

A COMPARATIVE STUDY ON THE FOREIGN TRADE OF NEPAL

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RECOMMENDATION

This is to certify that the thesis
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A COMPARATIVE STUDY ON THE FOREIGN TRADE OF NEPAL
has been prepared as approved by this Department in the prescribed format of
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DECLARATION

I hereby declare that the thesis entitled “**A Comparative Study on the Foreign Trade of Nepal**” submitted to Tribhuvan University Campus, Faculty of Management, T.U., is my original work done in the form of partial fulfillment of the requirements for the Masters of Business Studies (**MBS**). All the herein are genuine to the best of my knowledge and can be fully relied upon me.

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TABLE OF CONTENTS

RECOMMENDATION	i
VIVA VOCE SHEET	ii
DECLARATION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
ABBREVIATIONS	viii
CHAPTER- ONE: INRODUCTION	1
1.1 Background of Study	11
1.2 Importance	14
1.3 Limitations of the Study	15
1.4 Focus of the Study	16
1.5 Statement of the Problems	17
1.6 Objectives of the Study	19
CHAPTER- TWO: REVIEW OF LITERATURE	20
2.1 Introduction	10
2.2 Conceptual Review	11
2.2.1 Old Trade Policy of Nepal (1982)	11
2.2.2 Nepal's Ancient Trade History	15
2.2.3 Development of Trade in World Trade Perspective	18
2.2.3.1 The Ancient Trade: (upto1500 AD)	18
2.2.3.2 The Mercantilism Era: (1500-1700 AD)	19
2.2.3.3 The Industrial Revolution Era: (1750-1820 AD)	19
2.2.3.4 The Twentieth Century Era: (1900-1994 AD)	20
2.2.3.5 The Age of Globalization of Trade: (1995 to date)	22
2.2.4 Trends of Foreign Trade	24
2.2.5 Nepal's Recent Major Partners of Foreign Trade	24
2.2.6 Taxes and Duties on Foreign Trade	25
2.2.7 Challenges and Opportunities of Foreign Trade	26
2.2.8 The Efforts for Promoting the Modern Export Trade of Nepal	29
2.2.9 Nepal's New Trade Policy (1992)	31
2.2.10 Agreed Routes for Mutual Trade (Between India and Nepal)	34
2.2.11 Role of Regional Cooperation in Foreign Trade	36

2.2.12	Nepal's Entry into the WTO and BIMST-EC	38
2.3	Review of Newspaper and other Papers	40
2.3.1	Review of Previous Thesis	44
CHAPTER –THREE: RESEARCH METHODOLOGY		58
3.1	Research Design	58
3.2	Sources of Data	58
3.3	Methods of Data Collection	59
3.4	Data Collection Technique	59
CHAPTER-FOUR: DATA PRESENTATION AND ANALYSIS		60
4.1	Introduction	60
4.2	Method of Analysis	60
4.3	Presentation of Data	60
4.4	Comparative Data Analysis	61
4.5	Factors Affecting Nepal's Foreign Trade	71
4.6	Analytical study of Nepalese foreign trade policies and reform	75
4.7	Major Findings	82
CHAPER- FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS		85
5.1	Summary	85
5.2	Conclusions	88
5.3	Recommendation	91
BIBLIOGRAPHY		95

LIST OF TABLES

Table No. 1	Total Foreign Trade Balance of Nepal FY 2001/02 to FY 2010/11	61
Table No. 2	Total Foreign Trade Balance of Nepal India and overseas FY 2001/02 to FY 2010/11	62
Table No. 3	Total Foreign Trade Balance of Nepal FY 2001/2002 to FY 2010/11	63
Table No. 4	Export/ Import Ratios FY 2001/02 to FY 2010/11	64
Table No: 5	India - Overseas Exports/ Imports Ratios FY 2001/02 to FY 2010/11	65
Table No. 6	Composition of Regions in the Total Export of Nepal FY 2004/05 to 2010/2011	66
Table No. 7	Composition of Regions in the Total Overseas Imports of Nepal FY2004/05 to FY 2010/2011	67
Table No. 8	Composition of Development Regions in the Total Overseas Exports of Nepal FY 2004/05 to FY 2010/2011	68
Table No. 9	Composition of Development Regions in the Total Overseas Imports of Nepal FY 2004/05 to FY 2010/11	69
Table No. 10	Nepal's Exports to SAARC Member Countries FY 2004/05 to FY 2010/11	70
Table No. 11	Nepal's Imports to SAARC Member Countries FY 2004/05 to FY 2010/11	71

ABBREVIATIONS

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

Rs.	: Rupees
SAARC	: South Asian Association for Regional Cooperation
SAFTA	: South Asian Free Trade Agreement
SAPTA	: South Asian Preferential Trade Agreement
SITC	: Standard International Trade Classification
STCL	: Salt Trading Corporation Ltd.
	Technical and Economic Cooperation
TPC	: Trade Promotion Centre
TU	: Tribhuvan University
UN	: United Nation
UNCTAD	: United Nations Conference on Trade and
WTO	: World Trade Organization
WWW	: World Wide Web

CHAPTER- ONE

INRODUCTION

1.1 Background of Study

Nepal is least developed and land-locked country, which lies between two countries India and China. China is in the North and India in the remaining three sides. Nepal's geographical situation is unique in the sense that other land-locked countries have an option to choose among two or more countries' transit facilities for their overseas trade. But India alone enjoys the monopoly over overseas transit to Nepal. Chinese port of Canton is 2800 kilometer from Nepal. So Nepal is forced to receive the Calcutta port for minimizing transit cost in relation to trade with overseas trade.

Nepal lies between the latitude 26°22' to 30°27' North and 80°4' to 88°12' East longitude. Rugged hill and mountain out of 1, 47,181 square kilometer cover more than 83% land. It is 885 Km long and 193 Km wide (in average). The country is divided administratively into 5-development regions, 14 zones, 75 districts, 58 Municipalities and 3912 Village Development Committees. Geographically, Nepal is divided into three regions called Terai, Hill and Mountain each covering 17 percent, 68 percent and 15 percent respectively. More than 80% people are engaged directly or indirectly in agricultural sector and it also has contributed more than 40% of National GDP and 75% of foreign trade.¹

Nepal's planed economy started from the year 1956 BS. Till now ten five-year plans have been completed. Ten Five Year Plan has already passed which also included perspective plan (20 years). Despite of a series of ambitious development plans and assistance from international aid agencies, Nepal's economic growth is very low. Macro economic indicator exhibits Nepal's

¹ G.D. Pant & Shyam Joshi, *Introduction to Quantitative Techniques & Nepalese Economy*, Nabin Prakashan, Kathmandu, 2062, P.57.

economic status as extremely vulnerable, with a GNI per-capita of US\$ 340, Nepal ranks as one of the poorest countries in the world.

Nepal, a small land locked country of Asia, with its per-capita income \$340, is predominantly an agricultural country. Agriculture is still the main industry in Nepal, but performance in the sector is dominated by weather condition and constrained by physical and structural weakness. Due to the lack of irrigation facilities, improved seeds, modern techniques and equipment agricultural productivity are low. Almost 80 percent of the active population is engaged in this sector and producing about 40 percent of GDP.

Definition of International (Foreign) Trade

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

International marketing is a broad part of the overall marketing system. International Marketing is the performance of business activities designed to plan, price, promote, and direct the flow of a company's Goods and services to consumer or users in more than one nation for a profit. The only difference in the definitions of domestic Marketing and International Marketing is that Marketing activities take place in more than one country. This apparently minor difference “- - - in more than one nation - - -” accounts for the complexity and diversity and diversity found in International operations.²

According to Shyam Kumar Shrestha “The performance of business activities that direct the flow of a country's goods and services to consumers or users in more than one nation is called international trade.”³

² Philip R. Cateora, *International Marketing*, McGraw- Hill International Editions, Singapore, 1997, P.3.

³ Dr. Shyam k. Shrestha, *Export Market Management in Nepal: A case study*, Padma Academic Publication, Kathmandu, 1995, P.2.

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

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

The basic problem which arise during managing the International marketing is environment (including different national polices of different political and legal formalities and practices, different monetary units, different levels of technology, different cultural and social practices etc.). The marketing environment of Nepalese markets may be quieting different from that of the USA, Japan and European markets. So whatever marketing plans and programs are prepared for Nepalese markets may be quiet ineffective to cope with the different levels of uncertainty encountered in foreign markets. Due to these differences, a marketing manager of international business needs to acquire competence broader than that required for marketing in a specific foreign country and distinctly different from that demanded by domestic marketing management.⁴

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

⁴ .Ibid

trade. The foreign trade creates specialization in production and provides of specialization.⁵

Both internal and external trades have major role to play in the economic development of a country. In the present changing concept of open liberal market economy, international trade, the backbone of national economy, economic growth and foreign trade are closely related. Economic development and foreign currency rise in the national income generally affects its foreign trade whereas the increase in the foreign trade too helps to increase in the national income.

Encyclopedia Britannica: actually speaking all trade arises because of differences in costs, but trade also tends to narrow these differences. Accounts of barter of goods or services among different people can be traced back almost as far as the record of human history.⁶

Thus, the foreign trade is a basic means of economic development. No country can achieve rapid economic growth without the quick development of its foreign trade. But, Nepal has to depend on foreign aid largely even today; just because of it economy has slow growth of trade. Nepal's industrial future largely depends on the nature, composition and direction of foreign trade. Foreign trade covers around 15.7 % of National GDP. This shows foreign trade lays a vital role for any country; and even more for developing country like Nepal.

1.2 Importance

Foreign trade is a process of getting the goods produced in one country by the consumer in another country and marketing the market methods of the country to the commodities in the foreign country (S. K. Vergnes: 1964).

⁵ G. DPant and Dr. Shyam Joshi, *Introduction to Quantitative Techniques and Nepalese Economy*, Nabin prakashan, Kathmandu, 2060, P. 168.

⁶ Encyclopedia Britannica, vol-18, P 155.

Foreign trade can make an impressive contribution to a country's development. It is considered to be not simply a device for achieving productive efficiency. It is also an engine of growth.

International trade safeguards the economic interests of all the countries. It provides maximum scope for the optimum exploitation and allocation of world's scarce resources. Foreign trade lowers the price of goods and services all over the world by extending the scope of the division of labour. By ensuring free competition foreign trade reduces the danger of monopolistic exploitation of consumer because production of goods takes place in the most efficient manner and the price is not higher than the average cost of production.

Foreign trade is important for national industrial development without foreign trade machineries, raw material and various inputs may not be available within the country. Hence, foreign trade seems to be essential which utilizes the unemployed resources and also generates employment.

Imports and exports of goods and services is (foreign trade) is essential to fulfill the demand for necessities of life and for the development works.

Hence, foreign trade plays a vital role in the economic development of a developing country like Nepal in order to bring sustainable long-term economic growth and development targets, exports earning must be expanded thereby reducing imports. For that the quality of exported goods must be improved to compete in the international market, the natural domestic resources should also be properly used productivity efficiency also be improved rapidly. Hence the development of trade is much more important for Nepal.

1.3 Limitations of the Study

All research study is done to solve a particular research problem. It requires various kinds of data, and other relevant information, which may not be

sufficient to the researcher. This study cannot escape from the frame of limitations.

The study mainly based on secondary data particularly export/import data provided by concerned department that is not sufficient for the good research study. This study is mainly based on secondary data. So, the limitations of secondary data may exist. It can't cover all data of trade and policies of foreign trade of Nepal. Simple tools and techniques may be used to analyze the foreign trade. Being a student cost and resources are constraints.

Due to the short time it could not cover all functions of foreign trade of Nepal. This study was undertaken for the partial fulfillment of master's degree programme. Although, efforts has been made to focus on the activities and trade policy of foreign trade of Nepal. Hence it may not cover all export and import trade and its related information but the data would be collected and analyzed secondary data of sampling method of macro basis from FY 19998/99 to 2007/08.

1.4 Focus of the Study

This research study is the analytical as well as descriptive study about "A Comparative Study on the Foreign Trade of Nepal". This thesis will be more beneficial to the foreign traders, polices-makers, industrialist, businessmen, and general public or private sectors as well as public sectors. This thesis is also significant to the management students and important material for library.

