

**A STUDY ON NEPALESE FOREIGN
TRADE WITH CHINA**

A Thesis

**Submitted to Department of Economics, Faculty of Humanities
and Social Sciences of Tribhuvan University, in Partial
Fulfillment of the Requirements for the Degree of
MASTER OF ARTS
in
ECONOMICS**

By

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LETTER OF RECOMMENDATION

This thesis entitled “A STUDY ON NEPALESE FOREIGN TRADE WITH CHINA” has been prepared by Mr. Buddhi Sagar Sapkota under my guidance and supervision. I, therefore, recommend this thesis for examination by the thesis committee of the Degree of Master of Arts in Economics.

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APPROVAL SHEET

We certify that the thesis entitled “**A STUDY ON NEPALESE FOREIGN TRADE WITH CHINA**” submitted by **Buddhi Sagar Sapkota** to Department of Economics, Prithvi Narayan Campus Pokhara, Faculty of Humanities and Social Sciences of Tribhuvan University in partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS, has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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ABSTRACT

This study entitled “A Study on Nepalese Foreign Trade with China” has been carried out in partial fulfillment for the degree of Master of Arts in Economics. The study analyzes the volume ,composition and direction of total foreign trade of Nepal as well as composition and direction of Nepal’s trade with China. Secondary data have been collected from national and international sources for analysis. The data are presented in tables, figures, percentage and ratios.

Foreign trade plays a significant role in the economic growth and development of nation. China is one of the biggest trading partner of Nepal. The bilateral trade between these two countries is in increasing trend but export trade is lower than the import trade. Consequently, Nepal is facing higher trade deficit problem in recent years. The major issues that arise in research study are: How is the overall foreign trade situation of Nepal? What is the position of China in Nepal’s total trade? What is the composition and direction of Nepal’s trade with China?

The trend analysis covers the period from FY 1956/57 to FY 2012/13. During the study period i.e. 1956/57 – 2012/13, the total export to India was 579616.7 million rupees (54.64 percent of total export) while the total import from India constituted 2302648.3 million rupees (55.96 percent of the total import) widening the huge trade deficit 1723031.5 million rupees. The total export trade of Nepal to other countries was 481130.8 million rupees(45.35 percent of total export) whereas import volume was 1812026 million rupees(44.03 percent of total import) having the total trade deficit of 1330895.2 million rupees. Similarly, the total trade of Nepal with China in 2010/11-2012/13 was 171737.9 million rupees. The export and import values of Nepal’s trade with China in 2010/11- 2012/13 were 4520.9 and 167217 million rupees respectively. The value of import from China was 37 times higher than the value of export in 2010/11- 2012/13. It is clear that Nepal has been facing huge trade deficit every years in its foreign trade with China. The trade deficit with China in 2010/11- 2012/13 was 162696.1 million rupees.

The bilateral trade between Nepal and China is not in favour of Nepal in the study period. Though the value of trade still is in increasing trend, export has been dominating over import. Consequently, the balance of payment situation has become higher and higher due to the lack of proper vision of government in terms of foreign trade. Thus, Nepal has been facing trade problems with China.

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ABBREVIATION

BIMSTEC	: Bay of Bengal Initiative for Multi Sectoral Technical and Economic Co-operation
BOP	: Balance of Payments
BTA	: Bilateral Trade Agreement
CBS	: Central Bureau of Statistics
c.i.f.	: Cost, Insurance and Freight
ESCAP	: Economic And Social Commission for Asia and Pacific
EU	: European Union
FDI	: Foreign Direct Investment
FNCCI	: Federation of Nepalese Chambers of Commerce and Industry
f.o.b.	: Free on Board
FY	: Fiscal Year
GDP	: Gross Domestic Product
HMG	: His Majesty's Government
IMF	: International Monetary Fund
IT	: Information Technology
LC	: Letter of Credit
LDC	: Least Developed Countries
MOF	: Ministry of Finance
NCCCI	: Nepal-China Chamber of Commerce and Industry
NRB	: Nepal Rastra Bank
SAARC	: South Asian Association for Regional Co-operation
SAFTA	: South Asian Free Trade Arrangement
SAPTA	: South Asian Preferential Trade Agreement
SAWTEE	: South Asia Watch on Trade Economics and Environment
SEZ	: Special Economic Zone
SITC	: Standard International Trade Classification
TEPC	: Trade and Export Promotion Centre
TU	: Tribhuvan University
UAE	: United Arab Emirates
UK	: United Kingdom
UN	: United Nations
UNO	: United Nations Organization
USA	: United States of America
WTO	: World Trade Organization

