 March 2007. As it was in the past, all the provisions of this treaty will be effective & facilities provided by the treaty will continue.

But currently it is expecting to undergo further changes in the coming years due to its WTO membership.

The commodity-wise structure of exports has changed. The export structure has changed from the domination of manufactured products. This has resulted from exports of woolen carpets & ready-made garments. Conventional items like foods grains & jute have lost prominence. Carpets & garments account for lion's share of exports.

The import structure has also changed. Industrial raw materials, petroleum products, chemicals, drugs, machinery, transport equipment, etc have experienced high rates of growth for imports. [16]

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[15] Agrawal, Govinda Ram (Dr.), (January 2007) New Edition, ***Dynamics of Business Environment in Nepal***, M.K. Publishers, Bhotahity, Kathmandu, Nepal. Pp.204

[16] Agrawal, Govinda Ram (Dr.), (January 2007) New Edition, ***Dynamics of Business Environment in Nepal***, M.K. Publishers, Bhotahity, Kathmandu, Nepal. Pp.204

2.8.3. Transit Points of Nepal for International Trade:

The major transit points of Nepal for international trade are as follows:

1. Towards India: ***(Nagarkoti & et. al, 2007:44/Shrestha, 2008:309)***
   - Pasupatinagar/Sukhia Pokhari
   - Kakarbhitta/Naxalbari
   - Mechi, Bhadrapur/Galgalia
   - Biratnagar/Jogbani
   - Setobandha(Sunsari)/Bhimnagar
   - Hanumannagar, Rajbiraj/Kunauli
   - Siraha, Janakpur/Jaynagar
   - Jaleswar/Bhitamore(Sursand)
   - Malangawa/Sonabarsa
   - Gaur/Bairgania
   - Birjung/Raxaul
   - Bhairahawa/Nautanwa
   - Koilabas/Jarwa
   - Krishnanagar/Barhni
   - Nepaljung.Nepalgunj Road
   - Rajpur/Katerniyaghat
   - Prithvipur/Sati(Kailali)/Tilkonia
   - Kanchanpur, Dhangadi/Gauriphanta
   - Mahakali/Jhulaghat(Pithoragarh)
   - Mahendranagar/Banbasa
   - Taulihawa/Khunwa
   - Darchula/Dharchula

2. Towards China ***(Nagarkoti & et. al, 2007:44)***
   - Tatopani
   - Olanchun Gola
   - Kimanthanka
   - Lama Bagar

- Larke
- Likchya
- Namja
- Chulu
- Tikar

3. Other important transit points: (***Economic Survey, 2007/08:100***)
    - Tribhuvan International Airport
    - Birjung Dry port
    - Kolkota Port
    - Phulbari Banglabandh Route

2.9. Nepal's Trade Relations:

2.9.1. Nepal-Tibet (China) Trade Relation:

In spite of the most formidable physical barriers standing between Nepal & Tibet, commercial intercourse between the two countries was very close and intimate from time immemorial. Until the dawn of this century, Nepal was the main route of trade not only between Nepal-Tibet and China but also between India and these countries. This favorable geographical position contributed to the prosperity of Nepal Valley through a growing trade, particularly between Nepal & Tibet, not only in goods of Nepalese origin but also in goods of Indian & Chinese origin. Through the goods in trade ranged from the most precious articles to the minor items (*Hira Dehki Kira Samma*), this principal stems of export from Nepal to Tibet compose mostly of copper, brass, bronze & other metal goods & some manufactured commodities imported from India. In return, Nepal used to import from Tibet, coarse woolen goods, raw wool, musk, salt, chaury cattle, borax, quick-silver, bullion, etc. of which greater part of musk, borax and bullion used to be re-exported to India. In brief, Tibet region of China was for a long time an important hinterland for the entrepot trade of Nepal.

The growing trade between Nepal & Tibet should not be attributed altogether to the fact that Nepal was for a long time the main route of trade between her neighboring countries. The ancient commercial policy of Nepal should also be considered as a paramount factor contributing to the long sustained growth of Nepalese trade with Tibet. From the ancient time down to the middle of 19th century, Nepal had shown on the whole a great foresight & wisdom, even by restoring to force, in safeguarding trade & industry of the country. During the Malla period, the Malla rulers had adopted suitable rules for safeguarding interests of Nepalese traders settling at Lhasa. The commercial laws framed by Kaji Bhim Malla may cite evidence. On the ground of discriminatory increment of custom duty by Bhote on import of Nepalese merchandise as well as on other grounds, there raged between Nepal & Bhote a conflagration in 1791 & in the Treaty concluded later on, every Nepali citizen, other than the armed one, was granted facilities to establish factory & carry trade in Bhote & China. The Treaty of Peace between Nepal & Tibet of 1856 concluded after the second war of the two countries, also contained, among other things, the following articles:

> *Article III: "Tibet shall not levy taxes (on route), duties (on merchandise) and rates (of any other kind) leviable by Tibet on the merchants and subjects of the country of Gorkha."*
>
> *Article VI: "The Gorkha Government will establish its own trade factory at Lhasa which will be allowed to trade freely on all kinds of merchandise from gems ornaments to articles of clothing and food."*

Nepal-Tibet trade, however, declined considerably after 1904 when Younghusband undertook an expedition to Lhasa in 1903. Lhasa could not but enter into an agreement which resulted in signing of a Treaty with Britishers in September, 1904. The Treaty made provision, among other things, "for the opening of three trade marts, one at Gyantse, one at Yatung and the third at Garkot." As a result, the direct Gyantse & Chumbi Valley routes between Tibet & British India were opened, these new routes eventually proved to be better & easier commercial routes & hence, the trade traffic hitherto passed through Tatopani-Rasuwa & Kuti-Kyerong was diverted to Kalingpong. As one English author admitted, the volume of trade that had hitherto ebbed & flowed along the

Kyerong & Kuti roads through Nepal diminished to a great extent. This ravaged the Tibetan market for Nepalese goods & the role which Nepal played in Younghusband’s expedition to Lhasa led ultimately to her own injury. It is believed that the Peking-Lhasa road constructed after Tibet became a part of China, further detracted the traffic, shrinking further the possibilities of the border trade.

In August 1955, Nepal & China signed an agreement at Kathmandu which established normal diplomatic relation between the two countries on the basis of Five Principles of Peaceful Co-existence. In a joint communiqué issued after the conclusion of the agreement, the two Governments expressed their “belief that the establishment of diplomatic relations will also promote further development in cultural & economic co-operation between the two countries.” This was, in fact, a prelude to the signing of a more comprehensive agreement on September 20, 1956 to maintain friendly relations between the two countries & to promote trade & intercourse between Tibet region of China & Nepal, This agreement abrogated all treaties & documents which existed in the past between Nepal & China including Tibet. It was animated by the desire of the two governments to maintain & develop the traditional contact between Nepal & the people in Tibet region of China, It has, therefore, been provided that nationals of both the countries might trade, travel & make pilgrimage in those places of each country’s territory as agreed upon by the Governments. Provision has also been made for establishment of equal number of Trade Agencies of one Government within the territory of the other at specified locations & also the places of trade for nationals of both countries. (***Shrestha, 1981:144-146***)

The agreement of 1956 was revised during 1968, 1974 & 1981. After 1981 revised agreement, more additional transit points were agreed to open. Similarly, the agreement was agreed to open. Similarly, the agreement was taken place between Nepal & China in 1992 & 1994 respectively. In 1984 Nepal-China Treaty, both parties went: (***Dahal, 2057:159***) [17]

1. To do the business through L.C.
2. Agreed for trade promotion
3. Increase on road transportation facility
4. To flow the Nepalese goods to other parts of China through Lhasa.
5. To give facilities to Nepali settled in Lhasa for doing business as provided to China's citizens.
6. To establish direct air route between Kathmandu & Tibet.

2.9.2. Nepal-India Trade Relation:

As with Tibet, Nepal has a direct trade relation with India from time immemorial. Because of easily accessible trade routes, the volume of trade between Nepal & India was always on a large scale. Before the 19th century, imports from India consisted of a few items of which scrap metals, precious stones, spices, tobacco, etc. were notable. Some luxurious goods such as Do-patta, Malmal & European goods were also imported even before the 19th century. However, such imports might be on a very limited scale, because these goods were found in use only among the few chiefs of nobility classes in Nepal. During this period, Nepal used to export to India not only the goods of Nepalese origin but also the goods of Tibetan origin. As stated above, greater part of musk, borax, quicksilver, bullion, etc., imported from Tibet used to be re-exported to India from Nepal. Among indigenous goods, rice, timber, hides, honey, wax- ghee & some artistic metal wares were the principal items of export from Nepal.

During the 19th & early 20th centuries, when Nepal had already developed fascination for superior goods, the composition of imports from India underwent some change, but the export pattern of Nepal remained virtually the same.

[17] Dahal, Ramhari (Baishak 14, 2057) ***Nepal-Tibet Aarthik Sambandha: Aak Samichha,*** Nepal Rasrta Bank, Baluwatar, Kathmandu, Nepal,pp.159

Even before the 19th century, the British East India Company was also interested to establish trade relations with Nepal for expansion of its own exports. During Nepal-Tibet war of 1791, the East India Company proposed a 7-Clause Trade Treaty under which the imports & exports of merchandise between Nepal & British India would be subject to only 2.25% of the custom duty. The Treaty though concluded in March 1792, could not, however, be put into effect. Colonel Kirkpatrick, who had come to Nepal as a leader of the so-called peace mission, also made an attempt for negotiating trade treaty in the interests of her own trade & industry. The Anglo-Nepal Treaty of 1815, however, made possible for the first time the British infiltration into Nepal to a considerable extent. One English author admitted that the Treaty "affected the importation of English & European articles to the exclusion of those from China & Tibet."

Before the opening of this century, entrepot trade of Nepal with India was quite significant. For instance, brocades, raw wool, yak tails, musk, herbs, bullions, etc, used to be imported by Nepal from bordering towns of Tibet for their eventual re-export to India. But the entrepot trade was paralyzed with opening of Gyantse routes after Younghusband's expedition to Lhasa & consequent Anglo-Tibet Peace Treaty of 1904, since these new routes established a direct commercial link between India & Tibet at the cost of the old trade routes of Nepal through Tatopani & Rauswa & then Kuti & Kyerong.

The first trade treaty with British India was, however, signed only in 1923.

> *The Article VI of the Treaty provided that "No customs duty shall be levied at British Indian ports on goods imported on behalf of the Nepal Government for immediate transport to that country….."*

This encouraged the inflow of the British goods into Nepal & affected adversely the indigenous crafts of the country. The Treaty would have been advantageous to the country, if imports were regulated in the interests of home industries. But a free trade policy & "unrestricted imports of mill-made products sounded the death-knell of the ancient crafts & industries of Nepal."

Indo-Nepal trade was governed by the Treaty of 1923 until it was replaced in July 1950 by the Treaty of Trade and Commerce between Nepal and India. The new Treaty was commendable in so far as it recognized the full & unrestricted right of Nepal to commercial transit of all goods & manufactures through the territory & ports of India. Accordingly, the Government of India agreed to allow all goods imported at any Indian port & intended for re-export to Nepal without breaking bulks *en route* & without payment of any duty at any Indian port. Similarly, Nepal enjoyed under the Treaty full & unrestricted right of commercial transit through the territory & ports of India of all goods & manufactures of Nepalese origin for export outside India. The second important provision of the Treaty was that both Governments agreed to assist each other by making available commodities which were essential to the economy of the other. They also agreed to promote contacts between the trade interests of the two countries & to facilitate the use of routes & method of transportation which were most economical & convenient.

Apart from political inconveniences due to cumbersome procedural difficulties, the criticism against the Treaty centered around its:

> *The Article V of the Treaty provided that "The Government of Nepal agree to levy at rates not lower than those leviable, for the time being, in India, customs duties on imports from & exports to countries outside India. The Government of Nepal also agree to levy on goods produced or manufactured in Nepal, which are exported to India, export duty at rates sufficient to prevent their sale in India at prices more favorable than those of goods produced or manufactured in India which are subject to central excise duty."*

Whatever might be the intents & purposes of the Article, it was tantamount, on the whole, to denial of right of a country to pursue its own independent tariff policy. Thus, irrespective of any consequences to her own trade, industry, revenue-resources, etc., Nepal was required to follow a tariff which was in keeping with either the Indian tariff policy in the case of the imports from & exports to countries outside India or with the Indian price level in the case of the exports to India of all the goods which were subject to Indian central excise duty. This sort of unilateral sub-ordination does not conform to the sprit of international trade relations through various devices such as free trade area & common market. Two countries or more, usually adopt a common tariff in respect of third countries only when the market to one member country were thrown open to another country without any trade barriers & the common tariff were also determined by mutual consultations in the interests of all member countries. While India was at liberty to adopt her own tariff policy in respect of third countries, Nepal, was, however, required to follow the same irrespective of the fact that the conditions of trade, industry & other requirements of Nepal were different from those of India. Though the Treaty was signed for "facilitating & furthering trade & commerce" between the two countries, The Article V, however made it difficult for Nepal to expand her trade with India at least in some goods.

The Treaty of Trade and Commerce of 1950 was replaced by the Treaty of Trade and Transit between the two countries in September 1960. The Treaty, which came into force on the 1st November 1960, was directed towards the goal of a "common market."

> *The Article II of the Treaty provided that "Subject to such exceptions as may be mutually agreed upon, goods originating in either country and intended for consumption in the territory of the other shall be exempted from custom duties and other equivalent charges as well as from quantitative restriction."*

This Article by itself would, have been subject to a severe criticism. In common market, competition is the rule rather than an exception and as such the most efficient firms survive at the cost of less efficient ones. A member country can expand its market within the free trade area or common market zone only when it can produce at lower costs, when the aggregate demand remains unchanged or at the same cost, when the aggregate demand increases, The gains that are theoretically available will not be exploitable in practice if the firms of a member country are technologically less efficient. In such a case, the situation for the less efficient members will be worse than before as the common market arrangement with its fundamental feature of eliminating all trade barriers may enable the more efficient members to make heavy inroad in the internal markets of the less efficient & weaker members. This difficulty will not, however, arise if two or more member countries at different stages of development are not treated as equal & some concessional or escape-clauses in favor of the less efficient members are provided.

The Treaty of 1960 has made similar provisions in favor of Nepal. In the note exchanged between the two Governments after the signing of the Treaty, it is specified that "His Majesty's Government of Nepal, having regard to their requirements of raising resources for the economic development of Nepal, may continue to levy existing import and export duties on goods imported from or exported to India" and at the same time, "In order to assist Nepal's industrial development, the Government of India agree that His Majesty's Government may impose protective duties or quantitative restrictions on such goods as may be produced by newly established industries in the country."

These facilities will be readily exploitable only when the Nepalese industries will be technologically efficient enough for producing goods, at least, at the same cost as those prevailing in the corresponding Indian industries, ignoring altogether the transport charges. In early stages of development, a number of factors such as skill, capital, managerial talent, experience, & environmental will, however, limit the capacity of Nepal to attain a required level of efficiency, Moreover, the Treaty was signed for a period of five years & five years will be too short a time to bear any fruitful results, particularly in a situation where Nepal has yet to start almost from scratch. It is, however, gratifying that Article XIV of the Treaty made provision for the extension of the Treaty by another five years subject to such modification as may be agreed upon, unless terminated by either party by giving notice of not less than one year in writing.

As against the Treaty of 1950, the Treaty of 1960 provided that the trade of two countries with the third countries "shall be regulated in accordance with the respective laws, rules and regulations relating to imports and exports" subject to the qualification that "if Nepal pursues a policy divergent from that of India, there will be mutual consultations, so as to ensure that there is no flow into India of goods imported from third countries." It was also provided that "payment for transaction with third countries will be made in accordance with the respective foreign exchange laws, rules and regulations of the two countries." It may be recalled that before this Treaty "all the necessary foreign exchange for imports used to be granted against import licenses issued by the Government of India" & all the foreign exchanges accruing to Nepal used to be handled by the Reserve Bank of India.

As the Treaty of 1950, the Treaty of 1960 also provided transit facilities to Nepal. Thus the "Goods intended for import into or export from the territories of either contracting party from or to a third country, shall be accorded freedom of transit through the territories of the other party." Traffic in transit was exempted from customs duty & from all transit duties or other charges imposed in respect of transit. Moreover, for the regulation of traffic in transit, the Government of India has agreed to arrange a separate shed in Calcutta Port area where all goods in transit may be stored, pending onward transmission to or from Nepal, in accordance with the specified producers.

The Treaty of 1960 expired on 31 October 1970 but a new Treaty of Trade and Transit was signed in Kathmandu only on 13 August 1971 with effect from 15

August 1971 for a period of five years, subject to renewal for a further period of five years by mutual consent. (***Shrestha, 1981:146-151***)

2.9.3. Nepal-Overseas Countries Trade Relation:

Because of a relative backwardness of the economy as well as the political & physical isolation of the country, Nepal had but limited trade with overseas countries. Before the Second World War, Nepal used to import her requirements from countries Like England, Japan, Burma (Myanmar), Singapore, etc. The cheap cotton textiles goods from Japan & food-grains from Burma were imported in large quantities until the outbreak of the war. After the war, the subordinate position of Nepal with India in respect of her foreign exchange requirements affected adversely the expansion of trade with countries outside India. To this may be added the Indo-Nepalese Treaty of Trade and Commerce of 1950 which required Nepal to follow a common tariff policy with India in respect of the countries outside India, irrespective of her peculiar conditions & requirements. (***Shrestha, 1981:158***)

2.9.4. Nepal-Bangladesh Trade Relation: [18]

Bangladesh is one of another nearest neighboring country of Nepal. It is situated about 20-25 Km. east of Nepal's border. Between these two countries, certain part of India is situated. So, to trade with Bangladesh, Nepal has to bypass the land of India.

Nepal & Bangladesh had gone on trade & transit agreement on 1973 for the first time. According to this agreement, Nepal can use the Chittagong Harbor & Khulla-Chalna (Now Moungal) Harbor. At the same time, Nepal was given permit to use roadways & railways for trade & transit purpose at Biral, Banglabandh, Chilhati & Benapol.

[18] Dahal, Ramhari (Baishak 14, 2056) ***Nepal-Bangladesh Byaparma Phulbarimarg: Aak Charcha,*** Nepal Rasrta Bank, Baluwatar, Kathmandu, Nepal,pp.163-171

But to use these ways, both the counties have to take permit from India to use her land. At the time, India, permitted to use Radhikapur to Biron of Bangladesh roadway in 1978, But it was economically not viable. Only after the visit of India's Prime Minister, Indrakumar Gujral in June 5-7, 1997 at Kathmandu, India & Nepal came to an agreement to provide the route.

Finally in September 1, 1997, the route of Kakadvitta-Panitanki-Naxalbadi-Bagdogra-Ghosepur-Phulbari Banglabandh started. It was of 41 km long as known as "Chicken Neck" by Indian for its sensitiveness.

In early days, only 2 days of week-Saturday & Sunday was only opened but form the request of Nepal to India, it started to come in operation for 4 days of a week. And from 1998 July1, India permitted to use whole week. In an inauguration of route, Nepal exported 3 containers full of 36 tons red lentils & 10,800 kg of Jumla's apples (Royal Delicious, Red Delicious & Golden Delicious) to Bangladesh.

In 2055 B.S., Kartik, Nepal exported 2 trucks of Jumla's apples, 2055 B.S. Falgun exported 5 metric tons large hybrid tomatoes, & on 2055 Asoj 2340 metric tons of rice worth U.S. $ 2,08,440. Nepal has imported 834 metric tons nutrient grains from Pakistan & few quantity or electric battery from abroad from this route. (***Dahal, 2056:170 & Economic Survey, 1998-99:104***)

2.10. Trade/Commercial Policy, 1992: [19]

The GON has implemented commercial policy, 1992 with a view to regulate Nepal's foreign trade & enable it to contribute to nation's economic development. The main features of this policy are as follows:

1. **Objectives**

   The objectives of this policy are as follows:

[19] Joshi, Shyam(Dr.) (Second, 2060) ***Economic Policy Analysis For M.B.S., M,B.A. & M,A,*** Baluwatar, Kathmandu, Nepal: Taleju Prkashan. Pp.293-297

a. Increase internal & international trade by the increased participation of the private sector through the creation of open & liberal environment & increase the contribution of this sector in the economy.
b. Diversify trade by the identification, development & production of new exportable goods through the encouragement of backward linkage that increase the export trade in a competitive & sustained manner.
c. Expand trade in a sustainable manner by reducing trade imbalance gradually
d. To link the compatibility of this sector with other sectors by expanding the employment-oriented trade.

2. Trade Policy

The trade policy is as follow:

In order to go on increasing the role of the private sector in the trade sector the role of the government will be minimized & be used only as a catalyst for the change.

a. The liberal & dynamic trade policy will be adopted with an objective to well-mange the balance of trade of the country by increasing export so as to earn foreign exchange besides fulfilling the internal demand in a good manner.
b. The production of both types of goods & services that are consumed at home & exported will be increased in good quality so that the economic resources will be properly & effectively used.
c. Special effort will be made to increase trade country wise & commodity wise.
d. The liberal procedure will be adopted to attract foreign direct investment.

e. The trade corporations run under the government sector will be privatized gradually.
f. The foreign exchange policy will be changed & appropriate monetary & fiscal policies will be adopted to make Nepali money fully convertible for above acts. Besides, the administrative procedure will be radically reformed & will be made simple, transparent & dynamic.
g. Necessary improvement will be made in the tax system & will be made simple to maintain competitiveness in trade.
h. In order to increase international trade the existing trade agreements & the treaties with different countries will be implemented effectively & new treaties will be made according to need.

3. Export Policy

The export policy is as follows:

a) The exportable goods will be made competitive in the international markets by international markets by increasing & upgrading the exportable goods.
b) Efforts will be made to increase export by diversifying the commodity wise & service wise export with an aim of increasing the income of foreign exchange.
c) The export will be increased by increase the traditional & new exportable goods qualitatively. Likewise, emphasis will be given on the export of more profitable processed & finished goods. Similarly, export will be increased by identifying new markets for these goods.
d) The earning of foreign exchange will be increased by identifying appropriate new industrial product so as to increase profitable employment.

e) The earning of foreign exchange will be increased by developing the service-oriented business.

f) Encouragement will be made to export hydro-electricity profitably.

g) Effort will be made to increase service-oriented activities by developing desirable & feasible people's skill for the proper use of manpower & the export of those skills will be increased systematically.

h) The monetary, exchange & fiscal policies will be devised to carry above works promptly & transparently. Likewise, the administrative procedure will be made liberal, simple & dynamic by making drastic reform.

4. Import Policy

The import policy is as follows:

a. The import will be managed well to create competitive industrial & commercial situation by adopting the import as a means of export development & promotion & similarly to simplify the supply of the goods needed for the country by making proper mobilization of the available resources.

b. In order to encourage competition in production the quantitative restriction will be removed gradually & will be substituted by tax arrangement.

c. Similarly, import will be gradually linked to export.

5. Import License

The policy regarding import license is as follows:

In the process of gradually making the import trade open some goods have been restricted, for some goods license will have to take under auction system & the import of all of the rest had been made open. According to this arrangement the import of all industrial machinery & service including raw materials & consumer goods has been made open. Hence, license will have to be taken only for the goods having quantitative restriction; goods imported more than allowed for personal use & the goods included in auction.

6. **Foreign Exchange**

The policy regarding the arrangement of foreign exchange for the import of foreign goods is as follows:

a. Nepal Rastra Bank will provide foreign currency exchange facility in government rate for the goods specified by the government in gazette & for the foreign currency need by the government for its expenditure.
b. Nepal Rastra Bank will made available foreign currency required for the goods to be imported under auction system. The number of goods to be imported under auction will be gradually reduced & will be based on the market.
c. The commercial banks will made available foreign currency on the exchange rate determined by the market for all other goods including industrial materials & spare parts & for the principal & interest payment of the non-government sector.

7. **Internal Trade Policy**

The internal trade policy is as follows:

In order to manage the supply & distribution of the goods produced in the country & imported the environment will be created accordingly. There will be no restriction on the transfer of such goods for the purpose of internal trade. This arrangement will be applicable even in case of the transfer of exportable goods.

8. **Miscellaneous**

a. The import procedure will be made prompt & easy by improving the transport, custom & storage system of the goods imported.

b. The evaluation system of the imported goods will be reformed & will be made relevant.
c. The acts, rules & regulations relating to import & export will be revised & modified accordingly.
d. There will be continuous monitoring to conduct import & export without any difficult.

9. Institutional Arrangement

This policy has made arrangement for the establishment of Board of Trade. Foreign Trade and Research Agency and Nepal Trade Promotion Organization to manage the foreign trade, to solve the problems that come in the implementation of the announced policies & to promote foreign trade by furnishing various information.

2.11. Bilateral & Multilateral Treaty & Agreements Regarding International Trade:

2.11.1. Bilateral Trade Agreement with China:

An agreement between Nepal & China was signed to provide customs free facilities in the goods exported from Nepal to China on March 15, 2006. Nepal requested for customs free entry of about 1500 items to export to the central China, Hong Kong & Tibet. Agreement has reached to grant such facilities to most of these 1500 commodities. Among the goods Nepal demanded for such facility are primary agricultural goods, animal products, construction materials & consumption goods. Among the list of goods, handmade materials, fabrics, vegetable ghee, aluminum utensils, cement, iron rods, biscuit, incense sticks(*aagarbati*), noodles are also included for such facility. The facility will foster the competitive capacity of the Nepalese goods in the Chinese market creating the possibility of new trade & also it will help diversify the market. This provision will help Nepal reduce the trade deficit between the two countries. (***Economic Survey, 2005/06:88***)

2.11.2. SAFTA Agreement:

In the 12th SAARC Summit meeting held in Islamabad on 6th January 2004, an agreement on South Asian Free Trade Area (SAFTA) was signed. According to SAFTA Agreement, in the first phase developing countries(India, Pakistan & Sri Lanka) & the least developed countries (Bangladesh, Bhutan, Maldives & Nepal) have to reduce their customs rates to 20% & 30 % respectively during the period 2006 & 20008. Afterwards, India & Pakistan by 2013 & Sri Lanka by 2014 have to reduce their customs tares to 5% & less. In the same way, least developed countries have to reduce their customs rates to 5% & less by 2016. (***Economic Survey, 2005/06:88***)

2.11.3. BIMSTEC Agreement:

The Ministerial level meeting of BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)-Regional organization established in June 1997 to increase economic cooperation among Bangladesh, India, Thailand & Sri Lanka-held on 8th February 2004 in Bangkok signed an agreement paper containing the concept of BIMSTEC Free Trade Area. The agreement of BIMSTEC Free Trade Area In goods trade will be effective from July 2006 & From July 2007 in investment & service trade. The member countries of BIMSTEC have formed Trade Negotiating Committee (TNC) to forward the program. Nepal has become the member of the organization in February 2004. (***Economic Survey, 2005/06:88-89***)

2.11.4. WTO Agreement:

WTO is an international organization based on international agreement to promote cooperation. Nepal became a member of WTO in 2004.