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

Foreign trade plays a significant role in economic development of developing and other countries. Foreign trade provides around 15.7 percent GDP of overall national income and also provides directly or indirectly employment to the numbers of population.

Government, non- government sectors like policy maker, industrial enterprises, lecturers, traders, businessmen, foreign investors and so on.

This thesis mainly concentrates on export/import trade situation of Nepal for the years i.e. 1998/99 to 2007/08.

This thesis will provide in brief knowledge about export/import trade, policy related export trade, problems facing by Nepal in trade deficit and foreign trade policies are made by Nepal Government.

1.5 Statement of the Problems

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

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

It has only 17 countries to where been bilateral agreement for foreign trade of Nepal. Nepal followed very late liberal economic policy i.e. export/import policy of Nepal after restoration of democracy. And Nepal entered into WTO membership only before short time. So Nepal's foreign trade, policies and facilities are still in infant age.

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

Since the export trends of Nepal has not perfectly gone as planner's target. The lack of exportable or qualitative goods, Nepal has not able to export in the sufficient quantity in the overseas. The trade of Nepal is only centered to India rather than other countries. The share of exportable main items of Nepal's like pashmina, garments, handicrafts, woolen or carpets and goatskins are declining now.

However, the performance of the foreign trade so far shows that the trade has not been able to play the critical role and it has not been able to fulfill the nation expectation. The weak performance of the foreign trade is mainly attributed to the nation is surrounded by its own problem.

- a. What are the major's recent issues of Nepal foreign trade?
- b. Can Nepal reduce trade deficit effectively?
- c. What are the major opportunities and threats of foreign trade after entering WTO and regional groups?
- d. Can Nepal increase her GDP in trade sectors?

- e. Can Nepal expand to export her garment products without quotas system?
- f. What are the major reasons for High trade deficit of Nepal?
- g. Can Nepal diversify her trade out of India?
- h. Did Nepal fulfill the requirement of WTO and other's regional groups?

1.6 Objectives of the Study

The major objectives of this study are to find on the comparative study of the foreign trade of Nepal. So the following objectives have been fixed.

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

CHAPTER- TWO

REVIEW OF LITERATURE

2.1 Introduction

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

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

Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, other information managing bureaus, and internet and concern commercial banks. This chapter helps to take adequate feed back to broaden the information base and inputs to my study. Conceptual framework given by different authors, research scholars, etc. in this chapter is reviewed from the books research papers, annual reports, and articles etc.

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

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

foreign trade and policies of world and especially of Nepal. Due to the various constraints only important and relevant literatures are reviewed which are categorized as conceptual and review of previous related studies i.e. trade policy, books, papers, articles and thesis papers.

2.2 Conceptual Review

2.2.1 Old Trade Policy of Nepal (1982)

Trade policy of 1982 was based on an integrated form for the first time covering export, import and internal supply arrangement the major guidelines of the export trade policy 1982 can be consider for future reference. Main objective of the trade policy (1982) was:

-) To regulate the supply of necessities;
-) To improve economic position of the people and
-) To provide balanced approach to trade activities to arrive at development needs of the country. ²

Main features of export policy under the trade policy of 1982 were:

- a. The provision of developing annual export plans with specific export targets for major exportable products.
- b. The importance of private sector and strengthening of export promotion, public sector organization.
- c. Streamlining export licensing and other procedures.
- d. Arrangement of framework for foreign exchange rates, taxation and credit policies and other monetary measures keeping in view the objectives of promoting investment in the export sector, increasing production of exportable items and expansion of export trade emphasizing on processed and semi-processed goods.

² . Suman Kumar Regmi, Unpublished Ph. D. thesis, *Management of Export Trade in Nepal*,, 1993, TU, PP.101-102.

- e. Consideration of increasing productivity and improvement of product quality to compete in export markets.
- f. Strengthening of the existing export infrastructure for creation of new support systems.
- g. Product and country wise export trade diversification.
- h. Emphasis on the production of high value/low weight products to increase the production of exportable agricultural and industrial products in processed and semi-processed form.
- i. And formulation of an integrated product development programmes for selected exportable products from production to marketing.

The seventh plan (1985/86 to 1989/90) included the export policy taking as one of the national level policies by stressing on the export trade development. The export policy of the seventh plan had expanded activities taking steps in the export standardization and more quantity production through reward schemes, transport cost minimization and foreign exchange rate adjustment.

Due to political disturbance in the country, the plan was not implemented in the years 1990/91 and 1991/92. The eighth plan (1992/93 to 1996/97) provides priority to export promotion and diversification. During the plan period, trade deficit and expansion of traditional and non-traditional products and market will be considered for export growth taking into account the quality maintenance by introducing clear cut export policies based on “Product equated to market” strategy. It seems that periodic policy and programme formulation has targeted on export sector of the national economy with the private sector involvement.

Policy for Encouraging Export Trade

The industrial enterprises Act (1992) has the provision of refunding the customs duties, if any an excise duty levied upon raw material used by any industry in connection with its products for export. Industries producing

intermediate goods that are utilized in the production of exportable goods are entitling to reimbursement of duties and tax levied on raw materials. Export for a few banned items, all goods fall in the free export product category Nepal. Nepal has considered the treaties of transit and trade as well as agreement of cooperation with India to control on authorized trade signed in 1991 (as amended) to provide goods basis for the development and diversification of trade.

Export Entitlement Scheme (EES)

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

Although some trade diversification in terms of countries was achieved, no substantial progress was made in export trade from the above system. Available evidence suggests that the scheme did not really succeed in increasing a viable, strong, and dynamic export sector capable of supporting the economy on a basis. The reason behind this the instability to identify new exportable items and the lack of positive measures towards increasing the production of already being export, with the continued increase in imports as compared to exports. There also appeared some distortion in the system itself (NPC, 8th Plan). This scheme could not contribute much to the foreign trade of Nepal.³

³ *ibid.* P.108.

Dual Exchange Rate System

Realizing the adverse impact the EES was replaced by dual exchange rate system in 1978. Under this system two rate were fixed for convertible currency. One was the basis (official) rate fixed at US\$ 1= RS12 and second rate fixed at US\$ 1= RS 16. The dual exchange rate system provided 33 percent incentives minus 19 to 20 percent transit cost and thus 13 percent effective profit to exporters. Import from third countries were categorized under two headings; a specified list of goods which could be imported under basic exchange rates and rest of the other goods which had to be paid at second exchange rate. Except for some specified items whose imports were banned and also for some items were under quantitative restriction, all other imports were made open. The first rate was left untouched, second rate was brought down from RS 16 to 14. This system also could not serve the basic objective of the country because exporters did not pay any attention to the question of creating basic and favorable infrastructure for the expansion of the country export trade. They confined their attention merely to expand their profit margin through the system. The government abolished the dual exchange rate system, and introduced the multiple exchange system with a view to adjust foreign rate according to the demand for and supply of foreign exchange and essential commodities in the country.

Exchange Convertibility System

From the early 1980s the global economic and political situation has been changed. Nepal has not been exception to this development. Nepal adopted stabilization programme in December 1985, supported by 18 months stand-by arrangement-with International Monetary Fund (IMF). Impact of this stabilization programme was encouraging specially in adjusting the internal and external imbalances of the economy. Following this improvement Nepal entered into a Structural Adjustment Programme (SAP) in FY 1987/88 supported by the IMF and World Bank. Main objectives of the programme

were to maintain GDP growth range of 4-5 percent per annum, to reduce inflation to an annual rate of 9 percent and to strengthening the balance of payment.

Nepal adopted the liberalization openness policy in external sector, foreign exchange have been greatly eased. Nepalese currency was made convertible partially with convertible currencies in current account effective from March 4, 1992. Under this system, Nepal Rastra Bank on the basket system of currencies determined the official rate and market rate was determined by the demand and supply factors of the total foreign earned from exports of goods and services including remittance, 65 percent had to sale at market exchange rate and remaining 35 percent had to be surrounded to NRB at official rate. In July 22, 1992 the ratio of 65:35 was changed to 75:25 and effective from February 12, 1993 the full convertibility of Nepalese currencies in the current account was achieved.

2.2.2 Nepal's Ancient Trade History

Nepal's ancient trade history was almost with Tibet by using barter system at the time of beginning Malla and Lichchhavi regime. For the detail, it would be categorized in three separate country wise as follows:⁸

With Tibet (China)

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

Trade relations between Nepal and Tibet have also been going since the time immemorial. Significant growth in Nepal & Tibet trade should be attributed to

⁸ . Bhai Kaji Tuladhar, *A Case Study on Export Trade of Nepal*, Kathmandu, 2005, PP.7-9.

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

To promote trade a treaty was signed up with Tibet after conflagration of 1791 and another after the war of 1856, the treaties, at reviving the Trans-Himalayan trade with Kathmandu as an enter-port center. Tibetan enchanted by the speculation in business with Indian started ignoring Nepalese merchants. As a result it reduced the trade traffic between Nepal and Tibet. The number of Nepalese merchant in Lhasa dropped from 2000 to 500 in 1907 and to only 40 in 1923. Nepal and China signed an arrangement based of five principles of peace co-existence and therefore established diplomatic relationship between two countries. This signing was just a prelude to the more comprehensive agreement of 1956, in which both the governments expressed the region of Tibet and Nepal would keep continuing. Two governments also allowed each other's people to establish factories.

With India

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

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

With Overseas

Nepal trade with overseas countries does not go back into history due to relative backwardness of the economy as well as the political and physical isolation in the country. Before 1951, the foreign trade of Nepal was limited namely in UK, USA, and France. Before the world war, Nepal used to import from the countries, such as England, Japan, Singapore and export her agricultural products like jute. Indo-Nepal trade treaty of 1950 required Nepal to follow a common traffic policy with India and with respect to other countries respective of her peculiar condition and requirement. After 1960 Nepalese overseas trade become possible, for the foreign currencies were needed for development. Nepal's export had to be promoted by diversifying her trade.

Since exports pay imports, the topmost priority should naturally go to the boosting of exports. Generation of sizable export surplus is a prerequisite for export drive. It will be attained only through increasing production of traditional oilseeds and raw jute being our major traditional exports; the maximization of their production should be sought for.⁹

⁹ *ibid.*, P.9.

2.2.3 Development of Trade in World Trade Perspective

There is no historical data regarding the development of trade in the world. It is believed that trade is as old as human civilization and existed some 5000 years ago in the form of "Inter-city" trade, which means trade between two cities.¹⁰

“The historical perspective of world trade can be classified in to the following five stages.”¹¹

- a. The Ancient Trade (upto 1500 AD)
- b. The Mercantilism Era (1500-1750 AD)
- c. The Industrial Revolution (1750-1820 AD)
- d. The twentieth Century Trade (1900-1994 AD)
- e. The Age of Global Trade (1995 to date)

2.2.3.1 The Ancient Trade: (upto1500 AD)

The major trade development during the ancient period includes:

- a. Trade between two small cities i.e., ‘inter-city;
- b. with an increase in the volume and transaction of trade, big Trading cities developed;
- c. Compass innovated in 1492 and with a help of the compass, many new;
- d. Cities have been discovered and gave a new direction to the trade;
- e. Ruling power of the world entered into the trade slowly and they began to exercise economic and political power in the world;
- f. Some countries developed as a powerful nation;
- g. Some facilitating agencies developed to facilitate and launch the foreign trade;
- h. These tendencies developed the ‘Mercantilism Era’.

¹⁰ Dr. Shyam K. Shrestha, *International Marketing Decisions Nepalese Perspective*, Published Buddha Academic Publishers Distributors Pvt. Ltd., Kathmandu, 2003, P. 10.

¹¹ . Ibid. PP. 10-14.

2.2.3.2 The Mercantilism Era: (1500-1700 A.D)

The main concept of the mercantilism is that a nation should be economically and politically powerful to expand its trade, which can be achieved only through the collection of wealth as much as possible. The doctrine of mercantilism is based on three fundamental principles:

- a. Nationalism: the people must have the feeling of nationalism.
- b. Bullionism: people and he nation must collect as much as wealth as possible in the form of coins, gold and silver.
- c. Favorable Balance of Payment: The country must have a favorable balance of trade and balance of payment situation.