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal, which is situated as a small Himalayan country in the heart of Asia, lies between 26° 22' to 30° 27' north latitude and 80° 04' to 88° 12' east longitude and its shape is almost like a brick. It covers approximately 1,47,181 sq. km. area stretching 800 km from east to west and 90 km to 230 km from north to south. Nepal covers 0.03% area in the world while it falls 0.3% in Asia. Geographically, it is a land locked country sandwiched between the two giant economies China and India. Nepal is the world's 93rd largest country by land mass and the 41st most populous country. It has three geographic regions, the Mountainous or Himalayan belt (including 8 of the 10 highest mountain peaks in the world), the Hilly Region and the Plain Region which occupy 15%, 68% and 17% respectively. Nepal contains the greatest altitude variation on earth, from the low land Terai, at almost sea-level to Mount Everest at 8848 meters. It has been divided in to 5 Development Regions, 14 Zones, 75 Districts, 3915 Village Development Committees and 58 Municipalities including 4 Sub-Metropolis and Metropolis. Its total population is approximately 26.6 millions. (National Population Census, 2011)

Nepal is one of the least developed countries in Asia with over half the population surviving on less than \$1.25 a day and fifteenth poorest in the world. Although, one of the poorest countries in the world according to the measuring rods of the UNO, Nepal does not, necessarily have as poor life as in some of the poorest African countries. This is because, the people here are honest, hard working and diligent. (Himalaya Times, March 9, 2012)

Dualistic economy, mass poverty, dependency on agriculture and dependent economy are the major features of Nepalese economy. Specially, the economy is dominated by agriculture and remittances from Nepalese working overseas, each of which account for around a third of GDP. Remittances are crucial to Nepal's economy and bring in more foreign exchange than exports. Tourism accounts for around 2.5% average ratio to GDP in the period between 2004/05 and 2010/11. (Trade Policy Review, Gov. of Nepal, 2012:4) As Nepal is an agro based economy, agriculture contributes to a

greater extent in income generation of the household, provides employment and plays a significant role in manufacturing and export sector. Exports of agricultural commodities constitute about 70 percent of the total exports from Nepal. Nepali agricultural practice is in traditional and subsistent type. So, it is necessary to pay attention to its modernization to increase agricultural products and productivity as we need to export.

No country in the world is characterized as self- sufficient. Country's export surplus and import the deficit items in case of Nepal, export items constitute primary ones and the import constitute mainly manufactured and capital goods. Foreign trade is not only to export and import of goods from or to Nepal but it also has other implication such as market specialization, division of labour, availability of technical know- how which are the signs of accelerate economic development. (Katheta,2008:1)

Traditionally, Nepal's foreign trade was limited to Tibet and India. After 1956, Nepalese trading agencies in Tibet were confined to Xigaze, Gyirong and Nyalam with Lhasa, Xigaze, Gyangze and Yadong specified as markets for trade. In 1980 however, Nepal and China agreed to open 21 new trade routes across the Tibetan frontier, treaty agreements with China strictly regulate the passage of both traders and pilgrims in either direction across the border. Until 1989, treaty agreements between India and Nepal allowed for unrestricted commerce across 21 customs posts along the border and duty free. (Poudel, 2010: 3)