WTO was established on 1 January 1995. It is successor to the GATT (General Agreement on Tariffs and Trade). It is the legal & institutional foundation of the multilateral trading system. It is the platform on which trade relations among countries evolve through collective debate, negotiation & adjudication. It covers trade in goods, services & intellectual property. It is based on rules which need to be followed by all members. They cover 90% of global trade.

At present, WTO has 148 members. Only two of the members are least developed (Nepal & Cambodia). (***Agrawal, 2062:75-76***)

2.11.4.1. Introduction to WTO:

World Trade Organization (WTO) is the hue & cry of the day all over the world. Emerging challenges & opportunities become serious concerns particularly for developing & least developed countries. The history of WTO can be traced back in Bretton Woods's Conference of 1944 A.D. It is well known fact that Bretton Woods's twins-the IMF & the IBRD, sprang up out of the deliberations of this conference, which is a landmark event in the international financial management. This conference, on the insistence of British delegates led by J.M. Keynes also recommended setting up International Trade Organization (ITO). In 1946, Economic and Social Council of the UN began to prepare the charter of the proposed ITO. Unfortunately it could not materialize in the same form. The first tariff negotiating conference was held at Geneva in 1947 & a multilateral contract was signed on October 30, 1947. It became effective from January 1, 1948 which is commonly known as GATT. From January 1, 1995, GATT was replaced by WTO, through the several rounds of multilateral negotiations taken place in almost five decades. It came into existence for harmonizing international trade environment for the entire world economy after years of negotiations among more than 120 countries with new global agreements, rules & regulations. It binds member countries in a global co-operative endeavor & acts to strengthen the resources to the best. (***Das, 2003:134-135)***

2.11.4.2. WTO-A Third Pillar of Bretton Woods System: [20]

WTO is also considered as an outcome of Bretton Woods's system. With the formal establishment of the WTO, the wheel has come full circle in the sense that

[20] Das, Ghanshyam Lal (Dr.) (July, 2003) ***World Trade Organisation:Some Emerging Issues in Nepalese Context,*** Nepal Rasrta Bank, Bankers' Training Center, Thapthali, Kathmandu, Nepal: ,pp.136

the establishment of the Troika, envisaged in the aftermath of the second world war-namely the IMF, the World Bank, & the ITO, is complete. WTO is now being considered as the third pillar of Bretton Woods's system as it supplements & strengthens the policies & pressure of IBRD & IMF's liberalization privatization & globalization. The WTO succeeds the GATT, which was conceded as the third pillar of the Bretton Woods system. It is the product of the long process of the multilateral negotiations of several rounds taking almost four decades. Thus, it can be said that WTO is established to co-operate complement to the IMF, IBRD & other affiliated international agencies to create a new dynamism & vitality in international trade & global economy. (***Das, 2003:136)***

2.11.4.3. Organizational Structure of the WTO: [21]

In the organizational structure, the Ministerial Conference is the highest authority of the WTO. It is composed of representatives of all WTO member countries at the ministerial level, & may take decisions on all matters under any of the multilateral trade agreements. The conference is required to meet in least every two years. The General Council, which is also composed of representatives of all WTO members, is required to report to the Ministerial Conference & conducts much of the day-to-day work of the WTO. The council delegates are responsible to three other major councils, viz., Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS), Council for Trade in Goods & Council for Trade in Services.

The WTO Secretariat comprises 500 staffs about. Its responsibilities include the servicing of WTO delegate bodies, with respect to negotiations & the implementation of agreements, undertaking accession negotiations for new members & providing technical support & expertise to developing countries. There is a provision of appointing a Director-General & four Assistance-Directors. The Secretariat is headed by the Director-General.

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[21] Shah, R.K. (Dr.) (July, 2003) ***Accession of Nepal to WTO: Challenges and Opportunities,*** Nepal Rasrta Bank, Bankers' Training Center, Thapthali, Kathmandu, Nepal: ,pp.131

The head quarter of the WTO is located in Geneva, the capital city of Switzerland.

2.11.4.4. Objectives of the WTO: [22]

The WTO was established in order to achieve certain objectives. The major objectives are as follows:

1. To follow on conditionally the most favored-nation(MFN) principle,
2. To carry out trade on the principle of non-discrimination, reciprocity & transparency,
3. To grant protection to domestic industry through tariffs only.
4. To liberalize tariff & non-tariff measures through multilateral negotiations,
5. To conserve environment for protecting natural resources & bio-diversity.
6. To enhance trade liberalization among different countries,
7. To establish & develop the multilateral trade,
8. To preserve & further develop the fundamental principles of multilateral trade system, etc.

2.11.4.5. Working Framework of the WTO: [23]

The working areas of the WTO are as follows:

- Implement multilateral & bilateral trade agreements.
- Create a platform to talk for multilateral trade related matters.
- Make efforts to resolve the trade related disputes.
- Monitor the national trade policies.
- Support other international institutions involved in [planning world economic policies.

2.11.4.6. The Principles of Trading System:

i. **Trade without discrimination**: Under the WTO regime. Countries cannot discriminate between their trading partners. They are all equally treated by

[22] Shah, R.K. (Dr.) (July, 2003) ***Accession of Nepal to WTO: Challenges and Opportunities,*** Nepal Rasrta Bank, Bankers' Training Center, Thapthali, Kathmandu, Nepal: ,pp.131

[23] Shah, R.K. (Dr.) (July, 2003) ***Accession of Nepal to WTO: Challenges and Opportunities,*** Nepal Rasrta Bank, Bankers' Training Center, Thapthali, Kathmandu, Nepal: ,pp.133

one another. They are all equally granted *most favored-nation* (MFN) & they should not discriminate between their own & foreign products, or services. They are given national treatments.

ii. **Freer**: Lower trade barriers is one of the most obvious means of encouraging free trade the barriers concerned include custom duties & measures such as import bans, or quotas, red tape exchange rate policies, etc, that restrict quantities.

iii. **Predictable**: Foreign companies, investors & government should be confident that trade barriers should not be raised arbitrarily; future trade opportunities & the business environment become stable & predictable through regular monitoring of national trade policies by the Trade Policy Review Mechanism of the WTO. This may encourage the country investment, jobs are created & consumers can fully enjoy the benefits of competition. Especially choices & lower prices.

iv. **Promoting Fair Competition:** This rule on non-discrimination is designed to secure fair conditions of trade & an unfair practice like dumping & subsides are discouraged. The WTO agreements normally aim to support fair competition in agriculture, intellectual property, services, etc.

v. **More Beneficial:** More time to adjust, greater flexibility & special privileges are given to less developed countries for making more beneficial. (***Shah, 273:2007***)

Table No. 2.1

Nepal's Effort to Join WTO

Year	**Efforts**
1989	Nepal applied for GATT membership. Application rejected.
1991	New treaties of Trade & Transit signed between India & Nepal.
1992	Adopted partial convertibility exchange system.

1993	Nepal obtained observer status in GATT
1994	The additional custom duties merged with the basic custom duties to simplify customs administration.
1995, December	Government of Nepal formed a task-force to contemplate Nepal's entry to the World Trade Body.
1996, 9-12 December	Nepal applied for WTO membership; participated as observer in1st WTO Ministerial Meeting at Singapore in December 1996.
1997, 17 February	Committee formed for Nepal's accession to WTO under the cove nor- ship of Secretary, Ministry of Commerce; Nepal became member of WIPO(World Intellectual Property Organization)
1998	Memorandum of Nepal's foreign trade regime submitted to WTO; Nepal participated as observer in 2nd WTO Ministerial Meeting & the 50th year celebration of multilateral trade agreement at Geneva in May 1998.
	Contd…
Year	**Efforts**
1999, 30 November-3 December	WTO raised 364 questions regarding Nepal's membership; HMG submitted answers to the questions. Nepal participated as observer in 3rd WTO Ministerial Meeting at Seattle, USA in November 1999.
2000	Nepal held bilateral negotiations with selected WTO members in September; suggestions received to further liberalize trade in services & reduce tariffs.
2001, 22-24 July	Participated the Least Developed Countries Trade Minister's Meeting held at Zanzibar, Tanzania.
2001, 22-23 August	Participated the SAARC Commerce Minister's Meeting Held at New Delhi, India for the preparation at the 4th WTO Ministerial Conference in November 2001.
2001, 30	Nepal participated in 4th WTO Ministerial Meeting at Doha, Qatar

November-3 December	in November 2001; it lobbied for priority in membership for least developed countries.
2002, September	In September 2002, Working Committee Meeting of WTO, 8 members have put conditions for Nepal's entry. They are European Union, India, USA, Canada, Norway, New Zealand, Australia & Japan. The conditions related to: • No increase in import tariffs. • Decrease in automobile import tariffs. • Cancellation of local & special charges. • Opening up of 30 areas in service sector.
2002, October	Conditionally positive with satisfactory result for WTO membership held in Geneva.
2003, 15th August	Formal decision was officially made by the meeting of the working party held in Geneva,
	Contd…..
Year	**Efforts**
2003, 11th September	• Nepal accession negotiations completed. • In September 2003, 5th Ministerial Conference of WTO held in Cancun, Mexico approved the text of protocol for Nepal's membership.
2004, 31st March	Fulfilled all the requirements to get the full fledge membership of WTO.
2004, 23rd April	Nepal became 147th member of WTO on 23 April, 2004

***Source: Agrawal, 2007:361-362 & Shah, 2007:272-273*.** [24]

2.11.4.7. Sixth Ministerial Hong Kong Conference of WTO & Nepal: [25]

[24] Shah, R.K.(Dr.), (Aug/Sep2007, Vol, 36, No,5 Edition 264), ***Mirmire Monthly,*** Bulwatar, Kathmandu, Nepal: Nepal Rastra Bank, Governor's Office, Public Relation Department. Pp. 272-273.

[25] Agrawal, Govinda Ram (Dr.), (January 2007) New Edition, ***Dynamics of Business Environment in Nepal***, Bhotahity, Kathmandu, Nepal: M.K. Publishers. Pp. 211-213.

The Sixth Ministerial Conference of WTO has held at the commercial center of Asia Island in Hong Kong from 13-18 Dec, 2005. This conference was successful in comparison to Seattle & Cancun because it has compromised on different topics providing commercial package for least developed countries of the world. Undoubtedly, the outcome of Hong Kong Ministerial was modest by any yardstick. However, the biggest achievement is that it did not become a flop. The second important result is for the second time in a row, the Southern countries remand strongly united telling the North that enough is enough.

2.11.4.7.1. Declaration of Hong Kong Conference:

- Custom free & quota less market access from 2008 A.D.
- Aid in infrastructure development relating with trade.
- Unconditional aid from donor countries.
- Discussion on open international migration process of laborers.
- Easy & transport Law of Origin.
- Adoption of Special Protection Method.
- Use of national raw materials in foreign invested industries.

2.11.4.7.2. Hong Kong Conference & Nepal:

This conference has opened doors to achievements like custom & quota less market access, aid for trade, service sector, TRIMS, Special Protection Method, etc. of Nepal as least developed country. These achievements will drive home the importance of multilateral trade mechanism. In short, the achievements of Nepal from Sixth Ministerial Conference of WTO can be shown by the following points:

- ❖ Aid for trade
- ❖ Custom-less market
- ❖ Unconditional aid
- ❖ Service sectors liberalization

- Transparent & easy Law of Origin
- Special Protection Method(Price & quantity of imported goods)
- TRIMS (Trade-related Investment Measures)

TRIMS are the measures adopted by governments to attract & regulate foreign investment that include fiscal incentives, tax rebates & the provision of land & other services on preferential terms. ***(Shah, 2007/08:127)***

The recently concluded 6th Ministerial level meeting of WTO held in Hong Kong has reportedly announced 'Aid for Trade' for the growth of developing countries such as Nepal &, if these programs are realized in practice, they may provide great boost to otherwise ailing economy of Nepal. Aid for Trade program guarantees:

- Quotas & customs free market access to the products of Nepal beginning 2008.
- Aid for developing trade related infrastructure in Nepal.
- Unconditional aids from the donors.
- Initiation of discussion over the free movement of labor force.
- Simplified & transparent Rules of Origin.
- Special protection measures.
- Use of domestic raw materials in industries with foreign investment.

For developing countries like Nepal, the quota & customs free access to developed countries appears very attractive as it, for the first time, guarantees unrestricted access for products of developing countries for which these countries have been struggling for nearly last half century in different international forum. Though it may appear attractive, its implementation is subject to the outcome of Doha Round of WTO negotiations which had started in 2003 & is planned to conclude by 2007. Furthermore, the agreement will take effect only from the year 2008. ***(Shah, 2007/08:128)***

2.11.5. International Transit Agreement relating to Sea Route for Landlocked Countries:

Majority of the economic backwardness of certain counties of the world was due to their land-locked character. So, for the access to the sea route for these countries various treaties, agreements & mutual understandings have been taken place in different time periods. Some of the major international transit agreements relating to sea route for landlocked countries are as follows:

1. Westphalia Treaty, 1648
2. Vienna Congress, 1817
3. President Udro Wilson's 14 points Agenda
4. Barcelona Convention, 1921
5. GATT, 1947-Some Sections
6. Sea-related Conference, Geneva 1958
7. New York Convention, 1965
8. Law of Sea, 1982- Prepared under the afford of UN

Among the above treaties, Barcelona Convention, 1921, Sea-related Conference, Geneva 1958, New York Convention, 1965 & Law of Sea. 1982- Prepared under the afford of UN are considered the important treaties & agreements for the use of sea-route for trade for the land-locked countries.

Nepal is also a landlocked country. So, the main policy of Nepal is to secure & exercise freedom of transit within the framework of the International Law for the most economical & convenient transit routes & appropriate transit facilities at each transit & transshipment points. Nepal's opinion in this regard is that transit treaty with India or nay transit state should be independent or de-linked from mutual trade treaty or nay other subject matte may have been guided by transit policy of Nepal.

2.12. The UN Conference on Trade and Development:

GATT/WTO was successful to boost-up the trade of the developed countries but it was not fruitful for the developing nations. So, to reduce the trade gap & to solve the problems relating to development, UN General Assembly brought a separate program under the UN Conference on Trade & Development. It was established on 30 June, 1964 as a special body of UN.

The assembly of UNCTAD-I was held on 30 June, 1964 at Geneva. 120 countries had participated at UNCTAD-I. The meeting tried to give the new direction to the world trade & to solve the problem on developed & developing countries.

UNCTAD-I meeting discussed on international trade diversification, financial situation, goods trading problems, manufactured & semi-manufactured goods trading, developing countries' problem, regional economic groups' affects, etc. The decision was made to include the decided agendas of UNCTAD-I in member countries' law & to call the UNCTAD meeting on every 3 years.

To look after the administration & managements, 55 trade & development board sit for the meeting twice a year. The board member will be elected from the member of UNCTAD. For the job operation of UNCTAD four committees are made. They are:

1. Primary & Agro-based Committee
2. Manufactured Goods Committee
3. Transportation & Invisible Trade Committee
4. Financial Assistance for International Trade Committee

These committees sit for meeting once in a year. ***(Ojha, 2051:741-742)***

2.13. International Trade Centre:

International Trade Centre (ITC) was created by GATT on 1 May, 1964 & joined by the United Nations acting through UNCTAD in 1968 with the mission of promoting the exports of developing countries by providing trade information & trade promotion advisory services to these countries, an original idea at that time. Initially ITC worked as part of the GATT Secretariat. Three professional officers & two general service staff members were seconded from the Secretariat to initiate the Center's work program under the general supervision of a senior staff member of the Secretariat. Meanwhile, the post of Chief of Service of ITC was publicly advertised, & on 1 October 1964 Herbert L. Jacobson was appointed Head of the Centre. At present, ITC has about 250 staffs at the ITC headquarter in Geneva & over 800 experts assigned to ITC projects in developing countries, who work under the Executive Director.

By early 1965 ITC was already becoming firmly established with a small but highly motivated staff; a lively leadership; an expanding work programme; & an effective liaison network of official contacts in both developing & developed countries.

The main reason behind the creation of ITC was that over the period 1950 to 1962 the developed market economy countries increased their share of a growing volume of world exports from 60% of the total, centrally planned economy countries expanded their portion from 8% to 13%, while developing countries saw their collective share decline from 32% to 21%. Furthermore, while world exports were moving up by more than 8% annually in the early 1950s, this figure had dropped to 5% by the beginning of the 1960s. One of the causes of this slower pace of expansion was the inability of developing countries to each a higher rate of export growth.

Thus, a debate on how to reverse these trends & improve the international trading performance of developing countries evolved within GATT & various organs of the UN system. After a series of meetings, an agreement was made to create ITC to serve the developing countries in various ways for promoting their export trade. ***(Shrestha, 2008:91)***

2.13.1. ITC's Area of Operation:

Actually, ITC is a technical cooperation organization, whose mission is to support developing, & transition economies, & particularly their business sectors, in their efforts to realize their full potential for developing exports & improving import operations with the ultimate goal of achieving sustainable development.

ITC works with developing countries & economies in transition to set up effective trade promotion programme for expanding their exports & improving their import operations in the following six key priority areas:

1. **Product & Market Development:** It includes direct export marketing support to the business community through advice on export product development, product adaptation & international marketing for commodities, manufactures & services.
2. **Development of Trade Support Services:** It includes creation &enhancement of foreign trade support services for the business community provided by public & private institutions at the national & regional levels.
3. **Trade Information:** It includes establishment of sustainable national trade information services & dissemination of information on products, services, markets & functions to enterprises & trade organizations.
4. **Human Resource Development:** It includes strengthening of national institutional capacities for foreign training & organization of direct training for enterprises in importing & exporting.
5. **International Purchasing & Supply Management:** It includes application of cost-effective import systems & practices in enterprises & public trading entities by strengthening the advisory services provided by national purchasing organizations, both public & private.
6. **Needs Assessment & Programme Design/Development:** It includes conception of effective national & regional trade promotion programmes based on an analysis of supply potential & constraints, & identification of related technical cooperation requirements.

In all of these services ITC gives particular attention to activities with the least developed countries.

ITC is a demand-driven organization responsive to national development objectives & programmes. It endeavors to deliver relevant & cost-effective services for sustainable development ends. Its staffs are committed to providing information & advice according to criteria implicit in the United Nations Charter: the highest standards of efficiency, competence, integrity & neutrality. ***(Shrestha, 2008:91-92)***

2.14. Problems of Trade & Transit of Nepal:

2.14.1. Trade-related Problems: [26]

The problems of foreign trade in Nepal are as follows:

1. **Inadequate Supply:** Nepal has a narrow export basket. Its production of traditional commodities, such as jute, rice, timber & ghee has declined considerably. The agriculture sector is growing slowly. It is largely subsistence-oriented. Inadequate supply of commodities has been a big problem for increasing exports.

   Nepal's industrial growth is slow. The capacity utilization by manufacturing establishments is poor. Most industries cater to the domestic market. The production is of small scale.

2. **High Dependency:** Export-oriented industries are few in Nepal. The dependence on selected products, such as carpets, garments, pashmina & handicrafts, is high. The dependency on USA for garment export & on Germany for carpet export is very high. The exports are concentrated to only a few countries.

3. **Intense Competition:** Nepalese products are not competitive. Products from India, China & other countries freely compete with Nepalese products in export markets. The price of Chinese products is very low compared to

[26] Shah, R.K. (Dr.), (2064 Poush, Sixth Ministerial Hong Kong Conference of WTO and Nepal, Baluwatar, Kathmandu, Nepal: Banking Promotion Board,. Pp. 125-129.

Nepalese products. Incentives for exports are inadequate in Nepal. Nepalese products suffer from high prices due to high costs.

4. **Poor-Quality:** The quality of Nepalese products is not properly controlled. The poor quality has adversely affected its competitive capacity in the export markets. ISO certification & Eco-labeling are just emerging.

5. **Unscrupulous Exporters:** Nepal has not been able to control unscrupulous exporters who export very low quality products to foreign countries. The export of carpets made out of wool waste is a case in point. The export of "Pashmina Shawl" has suffered greatly due to lack of poor quality.

6. **Undervaluation of Imports:** Most imported items to Nepal are undervalued for customs purposes. A recent study has found that textiles imported from Tibet region of China are undervalued by 50 to 95%.

   Undervaluation has resulted in low price of imports. Nepalese industries cannot compete with them. This is evident from the fact that almost all textile industrial units of Nepal remain closed.

7. **High Cost:** Nepalese exports suffer from high cost. The financial sector in Nepal is in a developing stage. The accessibility of credit for export purposes is limited. The cost of credit is high. The procedures & rules for credit availability are cumbersome. Corruption is rampant.
   - Costs of production are high due to low productivity, High import content in exportable products also adds to cost. Energy costs are very high. Transport costs are high & range between 15 to 20 % of commodity value.

8. **Tax-related Problems:** Duty drawback is reimbursement of custom duty & value added tax levied on raw material imports of exported goods. The duty

drawback system is cumbersome & time consuming. It requires lots of documentation.

- Exports are free from VAT. However, the government is charging VAT on exports as security deposit. Reimbursement of VAT is time consuming & cumbersome.
- The levy of 0.75% to 10% duties on exports has increased the cost of Nepalese exports.

Taxation also creates a lot of problems for exports. Tax harassment is too many. The imposition of income tax on export earnings has discouraged exports.

9. **Changing Government Policies:** Trade policies in Nepal change frequently. The licensing regime of the past has been replaced by open door policy. This has flooded Nepal with imports. But the incentives for exports remain inadequate.
   - Bureaucratic hurdles have constrained the effective implementation of trade policies. There is lack of coordination between government departments.
   - Labor laws are rigid & unfriendly for exports.

10. **Lack of Information & Research:** Nepal Lacks up-to-date information system for trade. The monitoring of movements & changes in international markets has been weak. The research studies for trade-related issues are few. Promotional efforts are inadequate. Export processing zones are lacking. Dry-port has remained ineffective.
    - Nepal's foreign trade has been adversely affected by the lack of up-to-date information & research.

11. **Conditionalities:** Western countries are imposing social & environmental clauses in their trade regime. Child labor & dyes that damage environment & health are prohibited in the production of export products. Various conditions

imposed by India also pose problems for Nepal's exports. Quarantine requirement for agricultural products is an example.

2.14.2. Transit-related Problems: [27]

Transit means the right to access to sea by land-locked countries. The problems of transit for Nepal's trade are:

1. **Poor Accessibility**: Nepal is landlocked. It has access to sea only via India. The Calcutta port is 1127 km away from Nepal. Transit is costly & time consuming for foreign trade. The Phulbari Banglabandh route to Bangladesh is not effective in practical terms. It is only 54 km from Kakarvita. In 2003, exports amounted to Rs.73 million & imports amounted to Rs.108 million through this route.

2. **High Cost**: Transit problems add to cost of Nepalese exports. Products either need to be airlifted or transported by rail-road-sea mode for exports. Logistical problems such as transporting, warehousing, handling, & customs clearance have added to cost. Demurrage charges in ports are heavy. Transport & transit costs range between 15 to 20% of product price. Damages & pilferages during transit have added to costs.

3. **Inadequate Facilities & Services:** Warehousing & other facilities in border customs offices & ports are inadequate. Multiple agencies in Kolkata Port need to be dealt with. Storage space is limited in ports, Facilities are poor on Phulbari Banglabandh Route
   - The Birjung Dry Port remains poorly utilized. It has been connected by railway line.
   - The railway line at Indian border towns is narrow gauge. They take long time for transporting goods to Calcutta. Railway wagon shortages are common.

[27] Agrawal, Govinda Ram (Dr.), (January 2007) New Edition, ***Dynamics of Business Environment in Nepal***, Bhotahity, Kathmandu, Nepal: M.K. Publishers. Pp. 214-215

- Exports must be transported overland through sealed containerized trucks. Containerized trucks are in short supply. Inland container depots are lacking.
- Waterways have remained undeveloped for transportation purposes.
- Supporting services such as clearing, forwarding, and brokerage are unreliable, inadequate, expensive, & time consuming. Damages & pilferages are common during transit.
- Nepalese exports are subject to tougher insurance requirements. They add to the costs.

4. **Treaty-Related Problems:** Nepal's transit relations with India are governed by Treaty agreements. The treaty is restrictive & requires renewal on a periodic basis. Implementation of the treaty suffers from harassment by officials at border points & ports.

2.15. Export Documentation for Nepal's Exports: [28]

The following documents are required for export from Nepal:

1. **Export Contract Form:** Between the seller & the buyer to confirm the sale.
2. **Commercial Invoice:** Prepared by exporter giving details of goods.
3. **Export License:** Issued by GON (previously HMG/N); makes the exporters legally binding to export.
4. **Certificate of Origin:** Issued by chamber s of commerce, certifies the place of origin of cargo.
5. **GSP Certificate of Origin:** Needed to get preferential treatment in tariffs in the importing country.
6. **Custom Transition Declaration Certificate (CTD Form):** Issued by Nepal border customs that goods are not of Indian origin & agreement for export from Nepal to third countries.
7. **Packing & Weight List:** Needed by shipping company to charge freight.

[28] Agrawal, Govinda Ram (Dr.), (January 2007) New Edition, ***Dynamics of Business Environment in Nepal***, Bhotahity, Kathmandu, Nepal: M.K. Publishers. pp. 216-217, & NIDC (1997) ***Doing Business in Nepal,*** Kathmandu. Pp10.5-10.6

8. **Letter of credit (LC):** Issued by buyer's bank authorizing the seller to draw a certain amount.
9. **Foreign Exchange Earning Bank Certificate:** Issued by NRB to ensure that foreign exchange earnings from exports will be repatriated to Nepal.
10. **Bill of Lading (Shipping Bill):** Issued by shipping company as a receipt of goods.
11. **Railways Receipt:** Issued by railway authorities as receipt of goods; needed for insurance purposes.
12. **Airway Bill:** Issued by airlines as receipt of goods; needed for insurance purposes.
13. **Insurance Policy:** To protect goods from loss or damage; issued by Insurance Company.