During the mercantilism era, the following developments appeared in trade sectors:

- a. Many countries introduced tariff system to control imports,
- b. Many countries introduced subsidies to help or facilitate domestic industries and traders,
- c. Certain control mercantilism exercised in the production system also,
- d. The mercantilism concept increased trade restrictions between the nations.

2.2.3.3 The Industrial Revolution Era: (1750-1820 AD)

State participation in trade increased both volume and transactions of trade among the countries. As a result, an industrial revolution took place in Western Europe. The industrial revolution during the period (1770-1820) is popularly known as 'Green Revolution'. The industrial revolution brought the following changes:

- a. Brought in surplus production, especially in essential products and foods.
- b. The trade restrictions developed by the countries made difficult to sale their surplus production in foreign markets, so most of the countries involved in the production of non-essential products with a view to maximize their profits.
- c. New distribution techniques and promotion techniques (including distribution and advertising agencies) developed to sell their surplus productions
- d. Few economists argued the '*laissez-fair*' economy i.e., free trade between nations.
- e. Commercial competition appeared among the countries and such commercial competition converted into political competition.

2.2.3.4 The Twentieth Century Era: (1900-1994 AD)

The political competition developed among the countries converted into military competition, so many countries started to produce war weapons and ammunitions. After all, this situation pushed the western countries into the flame of First World War.

Trade During the First World War:

- a. The First World War broke out in Europe in 1914 continued till 1918,
- b. In 1918 an agreement made between the war participating countries to stop war and involve in economic and reconstruction of the war devastating countries.

Trading During the Interim Period

Despite the peace agreement among the war participating countries, they were still afraid of each other.

- a. So, instead of producing essential goods, they secretly involved the production of war weapons and ammunitions.
- b. This situation developed scarcity of essential goods in the region.
- c. The result is that the Great Depression of 1930 appeared and the economy of most of the countries badly affected.
- d. Economic and political conflicts increased among the nations and this situation again pushed them into the Second World War in 1939 and it continued till 1945.

Trade during the Post-War

The Second World War again severely damaged the economic and social structure of the world as well, especially the European countries. The major development and affect are:

1. In 1945 an agreement of peace signed between the war participating countries;
2. The Second World War brought the following changes:
 - a. Division of nations into communism and anti-communism blocks.
 - b. Programs of economic assistance launched between the countries of respective philosophies.
 - c. Many international organizations like GATT, IMF, UNCTAD, WTO and BIMST-EC established to help the countries in economic terms and liberalizing and expanding trade between them.
 - d. A new direction to trade appeared in the world showing two distinct trades in two blocks.
 - e. Trade gap between the two blocks increased and the gap between the 'have' and 'have-nots' increased alarmingly;
 - f. Many countries realized the importance of free market economy, as a result, political changes began in some major countries of the world since 1980s.

- g. Some of the economically and politically powerful countries realized the need for globalizing the trade.

2.2.3.5 The Age of Globalization of Trade: (1995 to date)

From 1995 to date, the major improvements are as follows:

- a. Since GATT was unable to bring all the countries, rich and poor as well as communist and non-communist blocks, into the single forum, the World Trade Organization (WTO).
- b. Created which aims to bring all the nations into the single forum and legal structure.
- c. On January 1, 1995 GATT converted into WTO, whose main objectives to liberalize trade among all the nations of the world and launch trade globally without discrimination.
- d. Till now 148 nations have entered the WTO regime as its members, Nepal also has the member of WTO out of them.
- e. Since some of the provisions of WTO are less favorable to the poor and least developed countries, the WTO has been suffering criticism from such countries these days.
- f. By the year 2005 all non-member countries need to be restructured their economy to enter into the WTO regime.
- g. After 2005 the trade of the whole world is expected to be governed by a single regulation as formulated and implemented by the World Trade Organization.

All the countries can't produce all goods and services efficiently. This is the basic reason behind the need of foreign trade. The foreign trade creates specialization in production and provides benefits of specialization.¹²

No country can achieve of economic development or rapid economic growth without the quick development of its foreign trade. Nepal's traditional trading

¹² Op. cit. 2.

partners are India and Tibet, an autonomous region of China. In the past time, the trade percentage with India formed 95% of total trade till 1950 AD. And a small percentage of trade was with Tibet.

Although Nepal can diversity foreign trade, Nepal suffers from a huge trade deficit due to various reasons i.e. low quality and productivity, small size of domestic market, lack of appropriate technology, lack of entrepreneurship, least attempt an exploiting new exportable products, trade and transit problem, lack of managerial skills for export management, frequently change in export policy and government of Nepal, lack of infrastructure etc.

After the restoration of multiparty system in Nepal. Nepal took liberal economy policy and before it's in 1971. Nepal has already established Trade Promotion Center (TPC) for promoting foreign trade of exportable goods and services. Nepal has also provided the various trades, economic, fiscal, monetary, financial, banking, insurance, member of foreign organizations, policies to facilitate foreign trade after adopting liberal economic policy. Nepal has already been member in UNCTAD, SAFTA, SAARC, IMF, World Bank, UNO, ADB, WTO, BIMST-EC FTA and so on. It has been an agreement between Nepal and India about trade and transit for the renewal period basis of each 7 year and also with Pakistan, Bangladesh, and Tibet, China in the same way.

The trades with overseas countries were almost nil. But it is not beneficial to concentrate trade with only one country. Nepal has been pursuing the policy of trade diversification from third plan (2022-2027 BS). Nepal has established trade relationship with more than 80 countries and has trade transit agreement with 17 countries till now.

2.2.4 Trends of Foreign Trade

The trends of foreign trade of Nepal are not extremely good in recent decades. In 1956-57 the rupee value of Nepal's export was Rs.95.47 million. It increased

to Rs.60074.77 million in 2005/06. With the period of 50 years, the total export increased by 629 times. With the same period, the rupee value of total imports increased from Rs.169.89 to Rs.162840.7 million i.e. by about 958 times. Through the 50 years period, Nepal is suffering from a huge trade deficit. During this period, the trade deficit increased by 1381 times. The total share of GDP from export was 15.7% in 2007/08.

2.2.5 Nepal's Recent Major Partners of Foreign Trade

But Nepal can diversify the foreign trade at least country wise as well as commodity wise. The percentage of overseas export, readymade garment and woolen carpet almost covered more than 60 percent and America and Germany were hold maximum export of the overseas export percentage.

The major export partners of Nepal are India, USA, Germany, UK, Italy, Japan, and France. While the major importers of Nepal are India, Singapore, China, Thailand, Malaysia, Indonesia, Korea, Saudi Arabia, Germany, Japan(As per TPC and NRB Report) and are the value of proportion export and import in the beginning of the 21st century.

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

2.2.6 Taxes and Duties on Foreign Trade

Export:

- a. Export is generally free of custom duty.
- b. Some industrial item such as vegetable ghee is liable to pay export duty. export duty rates range from 0.5 to 8%
- c. Custom duty on export is levied on the basis of FOB price determined by calculating the cost incurred including in transporting the goods up to custom point when exporting the goods.
- d. Generalized system of preferences(GSP) is available to nepal's export as a least developed country.
- e. NRS. 6000 as customs service fee is charged per custom declaration from at custom point on export.

Import:

- a. most all goods are in OGL(open general license)
- b. The customs value is calculated on CIF basis(cost, insurance and freight) on import.
- c. Nepal has adopted general agreement on tariff and trade(GHTT) valuation system.
- d. Principle of lower rate of custom duty on the import of raw materials compared to finished goods is in use.
- e. Prevailing custom duty rates are 80%, 40%, 35%, 25%, 15%, 10%, 5% and 0%.
- f. Goods imported from India into the Nepal are granted a rebates of 7%based on ad valorem (except specific duty) on chargeable custom duty.
- g. The ASYCUDA system is in use at seven major custom points and plan to add in two major points.

- h. One and half percent local development fee is levied on import at custom point and only one percent is levied for petroleum products.
- i. Agriculture improvement fee of 8% is levied on import value on imported agriculture goods.
- j. NRS. 500 as customs service fee is charged per custom declaration from at custom point on import.

2.2.7 Challenges and Opportunities of Foreign Trade

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

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

Nepal may be transit point for neighboring big two countries (India and China). Nepal could also benefit in the long run from the transit point, just as Mexico did after reaching a free trade agreement with the US and Canada. After entering WTO and BIMST-EC membership, Nepal has been suffering both challenges and opportunities in foreign trade. Nepal has competitive advantages in agricultural and small and medium scale industries. The approach of private institution would play a vital role in the development of

these sectors. Private organizations should give emphasis on the use of modern technologies quality management and hardcore professionalism.

On the foremost objectives of every country to get involved in foreign trade is to accelerate its economic development. Only through trade a country can earn foreign exchange and in return can import goods, which cannot be manufactured by itself. For both developing and under developed nations, foreign trade in the economic development of a country can be seen in the following perspectives.¹³

- a. Advantage of Specialization
- b. Technological Progress
- c. Importation of Technology know-how
- d. Access to Raw Materials
- e. Expansions of Market
- f. Rising in Employment and Income Level
- g. Foster Healthy Competition
- h. Attraction of Foreign Investment
- i. Reducing Dependency on Domestic Market
- j. Gaining International Market Experience
- k. Exploiting Excess Product Capacity
- l. Expanding Research and Development
- m. Increase Sales and Profit

The major challenges facing by Nepal are as follows:

- a. Inadequate Infrastructure
- b. Low productivity
- c. Ever-widening trade gap
- d. Weak export base
- e. Policies related problems
- f. Lack of innovation desire of entrepreneurs

¹³ Gottfried Haberler, *Dynamic Benefits of Trade*, Prentice Hall Inc, USA, 1994, P.80

Trade policy does have a link in the process of development, but these studies do not indicate how many activities are not likely to be undertaken nor suggest the relative importance of exporting and import competing activities in an optimum allocation or how that allocation would change with growth. Anyway, the findings of the several studies support the core fact that trade policy can play a detrimental role in the process of economic growth of any country.¹⁴

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

Some people have compared Kathmandu to a “mini- Hong Kong” and the consumers have been wowed away from locally made goods. Although Nepal’s per capita income is US\$340 dollars only, most Nepalese have been exposed to foreign goods. How do they afford all these things? And how long can this situation continue? These are serious questions for the future.

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

Nepal is the second richest country in hydro-electricity in the world. Nepal can sell its hydro-electricity to neighboring countries for earning foreign currency to reduce the existing trade deficit. To produce the hydro-electricity, many foreign investors are interested to join our projects. In another side, Nepal’s green vegetables and fruits are demanded in golf countries, Singapore, Thailand, Malaysia and other countries. The salt trading has just established its

¹⁴ . Anneo Kruger, *Trade Policy as an Input to Development*, American Economic Review, May 1980, p.55

branch office in Doha, Qatar for exporting these type products in golf countries.

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

2.2.8 The Efforts for Promoting the Modern Export Trade of Nepal

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 5 years plan and got into the process of development. But till 1960 no attempt was made to diversity the countries overall trade was confined to India alone. After 1970 the establishment of Trade Promotion Center (TPC), Nepal could diversify its foreign trade to overseas countries. Growth rate in exports dropped in the same period due to lack of exportable goods. At the same period imports were increased in rapid pace. Although only the sixth plan exports received special attention. For export promotion, government felt to need some special export policy to reduce import from India and increased export to India and Overseas.¹⁵

Considering the urgent need of comprehensive trade policy in the country, the TPC is (an agency of Nepal Government) which is a national focal point of export promotion of the country. Nepal Government decided to take a concrete action in the matter and, approached the task of drawing up a new export strategy hiring qualified independent consultants early in 1981 to analyze the country's export problems and suggest remedies.