2.16. Trade Strategy in Underdeveloped Countries:

The underdeveloped countries always claim that the development of world trade is unfavorable to their growth, the terms of trade is moving against them & the market of their products is constant. In fact the foreign sector is lagging to them. The more country is underdeveloped, the more urgently it needs foreign exchange to import capital goods & other materials. When growth is hampered by foreign exchange constraints & it devaluation & foreign aid is ruled out the logical remedies would seem to include import substitution & promotion of commodities & manufactured products. But the narrowness of domestic market & their limited range of productive resources would inevitably impose severe constraints on their development possibilities if they attempt a autocratic strategy, Hence these are two choices between an outward looking development strategies is unreal for most less developed countries. Yet such strategies assume additional importance in land-locked under-developed countries. These strategies may be:

- Import Substitution

- Export Promotion

2.16.1. Import Substitution:

Under this import substitution policy a country imposes high tariffs & non-tariffs barriers to imports behind this shelter it expands domestic production to replace imports. It aims in minimizing the imports of various goods & services which can be produced within the country.

Import substitution industries are beneficial in under-developed countries when they are based on labor intensive technique.

Fundamentally the encouragement to import substitution industrialization to import substituting industrialization is a growth strategy aim to accelerate the pace of economic development. It can be justified by the compelling need of the large number of urban & rural labors force, utilizing their labor force they can raise the growth of per capita income also. Thus, the correct development strategy for an important sensitive economy should give strong preference to import substituting products in general. Such strategy can also be argued from political reason because this will strengthen the economic sovereignty of the country.

Being so many advantages these are many difficulties in establishing import substituting industries. Especially during the early stages, the strategy may not sake foreign exchange at all because foreign exchange must be spent for machinery, equipment & raw materials. The imported raw materials may be costlier than the imported finished goods. In this case these should be strict tariff protection for competing foreign substitution goods. We generally observe such cases in less developed countries especially protecting their infant industries from strong competition of industrialized foreign countries. At that time the monopoly pricing must be checked by the government, In this case the consumer is also benefited on one side & the promotion of industry will rise on the another side.

2.16.2. Export Promotion:

Export promotion can be viewed by two things:

a) To export more goods to finance the increase import.

b) Try to make those goods & equipment at home i.e. substitute home based goods to fulfill the needs for current imports,

A country's visible BOPs are related to the export & import of goods. And the level of economic development also affects the balance of trade situation.

Generally a deficit balance of trade shows the poorness, dependency & on other hand aid & grants from the rich country & international organization becomes a must to it. The less developed countries are suffering from high deficits in their balance of trade however they may be surplus in BOPs. It is due to the improving commodities year by year. To adjust their balance of trade & achieve self dependency, export promotion & import substitution industrialization are very important.

Policies of less developed countries should aim to provide both for the domestic markets & to extend the export market. But these are many problems for industrialization. Industries cannot be established & make competitive at once & the same time. In the beginning the domestic market is usually very small. So, the industries, even the smallest plant would operate at very high cost. Therefore, there appears the classical case for protection of the industry during the loaning period.

When the skill of management & labor are being imported & when economies of scale are lacking the problem may not be solved yet. To overcome these obstacles, the less developed countries have to move toward an integration of their markets, at the same time protecting themselves against competition from the developed countries into lowering their tariff barriers for a limited loaning period on goods in which the developing countries have a potential comparative advantage. This is the alternative measure suggested to underdeveloped countries to improve their export promotion & import substitution industrialization in their development strategy. So we can justify that there are various advantages to less developed countries for the promoting of import substitution & export promotion industries in the economy.

2.17. Standard International Trade Classification: [29]

Overall review of international trade of every country is done according to the basis of the Standard International Trade Classification. In short it is stated as SITC. The classification of overall foreign trade is done as follow:

1. SITC 0-4 as Primary Commodities
2. SITC 5-8 as Manufactured and Capital Goods
3. SITC 9 as Commodity & Transaction not Classified According to Kind

Under the SITC 0-4 following items are classified:

- SITC 0 Food and Live Animals
- SITC 1 Tobacco and Beverage
- SITC 2 Crude Materials, Inedible except Fuels
- SITC 3 Mineral Fuels and Lubricants
- SITC 4 Animals & Vegetables Oils & Fats

Under the SITC 5-8 following items are classified:

- SITC 5 Chemicals & Drugs
- SITC 6 Manufactured Goods Classified Chiefly by Materials
- SITC 7 Machinery & Transport Equipments
- SITC 8 Miscellaneous Manufactured Articles

Under the SITC 9 following items are classified:

[29] Nepal Rastra Bank, Research Department, Publication Division (1998/99), ***Nepal Rastra Bank- Economic Report 1998/99***, Bulwatar, Kathmandu, Nepal: Nepal Rastra Bank, Research Department, Statistics Division.

- SITC 9 Commodity & Transaction not Classified According to Kind

2.18. Taxation on Export & Import Trade:

2.18.1. VAT Act, 2052(First Amendment, 2058 & Finance Act, 2063):

Under VAT Act, 2052 following provisions are kept levying VAT on export-import trade:

Sec.5: VAT Levied: (1) Other provisions keeping on side, VAT is levied on following:

a) Goods & services supplied within Nepal.
b) Goods & services imported within Nepal.
c) Goods & services exported within Nepal.

(2) Every transaction's value where tax is applied.

(3) Any conditions written in sub-sec. (1), the tax is not levied on goods & services as per Sec.17 & cannot be refunded as per Sec.24.

Annex-I

Related to Sec.5 (3)

Tax-free Goods & Services*

Group 1:	Basic Agro-based products
Group 2:	Basic needs/daily needs goods
Group 3:	Live animals & their products
Group 4:	Agro-related equipments
Group 5:	Medicine facilities & related health services
Group 6:	Education
Group 7:	Books, newspaper & publication goods
Group 8:	Cultural, artistic & architecture services
Group 9:	Transportation & carriage services
Group 10:	Professional or academic services
Group 11	Other goods & services
Group 12:	Buildings & land (excluding hotel, guest-house, etc or other business-purpose uses)

Group 13: Bet, casino & lottery

*** *Only group titles***

2.18.2. VAT Regulations, 2053(Ninth Amendment, 2062):

Under this regulation, ninth chapter, there is a provision for import-export-related taxes. This section states followings:

Sec.48: Tax on Import: (1) the tax will be levied on goods & services imported within Nepal.

(2) For charging tax, the valuation of goods & services will be done according to the procedures prescribed by sec. 12(5) & (6).

(3) If the valuation of goods & services imported is not feasible, the tax is charged equivalent to the value of goods & services as deposit & is allowed to enter the country. The importer could not claim the tax refund until the valuation of goods & services are completed.

(4) If any goods are imported by keeping deposit, the tax is refunded after **one** year from the date of valuation.

Sec.49 Temporary Import-related Provision: (1) The import of goods are allowed as a temporary import to be return in future by giving the permission by provisional tax levied & while returning tax refunded which was kept as deposit.

(2) Temporary import done by paying temporary import charge is levied tax on the temporary import charge.

Sec.50 Attorney General can look after & manage: The regulation's sec. 28 allows the attorney general to look after & manage the collected tax. The attorney general if needed can inspect & direct the tax-officers to look on the imported goods & services on following conditions:

a) Take the sample of goods imported for proper taxation purpose & return back to the importer within a suitable time period.

b) Can question about trade-related place, house, go-down, shop, etc. with related person. Can enter, inspect & search trade-related place, house, go-down, shop, etc.

c) Can seize, copy. Inspect, remove, list out & return papers & documents related to buying, selling & export.

Sec.51 <u>Special Provision for amount received on import:</u> (1) For the purpose of regulations, sec. 24 & 25, all the amount collected should be recorded in the VAT reserve book on daily basis at custom points & should be informed to custom office within **3** days & sent to VAT office.

(2) The amount collected according to sub-sec. (1) should be deposit to reserve account on daily basis from the amount collect in the VAT reserve book as directed by the tax department.

(3) The procedure of using reserve, opening bank account, expenditure from reserve & depositing reserves is done as directed by Attorney General Office.

2.18.3. Nepal Custom Act:

Nepal's Custom Act, 2019 has been amended for seven times according to the necessity of the time & situation. For first time, 2021, 2nd time in 2025, 3rd time 2028, 4th time 32031, 5th time 2042, 6th time 2043 & finally 7th time in 2054. According to the act specific definition has been given:

Export: The act of sending goods to foreign counties from Nepal.

Import: The act of entering goods from foreign counties within Nepal.

Custom Duty: Custom duty id the charge taken at the custom points on export & import of goods as per the rate directed by the Nepal's law & act.

Custom Post (Transit Point): The point or post established by the GON at the border of the country.

Custom Go-downs: Go-downs established by the GON at the transit points of Nepal.

Bill of exchange: The document in which the details about import & export of goods have been mentioned. It is a form that should be produced at the custom.

Duty's Evasion on Export-Import: It is non-payment of duty on export-import of goods. It is the way of escaping from illegal route fro export-import of goods.

Demurrage: It is fine that should be paid to the government for delayed loads & unloads of goods from custom's go-downs.
Nepal Custom Regulation, 2026 have also been amended twice & the amendment on 2042 is in practice. ***(Nagarkoti & et. al, 2007:46-74***)

2.19. Review of the Past Research:

Pokheral (*2045*) **[30]**, in his discretion tried to study the achievement in the measure to diversify the international trade of Nepal. The study tries to find out the situation of import & export of various items from & towards respectively to India during that period. He recommended on concentration over forest-based industries & processed primary products that diversification can achieved in the international trade balance of Nepal. More credit facilities should be provided to the producers of manufactured export-oriented industries. Similarly, he recommended giving opportunities to the private sectors also for trade boost of the country.

Sitaula (*2046*) **[31]**, in his discretion stated that Nepal has not been successful to diversify her trade with many countries. Nepal has only entered into trade agreements with 11 countries outside the South Asian countries. Indian currency reserves in banking institutions during the period was a serious prospects for low

[30] Pok, Subash (Feb. 1985) ***Trade Diversification Policy of Nepal*** -An Unpublished Thesis, Master of Arts in Economics, Institute of Humanities & Social Science, T.U., Kirtipur, Nepal.

[31] Situala, Subash (Feb. 1985) ***Trade Diversification in Nepal(1971-1980)*** -An Unpublished Thesis, Degree in Economics, Institute of Humanities & Social Science, T.U., Kirtipur, Nepal.

level of trade diversification from India towards other countries without bringing adequate & fundamentally required change in her traditional export-import composition & without developing her export base. He recommended for the alternative waterways using big rivers of Nepal, More market survey considering transportation cost, good credit facilities for exportable goods producers.

Rajkarnikar (*2046*) [32], in his article point out that there has been the leakage in the revenue collection by giving facility to the importers of Nepal for importing the raw materials from India, The facility has been mis-utilized by the industries of Nepal, So, this has directly hampered in the revenue collection of Government of Nepal from the custom points.

Sharma (*2048*) [33], in her article points out that the import of goods from aboard directly affects in the trade balance & BOP, production, foreign exchange reserve, price, export business & trade relation of the country with neighboring country. The international trade has been the political issue, businessmen playing game & leaders' debating matters only. The dirty play on the commission in the foreign trade of Nepal has directly hampered in the overall increase in the revenue collection situation of the country.

Upadhaya (*1992*) [34], in his book has made an in-depth study of the commercial transaction between Nepal & British India Rule which political & cultural relationship between the two revolved. He has also studied about the trading activity during the regime of different kings. Also due to transport & communication, proximity of the Terai to British India & opening of Indian railway in the districts bordering Nepal encouraged trade & commerce. The writer also

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[32] Rajkarnikar, Pusparaj.(Baishak 14, 2046) ***Nepal ma Ayat Bayawastaapan ko Samasaya,*** Nepal Rastra Bank Samachar- 34th Anniversary Publication ***,*** Nepal Rasrta Bank, Baluwatar, Kathmandu, Nepal,pp.31-34

[33] Sharma, Sabita.(Baishak 14, 2048) ***Nepal ma Paithari Byapar ra Samasayharua,*** Nepal Rastra Bank Samachar- 36th Anniversary Publication ***,*** Nepal Rasrta Bank, Baluwatar, Kathmandu, Nepal,pp.81-82

[34] Upadhya, Shreeram Prasad (1992) ***Indo-Nepal Trade Relation-A Historical Analysis of Nepal's Trade with British India, Jaipur: Nirala*** Publication.

light on the nature of Indo-Nepalese trade. Nepal's export & import of goods were very favorable balance of trade.

Neupane (*1993*) [35], in his article sum up that the foreign trade & the BOP good positions are the main criteria for betterment of the country's economic growth. He had added that even though the country can be capable to earn foreign exchange from various sectors but the increasing trade deficit of the country directly affects in the BOP of the country. The country should be capable to maintain proper & strong level of BOP by increasing country's long-term productivity.

Chettri (*1998*) [36], in his article stated that from the time of controlled trading to the present state, the business is running in the concept that by investing large capital in business only, the businessman can get good return & be out of risk, Similarly he found that a business firm registered by a single man does the large business activities especially Non-Nepali Residents taking the support of the relative businessmen. This has brought both the positive as well as negative reaction and outcomes to overall trade of the country.

Chettri (*1998*) [37], in his article stated that the large amount of contribution of Nepal's foreign trade deficit in GDP will directly affects in long-term which is not a good indicator, The high level of dependency on import for each & every economic activities of Nepal is seen very harmful. Similarly, from consumable goods to the capital goods are imported by Nepal & paid with the amount of remittance which are the output of the human force & sweat, which is not a good

[35] Neupane, Shivaram, (Edition 100 April-May 1993), ***Nepal ko Baidaisiki Byapar ra Shodhantar Sithiti Aak Charcha***, ***Mirmire Monthly,*** Bulwatar, Kathmandu, Nepal: Nepal Rastra Bank, Governor's Office, Public Relation Department.

[36] Chettri, Dipendra Bahadur, (May 1998 Vol. 27 Number 1), ***Baidaisiki Byapar Kasima Gata Barsaa***, ***Mirmire Monthly,*** Bulwatar, Kathmandu, Nepal: Nepal Rastra Bank, Governor's Office, Public Relation Department.

[37] Chettri, Dipendra Bahadur, (Dec. /Jan. 2006/2007 Vol. 35 No, 9 Edition 256), ***Nepal ko Baidashik Byapar ma Dristikorn Pariwartan ko Khachoo***, ***Mirmire Monthly*** Kathmandu, Nepal: Nepal Rastra Bank, Governor's Office, Public Relation Department.

sign. Similarly, there is no good effort to keep the records of contribution of foreign employment remittance in the GDP of the country.

Poudel (*1999*) **[38]**, in his article stated that the dependency of raw materials needed for the goods that are exported by Nepal are also very high, Similarly, the limited world market for Nepalese goods, illegal trading activities, high dependency of quota system in foreign trade & finally the consistency & competitiveness of the production of goods in coming days are the major challenges for the Nepal's export & import business.

Rijal (*2000*) **[39]**, in his article sum up that the economic liberalization that the Nepal adopted have achieved a significant success in increasing its merchandise trade, especially exports, during the post-liberalization period (defined as period since 1991/92), both in absolute terms & as a proportion of GDP, The export earnings from the service sector has grown significantly faster than that from the merchandise trade. Nepal's merchandize trade has been mainly concentrated in two products: overwhelmingly Germany-bound woolen carpets & the US bound ready-made garments. The concentration of the export trade in terms of both products & markets makes the country's principal global linkage highly vulnerable.

Bhetuwal (*2006*) **[40]**, in his discretion found that tariff liberalization under SAFTA will improve Nepal's access to SAARC makes & open its own markets, generate trade, & offer beneficial secondary effects arising from economies of scale, structural transformation, investment flow & efficiency resulting from greater

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[38] Poudel, Dandapani (Dr.) (May 1999 Vol. 28 Number 1, Edition 164), ***Pramukh Niryat-Aayat Byapar: Sandarva Nepal Mirmire Monthly,*** Bulwatar, Kathmandu, Nepal: Nepal Rastra Bank, Governor's Office, Public Relation Department.

[39] Rijal, Minendra P. (Dr.) (Jan. 2000 Vol. 28 Number 9, Edition 172), ***Nepal's Foreign Trade, Mirmire Monthly,*** Bulwatar, Kathmandu, Nepal: Nepal Rastra Bank, Governor's Office, Public Relation Department.

[40] Bhetuwal, Shree Krishna (Septemeber 2006), ***SAFTA Implementation: Opportunities & Challenges on Nepalese Economy-TH 884-An Unpublished Thesis,*** Master in Business Studies***,*** Putalisadak, Kathmandu, Nepal: Shanker Dev Campus.

competition & technological change. He recommends quality control, market research, infrastructure development, promotional strategies, institution support & frameworks & environment protection side-by-side with trade promotion.

Chapter Three
Research Methodology

3.1. Research Methodology:

3.1.1 Research Design:

The study is designed in order to evaluate the direction of international trade of Nepal. The study especially deals with the depth analysis will be descriptive and analytical in order to answer the problem identified. Similarly, it will be guideline for future researcher.

3.1.2. Sources of Data:

The data in the report are majority in secondary in nature. The required data are colleted from the central bank of the country, Nepal Rastra Bank, Baluwatar. Mainly the reports published by central bank have been taken as base for analyzing the data. The government published economic survey has also been taken as the source of the secondary data for the report. Similarly the prescribed related courses books have also been reviewed.

3.1.3 Population and Sample:

The population of the data for the study will be the all the traded amount of the import and export of the Nepal during last 15years & first 8 months of the F/Y 2007/08.

3.1.4. Data Processing Techniques:

The collected data have been processed and tabulated in the forms of table. Similarly graphs and diagrams are presented after data are processed.

3.1.5. Tools Used:

Mainly the mathematical & statistical tools have been used to analyze & present the data collected from NRB related to the international trade of Nepal with neighboring country, India and other counties. Similarly, the data collected from the Government of Nepal, Ministry of Finance, Singha Durbar, and Kathmandu.

3.1.5.1. Arithmetic Mean (A.M):

The mean is the figure we get when the total of all the values in a distribution is divided by the number of values in the distribution. The arithmetic mean is also known as the average. It should, however, be remembered that the mean can only be calculated for numerical data. The mean is an appropriate term than saying average. The mean of data is biased toward extreme values. The mean is suitable when the scores are distributed symmetrically about the center of the distribution. This is calculated by using following formulae:

$$\therefore \text{Mean } (A.M.) = \overline{X} = \frac{\sum X}{n}$$

3.1.5.2. Standard Deviation (S.D.):

The measurement of the scatter ness of the mass of figure in a series about an average is known as the dispersion. The standard deviation measures the absolute dispersion. The greater amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite. This is calculated as follows:

$$\therefore \text{Standard deviation } (S.D.) = \sqrt{\frac{\sum (X - \overline{X})}{n}}$$

3.1.5.3. Coefficient of Variation (CV):

The coefficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. Lesser the C.V. means more consistent. It is calculates as follows:

$$\therefore \text{Coefficient of Variation } (CV) = \frac{S.D.}{Mean} \times 100$$

3.1.5.4. T-statistics:

To test the validity of our assumption, if the sample size is less than 30, t-test is used. For applying t-test in context of small sample the t-value is calculated first & compared with the t-value on table at certain level of significance for given degree of freedom. If calculated value of "t" exceeds the table value (say 0.05) we can say that the difference is significant at 5% level, but if calculated value is less than the concerning values the difference is not treated as significant. The value is calculated by using following formula:

$$\therefore t = \frac{\overline{X} - \text{«}}{\frac{S}{\sqrt{n}}} \quad \& \quad \therefore t_{cal} = \frac{\overline{d}}{S_d / \sqrt{n}}$$

Suppose a random sample of size n has been drawn from a bivariate normal population & let "r" be the observed sample correlation coefficient. In order to test if this sample correlation coefficient "r" is significant of any correlation between the variables in the population or it is just due to fluctuation of sampling, we use t-test for significance of an observed sample correlation as follows:

Null Hypothesis: $\circ = 0$ i.e. the variables are not correlated in the population or the population correlation coefficient is zero.

Alternative Hypothesis (H_1): $\circ \neq 0$ i.e. the variables are correlated in the population or the population correlation coefficient is not zero. (Two tailed test)

H$_{1:}$ $° > 0$ i.e. there is positive correlation in the population or the variables are positively correlated. (Right tailed test)

H$_{1:}$ $° < 0$ i.e. there is negative correlation in the population or the variables are negatively correlated. (Left tailed test)

The value of "t" is calculated as:

$$\therefore t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \qquad \sim t_{n-2}$$

Follows t-distribution with (n-2) degree of freedom.

Where, r = sample correlation coefficient & is computed by

$$= \frac{n\sum XY - \left(\sum X\right)\left(\sum Y\right)}{\sqrt{n\sum X^2 - \left(\sum X\right)^2}\sqrt{n\sum Y^2 - \left(\sum Y\right)^2}}$$

n= sample size (pairs)

If $t_{\sim(n-2)}$ be the critical or significant values of t at ~ percent level of significance for (n-2) degree of freedom, then (1-~)% confidence or fudicial limits for estimating population correlation coefficient ° are:

$$\text{Limits} = ° \pm t_{\sim(n-2)}\text{SE(r)} = r \pm t_{\sim(n-2)}\frac{1-r^2}{\sqrt{n}}$$

3.1.5.5. F-statistics:

The analysis of variance frequently referred to by the contraction, ANOVA is a statistical technique especially designed to test whether the means of more than two quantitative populations are equal. It is applied to find out whether the two samples may be regarded as drawn form the normal populations having the same variance. The value of "F" is calculated as:

$$\therefore F = \frac{Larger\ \ estimate\ of\ \ variance}{Smaller\ \ estimate\ of\ \ variance}$$

The calculated value of "F" is compared with the table value for V_1 & V_2 at 5% or 1% level of significance.

Chapter Four
Presentation & Analysis of Data

Total Trade Volume of Nepal:

Table No.4.1

Total Trade Volume of Nepal in million

F/Y	Overall TTV	India	Other Countries
1992/93	60580.7	18272.4*(30.16%)*	42308.3*(69.84%)*
1993/94	75835.5	24415.6*(32.20%)*	51419.9*(67.80%)*
1994/95	86665.1	28086.6*(32.41%)*	58578.5*(67.59%)*
1995/96	100660.3	34405.9*(34.18%)*	66254.4*(65.82%)*
1996/97	123638.6	37528.2*(30.35%)*	86110.4*(69.65%)*
1997/98	126839.6	46449.5*(36.62%)*	80390.1*(63.38%)*
1998/99	134337.7	55786.5*(41.53%)*	78551.2*(58.47%)*
1999/2000	158327.7	69012.1*(43.59%)*	89315.6*(56.41%)*
2000/01	171341.3	80731.1*(47.12%)*	90610.2*(55.88%)*
2001/02	154333.8	84578.3*(54.86%)*	69755.5*(45.20%)*
2002/03	174282.7	97354.2*(55.86%)*	76928.5*(44.14%)*
2003/04	190187.8	109516.6*(57.58%)*	80671.2*(42.42%)*
2004/05	208179.3	127592.4*(61.29%)*	80586.9*(38.71%)*
2005/06	234014.4	147857.8*(63.18%)*	86156.6*(36.82%)*
2006/07^R	252504.6	159615.2*(63.21%)*	92889.4*(36.79%)*
2007/08^P	**180778.1**	**115553.3*(63.92%)***	**65224.8*(36.08%)***
2006/07$^\#$	**154676.8**	**99887.9*(64.58%)***	**54788.9*(35.42%)***

R=Revised Estimate, P=Provisional, # =Revised Estimate for first 9 months

Source: Economic Survey & NRB

The TTV of Nepal has been divided into the total trade with India & trade with other countries. The TTV of Nepal with the other countries was more than 60% till the F/Y 1997/98 but the situation was just reversed till coming to the F/Y 2004/05. And the situation has remained same till now. This shows the high dependency of Nepal's export & import business with the neighboring Country

India in the recent years. Nepal is dependent to India for primary commodities to the mfg. & capital goods.

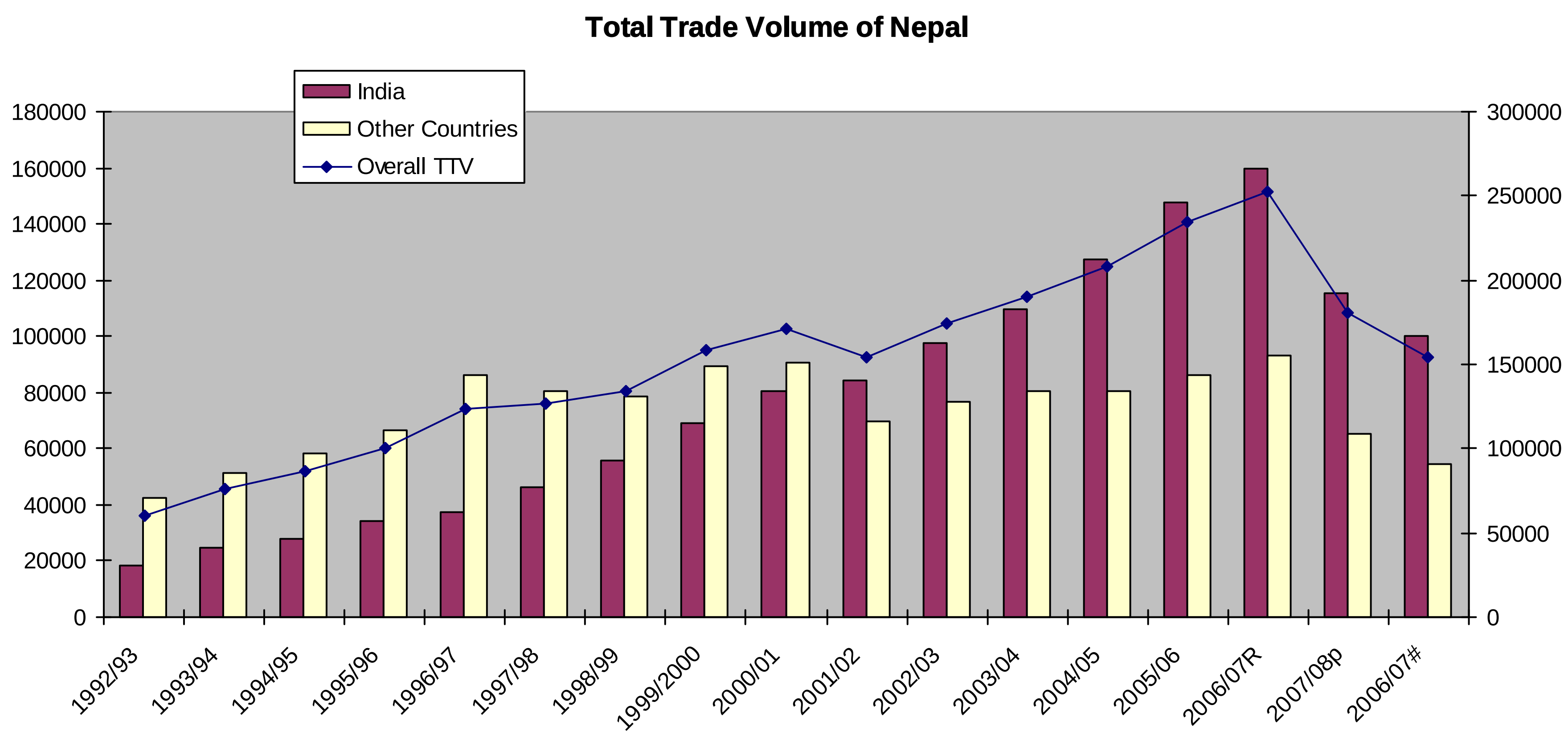
Total Trade Volume of Nepal
India
Other Countries
Overall TTV
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
300000
250000
200000
150000
100000
50000
0
1992/93
1993/94
1994/95
1995/96
1996/97
1997/98
1998/99
1999/2000
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07R
2007/08p
2006/07#

Figure No.4.1

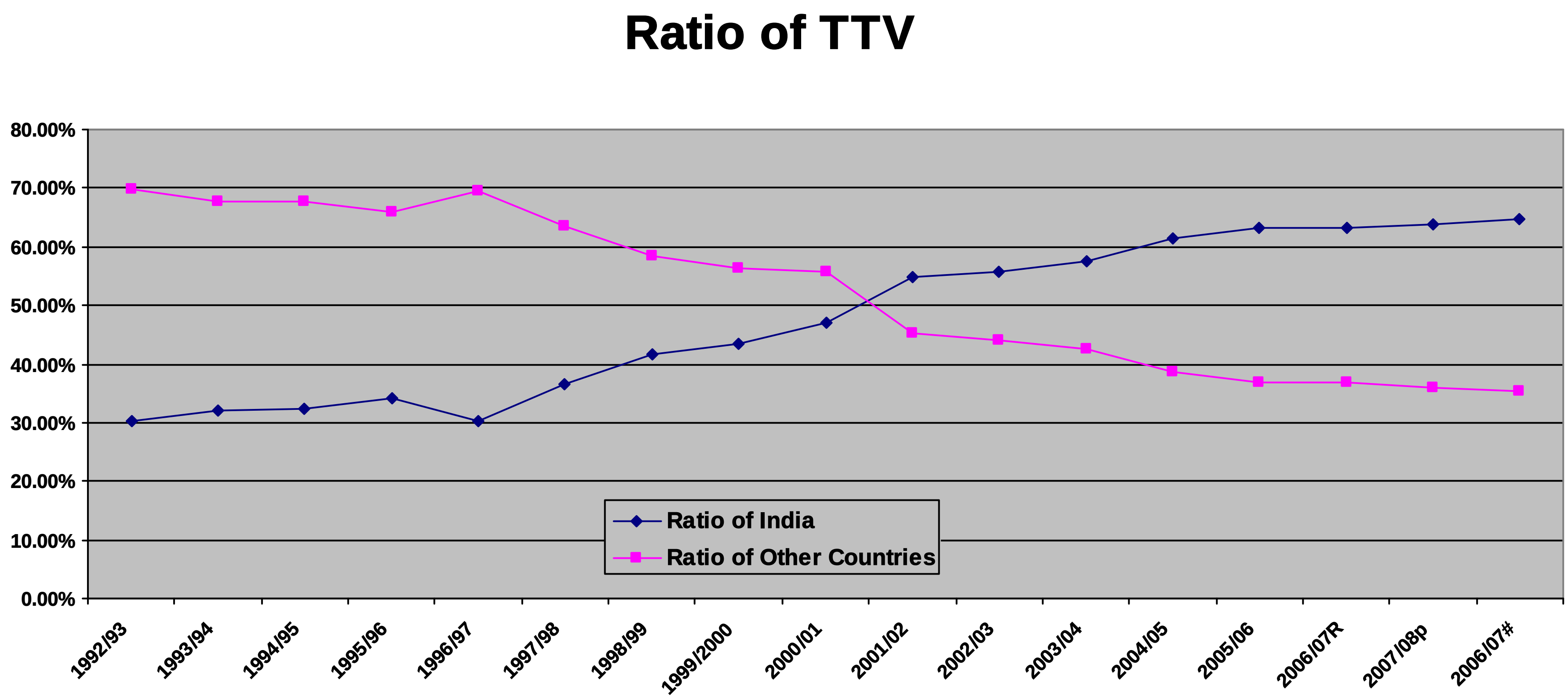
Ratio of TTV
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Ratio of India
Ratio of Other Countries
1992/93
1993/94
1994/95
1995/96
1996/97
1997/98
1998/99
1999/2000
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07R
2007/08p
2006/07#

Figure No.4.2

Situation of Total Import in Nepal:

Table No.4.2

Total Import in Nepal in million

F/Y	Import C.I.F	India	Other Countries	%Changes
1991/92	36351.20	-	-	-
1992/93	43314.20	16650.70	26663.50	19.15%
1993/94	56542.10	22706.70	34535.40	30.54%
1994/95	69025.90	24962.30	44063.60	22.08%
1995/96	80779.20	30723.30	50055.90	17.03%
1996/97	101002.10	32302.00	68700.10	25.03%
1997/98	99326.10	37655.10	61671.00	-1.66%
1998/99	98661.40	43255.80	55405.60	-0.67%
1999/2000	108505.00	47761.40	60713.60	9.98%
2000/01	115687.20	54700.90	60986.30	6.62%
2001/02	107389.00	56622.10	50766.90	-7.17%
2002/03	124352.10	70924.20	53427.90	15.80%
2003/04	136277.10	78739.50	57537.60	9.59%
2004/05	149473.60	88675.50	60798.10	9.68%
2005/06	173780.30	107143.10	66637.20	16.26%
2006/07[R]	191708.80	117740.40	73968.40	10.32%
2007/08[P]	**141814.80**	**89693.30**	**52121.50**	**23.65%**
2006/07[#]	**114691.20**	**72125.00**	**42566.20**	**-**

(Petroleum imports shifted to India from other country imports in 2000/01& amount of petroleum products import included till 1998/99 in original data)

R=Revised Estimate, P=Provisional, # =Revised Estimate for first 9 months

Source: Economic Survey & NRB

The total import amount of Nepal during the past 15 years is seen decreased only thrice. The import amount had declined during the F/Y 1997/98, F/Y 198/99 & F/Y 2001/02. It declined by -1.66%, -0.67% & -7.17% respectively. There is not seen consistency in the percentage change in total import amount during the past decades. It has increased to 30.54% in the F/Y 1993/94 & about 7% in the F/Y 2000/01.

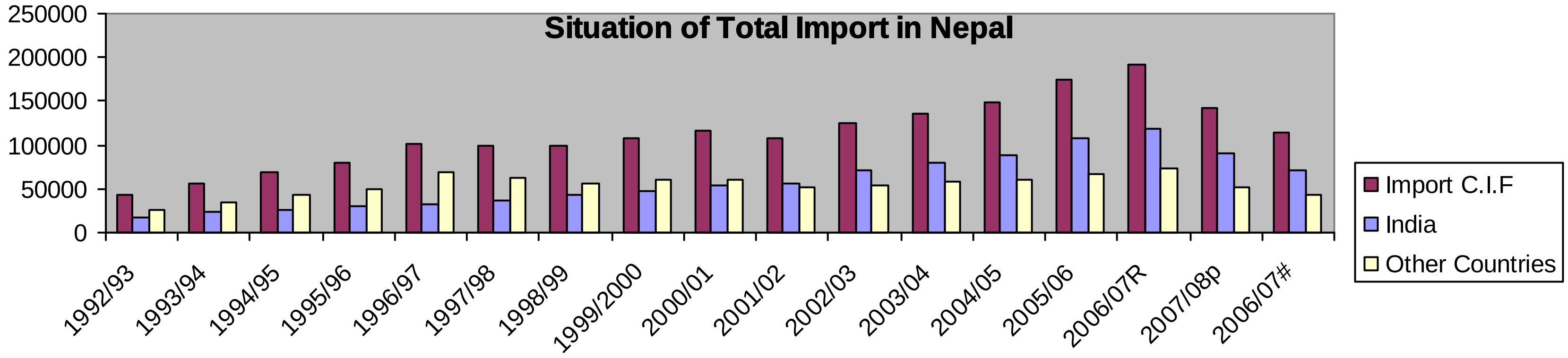

Figure No. 4.3

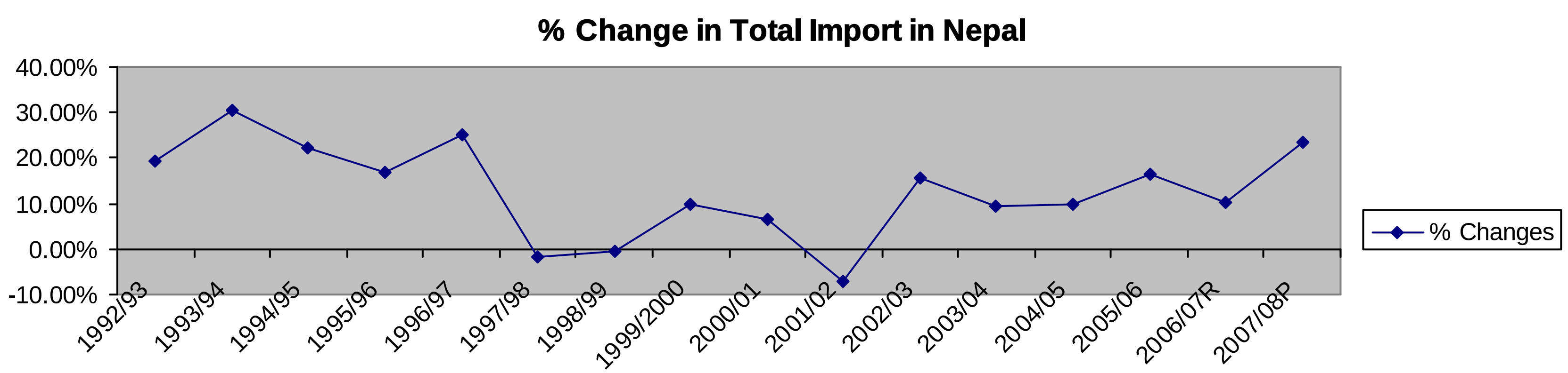

Figure No.4.4

Proportion of Total Import in Nepal in Percent:

Table No.4.3

Proportion of Total Import in Nepal in Percent

F/Y	India	Other Countries
1992/93	38.44%	61.56%
1993/94	38.92%	61.08%
1994/95	36.16%	63.84%
1995/96	38.03%	61.97%
1996/97	31.98%	68.02%
1997/98	37.91%	62.09%
1998/99	43.84%	56.16%
1999/2000	44.05%	55.95%
2000/01	42.28%	52.72%
2001/02	52.73%	42.27%
2002/03	57.03%	42.97%
2003/04	57.78%	42.22%
2004/05	59.33%	40.67%
2005/06	61.65%	38.35%
2006/07[R]	61.42%	38.58%
2007/08[P]	63.25%	36.75%
2006/07[#]	62.89%	37.11%
A.M.	**46.01%**	**52.23%**
S.D.	**11.07**	**11.05**
C.V.	**24.06%**	**21.16%**

Source: Economic Survey & NRB

The proportion of the import from the other countries was high till the beginning of the millennium i.e. till 2000/01. Till F/Y 1997/98, the import from other countries was more than 60%. But after the F/Y 2001/02, the situation became just reverse. The import from the India is seen increased. And the dependency toward the India is seen heavy. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite but there is not seen large difference between the import from India or from other countries. The import from other countries is seen more consistent than from the India.

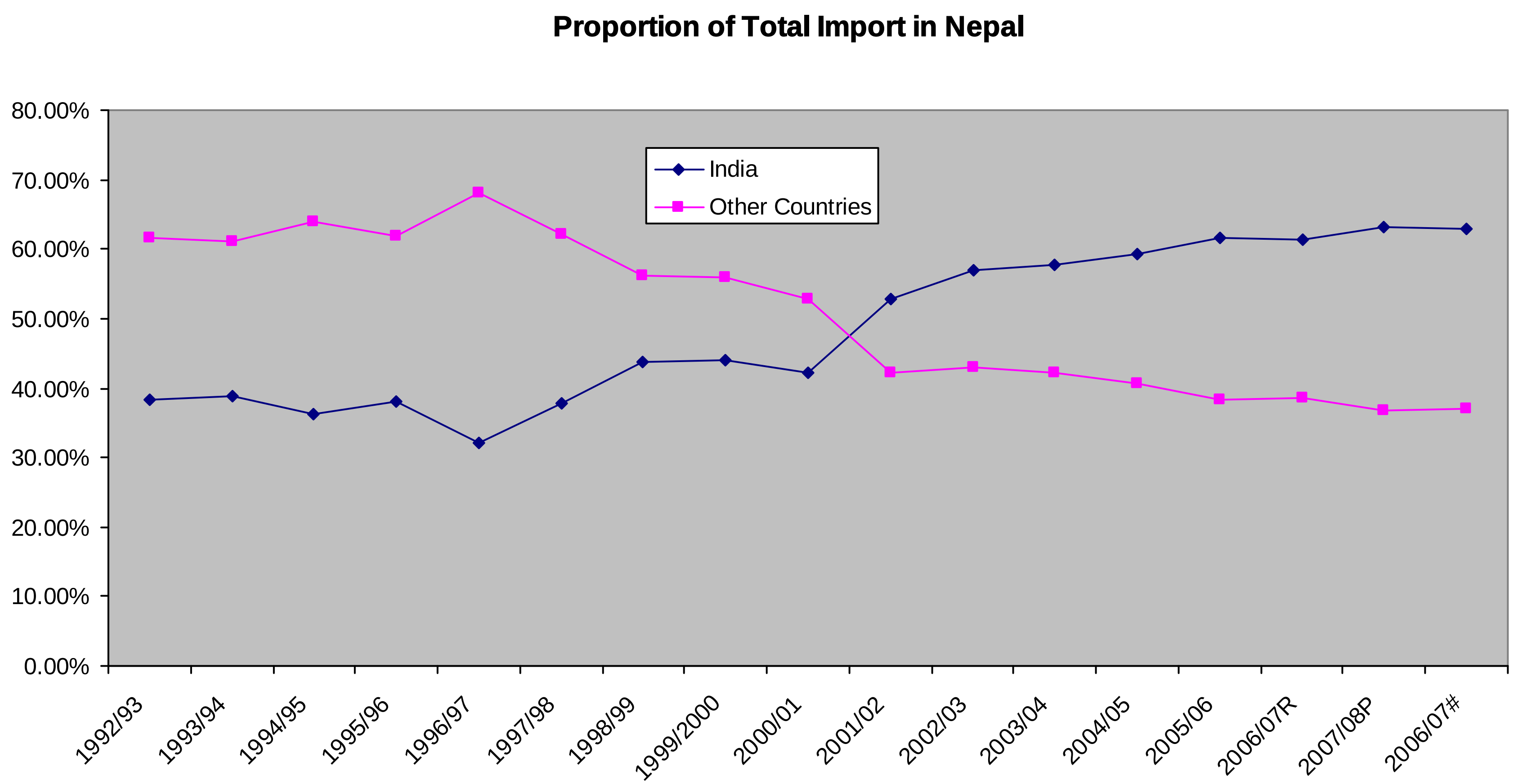
Proportion of Total Import in Nepal
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
India
Other Countries
1992/93
1993/94
1994/95
1995/96
1996/97
1997/98
1998/99
1999/2000
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07R
2007/08P
2006/07#

Figure No.4.5

Situation of Total Export from Nepal:

Table No.4.4

Total Export from Nepal in million

F/Y	Export F.O.B.	India	Other Countries	%Changes
1991/92	13706.50	-	-	-
1992/93	17266.50	1621.70	15644.80	25.97%
1993/94	19293.40	2408.90	16884.50	11.74%
1994/95	17639.20	3124.30	14514.90	-8.60%
1995/96	19881.10	3682.60	16198.50	12.71%
1996/97	22636.50	5226.20	17410.30	0.14%
1997/98	27513.50	8794.40	18719.10	21.54%
1998/99	35676.30	12530.70	23145.60	29.67%
1999/2000	49822.70	21220.70	28602.00	39.65%
2000/01	55654.10	26030.20	29623.90	11.70%
2001/02	46944.80	27956.20	18988.60	-15.65%
2002/03	49930.60	26430.00	23500.60	6.36%
2003/04	53910.70	30777.10	23133.60	7.97%
2004/05	58705.70	38916.90	19788.80	8.89%
2005/06	60234.10	40714.70	19519.40	2.60%
2006/07[R]	60795.80	41874.80	18921.00	0.93%
2007/08[P]	**38963.30**	**25860.00**	**13103.30**	-2.56%
2006/07[#]	**39985.60**	**27762.90**	**12222.70**	

Source: Economic Survey & NRB

The export from Nepal had declined by 2.56% in the F/Y 2007/08[P]. Similarly the high percentage of decline was seen in the export by 8.60% & 15.65% during the F/Y 1994/95 & F/Y 2001/02 respectively. Slightly improvement was seen in the export business of Nepal during the F/Y 1997/98 to F/Y 1999/2000. It was increased to about 40% in the F/Y 1999/2000. The least increment in the export business was seen in the F/Y 1996/97 by only 0.14%. Similarly, the situation was also not good during the F/Y 2006/07[R].

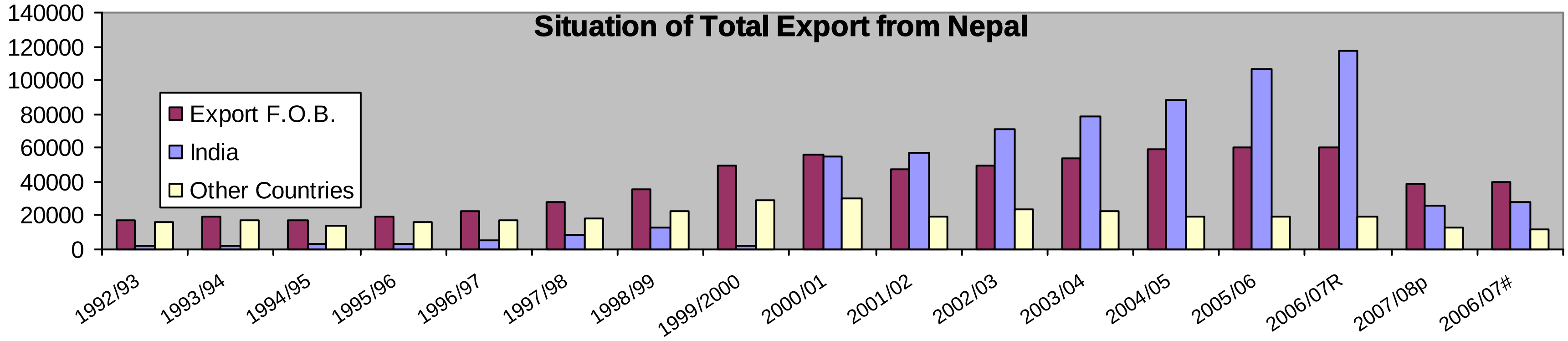

Figure No.4.6

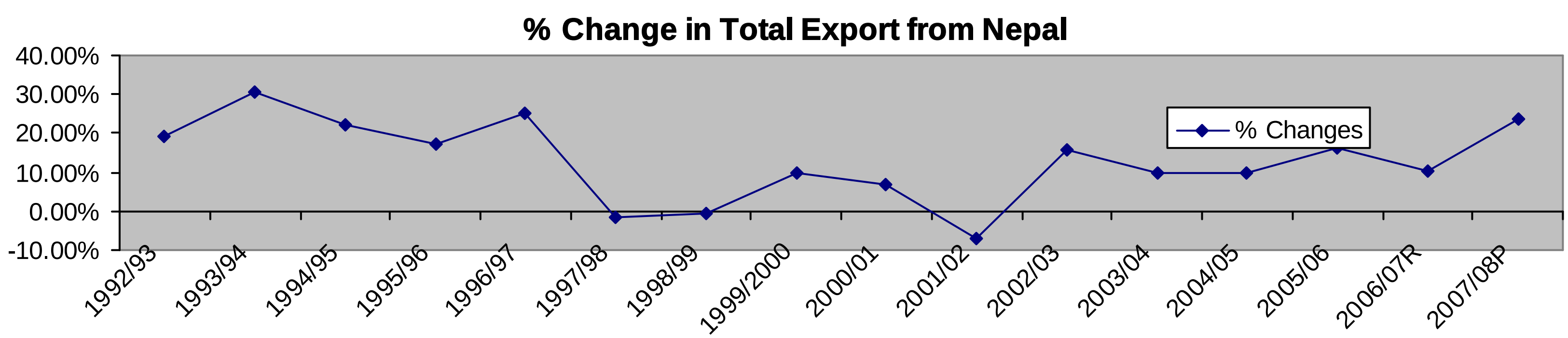

Figure No.4.7

Proportion of Total Export from Nepal in Percent:

Table No.4.5

Proportion of Total Export from Nepal in Percent

F/Y	India	Other Countries
1992/93	9.39%	90.61%
1993/94	12.49%	87.51%
1994/95	17.71%	82.29%
1995/96	18.52%	81.48%
1996/97	23.09%	76.91%
1997/98	31.96%	68.05%
1998/99	35.12%	64.88%
1999/2000	42.59%	57.41%
2000/01	46.77%	53.23%
2001/02	59.55%	40.45%
2002/03	52.93%	47.07%
2003/04	57.09%	42.91%
2004/05	66.29%	33.71%
2005/06	67.58%	32.42%
2006/07[R]	68.88%	31.12%
2007/08[P]	66.37%	33.63%
2006/07[#]	69.43%	30.57%
A.M.	**42.81%**	**58.46%**
S.D.	**21.47**	**21.48**
C.V.	**50.15%**	**36.74%**

Source: Economic Survey & NRB

The proportion of the export to the other countries was high till the beginning of the millennium i.e. till 2000/01. Till F/Y 198/99, the export to other countries was more than 60%. But after the F/Y 2004/05, the situation became just reverse. The export to the India is seen increased. As an import from India is seen increased similarly the export to India is also seen increased. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite but there is not seen large difference between the export from India or from other countries. There was only a minimal difference in the S.D. The export to other countries is seen more consistent than export to the India.

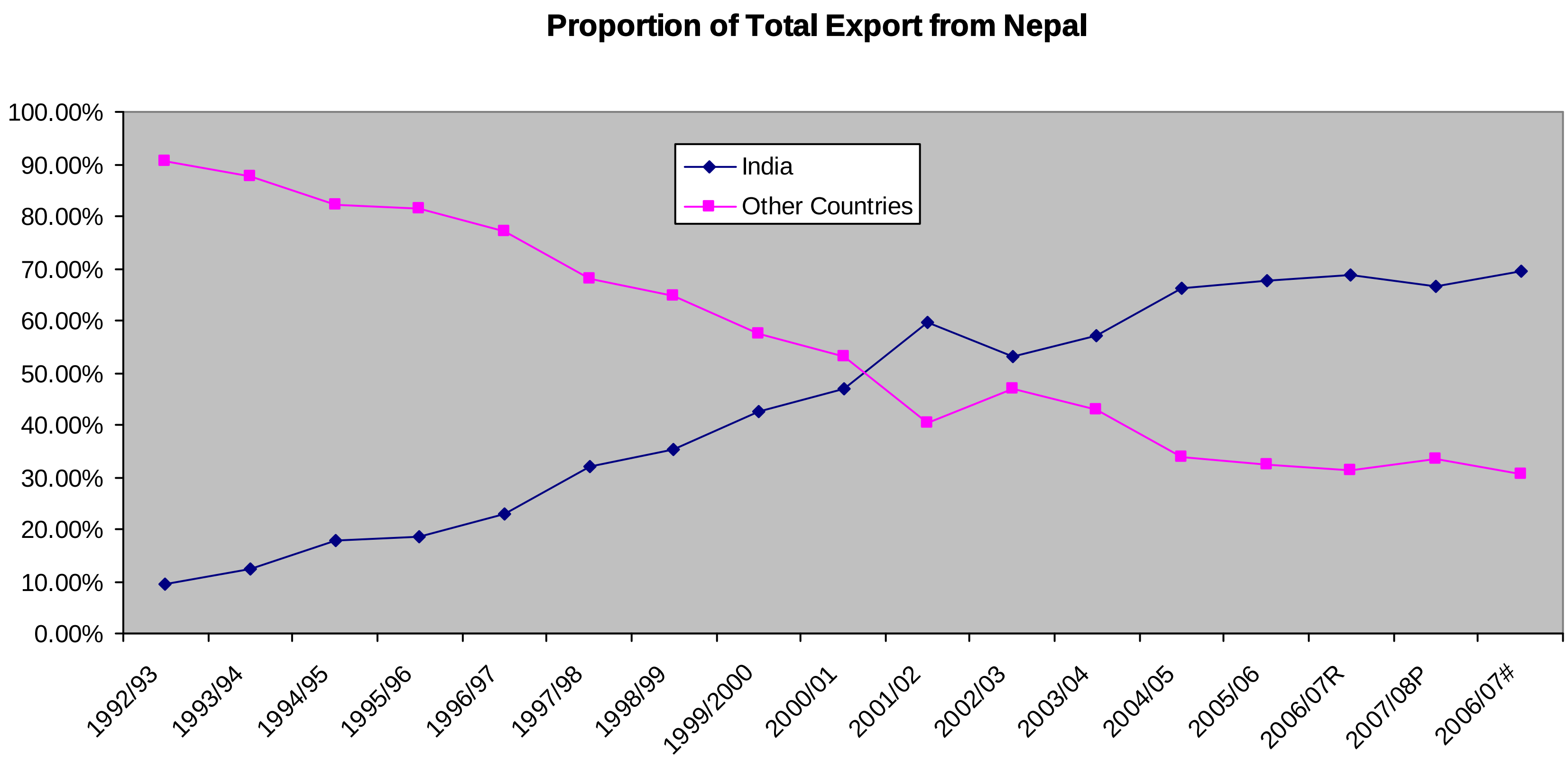
Proportion of Total Export from Nepal
India
Other Countries
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
1992/93
1993/94
1994/95
1995/96
1996/97
1997/98
1998/99
1999/2000
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07R
2007/08P
2006/07#

Figure No.4.8

Trade Balance of Nepal:

Table No.4.6

Trade Balance of Nepal in million

F/Y	Overall	With India	With Other Countries
1992/93	-26047.7	-15029.0	-11018.7
1993/94	-37248.7	-19597.8	-17650.9
1994/95	-51386.7	-21838.0	-29548.7
1995/96	-60898.1	-27040.7	-33857.4
1996/97	-78365.6	-27075.8	-51289.8
1997/98	-71812.6	-28860.7	-42951.9
1998/99	-62985.1	-30725.1	-32260.0
1999/2000	-58682.3	-26570.7	-32111.6
2000/01	-60033.1	-28670.7	-31362.4
2001/02	-60444.2	-28665.9	-31778.3
2002/03	-74421.5	-44494.2	-29927.3
2003/04	-82366.4	-47962.4	-34404.0
2004/05	-90767.9	-49758.6	-41009.3
2005/06	-113546.2	-66428.4	-47117.8
2006/07[R]	-130913.0	-75865.6	-55047.4
2007/08[P]	**-102851.5**	**-63833.3**	**-39018.2**
2006/07[#]	**-74705.6**	**-44362.1**	**-30343.5**

Source: Economic Survey & NRB

The trade balance of Nepal is always not in a favorable condition. Every year the trade balance of the country is negative though the TTV of Nepal is seen increasing every F/Y. The overall trade balance of Nepal is seen in negative value in every F/Y. This has also added the burden to the economy of the country.