The consultants began work with a combination of desk research and field study. Data and information were collected from various sources such as: TPC, Government Corporation, government departments and the federation of chamber of commerce and industry. Exports of products such as handicraft

¹⁵ Dr. Shyam k. Shrestha, *International Marketing Decisions Nepalese Perspective*, Buddha Academic publishers & distributors Pvt. Ltd., Kathmandu, 2003, PP.180-181.

spices, biscuits, and confectionery, jute and goatskins were contracted and interviewed to get their views on export problems and possible solutions.

The team also analyzed the government's fiscal, exchange rate, interest rate and industrial policies in relation to export promotion. Finally, members of the team visited Thailand, Bangladesh, India and Sri-Lanka to get first hand information on their trade promotion policies and institutional arrangements for export promotion.

The consultants carried out an in depth evaluation of Nepal's situation and proposed a detailed action plan a new national export expansion program. The report prepared by the consultants analyzed the role and performance of the export sector in Nepal's economy, the policy measures that influenced export trade, the principle export trade, the principle export constraints, the existing. Institutional arrangements for trade promotion and the obstacles are to formulate and implement a comprehensive export strategy.

At the end of 1981, the TPC submitted the proposed strategy to the government for consideration.

The government appointed a special committee, having representatives of the government and the private sectors to study the recommendations and to advice the ministry concerned on the formulation of a new trade policy. The council of ministry acted favorable upon the proposals and as a result new trade policy was formally announced on 31 June 1992 by the ministry of commerce and supplies.

Similarly, the elected democratic government of Nepal has announced a new trade policy in 1992 for the promotion of Nepal's foreign trade, especially export trade

2.2.9 Nepal's New Trade Policy (1992)

The new trade policy of Nepal, which has currently been brought into effect, into gradually enhance the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere, to diversify trade by identifying, developing and producing new exportable products through the promotion of background linkages for making export trade competitive and sustainable, to expand trade on a sustained basis through gradual reduction in trade imbalance and to coordinate trade with other sector by expanding employment oriented trade.¹⁶

Facilities and Incentives to be accorded to Trade Policy, 1992

- a. The government is to work as a catalyst to expand the role of private sector in trade.
- b. Tax system is harmonized with international tax systems and minimizes procedural complexities.
- c. No licenses required for exports of any products other banned or quantitatively restricted items.
- d. No license required and no quantitative restriction on the import of raw materials and finished products(except stipulated)
- e. Foreign currency required for import is made available by the commercial bank at the market rate.
- f. Exporters allowed to retain their export earning in their own foreign currency account.
- g. No quantitative restrictions on the exportable products carried by tourists while returning from Nepal.

¹⁶ . *ibid.*, PP 181-186.

Constitution of New Export Promoting Institutions:

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

Fiscal and Monetary Measures

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

and the principal customs officials will be provided with enough warehouse facilities.

Abolition of Export Valuation System:

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

Establishment of Export Promotion Zone (EPZ):

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

Formulation of Annual Indicative Export Plan and Programme:

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

Routes and Transit Agreement with India and China

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

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

- a. Strengthen cooperation and trade by exploring and undertaking all necessary measures.
- b. Provide preferential treatment on 14 primary products including agricultural products, forest products, horticultural products, rice, pulses, timber, live animals, birds, fish, bees, honey, raw wool, milk, herbal medicines, yak tails, etc., on reciprocal basis.
- c. Prevention against infringement and circumvention of the laws, rules and regulations of either country in regard to foreign exchange and foreign trade.
- d. Automatic renewal of the treaty for the next five years upon the expiry of the treaty unless either of the parties intends to terminate it.
- e. Help promote the industrial development of Nepal by granting free of customs duty and quantitative restrictions for some industrial products manufactured in Nepal on non-reciprocity basis.
- f. Implement harmoniously the recently signed treaty through mutual consultations.

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

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

- | | |
|--|--|
| a. Pashupatinagar/Sukhia Pokhari | b. Kakarbhitta/Naxalbari |
| c. Bhadrapur/galgalia | d. Biratnagar/Jogmani |
| e. Setobandha/Bhimnagar | f. Rajbiraj/Kunauli |
| g. Siraha, Janakpur/Jayanagar | h. Jaleswar/Bhitamore (Sursand) |
| i. Malangawa/Sonabarsa | j. Gaur/Bairgania |
| k. Birgunj/Raxaul | l. Bhairahawa/Nautanwa |
| m. Taulihawa/Khunwa | n. Krishnanagar/Barhni |
| o. Koilabas/Jarwa | p. Nepalgunj/Nepalgunj Road |
| q. Rajapur/Katerniyaghat | r. Prithvipur/Sati(Kailali)/Tikonia |
| s. Dhangadhi/Gauriphanta | t. Mahendranagar/Banbasa |
| u. Mahakali/Jhulaghat (Pithoragarh) | v. Darchula/dharchula |

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

S.N.	Nepalese Article	Quantity in MT (Per Year)
1.	Vegetable fats (Vanaspati)	100000 (one hundred thousand)
2.	Acrylic Yarn	10000 (ten thousand)
3.	Copper product Chapter 74 & heading 85.44 Of the H.S. code	7500 (seven thousand five hundred)
4.	Zinc Oxide	2500 (two thousand five hundred)

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

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

2.2.11 Role of Regional Cooperation in Foreign Trade

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

The South Asian Association for Regional Cooperation (SAARC) is a regional organization established in December 1985 with a view to accelerate the process of economic and social development in member states through joint action in agreed area of cooperation. The Member of SAARC is Bangladesh,

Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka and Afghanistan. The actual process of establishing SAARC was initiated in 1980 when the late president Ziaur Rahman of Bangladesh called for a summit meeting that year to put forward the offer made by late King Birendra which was the main achievement to facilitate the foreign trade before Democracy but it doesn't meet its objective properly.¹⁷

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

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

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

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

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

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

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

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

After the expiry of the validity of treaty of transit 1983, some misunderstandings were created between the government of Nepal and India. At that time, India blocked all the economic activities to the Nepal. Actually this difficult situation compelled the government of Nepal to think and rethink for obtaining membership of GATT, now it is WTO. As a result, in 1989 Nepal applied for GATT membership. For that purpose a working committee was also formed.

In 1993 Nepal got the observe status in GATT and Nepal participated as and observer form the time at the concluding sessions of the GATT's Uruguay Round in Maracas, Morocco. And the government of Nepal announced full convertibility of exchange that year. As a part of liberalization policy, government brought and passed privatization Act 1994. Till date 15 public

¹⁸ . ibid.

enterprises has been privatized and the next 25 public enterprises are listed for privatization.¹⁹

The fifth ministerial conference of the WTO formally approved Nepal's membership, fulfilling the kingdom's 14 years long dream to become part of the multilateral trading body the conference also accepted Nepal as the 148th member of WTO as the least developed country.

Nepal is the first least developed member of WTO from the full-fledged group from 23 April 2004 or 2061 B.S. The two countries made history by becoming the first two least developed countries (LDC) to obtain WTO membership by virtue of accession. Thus, there are various challenges that Nepal will face. The country needs to seek alternative revenue to finance developments gradually, changing laws and regulations to make laws compatible with WTO commitments and obligations, developing transparent mechanisms and creating institutions and financing the cost of negotiations coupled with resource to legal measures and implementation.

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

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

BIMST-EC FTA is a step to free trade among countries in two of the fastest growing sub-regions of Asia, South –East Asia and South Asia. This FTA

¹⁹ . Op- cit.10, P 202.

could act as a link between the AFTA (ASEAN Free Trade Area) and the SAFTA.

After the 2046 BS, the main achievement of elected government got the membership of WTO. And the opportunities from membership of WTO are as given below.

a. The fifth ministerial conference held in Cancun has provided the membership to Nepal. The main opportunity is to enter the global market without any discrimination because Nepal can not isolate from the global trade regime in the future.

- c. Nepal is the land-locked country. Therefore, it will get the facilities of technical assistance.
- d. Customer can get more choice of goods and services.
- e. Foreign direct investment (FDI) may be increased.
- f. Nepal can expand its market in global network.
- g. Quality of goods and services are available.
- h. The trading dispute can be handle peacefully and constructively.
- i. Nepal can improve its competition capacity.
- j. Nepal can establish their trade and transit rights.
- k. Nepal can participate in the on- going on issues with in WTO.

It has not only benefited to the Nepal but it has also threat and challenges in entering the WTO. Nepal should fulfill its commitment within specific period of time. Otherwise, Nepal will be loss their special provision of multilateral trading system. Nepal should be an increased exportable qualitative product for exporting. Otherwise, Nepal could not export in competitive global market and imports would be increased that mean the balance of trade would be more deficits.

2.3 Review of Newspaper and other Papers

The Himalayan Times, Kathmandu July 27, 2005⁷

Five leading organizations of export-oriented industries have criticized government's failure to address problems related to the export sector through the recently-launched budget for fiscal year 2005-06.

Issuing a joint press statement, the Garment Association of Nepal (GAN), Handicraft Association of Nepal (HAN), Central Carpet Industry Association (CCIA), Nepal Pashmina Industry Association (NPIA) and Nepal freight forwarders' Association (NEFFA) stated that the government has just paid lip service for the promotion of the ailing export industry.

"The new budget document has completely ignored the fact that export industries are contributing greatly in terms of employment generation as well as earning a hefty sum of foreign exchange for the conflict-tattered economy of Nepal," says the release. Though the budget talked about some initiatives for the sector's promotion, but they are mere 'hollow promises', as they do not have proper programmes and budgetary allocation, it added.

Despite repeated requests to formulate a long-term export policy, the budget has not mentioned a single point shows the government's total indifference towards the export sector.

"Though we had requested simplification of income tax on export earnings, the budget has not spelled out any tax reforms. Instead, the government has given more ad hoc authority to tax officers, which will create havoc," says the statement. Scrapping of 1.5-percent special tax and imposing an additional tax of 1.5 percent on taxable income is a tricky business that will increase tax burden.

The new provision of removing Woollen carpet and Pashmina industry from the list of cottage industries is 'totally impractical' and against the spirit of

industrialization in Nepal. The government's new move is unfortunate for leading exports like carpet and pashmina, in the name of just widening the tax net.

“It's completely ironical. The government wants to attract foreign investment in areas where we already have competition and comparative advantages. When there is not even environment for domestic investors, how can foreigners come to Nepal,” questioned A G Sherpa, president of CCIA. The budget has proposed to set up a rehabilitation fund to rescue sick industries. But it has only stated to rehabilitate tourism related industries, ignoring other sick units, such as export-oriented industries. “It means a complete ignorance about the export sector,” said Kiran prakash Sakha, president of GAN.

The budget has failed to take initiatives regarding banking facilities for export industries in terms of reducing spread rate, special loan provision and simplification in bank guarantee. “At a time when overall export sector is dwindling, the budget should have given directives to banks and financial institution to float loans at concessional rates, increase repayment period and reschedule old loans for the export sector.”

Despite Nepal having been touted to be developed as a transit point to facilitate trade between China and India, the budget has failed to incorporate steps to develop Nepal as an international air cargo hub, said Namgyal lama.⁷

Even after liberalization of export trade for over 12 years, Nepal is yet to boost its market vis-à-vis other countries in the context of increased globalization and privatization of major economic sectors.

The business of air cargo being carried out by freight forwarders is gradually losing its charm, due to increased competition, high security charge, increased surcharge and fuel surcharge. These charges are made excluding airfreight bill.

⁷The Himalayan Times, Kathmandu July 27, 2005.

Freight forwarders have disclosed that Nepal's total export air cargo business stands today at about 635000 kg per month which is a fall by over 100000 kg compared to previous years. Monthly cash transaction in air cargo business comes to be about RS132 million, revealed cargo sector sources.

In this connection, freight forwarders recently went to Udaypur in India to participate at a conference held by the Federation of Asia Pacific Cargo Agents Association (FAPAA) to join hands with FAPAA to bring Nepali freight forwarders at par with global players.⁹

With the liberalization policy of World trade organization (WTO), BIMSTEC, SAFTA and Nepal becoming a member organization of these august bodies, goods from Nepal have been able to compete in the international arena.

But we still have not been able to tap the potential such association offer. For this, Nepal needs to diversify its market focus as well as diversify its product range.

The government is working to simplify policies and ease rules for increasing exports.