Instead of decreasing the trade deficit of the country, the value is seen went on increasing in the past few recent F/Y. The value of trade deficit of the Nepal was around Rs.30000 million till F/Y 2003/04. But it started to increase heavily & reached to Rs.50000 million till F/Y 2006/07.

Since the import has increased due to the liberalization policy of the government the traditional goods have lost competitiveness & production has also decreased. It indicates that the trade deficit will further increase in future.

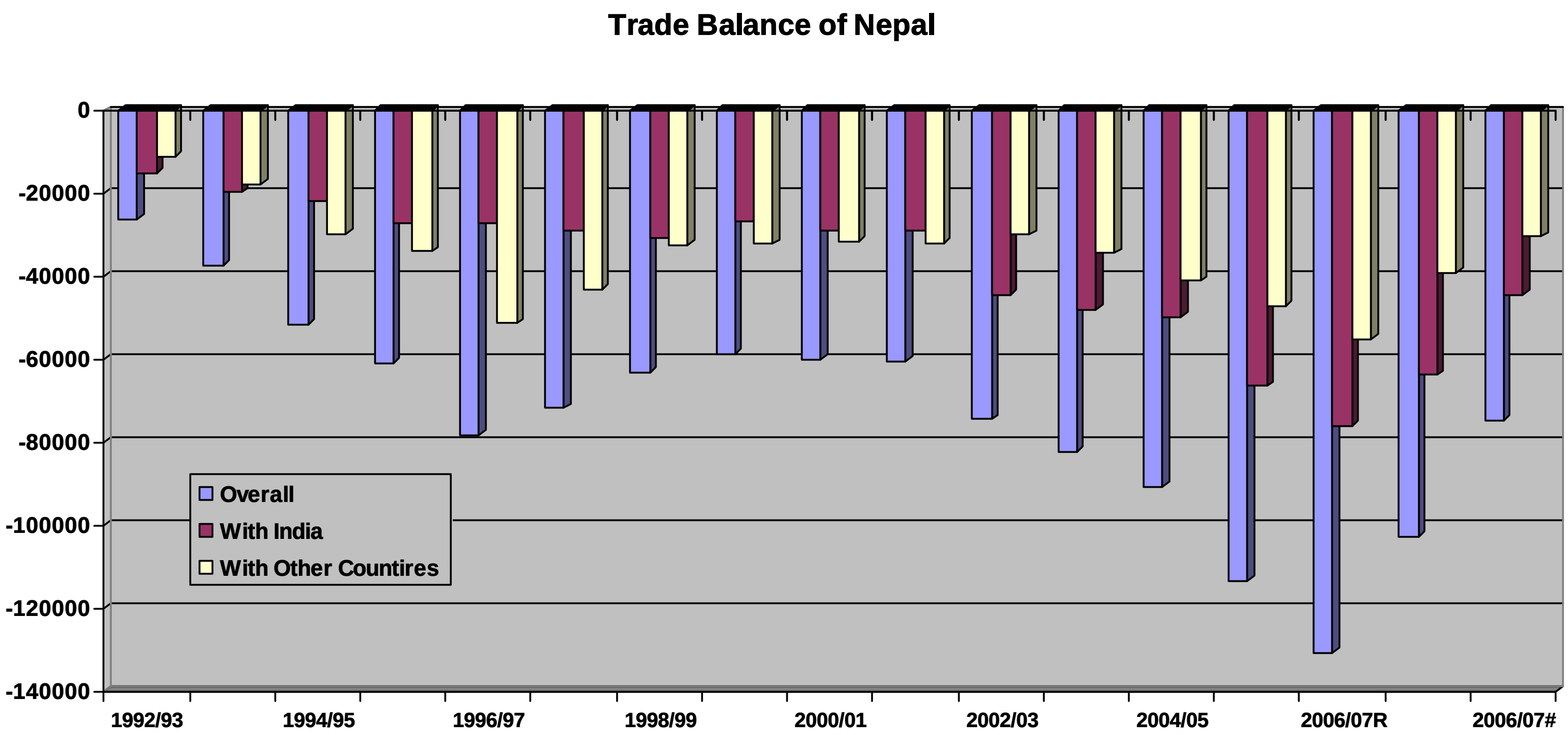
Trade Balance of Nepal
0
-20000
-40000
-60000
-80000
-100000
-120000
-140000
Overall
With India
With Other Countires
1992/93
1994/95
1996/97
1998/99
2000/01
2002/03
2004/05
2006/07R
2006/07#

Figure No.4.9

Export-Import Ratio of Nepal:

Table No.4.7

Export-Import Ratio of Nepal

F/Y	Export F.O.B.	Import C.I.F	Export-Import Ratio
1992/93	17266.50	43314.20	39.9%
1993/94	19293.40	56542.10	34.1%
1994/95	17639.20	69025.90	25.6%
1995/96	19881.10	80779.20	24.6%
1996/97	22636.50	101002.10	22.4%
1997/98	27513.50	99326.10	27.7%
1998/99	35676.30	98661.40	36.2%
1999/2000	49822.70	108505.00	45.9%
2000/01	55654.10	115687.20	48.1%
2001/02	46944.80	107389.00	43.7%
2002/03	49930.60	124352.10	40.2%
2003/04	53910.70	136277.10	39.6%
2004/05	58705.70	149473.60	39.3%
2005/06	60234.10	173780.30	34.7%
2006/07[R]	60795.80	191708.80	31.7%
2007/08[P]	**38963.30**	**141814.80**	**27.5%**
2006/07[#]	**39985.60**	**114691.20**	**34.9%**

Source: Economic Survey& NRB

The expansion of the import & contraction of the export, decline the export-import ratio & vice-versa. The export-import ratio of Nepal is seen somewhat constant during the past decades. It had normally remained within 30%-40% during the past few recent F/Y.

The ratio was just around 20%-30% during the F/Y 1994/95 & F/Y 1997/98.The ratio is seen more than 40% from F/Y 1999/2000 till F.Y 2002/03. These were the good years for the export-import trade of the Nepal. The F/Y2000/01 was the best year with the ratio of 48.1%. The bad situation for Nepal's export-import situation was seen in the F/Y 1996/97 with the ratio of 22.4%.

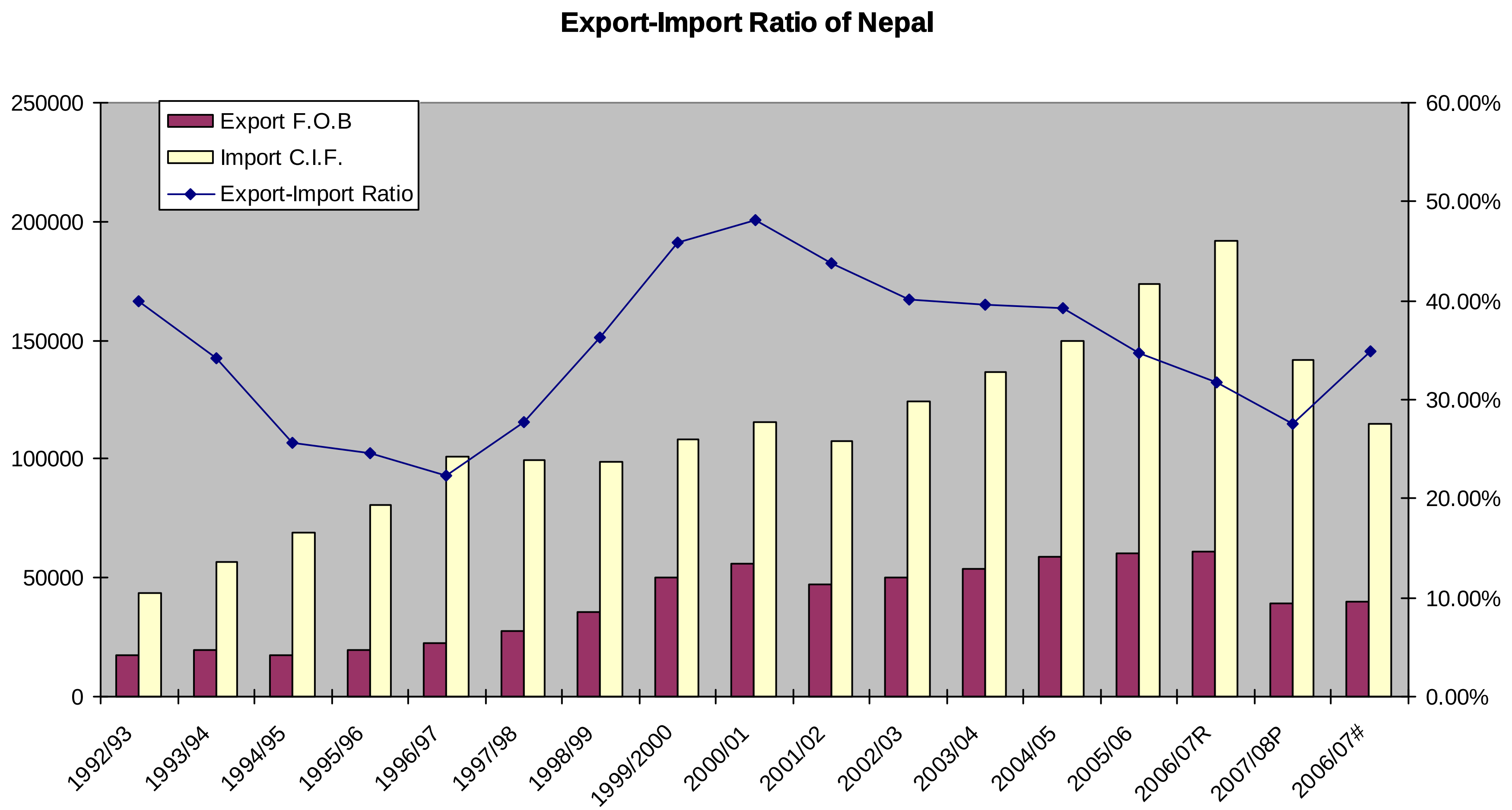

Figure No.4.10

Merchandise Export GDP@[41], of Nepal:

Table No.4.8

Merchandise Export GDP@ of Nepal

F/Y	Export F.O.B.	GDP@ at Producers Price	Merchandise Export of GDP@
1992/93	17266.50	171492	10.07%
1993/94	19293.40	199272	9.68%
1994/95	17639.20	219175	8.05%
1995/96	19881.10	248913	7.99%
1996/97	22636.50	280513	8.07%
1997/98	27513.50	300845	9.15%
1998/99	35676.30	342036	10.43%
1999/2000	49822.70	379488	13.13%
2000/01	55654.10	441519	12.61%
2001/02	46944.80	459443	10.22%
2002/03	49930.60	492231	10.14%
2003/04	53910.70	536749	10.04%
2004/05	58705.70	589412	9.96%
2005/06	60234.10	654055	9.21%
2006/07^R	60795.80	727089	8.36%
2007/08^P	**38963.30**	**519468**	**7.50%**
2006/07^#	**39985.60**	**719477**	**5.56%**

Source: Economic Survey & NRB ***@at current price***

The contribution of export f.o.b. from the Nepal's GDP@ at Producers Price is seen between 9% to 13%. During the F/Y 1992/93 the contribution to GDP from export f.o.b. is seen 10.07%. But after that it decrease up to 7.99% in F/Y 1995/96. But again recovery was seen from the F/Y 1998/99. It reached to 13.13% in the F/Y 1999/2000. But again the contribution to GDP@ at Producers Price from export of Nepal is seen decreased to 9.96% in the F/Y 2004/05. It even reached to 8.36% again in the F/Y2006/07^R.

[41] According to World Bank-"GDP measures the total output of goods & services for final use produced by residents & non-residents regardless of the allocation of domestic and foreign claims." It is calculated without making deductions for depreciation of assets or depletion & degradation of natural resources. The sum of goods & services produced within the boundary of a country during a year is called GDP.(***Joshi,2065 :262***)

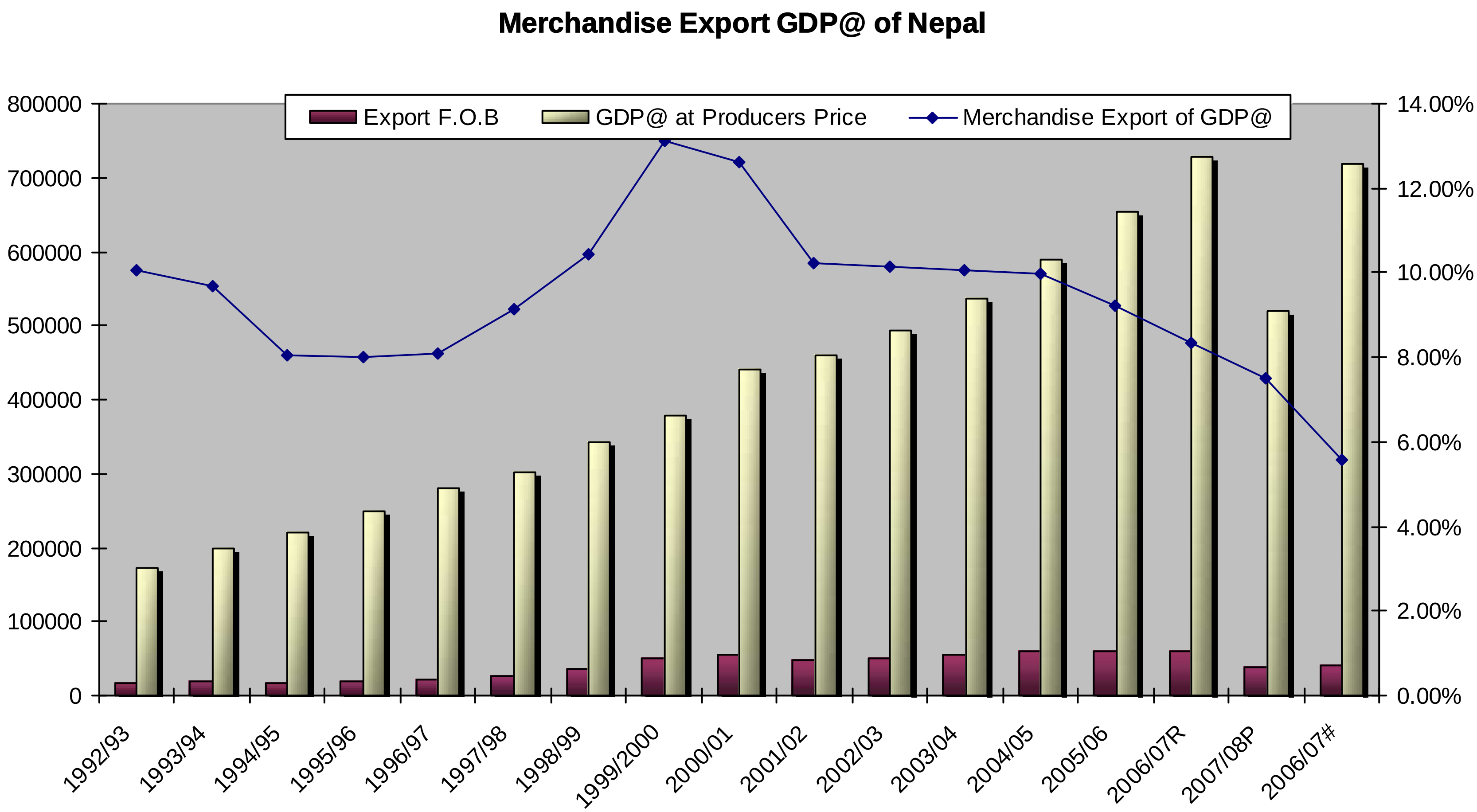

Figure No.4.11

Merchandise Import GDP@ of Nepal:

Table No.4.9

Merchandise Import GDP@ of Nepal

F/Y	Import C.I.F	GDP@ at Producers Price	Merchandise Import of GDP@
1992/93	43314.20	171492	25.26%
1993/94	56542.10	199272	28.37%
1994/95	69025.90	219175	31.49%
1995/96	80779.20	248913	32.45%
1996/97	101002.10	280513	36.00%
1997/98	99326.10	300845	33.02%
1998/99	98661.40	342036	28.85%
1999/2000	108505.00	379488	28.59%
2000/01	115687.20	441519	26.20%
2001/02	107389.00	459443	23.37%
2002/03	124352.10	492231	25.26%
2003/04	136277.10	536749	25.39%
2004/05	149473.60	589412	25.36%
2005/06	173780.30	654055	26.57%
2006/07[R]	191708.80	727089	26.37%
2007/08[P]	**141814.80**	**519468**	**27.30%**
2006/07[#]	**114691.20**	**719477**	**15.94%**

Source: Economic Survey & NRB ***@at current price***

The contribution of import c.i.f. to the Nepal's GDP@ at Producers Price is seen between 25% to 36%. The highest contribution to GDP@ at Producers Price from the country's import was seen in the F/Y 1996/97 with 36%. The import trade of the Nepal's had a good percent of contribution to the GDP@ of Nepal. The contribution to GDP@ at Producers Price from the import business was seen somewhat constant around 25% to 26% during F/Y 2002/03 to F/Y 2007.2008[P].

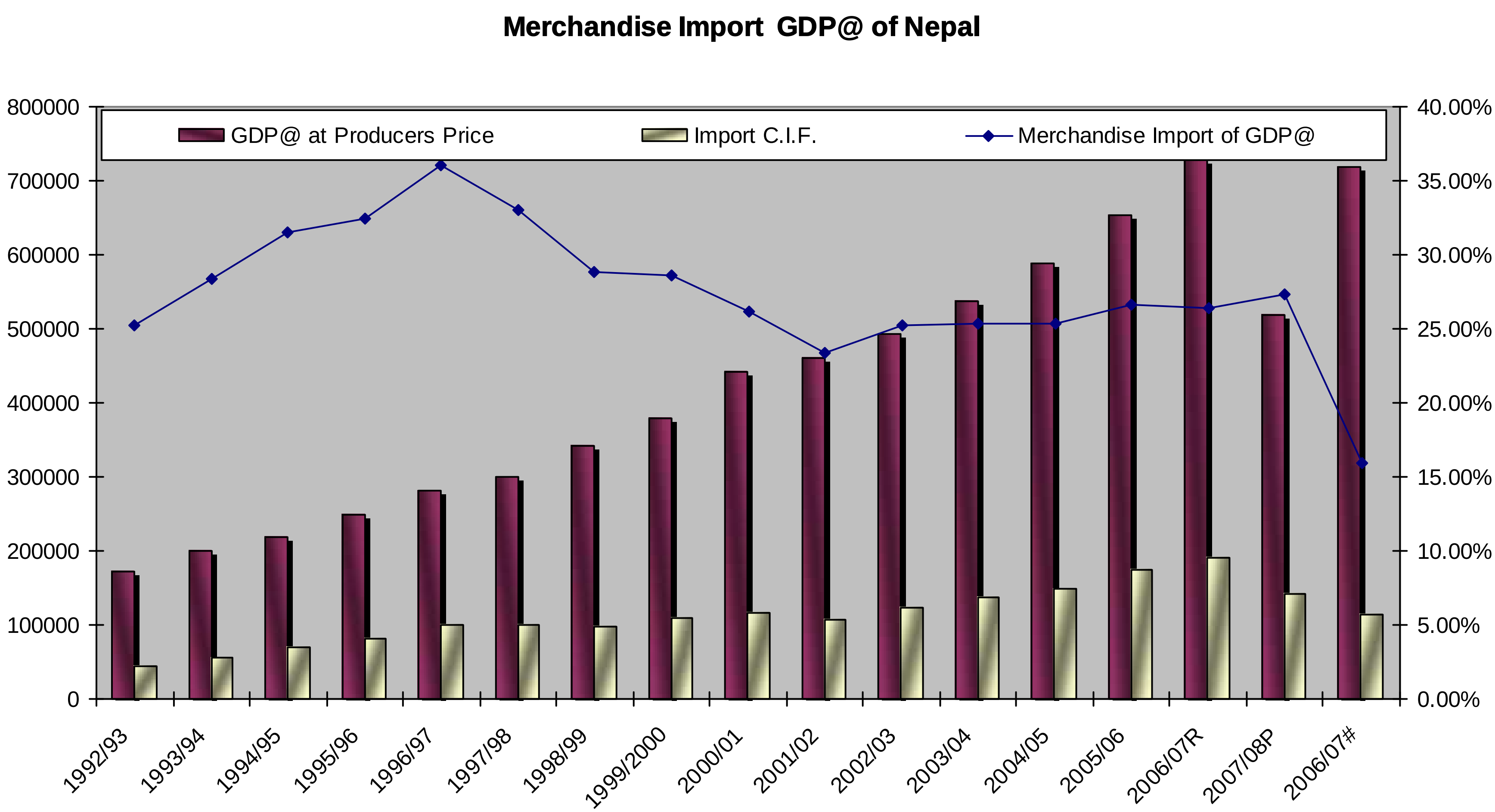

Figure No.4.12

Contribution of Foreign Trade of GDP@ of Nepal:

Table No.4.10

Contribution of Foreign Trade of GDP@ of Nepal

F/Y	Merchandise Import of GDP@(A)	Merchandise Export of GDP@(B)	TTV to GDP@ Ratio(A+B)
1992/93	25.26%	10.07%	35.33%
1993/94	28.37%	9.68%	38.05%
1994/95	31.49%	8.05%	39.54%
1995/96	32.45%	7.99%	40.44%
1996/97	36.00%	8.07%	44.07%
1997/98	33.02%	9.15%	42.17%
1998/99	28.85%	10.43%	39.28%
1999/2000	28.59%	13.13%	41.72%
2000/01	26.20%	12.61%	38.81%
2001/02	23.37%	10.22%	33.59%
2002/03	25.26%	10.14%	35.40%
2003/04	25.39%	10.04%	35.43%
2004/05	25.36%	9.96%	35.32%
2005/06	26.57%	9.21%	35.78%
2006/07[R]	26.37%	8.36%	34.73%
2007/08[P]	**27.30%**	**7.50%**	**34.80%**
2006/07[#]	**15.94%**	**5.56%**	**21.50%**

Source: Economic Survey & NRB

The TTV to GDP ratio is one of the most important indicators of the country's macro-economic situation. This reflects or pictures out the actual contribution of foreign trade or international trade to the country's national income. It also shows the economic strength & growth of the county during a particular period. After the starting of the millennium, the contribution of the foreign trade to the GDP@ of Nepal has remain in the constant level of around 34% to 35%. The highest level of contribution to the GDP@ of Nepal by the international trade was seen in the F/Y 1996/97 with 44.07%.