To simplify technical barriers, special economic zones and export port processing houses are in the offing.

Nepal can be the Transit Point for India and China

Nepal is land-lucked country, which is situated between two-grain countries India and China. In an opportunity the experts focused that Nepal can be the transit point for India and China whom views as given below.¹¹

Experts and businessmen have underlined the need to have a transit service agreement with China in order to develop Nepal as a transit point for Sino-

⁹ *ibid.*, June 16, 2005.

¹¹ *The Himalayan Times*, Wednesday, May 25, 2005.

Indian trade. They also suggested that Nepal could be one of the best transit points to link the world's two largest and fastest growing economies. However, they emphasized the need for comprehensive homework and preparations before entering into a tripartite agreement to open the transit facilities.

Necessary infrastructure like road, airports, terminals and dry ports should be constructed, since they are basic facilities to become a transit point. We should also look into developing air transit points, said Shrestha. Once the volume of trade and transportation movement increases, Nepal should also consider opening new routes. Kimathanka and Raswagadhi points are most probable transit points, where construction of necessary infrastructure should be started, he said.

Purushottam Ojha, acting secretary at the Ministry of Labor and Transport Management said that Nepal would have multifaceted benefits, if the transit point concept were properly developed. There is a high-level political commitment for developing Nepal as a transit point for India and China, even king Gyanendra mentioned it following his return from Afro-Asia and Boa Conference last month, he said.

Ojha also pointed out the need to address several issues regarding customs, simplification of documentation, legal implication as well as physical infrastructure before entering into a transit hub. Developing a transit transport network is crucial to boost trade and other activities, he said.

Although Nepal is a land-locked country, geographically she holds strategic significance for India and China. The transit point potentials should be explored cautiously keeping this fact in mind, said Dr. Rajeshwar Acharya, former ambassador of Nepal of China. A proactive planning is must to reap optimum benefits by providing transit facility. Our planning and policies need to be harmonized accordingly with the ongoing regional developments, Dr Acharya said. Nepal should look beyond Tibet and India, once transit point

comes into operation. Since Tibet is not so big a province and politically sensitive, Nepal should try to expand its trade link to Central Asian countries and the Mainland China, he said.

2.3.1 Review of Previous Thesis

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

Nepal and India: The first commercial treaty to be signed between the two countries dates as far back as 1792 when India was under the British rule. In accordance with this treaty, a British resident was stationed at Kathmandu in order to promote trade and commerce between the two countries. But the resident was called back two years later as a result of war between Nepal and British India. With the treaty of Sughauli, the state of hostilities ended and a British envoy was allowed to be stationed at Kathmandu.

Nepal and China: There was a series of wars between Nepal and Tibet and finally the war came to an end after the treaty of 1850. According to this treaty, Tibet had to pay an annual tribute of Rs.10000 to Nepal and Tibet had to give up her extra-territorial right and concessions to Nepal. But with the signing of 1956 treaty with the People's Republic of China, Nepal's relation with Tibet entered a new phase.¹²

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

¹² Bhaikaji Shrestha, Unpublished Case Study, *Export Trade of Nepal*, TU, 2005, PP. 24-27.

between Nepalese and rest of world (India and Overseas) and to recommend suggestion for follow-up section.¹⁴

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

Ganesh Prasad Subedi has written another thesis about Nepal foreign trade: the Changing Scenario of Size, Composition and Direction for the partial fulfillment of Degree of Master's of Art, TU.¹⁵

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

M.P. Singh and V.S Singh in their article "Nepal's Foreign Trade: The Changing Scenario of commodity Composition and Direction" stresses the role of foreign trade in economic development of developing country which provided indispensable raw materials for development, technical know-how, foreign capital and competition conducive to economic development.

According to them Nepal is primary product producing country and her term of trade remains unfavorable. Under these circumstances production productivity

¹⁴ Santosh Dahal, Unpublished Degree Thesis, *A study on Nepalese Foreign Trade and it's Changing Scenario*, T.U,2001, P.6

¹⁵ Ganesh Prasad Subedi, Unpublished Degree Thesis, *Nepal Foreign Trade: The Changing Scenario of Size, Composition and Direction*, Kathmandu, 2003, T.U, PP.25, 55-59.

and efficiency are to be generated which possible by foreign trade in the short run. They also suggest that under the economic reform at global level i.e. liberalization and globalization, Nepalese economy is to be made compatible with these changes, hence cost of production is to be reduced, efficiency and competitiveness are to be generated.

R. Dahal In his unpublished Ph.D. dissertation, "Foreign Trade and Economic Development Of Nepal" has analyzed that there is a significant contribution of foreign trade to the total revenue of the government, there is a continuous deterioration in the terms of trade of Nepal and he has examined the contribution of foreign trade and the relationship between foreign trade and gross domestic product of Nepal. in his reach study he has used rate, ratio, percentage, simple regression analysis and log- variance to compute instability index.

The main objective of their study is to examine the commodity composition and direction of Nepal's foreign trade and make some constructive suggestions under changing world conditions.

They focused another important issue of foreign trade, which is the pattern of commodity composition where import commodity composition is more diversify than export commodity composition.

They dealt briefly the direction of Nepalese foreign trade, because a study of direction of trade indicates country's international relations, facilities for trade and linking of Nepal. They examined Nepalese trade direction in terms of destination-wise export and import. They found that region-wise export indicate that Nepal is confined to limited markets, such as North and center America and Western Europe while export of SAARC and other regions are limited. On the other hand, Nepal has also been concentrated on ESCAP region for import.

Finally, they concluded by providing suggestion to improve Nepalese foreign trade. They suggest that to improve BOP, Nepal should increase export and reduce import. Export can be encouraged by improving the quality of products, reducing cost of production, generating export surpluses, encouraging research and development while to reduce import substitutes should be encouraged by adopting improved indigenous technology curving non-essential and luxury imports, controlling growth of population and diversify its export and import market. At last they recommended a suggestion in order to expand and diversify Nepalese foreign trade. It is inevitable to have control over smuggling practices accross the borders especially with India.¹⁶

¹⁶ . M.P Sing and V.S Singh, *Nepal Foreign Trade, the Changing Scenario of Commodity Composition and dorection*, the economic journal of Nepal, vol.22, no.2, TU Kirtipur.

CHAPTER –THREE

RESEARCH METHODOLOGY

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

3.1 Research Design

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

This studies mainly focus on the "A comparative Study on the Foreign Trade of Nepal". For this purpose, the research design of the study is analytical as well as descriptive direction trends. Comparative data of various years about foreign trade composition and strength and weaknesses are analyzed and presented.

3.2 Sources of Data

Data may be primary or secondary for any research. In this research secondary data have been used through books, articles, bulletins, reports, thesis reports, manual from government and non-government sources and national as well as international organizations or institutions. In other words, data has been collected through NRB reports, TPC reports, MOICS reports, MOF reports and others government and non-government reports etc.

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

3.3 Methods of Data Collection

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

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

3.4 Data Collection Technique

Data has been collected through sampling method of secondary sources. The secondary source has been export/import trade data as country wise and commodity wise. The data has been taken for ten years i.e. from 2001/02 to 2010/11, which would be collected from NRB, TPC, MOICS, MOF and other public as well as private sectors.

CHAPTER-FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

4.2 Method of Analysis

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

4.3 Presentation of Data

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

Different diagrams and graphic tools have been used for the presentation and analyzing information that is one, two, three dimensional diagrams and histogram, frequency polygon/curve, pie-chart etc. of graphic presentation has been used in required place. The presentation and analysis of data, both topics have been presented under in one edge. It provides valuable information and has helped to recommend about research the collected data. The collected data

has been tabulated, categorized, coded, analyzed in simple statistical and mathematical tools such as percentage, average, ratio, etc.

4.4 Comparative Data Analysis

The related data has been collected and analyzed as volume wise, commodity wise and country wise & data has been taken each and every five years export trade and analyzed as comparatively with pre & post FY 2005/06.

Table No. 1
Total Foreign Trade Balance of Nepal
FY 2001/02 to FY 2010/11

(Value in '000 Rs.)

FY	Total Exports	Total Imports	Grand Total	Trade Deficits
2001/02	35,826,572	92,314,090	128,140,662	56,487,518
2002/03	49,561,028	113,687,149	163,248,177	64,126,121
2003/04	55,245,900	118,786,609	174,032,509	63,540,709
2004/05	47,386,788	108,634,801	156,021,589	61,248,013
2005/06	50,011,122	128,228,134	178,239,256	78,217,012
2006/07	53,949,414	135,840,335	189,789,749	81,890,921
2007/08	58,443,821	148,294,229	206,738,050	89,850,408
2008/09	59,776,874	160,677,924	220,454,798	100,901,050
2009/10	59,073,097	197,676,512	256,749,609	138,603,415
2010/11*	58,545,059	239,177,876	297,722,935	180,632,817

Source: NRB

Above the table no 1 shows the trade deficit through out the study period. The tendency of trade deficit decreased in 2001/02 FY increased once in FY 2002 & again decreased in next two years again increased in remaining last year continuously the minimum trade deficit is 56,487518 million rupees in FY 2001/02 & maximum trade rupees in the year 2010/11.

Table No. 2
Total Foreign Trade Balance of Nepal India and overseas
FY 2001/02 to FY 2010/11

(Value in million Rs.)

FY	Export		Total	Import		Total
	India	Overseas		India	Overseas	
2001/02	12530.7	23145.6	35676.3	32119.7	55405.6	87525.3
2002/03	22618.7	29004.3	51623.0	40928.1	68844.8	109772.9
2003/04	26030.2	29623.9	55654.1	55025.4	60661.8	115687.2
2004/05	27956.2	18988.6	46944.8	56622.1	50766.9	107389.0
2005/06	26430.0	23500.6	49930.6	70924.2	53427.9	124352.1
2006/07	30777.1	23172.3	53949.4	78739.5	57100.8	135840.3
2007/08	38916.9	19526.9	58438.8	88675.5	59618.7	148294.2
2008/09	41012.6	19062.1	60074.7	109305.9	53534.8	162840.7
2009/10	41,72800	17198.2	58927.09	115,872,300	79936.1	195808.42
2010/11*	38,626,400	19918.6	58545.05	144,524,100	94653.7	239177.87

Sources; NRB, TPC

Above Table No.2, comparing exports and import yearly shows, the share of India's export is increasing steadily except 2005/06 and overseas data are decreasing after 2003/04 in the same ratio. The share of export to overseas was increased only in FY 2002/03 & FY 2003/04, after then seems reverse tendency. In conclusion the total foreign trade is fluctuating (up & down) through out the study period however it is increasing steadily in the last six years. The total export in FY 2001/02 was 35676.3 million & in the same FY the total import of both sectors was 87,525.3 million but at the end of the study period i.e. FY 2010/11 total export & import were 58,545.05 & 239,177.87 respectively.

Table No. 3
Total Foreign Trade Balance of Nepal
FY 2001/2002 to FY 2010/11
(In Percentage & Value in million Rs)

FY	Exports	%age	Imports	%age	Total Trade
2001/02	35676.3	29.0	87525.3	71.0	123201.6
2002/03	51623.0	32.0	109772.9	68.0	161395.9
2003/04	55654.1	32.5	115687.2	67.5	171341.3
2004/05	46944.8	30.4	107389.0	69.6	154333.8
2005/06	49930.6	28.6	124352.1	71.4	174282.7
2006/07	53910.7	28.3	136277.1	71.7	190187.8
2007/08	58438.8	28.27	148294.2	71.73	206733.0
2008/09	60074.7	26.95	162840.7	73.05	222915.4
2009/10	59073.097	23.0	197676.51	77.0	256749.61
2010/11*	58545.059	19.7	239177.87	80.3	297722.94

Source: - TPC & NRB

Above Table No. 3 has been shown total import and export in both value and percentage. The export is decreasing steadily except first three years i.e. FY 2001/02 to 2003/04 but in the side of import, the volume is slightly increasing throughout the study period except FY 2004/05. The maximum value of export was 60,074.7 million Rupees in FY2008/09. But import is greater than export in both value and percentage. In the average, the import share is not less than three times throughout the study period. The maximum percentage of export was 32.5 in FY 2003/04 and maximum percentage of import was 80.3 in FY 2010/11. So, above table clearly shows Nepal has too trade deficits from foreign trade.