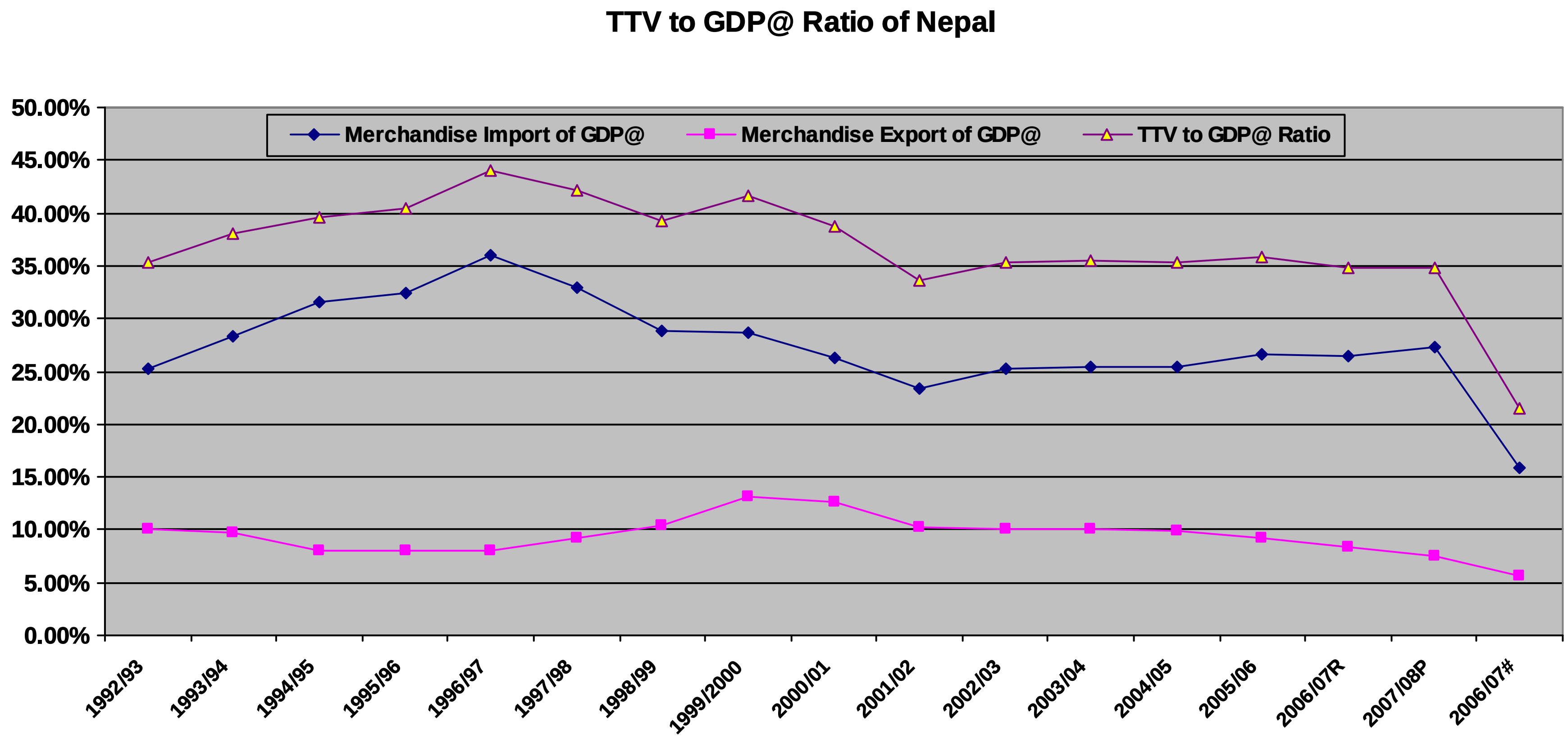

Figure No.4.13

SITC Export & Import of Nepal:

4.11.1. SITC Export of Nepal:

Table No.4.11

SITC Export of Nepal

Y	SITC Export		
	Primary Commodities	Mfg. & Capital Goods	Others
1992/93	2584.6	10328.2	4353.7
1993/94	1747.0	11131.1	6415.3
1994/95	2273.6	9599.7	5765.9
1995/96	2940.4	11131.3	5772.2
1996/97	3654.1	12441.6	6540.8
1997/98	5790.3	13663.6	8059.6
1998/99	7841.1	16442.4	11392.8
1999/2000	8150.8	20162.7	21509.2
2000/01	9708.6	23294.6	22650.9
2001/02	13287.4	21068.1	12589.3
2002/03	11323.9	21281.9	17324.8
2003/04	10436.6	28087.1	15387.0
2004/05	12981.2	32475.8	13248.7
2005/06	12728.2	33421.8	14084.1
2006/07[R]	13492.1	36374.7	10929.0
2007/08[P]	**10647.3**	**21915.2**	**6400.8**
2006/07[#]	**9225.6**	**23583.9**	**7176.1**

Source: Economic Survey & NRB

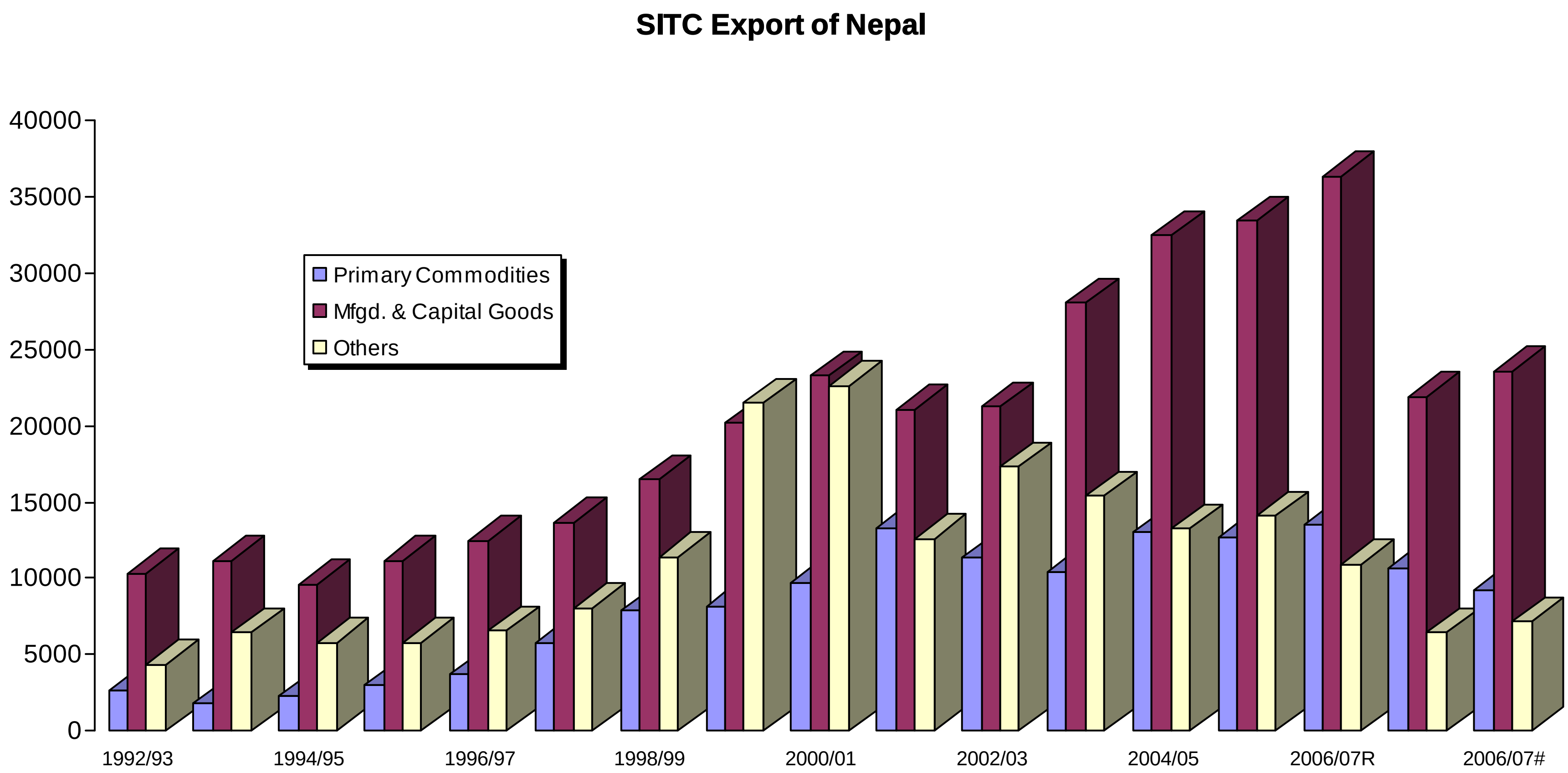

Figure No. 4.14

4.11.2. SITC Export of Nepal (in ratio):

Table No.4.12

SITC Export of Nepal (in ratio)

F/Y	SITC Export(in ratio)		
	Primary Commodities	Mfg. & Capital Goods	Others
1992/93	14.97%	59.82%	25.21%
1993/94	9.05%	57.69%	33.26%
1994/95	12.89%	54.42%	32.69%
1995/96	14.79%	55.99%	29.22%
1996/97	16.14%	54.96%	28.90%
1997/98	21.05%	49.66%	29.29%
1998/99	21.99%	46.09%	31.92%
1999/2000	16.36%	40.47%	43.17%
2000/01	17.44%	41.86%	40.07%
2001/02	28.30%	44.88%	26.82%
2002/03	22.68%	42.62%	34.70%
2003/04	19.36%	52.10%	28.54%
2004/05	22.11%	55.32%	22.57%
2005/06	21.13%	55.49%	23.38%
2006/07[R]	22.19%	59.83%	17.98%
2007/08[P]	**27.33%**	**56.25%**	**16.42%**
2006/07[#]	**23.07%**	**56.25%**	**17.95%**
A.M.	**19.48%**	**52.37%**	**29.42%**
S.D.	**5.17**	**6.61**	**7.58**
C.V.	**26.54%**	**12.62%**	**25.76%**

Source: Economic Survey & NRB

According to the SITC of exports of Nepal, large amount is covered by mfg. & capital goods. The country is said to be an agro-based economy but from the structure of the export of the country; it does not reflect such as primary goods like food and live animals, tobacco and beverage, crude materials, inedible except fuels, mineral fuels and lubricants & animals & vegetables oils & fats didn't cover the large portion in the export of Nepal under SITC. But just opposite the large portion or more than 50% of the composition is covered by the mfg. & capital goods. The C.V. of mfgd. & capital goods is seen least among the classification, so it is seen more uniformity in the export.

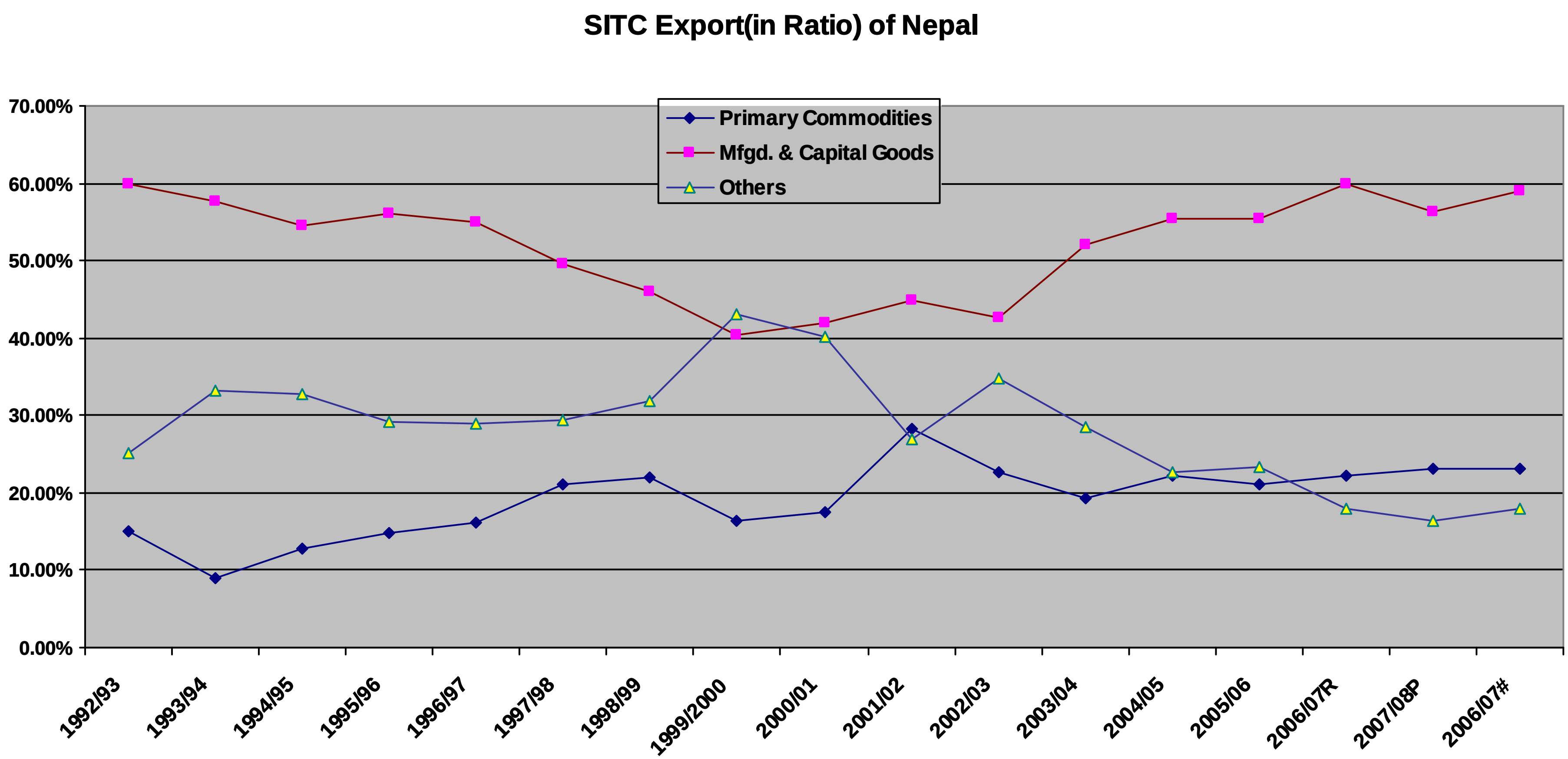

Figure No.4.15

4.11.3. SITC Import of Nepal:

Table No.4.13

SITC Import of Nepal

F/Y	SITC Import		
	Primary Commodities	Mfgd. & Capital Goods	Others
1992/93	16498.8	24599.8	2215.6
1993/94	18840.2	34726.3	2975.6
1994/95	20432.3	45521.4	3072.2
1995/96	24865.2	52117.6	3796.4
1996/97	28414.9	67041.0	5546.2
1997/98	34591.9	60413.6	4320.6
1998/99	37914.9	56178.1	4568.4
1999/2000	32301.8	69442.1	6751.0
2000/01	31318.5	77157.7	7211.0
2001/02	36871.3	64785.3	5732.4
2002/03	46336.6	69909.8	8105.7
2003/04	50669.9	78749.6	6857.6
2004/05	57986.9	82489.2	8997.5
2005/06	71668.4	91545.3	10568.6
2006/07[R]	71208.1	109089.7	11411.0
2007/08[P]	**48737.7**	**85364.3**	**7712.8**
2006/07[#]	**44368.5**	**63610.0**	**6712.7**

Source: Economic Survey & NRB

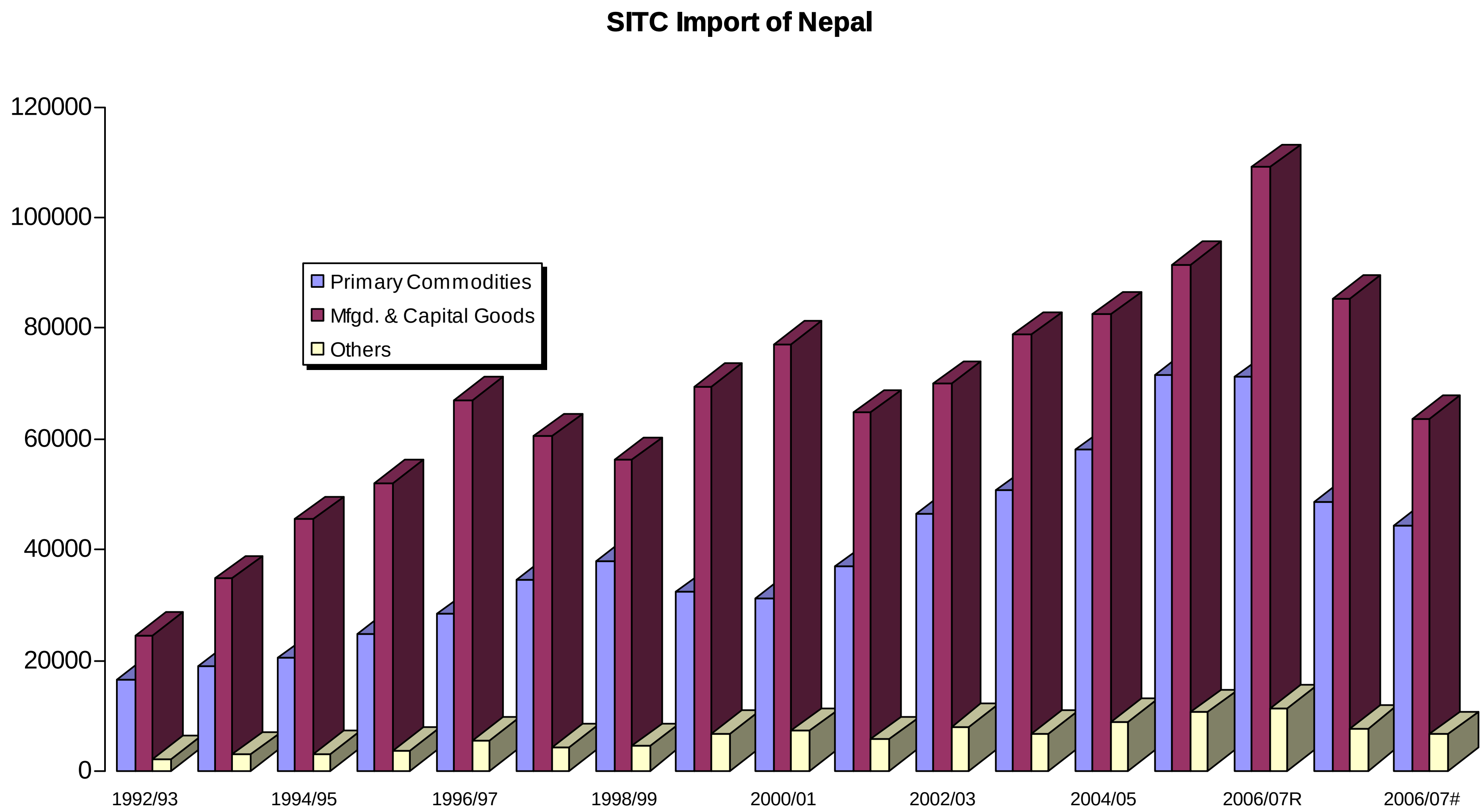

Figure No.4.16

4.11.4. SITC Import of Nepal (in ratio):

Table No.4.14

SITC Import of Nepal

F/Y	SITC Import(in ratio)		
	Primary Commodities	Mfgd. & Capital Goods	Others
1992/93	38.09%	56.79%	5.12%
1993/94	33.32%	61.42%	5.26%
1994/95	29.60%	65.95%	4.45%
1995/96	30.78%	64.52%	4.70%
1996/97	28.13%	66.38%	5.49%
1997/98	34.83%	60.82%	4.35%
1998/99	38.43%	59.94%	4.63%
1999/2000	29.77%	64.01%	6.22%
2000/01	27.07%	66.70%	6.23%
2001/02	34.33%	60.33%	5.34%
2002/03	37.26%	56.22%	6.52%
2003/04	37.18%	57.79%	5.03%
2004/05	38.79%	55.19%	6.02%
2005/06	41.24%	52.68%	6.08%
2006/07[R]	37.17%	56.90%	5.96%
2007/08[P]	**34.37%**	**60.19%**	**5.44%**
2006/07[#]	**38.69%**	**55.46%**	**5.85%**
A.M.	**34.83%**	**60.94%**	**5.50%**
S.D.	**4.31**	**4.47**	**0.70**
C.V.	**12.37%**	**7.34%**	**12.73%**

Source: Economic Survey & NRB

Due to un-developed industrialization situation of the country also, Nepal have to depend on import of mfgd. & capital goods such as chemicals & drugs, manufactured goods classified chiefly by materials, machinery & transport equipments & miscellaneous manufactured articles. It has been covering more than 60% of the composition in average. Similarly the country is seen depended on the primary commodities like food and live animals, tobacco and beverage, crude materials, inedible except fuels, mineral fuels and lubricants & animals & vegetables oils & fats. It has been covering more than 35% of the composition in average. The C.V. of mfgd. & capital goods is seen least among the classification, so it is seen more uniformity in the import.

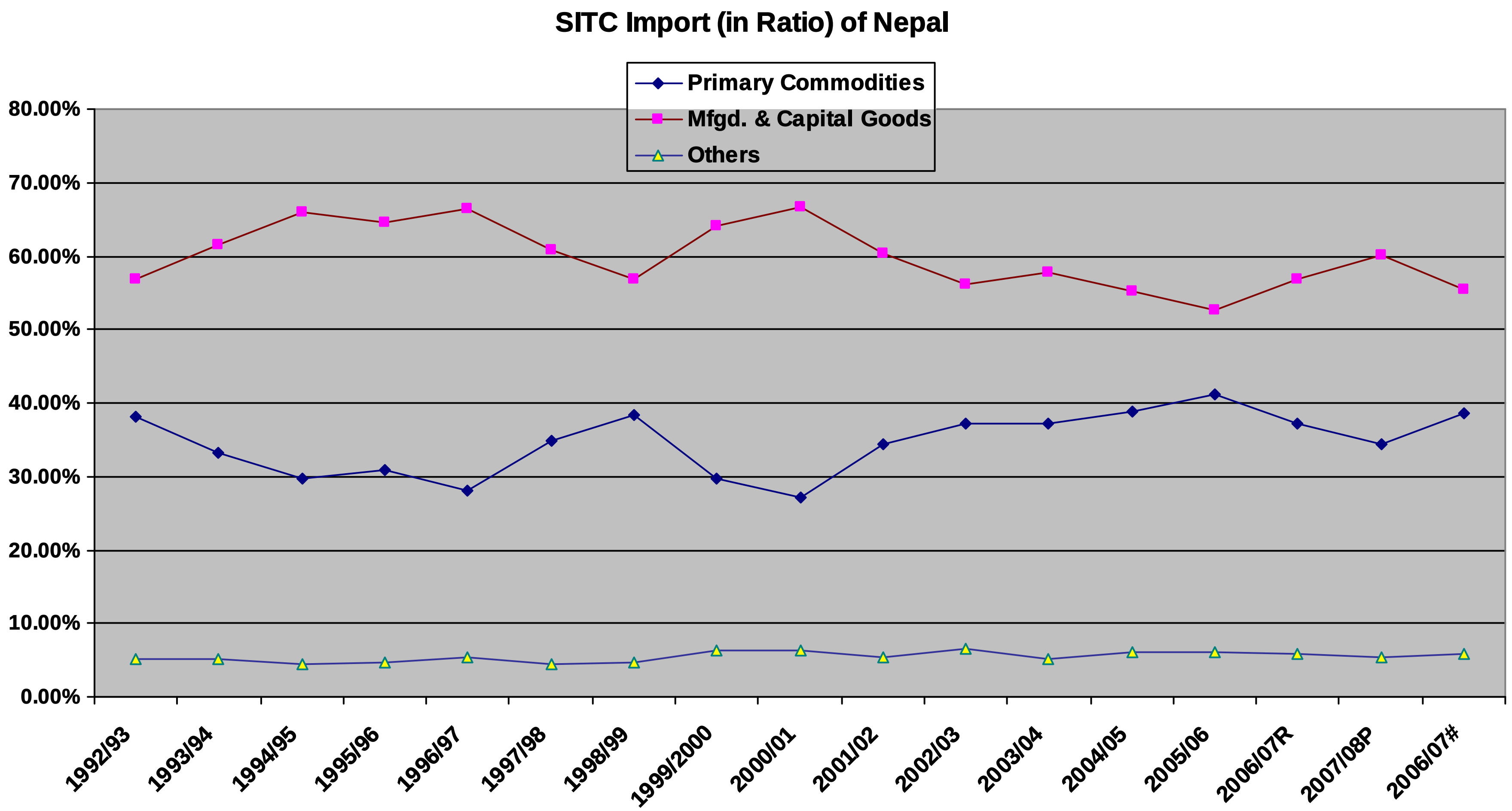

Figure No. 4.17

4.12. Total Outstanding Foreign Debt to Export Ratio:

Table No.4.15

Total Outstanding Foreign Debt to Export Ratio

	TOFD	Total Export F.O.B.	TOFD to Export Ratio
1992/93	87420.8	17266.50	506.30%
1993/94	101966.8	19293.40	528.51%
1994/95	113000.9	17639.20	640.62%
1995/96	128044.4	19881.10	725.91%
1996/97	132086.8	22636.50	583.51%
1997/98	161208.0	27513.50	585.92%
1998/99	169465.9	35676.30	475.01%
1999/2000	190691.2	49822.70	382.74%
2000/01	200404.4	55654.10	360.09%
2001/02	220125.6	46944.80	468.90%
2002/03	223433.2	49930.60	447.49%
2003/04	232779.3	53910.70	431.79%
2004/05	219641.9	58705.70	374.14%
2005/06	233968.6	60234.10	388.43%
2006/07[R]	216628.9	60795.80	355.62%
2007/08[P]	**216200.7**	**38963.30**	**554.88%**
2006/07[#]	**234805.6**	**39985.60**	**587.23%**

Source: Economic Survey & NRB

The foreign trade value of the country is directly related to the macro-economy of the country. Nepal is one of the least developing countries of the world. So, the country has to depend on the foreign aid, donations & loans for its development activities. From the country's first plan year, it has depended on the foreign loans & aid. So, the country has been bearing the debt from the long time as well as the each & every citizen of the country.

From above calculation, we see the situation was really worst during the F/Y 1994/95 & F/Y 1995/96. During these two F/Y the ratio reached to 640.62% & 725.91% respectively.