Table No. 4
Export/ Import Ratios
FY 2001/02 to FY 2010/11

FY	%age Export	%age Import	Export to Import Ratio
2001/02	29.0	71.0	0.38
2002/03	32.0	68.0	0.44
2003/04	32.5	67.5	0.46
2004/05	30.4	69.6	0.44
2005/06	28.6	71.4	0.39
2006/07	28.3	71.7	0.39
2007/08	28.27	71.73	0.39
2008/09	26.95	73.05	0.37
2009/10	23.0	77.0	0.30
2010/11*	19.7	80.3	0.25

Source: Mention as per Table No.1

Table No: 5
India - Overseas Exports/ Imports Ratios
FY 2001/02 to FY 2010/11

(In Percentage & Ratio)

FY	India			Overseas		
	% Export	% Import.	Ratios	% Export	% Import.	Ratios
2001/02	35.1	36.7	0.95	64.9	63.3	1.02
2002/03	43.8	37.3	1.17	56.2	62.7	0.90
2003/04	46.8	47.6	0.98	53.2	52.4	1.01
2004/05	59.6	52.7	1.30	40.4	47.3	0.85
2005/06	52.9	57.0	0.93	47.1	43.0	1.09
2006/07	57.1	57.8	0.99	42.9	42.2	1.02
2007/08	66.6	59.8	1.11	33.4	40.2	0.83
2008/09	68.3	67.1	1.02	31.7	32.9	0.96
2009/10	70.8	59.2	1.20	29.2	40.8	0.72
2010/11*	66.0	60.4	1.09	34.0	39.6	0.86

Source: NRB and Computation.

Above table comparing total export & total import ratio India & overseas export percentage to India had been increasing gradually since 2001/02 but it has fallen in 2010/11 whereas import ratio has been increasing. The export percentage in 2009/10 and import percentage 2010/11 are the highest. Similarly, export and import percentage have been raising and falling frequently with overseas countries export and import percentages are highest in the initial year,

Table 6
Composition of Regions in the Total Export of Nepal
FY 2004/05 to 2010/2011

(Value in million Rs)

Regions	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Asia (Excluding India)	1352	1495	1899	1832	2217	3338	7133
Africa	11	10	478	43	108	295	103
America	9725	13100	10274	8151	7711	6248	5479
European Union	6790	6874	7541	6934	7329	7924	7213
Europe (Excluding European Union)	457	402	639	607	728	6477	6355
Oceania	74	100	111	123	183	240	207
Total export	18409	21981	20942	17692	18278	21332	25277

Source: TPC and NRB

Above Table is about export trade of Nepal to Region-Wise like Asia (excluding India) Africa, America, European Union, Europe (excluding European Union) and Ocean Regions.

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

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

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

Table No. 7
Composition of Regions in the
Total Overseas Imports of Nepal
FY2004/05 to FY 2010/2011

Regions	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Asia Excluding India)	36162	38094	38385	39888	31455	56741	68583
Africa	181	131	353	247	286	987	779
America	3486	3395	3970	4240	5020	9576	1189
European Union	4051	8027	6559	6179	6317	8209	8995
Europe(Excluding European Union)	1305	1176	1413	1708	2467	1705	2532
Oceania	1599	2142	2555	2750	2442	2115	2573
Total	46784	52965	50935	55012	47987	79333	84651

Source: TPC and NRB

Above Table is about Import trade of Nepal to Region-Wise like Asia (excluding India), Africa, America, European Union, Europe (excluding European Union), and Ocean Regions.

Table shows the maximum share of import trade, first in Asia (Excluding India) around Rs 30000 to 70000 million and second position in European Union. In other words, the shares of total Import remaining regions are not satisfactory throughout study period. Nepal has to diversify its export and import shares to these regions.

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

Table No. 8
Composition of Development Regions
in the Total Overseas Exports of Nepal
FY 2004/05 to FY 2010/2011

(Value in million Rs & %)

Regions	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Eastern Dev. Reg.	5090	27.65	7416	33.74	6814	32.54	5418	30.62	4198	22.97	4263	24.79	6374	32
Central Dev. Reg.	13316	72.33	14556	66.22	14125	67.45	12263	69.31	14075	77.01	12894	74.98	13467	67.61
Western Dev. Reg.	-	0.00	8	0.03	2	0.01	8	0.05	-	0.00	14	0.08	-	0.00
Mid-Western Dev. Reg.	3	0.02	22	0.01	-	0.00	2	0.01	4	0.02	25	0.15	76	0.9939
Far-Western Dev. Reg.	-	0.00	-	0.00	-	0.00	-	0.00	-	0.00	-	0.00	-	0.00
Total	18409	100	21981	100	20942	100	17692	100	18278	100	17196	100	19917	100

Source: TPC and NRB

The table shows regional wise total overseas exports of Nepal in both value & percentage. Nepal has divided in five development regions. The data has been taken latest seven years from 2004/05 to 2010/11 fiscal year. Nepal has exported high share from central development regions the study period. The data shows that the export shares high the central development regions with around 67 to 77%. The second position is goes to eastern development regions and the exports in far western development regions is nil throughout the study period. The figure has million so export from different regions below than one million has not been included in above table. Kathmandu international airport and Birgunj customs are in the central development regions that it's taken the highest volume of total import.

Table No. 9
Composition of Development Regions
in the Total Overseas Imports of Nepal
FY 2004/05 to FY 2010/11

(Value in million Rs)

Regions	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Eastern Dev. Reg.	11493	13468	11775	12328	11048	15108	15329
Central Dev. Reg.	35151	38519	40612	40868	35017	63313	77595
Western Dev. Reg.	688	725	587	1549	1760	1090	1113
Mid-Western Dev. Reg.	249	253	241	268	261	402	610
Far-Western Dev. Reg.	3	0.00	20	–	–	20	4
Total	47584	52965	53235	55014	48047	79933	94651

Source: TPC and NRB

Above table shows the import trade from different development region from FY 2004/05 to 2010/11. There is same trends export. Central Development took the maximum share of total import through out the study period. The second share of import has Eastern Development Region. The trends of import from different development regions are not differing but the contribution of share of other regions is not satisfactory.

Table No. 10
Nepal's Exports to SAARC Member Countries
FY 2004/05 to FY 2010/11

(Value in Million Rs & %)

Direction	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
India	27956	98.9	26430	98.0	31244	97.6	38917	98.3	41013	98.4	41728	97.71	38626	87.24
Bangladesh	237	0.8	411	1.5	421	1.3	291	0.7	234	0.6	521	1.22	4664	10.53
Bhutan	27	0.1	53	0.2	78	0.2	149	0.4	238	0.6	310	0.00	142	0.00
Maldives	1	0.0	-	0.0	-	0.0	-	0.0	-	0.0	1	0.0	N	0.0
Pakistan	61	0.2	74	0.3	278	0.9	229	0.6	186	0.4	126	0.30	806	1.82
Sri Lanka	-	0.0	-	0.0	-	0.0	6	0.0	2	0.0	3	0.01	35	0.08
Total	28283	100	26968	100	32021	100	39593	100	41674	100	42692	100	44275	100
Total Export	47387		50011		54417		58444		60074		59283		60786	
%in Total Export		59.7		53.9		58.8		67.7		69.4		71.20		72.14

Source: TPC and NRB

Above Table shows the export trade to SAARC member countries from FY 2004/05 to 2010/11 both value & percentage. There is also given total export trade and percentage in total export trade of SAARC member countries. The share of SAARC member countries is growing from 53.9 percent in FY 2005/06 to 72.14 percent in 2010/11.

India covered more than 97 percent in export trade so Nepal unable to expand her trade diversification among the SAARC countries. The maximum share of total export to SAARC region was 72.14 percent in FY 2010/11. Among the SAARC countries the share of export to Maldives and Sri Lanka are almost nil. The second main export country has Bangladesh with very small volume although Fulbari port facility. As indicated above the share of export of India has almost cent percentage but the second position of export percentage goes to Bangladesh. it has around one percentage the export beginning FY but at the ending FY it's share about 10% in exports. It means India has taken full role of foreign among in SAARC country.

Table No. 11
Nepal's Imports to SAARC Member Countries
FY 2004/05 to FY 2010/11

(Value in Million Rs. & %)

Direction	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
India	56622	98.3	70924	99.1	81652	98.7	88675	99.5	109306	99.6	115872	99.46	144524	99.41
Bangladesh	643	1.1	335	0.5	671	0.8	206	0.2	105	0.1	286	0.25	491	0.34
Bhutan	85	0.1	36	0.1	22	0.0	32	0.0	127	0.1	119	0.10	136	0.09
Maldives	N	0.0	N	0.0	N	0.0	-	0.0	-	0.0	N	0.00	N	0.00
Pakistan	133	0.2	153	0.2	191	0.2	167	0.2	191	0.2	171	0.15	179	0.12
Sri Lanka	161	0.3	105	0.1	139	0.2	34	0.0	52	0.0	46	0.04	24	0.02
Total	57644	100	71554	100	82676	100	89114	100	109781	100	116496	100	145356	100
Total import	108635		128228		138753		148294		162861		194694		2261100	
%in Total import		53.1		55.8		59.6		60.1		67.4		59.14		64.10

Source: TPC and NRB

Note: N denotes below than one million.

Above table shows the share of total import from SAARC countries from 2004/05 to 2010/11 both in value & percentage. Similarly export India has taken 97% in SAARC. The percentage in total import is growing steadily during the study period except last two years i.e.2009/10 to 2010/11. In 2004/05 has 53% & in 2010/11 has 64.10% of total import. The table clearly shows the percentage of total imports throughout the study period. As India has taken first position in exports the share of imports of India also has almost cent percentage i.e. first position & import percentage of Bangladesh has around only 0.34% comparing export to import. It has huge trade deficit from India.

4.5 Factors Affecting Nepal's Foreign Trade

Nepal is land-locked and least developed country. Although foreign trade gives average 15.7% GDP of national production, Nepal has been suffering huge trade deficits and trade and transit problems due to various reasons. Nepal has just entered into WTO membership, SAFTA and BIMST-EC as multilateral and bilateral agreement and cooperation. Nepal may be the transit point for the big developed two countries like India and China, it is the main issue point towards the recent year.

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

- a. Nepal lacks genuine exportable items. There are only two or three major items for export- readymade garments and woolen carpets, the account more than 70 percent of the total overseas trade. So we should introduce more exportable items for improving foreign trade.
- b. It seems to feel that the research and development activities regarding the development of exportable products in Nepal is quite lacking. There is only one government agency undertaking such responsibility- Trade Promotion Centre – but it lacks such activities.
- c. Information's that are essential for better decision-making are seriously lacking in Nepal. Most of the information on policy approach and fundamental decisions are not transparent in Nepal. They are stored in the dark basket by the responsible authorities, both government and private sectors.
- d. Nepal's trade with SAARC member countries is not satisfactory, India alone accounts for more than 98 percent of the total SAARC trade.

- e. India has recently imposed quota system against the major export items of Nepal to India like Vegetable ghee, Acrylic yarn, copper products and zinc oxide.
- f. Nepal has huge trade deficits with both India and overseas countries. The value of Nepal's trade is more than the countries export value. Nepal has trade deficits even with Tibet, the Autonomous Region of China.
- g. No Symptoms have yet seen that Nepal's trade situation will improve in the near future due to the country's internal political crisis and economic downward.
- h. Nepal is China-locked in the north. However, Chinese ports are about 5,000 kilometers from the Nepalese border. The snowy range of Himalayas stands as a transit barrier between these two giant countries. Tibet, which is one of the nearest neighbors of Nepal, is still in the earliest state of its economic development and lacks transportation and other physical facilities.
- i. Nepal has trade and transit agreements with the People's Republic of Bangladesh, Bangladesh have agreed to provide its Chittagaon and China ports for Nepali cargo. The Bangladesh ports authorities in Chittagaon, Khulna and Chalna are ever ready to assist Nepal in handling the Nepal-bound cargo. Regarding the existing limited storage space in the port of Chittagaon, the Bangladesh River Transport Corporation is willing to haul Nepalese cargo through their well-developed barge and lighting services. The Bangladesh Railways has been providing a rebate of 25 percent in its tariff for Nepalese cargo to compensate for the longer distance compared to the Calcutta route. However, the main obstacle in using the Bangladesh transit route lies in the Radhikapur/Biral crossing between India and Bangladesh, where Nepal has no liaison office. Beside this, Nepal traders have to hold valid passport and visa to launch trade with and Bangladesh. Again, Bangladesh transit route suffers from several basic logistic problems and during the transit in India, Indian police and officials give unnecessary tension.

- j. Due to the uncomfortable geo-political position of Nepal, it has to accept Calcutta port as the only exit or entry point for Nepali cargo, for which Nepal is compelled to accept the India's hard conditions too. The freedom of transit, which was accorded by the Trade and Transit Agreement of 1960, has not brought yet into actual practice. Whenever, Nepal raises the question of such facility, the Indian government always tries to push unnecessary problems and pressure to Nepal, and try to take reciprocal advantage.
- k. The Nepalese transit-traffic that is subject to the Indian Customs Act for Nepal bound cargo is not justifiable. The Nepalese do not have their separate customs zone. The security problem is out of Nepal's hand. The institutions created in Nepal for transit are not able to deal with such policy issues with the Calcutta authorities.
- l. Operations at Calcutta port pose serious difficulties to Nepalese shippers due to lack of physical infrastructure, congestion in the berths, jetties and warehouses, frequent labour unrest, lack of adequate security, bureaucratic procedures, delays in clearance, shortage of railway wagons and host of other problems.
- m. Nepal may be the transit point of two giant countries like India and China but to do this role, Nepal has not sufficient infrastructure transit facilities, aircargo facilities and other related activities.
- n. Nepal can grave benefits in the global market as the WTO's least developed country but this job has more challenges to obtain its arrangements.
- o. To do the better performance of foreign trade, there should be quite political stability in the nation, lot of exportable goods, huge infrastructures, high productivity, sufficient transit, banking and insurance facilities, technological and industrialization nation, participating in foreign trade fair and exhibition regularly etc and so on. But we have not able to provide these kinds of activities for the trading sectors.

4.6 Analytical study of Nepalese foreign trade policies and reform

After the restoration of democracy in Nepal, the elected government introduced new trade policy. The changing environments of liberalization trade in globalize Nepal had also established around six five-year plans. Before it, Nepal had already established Trade Promotion Centre (TPC) for promoting exportable items and trade diversification. Nepal has joined bilateral and multilateral cooperation like SAARC, SAPTA, SAFTA, BIMST-EC and UNCTAD and WTO for international trading performance. More than 17 countries to where Nepal has done bilateral trade agreement and Nepal can be traded in more than 80 countries. Although Nepal can diversify its foreign trade, Nepal is suffering huge trade deficits due to various reasons. The reason may be inadequate policies about the foreign trade.

After entering WTO, BIMST-EC, SAFTA etc Nepal has to reduce its tariff and non-tariff barriers according to international arrangement. Existing policies and commitment may be outdated for international trade in the beginning of 21st century. To address the rules, regulations, agreements and arrangements of WTO and other cooperation's, Nepal should change its some policies, Acts and other strategies immediately.

Export Mechanism and Policies

Export is an essential function for international trade or business. Goods manufactured or produced in one country, destined for markets in another, must be moved across their borders to complete the process. Many controls and procedures arise in completing the process. Required documents, terms of payment, tariff systems and other barriers to the free flow of goods between independent sovereigns are requirement prior to export marketing that must be considered by the export marketer. These mechanics are essence of foreign marketing and their importance can not be minimized.

Thus export procedures, in one-hand government policies and intervention in pricing, distribution and promotion. On the other hand export plays a significant role in shaping the composition and direction of export. So this chapter analyzes the past and prevailing export procedures, policies and incentive narrating to marketing of Nepalese export trade.

Export Procedures

Export procedures may be seen as the channel activities taken in export marketing, because channel is defined as a pipeline for goods from manufacturers to consumer. The exporters have to fulfill different requirements from the time that an export order is obtained till the realization of export proceeds. Preparation of various documents, banking requirement, costume procedures and transportation are the most complicated procedures of export marketing.

The exporters have to register their firm in the department of commerce or as branches as a trading firm. There are many exporters who have there own industry and many exporters work as marketing institution between the procedures and other channel members. Many small and medium class manufacturers do not export directly, the exporter used to buy their manufactured goods by them after inspection of quality and specification.

The industries must be registered within six month of operation in concerned department. But in present practice, the small manufacturers that supply to the established manufacturers and exporters have not registered their industries.

Next, the exporters should have a current account with a reputed commercial bank authorized to deal in foreign exchange. The bank then agrees to deal transaction between the exporters and buyers.

Exporters have to prepare various documents with the distribution pipeline to satisfy government regulations, international commercial and transit rules and

payment transactions. At present the Nepalese exporters have to prepare the following documents while executing the export.

- a. Export contract form,
- b. Commercial invoice, packing and weight list,
- c. Certificate of origin,
- d. GSP Certificate of Origin,
- e. Letter of Credit (L/C),
- f. Foreign Exchange Earning Bank Certificate,
- g. Customs Transit Declaration Certificate,
- h. Bill of Lading or Shipment Bill,
- i. Railway receipt/Airway Bill,
- j. Customs Clearance Form and
- k. Insurance Policy.

The Nepal Chamber of Commerce issues the certificate of origin. To enjoy preferential concession in the importing country, the GSP certificate was obtained from the export section of the trade promotion center. It consists of the information about the means of transport, route, name and address of the exporter and importer, number of items, number of packages, description of goods, place of manufacture, gross weight, quality and number, date of invoice and value, certification etc.

To obtain certificate facilities from bank, various document are needed such as CTD, Railway/Airway Bill, Bill of lading insurance policy, Certificate of Origin etc. the exporters today also export their consignments under advance payment receipt and 10 percent of the exporters use sign draft term while selling samples.

The Nepalese exporters should obtain the CDC certificate from the Nepal border customs authorities concerned to assure the Indian customs authorities that the goods are not of Indian origin and are meant for export from Nepal to

third countries other than India and sell not be retained in India. Then the consignment is carried by a third agency to its destination. The third agency gives its official receipt (Bill of lading) for the goods shipped in its vessel to carry them to the port of destination.

If the goods are shipped from Nepal border or Indian border by rail, the railway authority issues a railway receipt and endorses it to the exporter. If the goods are not sent by rail, the Tribhuvan International Airport issues an Airway Bill. The freight charge is paid by the exporter if the contract is on CIF or C&F and if it is on FOB (FCA) policy, the importer will pay the freight charge. More than 50 percent of Nepalese goods are exported under FOB term.

Before the consignment crossing the Nepal border the exporter should get the goods cleared by the customs. This procedure should be completed in the customs office of Nepal border or of Tribhuvan International Airport office or of Foreign Post Office Department; from there the goods are passed. At present there is no customs duty, no excise duty, no sale tax and no quantitative restriction in export of Nepalese goods like carpets, pashmina goods, herbal products, Nepalese paper product and handicraft etc and so on except readymade garments, vegetable ghee, acrylic yarn, zinc oxide and copper products in USA and India.

If the goods are transported through India, the exporter should clear the customs office at Indian border. As soon as the export consignment crosses the Nepal border, the exporter must get it issued by an authorized insurance company. But the insurance policy depends on the FOB, C&F or CIF terms.

Transportation

Transportation plays a role of facilitating agency in total distribution channel system. But one of the major bottlenecks in development of the export sector in Nepal is the country's geography. The difficult mountain terrain on one hand and the landlockness of the country on the other bring serious challenges for

the development of the export logistic system in the country. The country has the limited modern transportation network and the major part of the country still depends on the human labor for transportation of goods. This is one of the main causes that most of the Nepalese manufacturers and exporters are concentrated in Kathmandu valley.

The problem posed by the landlockness of the country is even more serves, as the country has to access to sea only through India. The problem of transit, transportation, warehousing, insurance etc had always been obstacles to Nepal's export trade. All the products exported from Nepal have to be carried by air or through India, from Calcutta Port.

There is lack of government incentive on transport. Land and sea export more than 50 percent of the total export. So, the exporters cannot meet the prompt delivery commitments. Procedures and physical facilities and services at Calcutta Port is another problem for the Nepalese exporters. Exporters also ship their products from Bangkok Port and Singapore Port carrying up to there by passenger flight.

Export Packing and Labeling

Nepalese exporting goods are packed to protect them against damage in transportation. Nepal uses conventional method of packaging. In the other word, the exported goods are packed its nature, sensitive weight shape and size etc. goods may be packed in paper box, wooden box, plastic wrapped, metal box etc and so on.

There should be labeled at exporting goods i.e. name of manufacturer, weight of packet, contain of packet, date of manufactured, use of goods, batch no., price of product if need.

Products banned for exports

a) Articles of Archaeological and Religious Importance

-) National and foreign coins archaeological value.
-) Idols of gods and goddesses, palm leaf inscription(Tad Patra), plant leaf inscription (Bhoj Patra).
-) Scroll (Thanka Paintings) of historical importance.
-) Cows and Oxen

b) Conserved wildlife and related articles

-) Wild animals.
-) Bile and part of wild animals.
-) Musk.
-) Snake skin, lizard skin.

c) Narcotic Drugs_ Marijuana, Opium, Hashish (as defined in the single convention on Narcotics, 1961).

d) Articles of industrial importance

-) Explosives material and fuse or materials needed there for.
-) Materials used in the production of arms and ammunition.

e) Industrial Raw Material

-) Raw hides and skin (including dry salted)
-) Raw wool.
-) All imported raw materials, parts and capital goods.

f) Other Products

-) Mamira.
-) Log and timber

Products Banned For Imports

a) Products injurious to health

-) Narcotic drugs like, opium and morphine.
-) Liquor containing more than 60% alcohol.

b) Arms and ammunitions and explosives (except under import license of government of Nepal)

-) Materials used in production of arms and ammunition.
-) Guns and cartridges
-) Capes without paper

c) Communication equipment

-) Wireless, walkie_ talkie, cordless, transmission machinery, satellite equipments, satellite receiver, link radio equipments and other similar audio_ visual, database radio communication equipments (except under import license of government of Nepal)

d) Others

-) Beef and beef products
-) Plastics rags and recycled plastics goods
-) 118 AZO days hazardous to environment and detrimental to export sector.
-) Any other product notified by government of Nepal in the Nepal Gazette

Delivery

Delivery of the export consignment is usually made in 1 to 3 months from the confirmed order received. Sometimes for special conditions, delivery may take up to 6 months. The big exporters use to keep an adequate stock of export goods in usual designs and sizes to ensure prompt delivery. Such delivery could be made within the 7 days. But most of the exporters produce their products against the programmed order. The design, size, quality, color, quantity, price and delivery time is already fixed by the buyer and before the shipment the buyer selects and approves the products for shipment. The exporters give assurance of size, color and quantity of such products. If the shipment is delayed, the exporter gets penalty.

4.7 Major Findings

From this research writing, I have found the following major issues:

- a. Nepal has primary exportable goods but manufactured, deluxe, luxury and other sophistic and valuable items are being imported from other countries.
- b. Nepal is one of the least developed countries of the world, which is facing the problem of vicious circle of poverty and economic backwardness. Nepalese foreign trade sector especially export trade, which is considered to be the engine of growth, has been deteriorating rather than improving.
- c. The value of import is increasing massively than the value of export in study periods. Although the government has introduced several policies to give a proper direction to the nations export trade. It is not moving in the right track and it is creeping under so many problems.
- d. Because of the increased attraction on imported goods, productivity of the country has been deteriorating. The qualities of the products are also not satisfactory so they are unable to compete in the international market.
- e. The role of export in relation to export led, export- import ratio, foreign aid and debt service ratio, BOP, foreign currency and employment generation

has not been satisfactory. The share of agriculture production has dominated in GDP of Nepal.