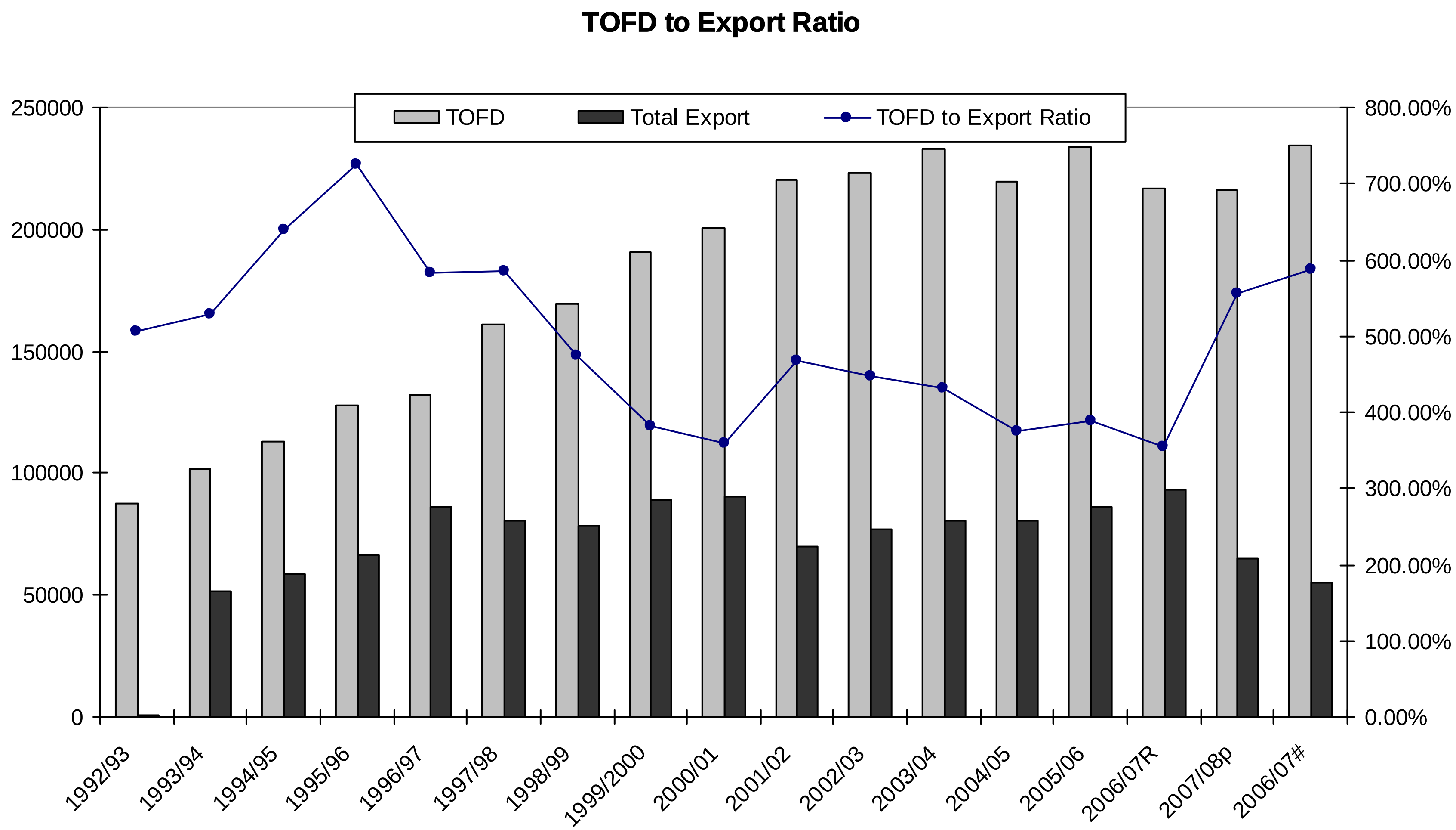

Figure No.4.18

4.13. Contribution to Total Tax Revenue from Foreign Trade:

4.13.1. Tax Revenue Collection from Foreign Trade:

Table No.4.16

Tax Revenue Collection from Foreign Trade

F/Y	Customs	Import Tax	Export Tax	TTR
1992/93	3945.0	3178.0	140.7	11662.5
1993/94	5255.0	4356.0	427.0	15371.5
1994/95	7018.1	5840.1	332.5	19660.0
1995/96	7327.4	6246.5	149.9	21668.0
1996/97	8309.1	7093.2	167.8	24424.3
1997/98	8502.2	7019.4	217.1	25939.8
1998/99	9517.7	7698.3	378.0	28752.9
1999/2000	10813.3	8959.9	432.5	33152.1
2000/01	12552.1	10391.9	492.6	38865.1
2001/02	12658.8	9678.4	917.4	39330.6
2002/03	14236.4	10567.7	855.6	42587.0
2003/04	15554.8	10666.9	527.1	48173.0
2004/05	15701.6	12299.1	697.9	54104.7
2005/06	15344.0	11744.6	625.6	57430.4
2006/07[R]	16707.6	13626.1	708.7	71126.7
2007/08[P]	14033.9	11265.2	267.2	50898.8
2006/07[#]	10204.8	8107.2	502.6	40550.3

Source: Economic Survey

From the above table we see that the import tax amount is seen in a greater portion than from the export tax. The tax collection from the custom of Nepal covers the major portion in the total tax revenue collection of the country. The tax collection from import duty covers the huge amount in the total custom collection of Nepal.

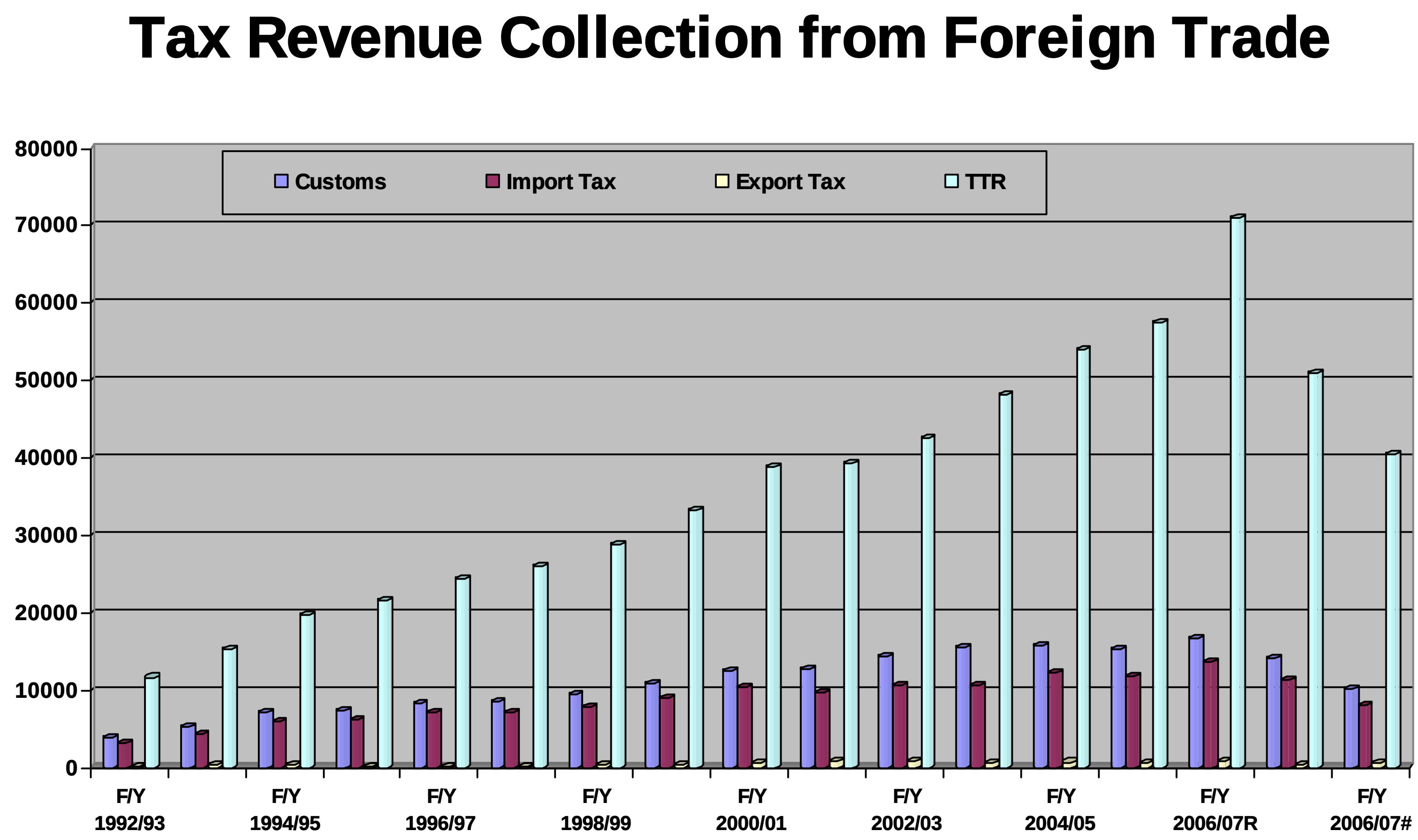

Figure No.4.19

4.13.2. Ratio of Tax Revenue Collection from Foreign Trade:

Table No.4.17

Ratio of Tax Revenue Collection from Foreign Trade

F/Y	Customs-Import Tax Ratio	Customs-Export Tax Ratio	TTR-Import Tax Ratio	TTR-Export Tax Ratio
1992/93	80.56%	3.57%	27.25%	1.21%
1993/94	82.89%	8.13%	28.34%	2.78%
1994/95	83.21%	4.74%	29.71%	1.69%
1995/96	85.25%	2.05%	28.83%	0.69%
1996/97	85.37%	2.02%	29.04%	0.69%
1997/98	82.56%	2.55%	27.06%	0.84%
1998/99	80.88%	3.97%	26.77%	1.31%
1999/2000	82.86%	3.99%	27.03%	1.30%
2000/01	82.79%	3.92%	26.74%	1.27%
2001/02	76.46%	7.25%	24.61%	2.33%
2002/03	74.23%	6.01%	24.81%	2.01%
2003/04	68.58%	3.39%	22.14%	1.09%
2004/05	78.33%	4.44%	22.73%	1.29%
2005/06	76.54%	4.08%	20.45%	1.09%
2006/07[R]	81.56%	4.24%	19.16%	0.99%
2007/08[P]	80.27%	1.90%	22.13%	0.52%
2006/07[#]	79.44%	4.93%	19.99%	1.24%

Source: Economic Survey

The customs-import tax ratio of Nepal is seen more than 70% to 85%. Therefore the import tax in the customs have great portion. Similarly, the import tax has been covering more than 20% in the TTR collection of Nepal. But the export tax has not much contribution n the TTR collection of Nepal. It has been seen just around 1% to 2% or lesser. The export tax collection in the proportion of total custom duty collection of Nepal has not been seen consistent. Similarly, it has not been a good contributor in the tax revenue collection of Nepal.

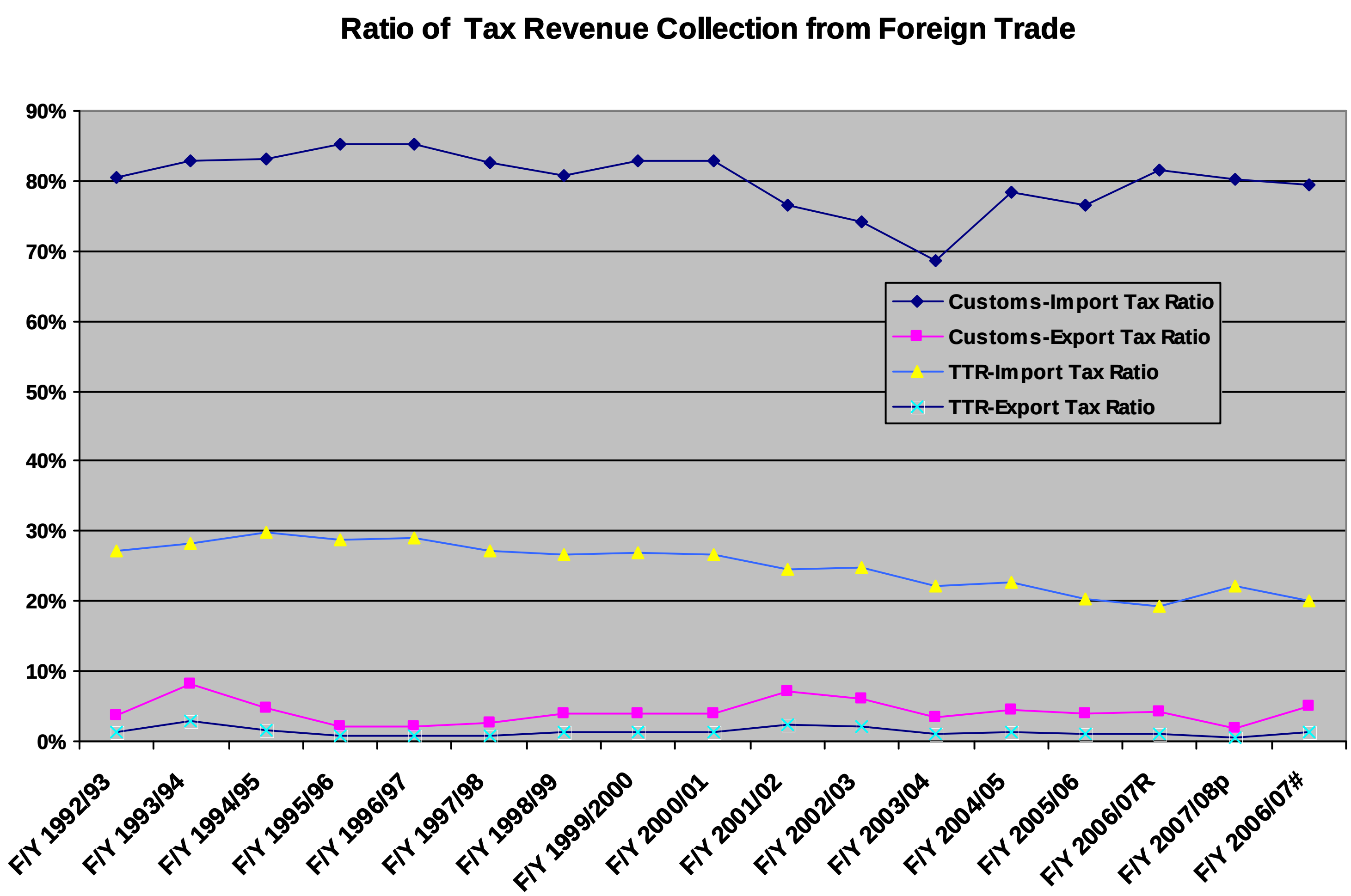

Figure No. 4.20

4.14. Test of Hypothesis:

Under this topic, an effort has been made to test the significance regarding the parameter of the population based on drawn from the population. Generally, the following steps are followed for the test of hypothesis.

a. Formulation of Hypothesis
   i. Null Hypothesis
   ii. Alternative Hypothesis
b. Computation of test statistic
c. Fixing the level of significance
d. Finding the criteria region
e. Deciding the two tailed or one tailed test
f. Making decision

4.14.1. Test of Hypothesis on the negative trade balance with India has significantly increased the negative trade balance of Nepal:

Null Hypothesis (H_o): $«_x = «_y$ There is no evidence that the negative trade balance with India has significantly increased the negative trade balance of Nepal.

Alternative Hypothesis (H_1): $«_x > «_y$ There is evidence that the negative trade balance with India has significantly increased the negative trade balance of Nepal. (Right tailed test)

Decision: Since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, there is evidence that the negative trade balance with India has significantly increased the negative trade balance of Nepal. ***(For calculation see Annex-I)***

4.14.2. Test of Hypothesis on the export & import business of Nepal is correlated:

Null Hypothesis (H_o): $° = 0$ i.e. the export & import business of Nepal is not correlated.

Alternative Hypothesis (H_1): $° \neq 0$ i.e. the export & import business of Nepal is not correlated. (Two tailed test)

Decision: Since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, the export & import business of Nepal is not correlated. ***(For calculation see Annex-II)***

4.14.3. Test of Hypothesis on the total import & import only from India are correlated:

Null Hypothesis (H_o): $° = 0$ i.e. the total import & import only from India is not correlated.

Alternative Hypothesis (H_1): $° > 0$ i.e. the total import & import only from India is correlated. (Right tailed test)

Decision: Since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, the total import & import only from India is correlated. ***(For calculation see Annex-III)***

4.14.4. Test of Hypothesis on the SITC Group Export of Nepal between F/Y:

Null Hypothesis (H_o):

$$«_1 = «_2 = «_3 = «_4 = «_5 = «_6 = «_7 = «_8 = «_9 = «_{10} = «_{11} = «_{12} = «_{13} = «_{14} = «_{15} = «_{16}$$

i.e. there is no significant difference among in the SITC Group Export of Nepal between F/Y. i.e. SITC Group Export of Nepal is homogenous.

Alternative Hypothesis (H_1):

$«_1 \neq «_2 \neq «_3 \neq «_4 \neq «_5 \neq «_6 \neq «_7 \neq «_8 \neq «_9 \neq «_{10} \neq «_{11} \neq «_{12} \neq «_{13} \neq «_{14} \neq «_{15} \neq «_{16}$

i.e. there is a significant difference among in the SITC Group Export of Nepal between F/Y. i.e. SITC Group Export of Nepal is homogenous.

Table No.4.18

One-way AVOVA Table for SITC Group Export of Nepal

Source of Variation	Sum of Square	d.f.	Mean Square	F ratio= $\frac{MSC}{MSE}$
Between samples	SSC= 388.08	k-1= 15.8-1=14.8	MSC= $\frac{388.08}{14.8}$ =26.22	F= $\frac{MSC}{MSE} = \frac{26.22}{42.09}$
Within samples(Error)	SSE= 5984.76	n-k= 158-15.8=142.2	MSE= $\frac{5984.76}{142.2}$ =42.09	
Total	TSS=6372.84	n-1=157		F=0.62

Critical value: The tabulated value of F at 5% level of significance for 15 & ∞ d.f. is 1.67.

Decision: Since the calculated value of "F" is lesser than the tabulated value of "F", hence, null hypothesis (H_0) is accepted. Therefore, there is no significant difference among in the SITC Group Export of Nepal between F/Y .i.e. SITC Group Export of Nepal is homogenous. ***(For calculation see Annex-IV)***

4.14.5. Test of Hypothesis on the SITC Group Import of Nepal between F/Y:

Null Hypothesis (H_o):

$«_1 = «_2 = «_3 = «_4 = «_5 = «_6 = «_7 = «_8 = «_9 = «_{10} = «_{11} = «_{12} = «_{13} = «_{14} = «_{15} = «_{16}$

i.e. there is no significant difference among in the SITC Group Import of Nepal between F/Y .i.e. SITC Group Import of Nepal is homogenous.

Alternative Hypothesis (H_1):

$\text{«}_1 \neq \text{«}_2 \neq \text{«}_3 \neq \text{«}_4 \neq \text{«}_5 \neq \text{«}_6 \neq \text{«}_7 \neq \text{«}_8 \neq \text{«}_9 \neq \text{«}_{10} \neq \text{«}_{11} \neq \text{«}_{12} \neq \text{«}_{13} \neq \text{«}_{14} \neq \text{«}_{15} \neq \text{«}_{16}$

i.e. there is a significant difference among in the SITC Group Import of Nepal between F/Y. i.e. SITC Group Import of Nepal is not homogenous.

Table No.4.19

One-way AVOVA Table for SITC Group Import of Nepal

Source of Variation	Sum of Square	d.f.	Mean Square	F ratio= $\frac{MSC}{MSE}$
Between samples	SSC= 21814.65	k-1= 15.8-1=14.8	MSC= $\frac{21814.65}{14.8}$ =1473.96	F= $\frac{MSC}{MSE}$ = $\frac{1473.96}{118.69}$
Within samples(Error)	SSE= 16877.71	n-k= 158-15.8=142.2	MSE= $\frac{16877.71}{142.2}$ =118.69	
Total	TSS=38692.36	n-1=157		F=12.42

Critical value: The tabulated value of F at 5% level of significance for 15 & $142.2 \cong \infty$ d.f. is 1.67.

Decision: Since the calculated value of "F" is greater than the tabulated value of "F", hence, alternative hypothesis (H_1) is accepted. Therefore, there is a significant difference among in the SITC Group Import of Nepal between F/Y. i.e. SITC Group Import of Nepal is not homogenous. ***(For calculation see Annex-V)***

Chapter Five
Summary, Conclusion & Recommendations

5.1. Summary:

The trade between different nations in goods & services is known as foreign trade or international trade. It differs from internal (domestic) trade on the ground that it involves the use of different currencies & is subjected to additional control in terms of tariffs, quota & exchange rates provisions.

The foreign trade occurs due to: difference in production costs of goods & services between countries & non-availability of such goods & services within countries.

An important aspect of foreign trade is an efficient allocation of scarce resources among different countries. Such efficient allocation of scarce resources through trade leads to raise real income in each country. Gains from foreign trade are analogous to gains by an individual through specializing in a special occupation rather than meeting all his needs by producing various items like food, clothing, & so on.

The exchange of goods between citizens of different countries is called International Trade. This kind of trade across national frontiers has grown in size with improved means of transport. Steamships, railways & aero-planes have been largely responsible for this increase in the volume of trade.

With the introduction of mechanical transport, the world has become a small place. Goods are constantly transported from country to country, Freights are cheap. It does not take much time & money to send them from one end of the world to another. The development of banking & credit has also provided facilities for trade across the frontiers. As a result, one can say that no country in the world, however huge & populous it may be, it self-sufficient-not even the U.S.A. or China, blessed as they are with vast natural resources. None of them can stand alone without imports from other countries.

Nepal is a landlocked & least developed country. In past, the trade with India formed 95% of total trade. A small percentage of trade was with China's Autonomous region Tibet. The trade with overseas countries was almost nil. The reason behind the concentration of trade with India were- Nepal bordering with India, open border with India, existence of traditional historical, cultural & religions ties with India. Being a big country India can purchase the goods produced in Nepal & can also sell the goods needed by Nepal. The concentration of the export & import of goods from & in Nepal was towards India only. But it is not beneficial to concentrate trade with only one country. A country cannot benefit from international trade by relying on only one country. Taking this into account, Nepal has been pursuing the policy of trade diversification from Third Plan onwards. Trade diversification means to export as many goods as possible to as many countries as possible. But till now also, Nepal has not been capable to diversify its international trade, but the dependency towards the India is seen increasing. Similarly, on the commodity wise trade diversification also, Nepal has been following the traditional products exports. Mainly the ago-based commodities are being exported in a large amount & the technology-based commodities, machinery, & petroleum products are imported in large amount. The country is fully dependent toward India for the petroleum products.

Foreign trade not only brings advantages but also poses difficulties to the trading partners. It increases dependency with other countries. In Nepalese context, land-locked ness & transit problems pose a formidable difficulty to foreign trade regime. It affects the allocation of domestic resources which ultimately affects the domestic income distribution patterns. Traders may gain & others may loose resulting into further inequitable distribution of income.

As earlier stated that the dependency of the Nepal's international trade is highly depended towards the India, the country has to depend for the day-to-day needs to the high value commodities towards India. Due to the long open border towards the India at the southern, eastern & western borders of Nepal, there is an easy access of goods from the neighboring country from India then from northern neighbor China. But the history had shown that the situation of relation with India had not remained same & fine every time. After the expiry of the validity of Treaty of Transit 1983 some misunderstanding developed between the governments of Nepal & India. The misunderstanding developed between the two countries created tense situation. As a result, India suddenly informed the GON to provide only two transit routes, out of 21 routes as accorded by the Treaty of Transit 1983. And since March 1989 for about 15 months India pushed a poor land-locked country Nepal into the 'economic blockade'. This economic blockade compelled poor people of Nepal to survive in difficult situation. Actually this difficult situation compelled the GON to think & rethink for obtaining membership of GATT, now WTO. As a result, in 1989 Nepal applied for GATT membership.

But after the restoration of democracy in Nepal, in 1991, two separate treaties of Trade & Transit & Agreement of Cooperation were signed between the two countries. Then the interest to join the GATT faded away after Nepal signed the new treaty with India. This incident also shows how much the import & export trade of Nepal was highly depended towards the neighboring country India till the early 90s.

Only after the Nepal got an observer status in GATT in 1993, it thought of getting the membership of WTO. Then in 1997, government formed a main committee for Nepal's accession to WTO under the convenorship of Secretary of Ministry of Commerce. Nepal submitted a draft report of Memorandum of Nepalese Foreign Trade to WTO. After several attendances in the Ministerial-level Conference of WTO, only in September 11, 2003, the Conference approved by consensus the text of the Protocol for Nepal's entry into the WTO. Then in April 23, 2004, Nepal became the 147th member country of WTO.

The membership of WTO & other membership in the various international associations & organization as compulsion in the present context of the globalization have brought the bigger scope for the Nepal's foreign trade. From the traditional era to the current era also, Nepal was as an entrepot port for the Indian & Chinese (mainly Tibetan) businessmen. In the coming days also, Nepal can explore more transit points for this purpose. The membership of WTO has ended the bilateralism, added freedom of transit, trade diversification & expansion, easy trade-related international dispute settlements & industrial development of the country.

5.2. Conclusions:

Foreign trade or international trade, the so-called 'engine of growth' has been a myth in case of Nepal. The trade deficit is increasing due to the increased import caused by the increased domestic demand on account of the demonstration effect & the development works. Nepal's exportable goods are mainly primary goods & few finished goods. The export of traditional goods has decreased. The new & sustainable goods have not been developed. The share of only two goods, woolen carpet & readymade garment is more than two-third in total export, the export of which is also limited to only Germany & U.S.A. Such dependency is certainly risky. The export of these goods is also decreasing due to various reasons including the wrong propaganda regarding the use of child labor, pollution, & the degradation of quality.

The TTV of Nepal has been divided into the total trade with India & trade with other countries. The TTV of Nepal with the other countries was more than 60% till the F/Y 1997/98 but the situation was just reversed till coming to the F/Y 2004/05. And the situation has remained same till now. This shows the high dependency of Nepal's export & import business with the neighboring Country India in the recent years. Nepal is dependent to India for primary commodities to the mfg. & capital goods.

The total import amount of Nepal during the past 15 years is seen decreased only thrice. There is not seen consistency in the percentage change in total import amount during the past decades. It has increased to 30.54% in the F/Y 1993/94 & about 7% in the F/Y 2000/01.

The proportion of the import from the other countries was high till the beginning of the millennium i.e. till 2000/01. Till F/Y 1997/98, the import from other countries was more than 60%. But after the F/Y 2001/02, the situation became just reverse. The import from the India is seen increased. And the dependency toward the India is seen heavy. Also, since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, the total import & import only from India is also correlated.

The export from Nepal had declined by 2.56% in the F/Y 2007/08^P. Similarly the high percentage of decline was seen in the export by 8.60% & 15.65% during the F/Y 1994/95 & F/Y 2001/02 respectively. Slightly improvement was seen in the export business of Nepal during the F/Y 1997/98 to F/Y 1999/2000. It was increased to about 40% in the F/Y 1999/2000. The least increment in the export business was seen in the F/Y 1996/97 by only 0.14%. Similarly, the situation was also not good during the F/Y 2006/07^R.

The proportion of the export to the other countries was high till the beginning of the millennium i.e. till 2000/01. Till F/Y 198/99, the export to other countries was more than 60%. But after the F/Y 2004/05, the situation became just reverse. The export to the India is seen increased. As an import from India is seen increased similarly the export to India is also seen increased. The export to other countries is seen more consistent than export to the India.

The trade balance of Nepal is always not in a favorable condition. Every year the trade balance of the country is negative though the TTV of Nepal is seen increasing every F/Y. The overall trade balance of Nepal is seen in negative value in every F/Y. This has also added the burden to the economy of the country. Instead of decreasing the trade deficit of the country; the value is seen went on increasing in the past few recent F/Y. Under the hypothesis test also, since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, there is evidence that the negative trade balance with India has significantly increased the negative trade balance of Nepal.

The expansion of the import & contraction of the export, decline the export-import ratio & vice-versa. The export-import ratio of Nepal is seen somewhat constant during the past decades. It had normally remained within 30%-40% during the past few recent F/Y. But from the hypothesis test, it concluded that since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, the export & import business of Nepal is not correlated.

The contribution of export f.o.b. from the Nepal's GDP$^{@}$ at Producers Price is seen between 9% to 13% & the contribution of import c.i.f. to the Nepal's GDP$^{@}$ at Producers Price is seen between 25% to 36%. The TTV to GDP ratio is one of the most important indicators of the country's macro-economic situation. This reflects or pictures out the actual contribution of foreign trade or international trade to the country's national income. It also shows the economic strength & growth of the county during a particular period. After the starting of the millennium, the contribution of the foreign trade to the GDP$^{@}$ of Nepal has remain in the constant level of around 34% to 35%. It has even reached up to more than 40% in several F/Y.