- f. Nepal's foreign trade policy is directed more towards import expansion rather than export promotion and import substitution. Experts and skilled manpower (for policymaking) in the concerned fields are kept in the dark so the illegal traders are getting advantage of import and export.
- g. The agricultural sector, which is the backbone of Nepalese economy, has been extremely disappointing. Similarly industrial sector is still in infant stage. Industrial sector in Nepal is still looked at as a neglected sector because it requires heavy investment and whose output can be tasted only after a long period.
- h. Landlockedness feature of Nepal is one of the biggest bottlenecks in its trade expansion. Although it is a natural and permanent type of problem for landlocked country like Nepal, it should be solved through the political/diplomatic efforts and commitment. Because such type of event, Nepal may isolate from external affairs at any time.
- i. Nepal has a fundamental trade deficit problem with both India and overseas countries in both study periods that may have a long-term effect on the country's economy. Such deficit is usually covered by the increased foreign loans and grants, which may further deteriorate the country's economy.
- j. Free flow of goods between Nepal and India is creating a serious problem for Nepalese products in both studying periods because Indian products are available cheaply in Nepal. And there is no discrimination between domestic and foreign goods in Nepalese market.
- k. The export of agriculture production has been declining as growth in agricultural production has hardly been able to keep pace with population expansion. The agricultural production has affected export- GDP ratios.
- l. In Nepalese trade sector, tariff is levied just to enhance revenue not to provide protection to domestic industries. There exists absence of attention in the production of consumer goods to reduce import.

- m. Nepalese domestic industries can not produce enough for Nepal's growing population.
- n. Nepal utilizes only one transit (trade route) to trade with overseas countries other than India and China. Although Nepal can use other trade routes like Fulbari Banglaband through Bangladesh but no action is forwarded regarding this.

CHAPER- FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In this chapter, we will discuss about summary, conclusion and recommendation of foreign trade of Nepal with the help of introduction, review of literature, research methodology and data analyses and presentation chapters for the requirement of thesis writing. After the completion data presentation and analysis and especially with the help of statement of problems, objectives and major findings of the study it has to be also mentioned this chapter.

Nepal is land-locked country based on agrarian economy, low per capita income (US\$340), high population growth, dependency on foreign trade and aid, continuous deficit in balance of payment are the features of the Nepalese economy which places her among the poorest country in the world. Decreasing agricultural productivity and growing population is facing a number of problems tapped with how to raise her economy and how to confront the decreasing balance of payment position. Having the poor industrial base, she has been depending on the foreign trade.

At ancient time or before 1970, Nepal had single foreign trade partner India which covered more than 95 percent trade of total trade and rest covered by Tibet so the share of oversea was almost nil. After TPC (1970), Nepal could diversify her trade from India to around the world gradually before WTO membership. The maximum share of foreign trade of overseas could be around 70 percent in 1990s but resent year the tendency of share of India is increasing and obviously overseas share is decreasing up to 37 percentages in FY 2010/11 to total trade but in both sector the trade deficit of Nepal is increasing trend throughout the study period.

As the lack of technology and capital, Nepal usually imports capital equipments daily, consumable goods, technical know-how, chemicals, means

of transport and communication etc. And, she exports the raw materials and labor intensive industrial products.

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

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

To justify thesis writing and the collected review of literatures, there should be necessary to conduct research methodology. Therefore, in chapter three, the analytical and descriptive research methodology have been applied with taking secondary data by sampling method through concerned department like TPC, NRB, MOICS, MOF and others.

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

Data has been taken from FY 2001/02 to 2010/11 as country wise, commodity wise, region wise, from TPC and NRB. The collected data has been presented in both tables and figures. The trade both export and import is growing steadily but comparing export to import, the volume of export is lesser than the import i.e. less than 1. Comparing India and overseas about export and import, the share of India is growing steadily through out study period but overseas trade has not same direction.

Nepal's foreign trade to the SAARC countries, India has taken maximum share (not less than 98 %) in both export and import. The region wise trade direction

gives us the view that export to USA has higher and excluding India has higher in the side of import.

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

There exists a geographical concentration in Nepal's exports, the top four trading partners in FY 2008/09 being India, USA, Germany, and United Kingdom. Analogously, the country's imports have been primary from India, Singapore, China, and Thailand.

In this thesis writing about the export trade in different time frame, Nepal has taken two distinct export policies like export trade policy 1982 and export trade policy 1992. After restoration of democracy system in Nepal, a new elected government formulated and announced a new trade policy and open market policy i.e. liberal economic policy. So in both periods, there is distinct difference between the trade policies.

Nepal just entered into WTO, SAFTA, and BIMESTIC for the expansion of her export trade and to take competitive advantages. Nepal can take advantage from WTO as LDC country. New entrance to BIMESTEC of Nepal, she can expand her export trade in South and East Asian countries. But these jobs have more challenged for least developing countries like Nepal.

Nepal has to adjust her trade policies, to develop infrastructure, to reduce trade barriers, to produce exportable goods, to formulate political stability as per the requirement of WTO. Nepal has both challenges and opportunities to do WTO commitment as least developed country for comparative advantages.

Both the study periods Nepal not able to manage her trade balance to India, Overseas and Tibet. From chapter four clearly shows us the huge trade deficit is the major problems facing by the Nepal. The export trade in SAARC countries, India along hold accounts more than 98 percentages in both study periods.

The ready-made garments and Woolen carpets hold the maximum share of overseas export trade i.e. more than 65 percent. America and Germany is the top most partners of Woolen carpets and ready-made garments. In other words, these countries hold more than 80 percent of those products in overseas export trade.

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

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5.2 Conclusions

The major objective of the study is to provide a bird's view of various aspects of Nepalese trade with India, Tibet and Overseas. The volume of trade found to be increased steadily but the weight of export in total volume of trade is very low. The analysis of Nepal's foreign trade has shown that landlockness primary nature of export, poor export performance, unfavorable terms of trade, poor industrialization are some of the worsen realities in the foreign trade sector of

Nepal. The share of export and import in the total volume of trade in 2010/11 was 33 and 67 percent respectively, which indicates a more dominance of import in Nepalese foreign trade.

Although trade is considered as an engine of growth in economic development of a country, in Nepal there prevails a big gap between the objectives and vision and the current state of affairs in the trade sector.

Though Nepal is already a member of the WTO, the institutional and legal structures to implement the WTO agreement have not been properly developed.

Market and product concentrations of export led to volatile export proceeds. Structural difficulties of trade related services and infrastructures have obstructed to materialize potential comparative advantages.

The ratio of foreign trade export to import is always less than 1, which clearly shows import exceeding. It is not beneficial for the developing country like Nepal. The huge trade deficit affects our economic development.

The trends of foreign trade of Nepal, Nepal can diversify its trade as country wise well as commodity wise after the restoration of democracy system of Nepal.

But Nepal is a primary product producing country. The export side, only readymade and carpet products have taken more than 65 percent share and America and Germany two foreign countries hold more share of overseas export.

Nepal entered into WTO after one year and also entered into SAFTA, BIMSTEC. Now, it is growing to build transit point of India and China, which is more beneficial for developing and land-locked country.

The direction of foreign trade shows the share of exportable and importable commodities. A change in direction with the strategy of trade diversification

helps to be narrow down the trade deficit and build a sound and strong economic development of the country.

The average GDP of national development, foreign trade takes 15.7 percent out of national income.

Now days, the share of foreign trade, India is growing but third country is not equally growing due to entering WTO and others transit barriers. The share of foreign trade in SAARC country, India has maximum in both export and import side (not below 98 percent of that sector). Now it is also issuing point about foreign trade.

Nepal policy regime has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been executed.

Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the country in improving its international competitiveness.

The movement of trends of foreign trade of Nepal is not favorable during the study period, which clearly shows that Nepal is still far away from gains of international trade.

As a whole, Nepal's foreign trade situation suggests that government immediately take concerted steps to expand its trade and improve the country's foreign trade trends in the year to come with the help of private sector. The delay decision making in this regard may well prove to be quite costly to nation. The policies related foreign trade would also change according to foreign trade demand.

5.3 Recommendation

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

- a. It is necessary to make appropriate export plan with production plan of the country, which helps to increase productivity and exportable goods. Therefore, the comprehensive survey should be conducted to inquiry the whole wealth of nation.
- b. Nepal Government should workout bilateral agreements with importing countries for fixing of quota of export and diversification of products, and for possible adjustments in GSP tariff application to compensate for transport cost differentials arising from Nepal's land-locked position.
- c. Dry ports, transit facilities, infrastructure would be made soon for helping the foreign trade and sustains the existing facilities.
- d. Participating in international fairs and sending trade delegation to potential markets as well as increased publicity for Nepalese products in international media will help to expand the market of Nepalese products.
- e. Nepal Government should negotiate with India officials on the matters of reducing prevailing port charges, simplification of customs procedures, about the transit facilities for third countries.
- f. Private sectors should be given reasonable facilities and incentives because it plays dominant role in the country's export trade. They often complain that the government has never been able to fulfill its commitments: such situation should not be developed in the country.
- g. Nepal is land-locked, it must not be depended only Calcutta port for its foreign trade, it should developed and searched for alternative routes in other countries as well, including the northern neighboring country China. The best possible option is using the Fulbari

Bangladesh. To expand the favorable foreign trade Nepal should improved its trade and transit treaty with India.

- h. Since Nepal has been suffering from fundamental deficit in its balance of trade. To improve it Nepal should increase exports and reduce imports, export can be encouraged by improving the quality of products, reducing cost of production, generating export surplus, encouraging research and development, re- obtaining quota system of garment in USA. On the other hand to reduce import indigenous production of import substitution should be encouraged by adopting improved indigenous technology curtailing non-essential and luxurious imports and controlling population. It should also diversify its imports and exports markets and products via trade agreements and developing friendly relation to the other countries.
- i. Nepal has just entered into WTO membership. So Nepal should arrange its own Act, rules and regulations, different trade and industrial Acts and policies, tariff and non-tariff barriers, certificate of rules of origin of product, product standardization, product price according to the requirement of WTO objectives and policies. These procedures should be done for SAFTA, BIMST-EC and other bilateral agreement also.
- j. Nepal Government should simplify the procedures for exporters by establishing a single office, which can issue trade documents required by the agencies concerned. Adopting of international procedures regarding banking and insurance.
- k. Nepal is the second richest country of hydro-electricity of the world. Nepal should sell its hydro-electricity to the neighboring countries for earning foreign currency for the reduction of balance of trade. There are many foreign investors are interesting with jointly invest in hydro-electricity projects. Therefore, HMG/Nepal should introduce a special policy for foreign investors.

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

- q. Although trade is considered as an engine of growth in economic development of a country. In Nepal, these prevails have a big gap between the objectives and vision and the current state of affairs in the trade sector. So HMG/Nepal should match its objectives and vision with real output of it.
- r. Though, Nepal has mineral deposits, their exploitation has not been thought for export purpose. Magnesium, lead and zinc can be available for export. Cement can be exported only if supply exceeds the internal demand. Nepal's export position can be recovered through the export of hydropower. Export prospects of new items like silk, orchids and flower, herbs and other including handicrafts have been pointed out as bright prospect.
- s. Nepal's export market segmentation based on geographical location and the nature of economic region has been classified for export market management. The export market of Nepal with south Asia is traditional. The proposed SAPTA will gear up the export promotion of Nepal. A balanced approach to disperse the trade in the south Asia region needs to be followed. India will be the top most partners in foreign trade of Nepal. The south Asia markets have potentials for manufactured as well as primary exports.
- t. Nepal opened its door to foreign investor only after 1980. Substantial progress has been made after 1970 in Asian countries. For 1973-85 periods, the average rate of increase in per capita income in Japan, Hong Kong, Singapore, Malaysia and Korea is remarkable in comparison to other Asian countries. These countries have led the entire Asian countries. The minimum export target set by these countries should be modeled for Nepal's export management.
- u. Nepal just entered into WTO, SAFTA, and BIMST-EC. Nepal has both challenges and opportunities after entering WTO and other regions for global market.

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