According to the SITC of exports of Nepal, large amount is covered by mfg. & capital goods. The country is said to be an agro-based economy but from the structure of the export of the country; it does not reflect such as primary goods like food and live animals, tobacco and beverage, crude materials, inedible except fuels, mineral fuels and lubricants & animals & vegetables oils & fats didn't cover the large portion in the export of Nepal under SITC. But just opposite the large portion or more than 50% of the composition is covered by the mfg. & capital goods. The C.V. of mfgd. & capital goods is seen least among the classification, so it is seen more uniformity in the export. Since the calculated value of "F" is lesser than the tabulated value of "F", therefore, there is no significant difference among in the SITC Group Export of Nepal between F/Y .i.e. SITC Group Export of Nepal is homogenous.

Due to un-developed industrialization situation of the country also, Nepal have to depend on import of mfgd. & capital goods such as chemicals & drugs, manufactured goods classified chiefly by materials, machinery & transport equipments & miscellaneous manufactured articles. It has been covering more than 60% of the composition in average. The SITC Import of Nepal also reflects the same picture. Similarly the country is seen depended on the primary commodities like food and live animals, tobacco and beverage, crude materials, inedible except fuels, mineral fuels and lubricants & animals & vegetables oils & fats. It has been covering more than 35% of the composition in average. The C.V. of mfgd. & capital goods is seen least among the classification, so it is seen more uniformity in the import. Since the calculated value of "F" is greater than the tabulated value of "F", therefore, there is a significant difference among in the SITC Group Import of Nepal between F/Y. i.e. SITC Group Import of Nepal is not homogenous. This shows that the pattern of goods imported within Nepal during the past few years has been changing.

The foreign trade value of the country is directly related to the macro-economy of the country. Nepal is one of the least developing countries of the world. So, the country has to depend on the foreign aid, donations & loans for its development activities. Such each & every F/Y the country has been adding TOFD in its national account to fulfill its regular & development expenditures under the various budget heads. But the TOFD to Export ratio of Nepal's situation was really worst. The compensation from the foreign trade value for the payment of TOFD is far behind the imagination.

The custom duties have been the major sources of the Nepal's government revenue collection. In the custom duty collection also, the various taxes from the foreign trade of Nepal has greater importance. The customs-import tax ratio of Nepal is seen more than 70% to 85%. Therefore the import tax in the customs have great portion. Similarly, the import tax has been covering more than 20% in the TTR collection of Nepal. But the export tax has not much contribution n the TTR collection of Nepal. It has been seen just around 1% to 2% or lesser. The export tax collection in the proportion of total custom duty collection of Nepal has not been seen consistent. Similarly, it has not been a good contributor in the tax revenue collection of Nepal.

5.3. Recommendations:

1. As the foreign trade of Nepal has a special position in its contribution to the GDP growth of the country, various practicable plans & policies should be formulated & implemented in the coming days.
2. Proper & practical tax polices & rules should be regulated to attract the new investors to make investment in the industrial sector of the country.
3. There is necessary to identify new exportable goods & new markets besides maintaining the quality of exportable goods. The government should be effortful to widen the export base & diversify the trade.
4. More credit & establishment facilities should be given to the import-substitution industry to reduce the trade deficit of the country. Similarly,

Export Credit Guarantee Department should be established for the export business facilitation.

5. Nepal should enhance the border trade with China to decrease the high dependency with India.
6. Nepal-Bangladesh Transit Route should be effectively utilized by Nepal on the mutual consents of tripartite- Nepal, India & China.
7. The Birgunj Dry-port should be utilized in maximum level to reduce the transportation cost & similar other railway links should be studied in joint effort with India in coming days.
8. As Nepal being a land-locked country, a separate international airport or a separate high facility terminal in existing international airport for only foreign trade should be build-up.
9. Proper initiative for duty free entry towards India & China should be done. Similarly more initiative should be given for the Indian Excise Duty Refund.
10. Proper directives on payment made for foreign trade through draft, TT & L/C should be given by NRB.
11. Good provision of bank guarantee should be kept for foreign trade at commercial banks.
12. The harmonic code numbers for the list of goods allowed to import from India against the payment of convertible foreign currencies should be reviewed time-to-time & updated according to the necessity by NRB.

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Annex-I

Test of Hypothesis on the negative trade balance with India has significantly increased the negative trade balance of Nepal:

Null Hypothesis (H_o): «$_x$ = «$_y$ There is no evidence that the negative trade balance with India has significantly increased the negative trade balance of Nepal.

Alternative Hypothesis (H_1): «$_x$ > «$_y$ There is evidence that the negative trade balance with India has significantly increased the negative trade balance of Nepal. (Right tailed test)

Calculation of $\bar{d}$ & S_d

Overall Trade Deficit(x)	Trade deficit excluding India(y)	d=y-x	d^2
-0.26	-0.11	0.15	0.0225
-0.37	-0.18	0.19	0.0361
-5.14	-4.92	0.22	0.0484
-6.08	-5.81	0.27	0.0729
-7.84	-7.57	0.27	0.0729
-7.18	-6.89	0.29	0.0841
-6.29	-5.98	0.31	0.0961
-5.87	-5.60	0.27	0.0729
-6.00	-5.71	0.29	0.0841
-6.04	-5.75	0.29	0.0841
-7.44	-7.00	0.44	0.1963
-8.24	-7.76	0.48	0.2304

-9.08	-8.59	0.39	0.1521
			Contd.
Overall Trade Deficit(x)	**Trade deficit excluding India(y)**	**d=y-x**	**d²**
-11.35	-10.89	0.46	0.2116
-13.09	-12.33	0.76	0.5776
-10.29	-9.65	0.64	0.04096
		$\sum d$ =5.72	$\sum d^2$ =2.449

We have;

$$\therefore \bar{d} = \frac{\sum d}{n} = \frac{2.449}{15.8} = 0.155$$

$$\& \therefore S_d = \sqrt{\frac{1}{n-1}\left[\sum d^2 - \frac{\left(\sum d\right)^2}{n}\right]} = \sqrt{\frac{1}{15.8-1}\left[2.449 - \frac{(5.72)^2}{15.8}\right]} = 0.16$$

Test statistic,

$$\therefore t_{cal} = \frac{\bar{d}}{S_d/\sqrt{n}} = \frac{0.155}{0.16/\sqrt{15.8}} = 3.88$$

Degree of freedom (d.f.) =n-1**=**15.8-1=14.8$\cong$ 15

Level of significance, ~ **=**5%=0.05

Critical Value: The tabulated vale of t at 5% level of significance for right tailed test & for 15 d.f. is 1.753.

Decision: Since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, there is evidence that the negative trade balance with India has significantly increased the negative trade balance of Nepal.

Annex-II

Test of Hypothesis on the export & import business of Nepal is correlated.

Null Hypothesis (H_o): ° $= 0$ i.e. the export & import business of Nepal is not correlated.

Alternative Hypothesis (H_1): ° $\neq 0$ i.e. the export & import business of Nepal is not correlated. (Two tailed test)

Calculation of "r"

Export(X)	**Import(Y)**	**XY**	**X^2**	**Y^2**
0.17	0.43	0.0731	0.0289	0.1849
0.19	0.57	0.1083	0.0361	0.3249
0.18	0.69	0.1242	0.0324	0.4761
0.19	0.89	0.1691	0.0361	0.7921
0.23	1.01	0.2323	0.0529	1.0201
0.28	0.99	0.2772	0.0784	0.9801
0.36	0.99	0.3564	0.1296	0.9801
0.49	1.09	0.5341	0.401	1.1881
0.56	1.16	0.6496	0.3136	1.3456
0.47	1.07	0.5029	0.2209	1.1449
0.49	1.24	0.6076	0.2401	1.5376
0.54	1.36	0.7344	0.2961	1.8496
0.59	1.49	0.8791	0.3481	2.2201
0.60	1.74	1.0440	0.3600	3.2076
0.61	1.92	1.1712	0.3721	3.6864
0.39	1.42	0.5538	0.1521	2.0164

∑ X=6.34	**∑ Y=18.06**	**∑ XY=8.0173**	**∑ X^2=2.8682**	**∑ Y^2=22.7746**

$$\therefore \text{r} = \frac{n\sum XY - \left(\sum X\right)\left(\sum Y\right)}{\sqrt{n\sum X^2 - \left(\sum X\right)^2}\sqrt{n\sum Y^2 - \left(\sum Y\right)^2}}$$

$$= \frac{15.8 \times 8.0173 - 6.34 \times 18.06}{\sqrt{15.8 \times 2.8682 - (6.34)^2}\sqrt{15.8 \times 22.7746 - (18.06)^2}}$$

$$= \frac{126.67334 - 114.5004}{\sqrt{45.31756 - 40.1956}\sqrt{359.83868 - 326.1636}}$$

$$= \frac{12.17294}{2.2632 \times 5.8030} = \frac{12.17294}{13.13} = +0.93$$

$$\therefore \text{ P.E. } = 0.6745\frac{1-r^2}{\sqrt{n}} = 0.6745\frac{1-(0.93)^2}{\sqrt{15.8}} = 0.023 \;\; \therefore \text{6P.E. } = 0.138$$

Since, r>6P.E. we conclude that the value of "r" is significant.

Under, H_0

$$\therefore t_{cal} = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} = \frac{0.93}{\sqrt{1-(0.93)^2}} \times \sqrt{15.8-2} = 9.40$$

Degree of freedom (d.f.) =n-2**=**15.8-2=13.8 ≅ 14

Level of significance, ~ **=**5%=0.05

Critical Value: The tabulated vale of t at 5% level of significance for two tailed test & for 14 d.f. is 2.145.

Decision: Since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, the export & import business of Nepal is not correlated.

If $t_{\sim(n-2)}$ be the critical or significant values of t at ~ percent level of significance for (n-2) degree of freedom, then (1-~)% confidence or fudicial limits for estimating population correlation coefficient ° are:

Limits= ° $\pm t_{\sim(n-2)}$SE(r)= $r \pm t_{\sim(n-2)} \frac{1-r^2}{\sqrt{n}} = 0.93 \pm t_{5\%,14} \frac{1-0.93^2}{\sqrt{15.8}}$ =0.93 ± 0.06

Upper limit=+0.99
Lower limit=+0.87

Annex-III

Test of Hypothesis on the total import & import only from India are correlated.

Null Hypothesis (H_o): ° $= 0$ i.e. the total import of Nepal & import only from India is not correlated.

Alternative Hypothesis (H_1): ° > 0 i.e. the total import & import only from India is correlated. (Right tailed test)

Calculation of "r"

Total Import(X)	Import from India(Y)	XY	X^2	Y^2
0.43	0.17	0.07312	0.1849	0.0289
0.57	0.23	0.1311	0.3249	0.0529
0.69	0.25	0.1725	0.4761	0.0625
0.89	0.31	0.2759	0.7921	0.0961
1.01	0.32	0.3232	1.0201	0.1024
0.99	0.38	0.3762	0.9801	0.1444
0.99	0.43	0.4257	0.9801	0.1849
1.09	0.48	0.5232	1.1881	0.2304
1.16	0.55	0.6380	1.3456	0.3025
1.07	0.57	0.6099	1.1449	0.3249
1.24	0.71	0.8804	1.5376	0.5041
1.36	0.79	1.0744	1.8496	0.6241
1.49	0.89	1.3261	2.2201	0.7921
1.74	1.07	1.8618	3.2076	1.1449
1.92	1.18	2.2656	3.6864	1.3924

1.42	0.89	1.2638	2.0164	0.7921
∑ X=6.34	**∑ Y=9.22**	**∑ XY=12.2209**	**∑ X^2=22.7746**	**∑ Y^2=6.7796**

$$\therefore r = \frac{n\sum XY - \left(\sum X\right)\left(\sum Y\right)}{\sqrt{n\sum X^2 - \left(\sum X\right)^2}\sqrt{n\sum Y^2 - \left(\sum Y\right)^2}}$$

$$= \frac{15.8 \times 12.2209 - 18.06 \times 9.22}{\sqrt{15.8 \times 22.7746 - (18.06)^2}\sqrt{15.8 \times 6.7796 - (9.22)^2}}$$

$$= \frac{193.09022 - 166.5132}{\sqrt{359.83868 - 326.1636}\sqrt{107.11768 - 85.0084}}$$

$$= \frac{26.57702}{5.80 \times 4.70} = +0.97$$

$$\therefore \text{ P.E. } = 0.6745\frac{1-r^2}{\sqrt{n}} = 0.6745\frac{1-(0.97)^2}{\sqrt{15.8}} = 0.01 \; \therefore \text{ 6P.E. } = 0.06$$

Since, r>6P.E. we conclude that the value of "r" is significant.

Under, H_0

$$\therefore t_{cal} = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} = \frac{0.97}{\sqrt{1-(0.97)^2}} \times \sqrt{15.8-2} = 14.82$$

Degree of freedom (d.f.) =n-2**=**15.8-2=13.8 ≅ 14

Level of significance, ~ **=**5%=0.05

Critical Value: The tabulated vale of t at 5% level of significance for right tailed test & for 14 d.f. is 1.761.

Decision: Since the calculated value of "t" is greater than the tabulated value of "t", hence, alternative hypothesis (H_1) is accepted. Therefore, the total import & import only from India is correlated.

If $t_{\sim(n-2)}$ be the critical or significant values of t at ~ percent level of significance for (n-2) degree of freedom, then (1-~)% confidence or fudicial limits for estimating population correlation coefficient ° are:

Limits= $° \pm t_{\sim(n-2)}$ SE(r)= $r \pm t_{\sim(n-2)} \frac{1-r^2}{\sqrt{n}} = 0.97 \pm t_{5\%,14} \frac{1-0.97^2}{\sqrt{15.8}}$ =0.97 ± 0.03

Upper limit=+1.00 Lower limit=+0.94

Annex-IV

Test of Hypothesis on the SITC Group Export of Nepal between F/Y:

Null Hypothesis (H_o):

«$_{1}$ = «$_{2}$ = «$_{3}$ = «$_{4}$ = «$_{5}$ = «$_{6}$ = «$_{7}$ = «$_{8}$ = «$_{9}$ = «$_{10}$ = «$_{11}$ = «$_{12}$ = «$_{13}$ = «$_{14}$ = «$_{15}$ = «$_{16}$ i.e. there is no significant difference among in the SITC Group Export of Nepal between F/Y. i.e. SITC Group Export of Nepal is homogenous.

Alternative Hypothesis (H_1):

«$_{1}$ ≠ «$_{2}$ ≠ «$_{3}$ ≠ «$_{4}$ ≠ «$_{5}$ ≠ «$_{6}$ ≠ «$_{7}$ ≠ «$_{8}$ ≠ «$_{9}$ ≠ «$_{10}$ ≠ «$_{11}$ ≠ «$_{12}$ ≠ «$_{13}$ ≠ «$_{14}$ ≠ «$_{15}$ ≠ «$_{16}$ i.e. there is a significant difference among in the SITC Group Export of Nepal between F/Y. i.e. SITC Group Export of Nepal is not homogenous.

$T=\sum Y_{A}+\sum Y_{B}+\sum Y_{C}+\sum Y_{D}+\sum Y_{E}+\sum Y_{F}+\sum Y_{G}+\sum Y_{H}+\sum Y_{I}+\sum Y_{J}+\sum Y_{K}+\sum Y_{L}+\sum Y_{M}+\sum Y_{N}+\sum Y_{O}+\sum Y_{P}$

=634.8683

$$C.F.=\frac{T^2}{N}=\frac{(634.8683)^2}{158}=2550.99$$

$$T.S.S.=\sum Y_A^2+\sum Y_B^2+\sum Y_C^2+\sum Y_D^2+\sum Y_E^2+\sum Y_F^2+\sum Y_G^2+\sum Y_H^2+\sum Y_I^2+\sum Y_J^2+\sum Y_K^2+\sum Y_L^2+\sum Y_M^2+\sum Y_N^2+\sum Y_O^2+\sum Y_P^2-C.F.=128.78+161.84+121.81+147.49+173.86+218.8+345.88+757.87+927.31+553.59+682.29+860.23+1081.67+1099.04+1181.91+481.46-2550.99=6372.84$$

$$S.S.C.=\frac{(\sum Y_A)^2}{n_A}+\frac{(\sum Y_B)^2}{n_B}+\frac{(\sum Y_C)^2}{n_C}+\frac{(\sum X_D)^2}{n_D}+\frac{(\sum X_E)^2}{n_E}+\ldots\ldots\ldots\ldots+\frac{(\sum X_P)^2}{n_P}-C.F.=388.08$$

S.S.W.=T.S.S.-S.S.C.= 1240.7-435.10=805.6

Critical value: The tabulated value of F at 5% level of significance for 15 & ∞ d.f. is 1.67.

SITC Group Export	Test of Hypothesis on SITC Group Export																
									F/Y								
	Y_A	Y_B	Y_C	Y_D	Y_E	Y_F	Y_G	Y_H	Y_I	Y_J	Y_K	Y_L	Y_M	Y_N	Y_O	Y_P	**Row Total**
X_A	1.8629	1.1634	1.5627	1.9466	32.6617	3.1232	3.7245	4.2404	4.7766	5.0942	6.1009	6.2769	6.9935	7.1920	7.5476	7.7263	**71.9934**
X_B	0.0132	0.0128	0.0113	0.0097	0.0149	0.0228	0.0500	0.1172	0.0756	0.1457	0.1387	0.0552	0.0316	0.0250	0.0260	0.0198	**0.7695**
X_C	0.5318	0.4324	0.4855	0.7687	0.6635	0.4871	0.4699	0.5613	0.7511	0.6245	0.8001	0.7143	0.8816	1.2234	1.3762	0.7796	**11.551**
X_D	0.0003	0.0	0.0	0.0013	0.0014	0.0209	0.0005	0.0022	0.0013	0.0016	0.0055	0.0145	0.0042	0.032	0.0	0.0	**0.0569**
X_E	0.1764	0.1384	0.2114	0.5513	0.0126	2.1363	3.5972	3.2297	4.1040	7.4214	4.2787	3.3757	5.0703	4.2846	4.5423	2.1216	**45.2546**
X_F	0.0287	0.2121	0.3023	0.6404	1.3534	1.9685	2.8040	3.9332	4.0417	3.3083	3.2790	3.8659	3.6776	3.6869	4.0717	1.9475	**39.1212**
X_G	10.2983	10.9126	9.2603	10.4557	11.0286	11.6371	13.5396	15.8387	18.9093	17.3949	17.7947	23.6017	28.5906	28.5330	31.0621	19.2758	**278.13**
X_H	0.0012	0.0064	0.00371	0.0352	0.0596	0.0580	0.0978	0.3908	0.3436	0.3649	0.2082	0.6195	0.2076	1.2019	1.2409	0.6949	**5.5676**
X_I	4.3523	6.4151	5.7658	5.7722	6.5403	8.0596	11.3928	21.5092	22.6509	12.5893	17.2815	15.3801	13.2396	14.0816	10.9290	6.3982	**182.3575**
X_J	0.0014	0.0002	0.0001	0.0	0.0005	0.0	0.00.0	0.0	0.0	0.0	0.0433	0.0069	0.0091	0.0025	0.0	0.0026	**0.0666**
Column Total	**17.2665**	**19.2934**	**17.6392**	**19.8811**	**22.6365**	**27.5135**	**35.6763**	**49.8227**	**55.6541**	**46.9448**	**49.9306**	**53.9107**	**58.7057**	**60.2341**	**60.7958**	**38.9633**	**634.8683**

Where,

SITC Export Groups	**Descriptions**
X_A	Food and Live Animals
X_B	Tobacco and Beverage
X_C	Crude Materials, Inedible except Fuels
X_D	Mineral Fuels and Lubricants
X_E	Animals & Vegetables Oils & Fats
X_F	Chemicals & Drugs
X_G	Manufactured Goods Classified Chiefly by Materials
X_H	Machinery & Transport Equipments
X_I	Miscellaneous Manufactured Articles
X_J	Commodity & Transaction not Classified According to Kind

And,

Y_A=F/Y 1992/93

Y_B=F/Y 1993/94

Y_C=F/Y 1994/95

Y_D=F/Y 1995/96

Y_E=F/Y 1996/97

Y_F=F/Y 1997/98

Y_G=F/Y 1998/99

Y_H=F/Y 1999/2000

Y_I=F/Y 2000/01

Y_J=F/Y 2001/02

Y_K=F/Y 2002/03 & so on…..

Annex-V

Test of Hypothesis on the SITC Group Import of Nepal between F/Y:

Null Hypothesis (H_o):

«$_1$ = «$_2$ = «$_3$ = «$_4$ = «$_5$ = «$_6$ = «$_7$ = «$_8$ = «$_9$ = «$_{10}$ = «$_{11}$ = «$_{12}$ = «$_{13}$ = «$_{14}$ = «$_{15}$ = «$_{16}$ i.e. there is no significant difference among in the SITC Group Import of Nepal between F/Y .i.e. SITC Group Import of Nepal is homogenous.

Alternative Hypothesis (H_1):

«$_1$ ≠ «$_2$ ≠ «$_3$ ≠ «$_4$ ≠ «$_5$ ≠ «$_6$ ≠ «$_7$ ≠ «$_8$ ≠ «$_9$ ≠ «$_{10}$ ≠ «$_{11}$ ≠ «$_{12}$ ≠ «$_{13}$ ≠ «$_{14}$ ≠ «$_{15}$ ≠ «$_{16}$ i.e. there is a significant difference among in the SITC Group Import of Nepal between F/Y. i.e. SITC Group Import of Nepal is not homogenous.

$T=\sum Y_{A+}\sum Y_{B+}\sum Y_{C+}\sum Y_{D+}\sum Y_{E+}\sum Y_{F+}\sum Y_{G+}\sum Y_{H+}\sum Y_{I+}\sum Y_{J+}\sum Y_{K+}\sum Y_{L+}\sum Y_{M+}\sum Y_{N+}\sum Y_{O+}\sum Y_{P}=1747.9689$

$$\text{C.F.}=\frac{T^2}{N}=\frac{(1747.9689)^2}{158}=11.06$$

$$\text{T.S.S.}=\sum Y_A^2+\sum Y_B^2+\sum Y_C^2+\sum Y_D^2+\sum Y_E^2+\sum Y_F^2+\sum Y_G^2+\sum Y_H^2+\sum Y_I^2+\sum Y_J^2+\sum Y_K^2+\sum Y_L^2+\sum Y_M^2+\sum Y_N^2+\sum Y_O^2+\sum Y_P^2-C.F.$$

=268.21+558.50+928.64+1200.91+2399.24+1650.20+1343.09+2131.14+2698.35+2019.46+2514.63+3035.95+3642.73+4777.81 +6032.53+3502.03-11.06=38692.36

$$\text{S.S.C.}=\frac{(\sum Y_A)^2}{n_A}+\frac{(\sum Y_B)^2}{n_B}+\frac{(\sum Y_C)^2}{n_C}+\frac{(\sum X_D)^2}{n_D}+\frac{(\sum X_E)^2}{n_E}+\ldots\ldots+\frac{(\sum X_P)^2}{n_P}-C.F.=21814.65$$

S.S.W.=T.S.S.-S.S.C.=38692.36-21814.65=16877.71

Critical value: The tabulated value of F at 5% level of significance for 15 & ∞ d.f. is 1.67.

SITC Group Import	Test of Hy F/Y on SITC Group Import																
	Y_A	Y_B	Y_C	Y_D	Y_E	Y_F	Y_G	Y_H	Y_I	Y_J	Y_K	Y_L	Y_M	Y_N	Y_O	Y_P	**Row Total**
X_A	3.0247	4.0848	4.4464	4.7858	5.4005	4.9290	7.6195	10.839	5.9944	6.3332	9.3705	8.554	9.8207	13.2987	13.0793	10.7929	**122.3734**
X_B	0.4693	0.3676	0.5009	0.5086	0.5907	0.7995	0.8461	0.9065	0.9061	0.7171	0.7922	1.0268	1.0156	1.1618	1.1369	0.899	**12.6447**
X_C	3.977	3.1223	3.3479	4.8659	5.4871	6.9762	6.2467	7.0124	7.5596	6.7327	8.4793	10.5506	11.207	10.5623	9.7078	5.6399	**111.4747**
X_D	3.8341	4.8370	4.7171	5.5493	7.1603	9.5373	8.7375	9.0979	11.2692	15.2008	19.9441	21.9041	29.9273	36.447	36.3465	25.18	**249.6895**
X_E	1.0851	1.4572	2.056	2.8309	2.3276	2.0258	3.3329	4.4460	5.5892	7.3815	7.7505	8.6344	6.0763	10.1966	10.9376	6.2259	**82.8595**
X_F	5.265	5.5414	7.1932	8.6868	8.5042	11.0773	12.4764	14.4742	12.9419	12.3809	14.3195	16.5449	19.1797	24.7502	25.9565	17.8136	**217.1057**
X_G	11.6331	19.1474	25.3006	28.1297	44.7419	32.6016	25.638	34.420	41.188	32.8882	34.882	36.5105	37.0474	40.6005	47.5446	36.6593	**528.939**
X_H	7.7017	10.0375	13.0276	15.3011	13.7949	16.7347	18.0637	20.5479	23.0278	19.5138	20.7021	25.6942	26.2221	26.1946	35.5886	30.8914	**323.0437**
X_I	2.1859	2.8845	3.0572	3.7946	4.0164	3.974	4.3024	6.6828	7.2102	5.6703	6.5827	5.1038	7.5518	10.4178	11.1527	7.6442	**92.2313**
X_J	0.0297	0.0911	0.015	0.0018	1.5298	0.3466	0.266	0.0682	0.0008	0.0621	1.523	1.7538	1.4457	0.1508	0.2583	0.0686	**7.6074**
Column Total	**39.2056**	**51.5708**	**63.6795**	**74.4545**	**93.5534**	**89.002**	**87.5253**	**108.4949**	**115.6872**	**107.389**	**125.3521**	**136.2771**	**149.4736**	**173.7803**	**191.7088**	**141.8148**	**1747.9689**

Where,

SITC Import Groups	Descriptions
X_A	Food and Live Animals
X_B	Tobacco and Beverage
X_C	Crude Materials, Inedible except Fuels
X_D	Mineral Fuels and Lubricants
X_E	Animals & Vegetables Oils & Fats
X_F	Chemicals & Drugs
X_G	Manufactured Goods Classified Chiefly by Materials
X_H	Machinery & Transport Equipments
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Y_E=1996/97

Y_F=F/Y 1997/98

Y_G=F/Y 1998/99

Y_H=F/Y 1999/2000

Y_I=F/Y 2000/01

Y_J=F/Y 2001/02

Y_K=F/Y 2002/03 & so on…..