Nepal has been pursuing its trade and foreign exchange policies in tandem with the global liberalization process and striving its bets to integrate it with the changing world economic order. In this light, on 7 December, 1995, Nepal entered into an agreement to enforce SAPTA and declared confessional imports of 14 various items from SAARC Countries. (Shrestha, 2010: 2)

In the course of integrating Nepal's economy with global economy and there by harnessing the potential of enhanced international market, Nepal has obtained membership of World Trade Organization (WTO). Similarly, Policy of economic diplomacy has been one of the major developments made in its international relation to promote economic interest of the country. In view of the importance of inflow of foreign capital and technology for industrialization, Foreign Investment and Technology transfer Act, 1992 has been enacted and amended.

1.2 Statement of the Problem

Despite more than 50 years of development efforts Nepalese economy has not become dynamic. Still Nepalese economy is basically subsistence economy. Its activities are also slow and low. Nepal's economy is extremely dependent on agriculture. Due to the high dependence in agriculture, Nepal's exports are confined to raw materials and primary products with low advancement. About 80 percent population is dependent on agriculture. Our agriculture system is traditional and most of the crops productions are based on favorable monsoon. In order to overcome the low productivity, the government should pay more attention for its modernization. To escape from poverty and hunger, the country needs to increase productivity in agriculture, which requires more capital investment and technical improvement. To bring drastic and revolutionary changes in the economy by the agriculture, new policy for the modern agriculture system should be implemented by the government.

Massive increase in import of costly manufacturing items and decreasing trends of exports has led to widening of trade deficit. Nepalese foreign trade has increased considerably but there has always been a tendency of imports exceeding exports, causing permanent deficit in balance of trade which is bridged by foreign aid and loans.

According to the statistical profile "Nepal and the world", Nepal has trade relation with twenty five countries as major trading partners of the world. Grouping by major trading partners shows that largest proportion of import trade is with India, followed by China, U.A.E., and Indonesia. Regarding export trade, largest proportion is with India, followed by U.S.A., Germany, U.K. and others. Nepal's foreign trade has always been in deficit and widening every year. In 2011/12, the trade deficit with India amounted to 249773.3 million rupees and reached to 346169.4 million rupees in 2012/13. In the same period the trade deficit with other countries remained 137633.4 and 177687.3 million rupees respectively. Continuation of such huge deficit is not a desirable trade. Hence, Nepal should remain effortful to narrow down the deficit and maintain equilibrium.

As China is the next door large neighbour with booming economy, Nepal can benefit significantly by expanding trade with China. Nepal's trade with China is also characterized by large deficit every year, though the trend is fluctuating. Nepal's trade deficit with China (including Tibet, excluding Hongkong) in the years 2008/09

2009/10, 2010/11, 2011/12 and 2012/13 are 31004.9, 38209.5, 44889.9, 51885.1 and 65921 million rupees respectively. This shows that the tendency of trade deficit with China is in increasing order. The problems that arise here are: How is the overall foreign trade situation of Nepal? What is the position of China in Nepal's total trade? What is the composition and direction of Nepal's trade with China? These are the major research issues which have not been raised by anyone yet. It requires great effort to get appropriate solutions for these problems. So, the main concern of this study is to seek the answer of the above mentioned questions.

1.3 Objectives of the Study

The study intends to analyze export and import between Nepal and China. However, the specific objectives of the study are as follows.

- a. To study and analyze the volume, composition and direction of total foreign trade of Nepal.
- b. To study and analyze the composition and direction of Nepal's trade with China.
- c. To analyze the position of China in Nepal's total trade.
- d. To provide suggestions for enhancing Nepal-China trade.

1.4 Significance of the Study

Economics deals with the proper allocation and efficient use of scarce resources. International economics is also concerned with allocation of economic resources among countries. Such allocation is done in the world markets by means of international trade. Economically, no country in the world can be independent without a decline in its economic growth. Even the rich countries buy raw materials for their industries from the poor countries. If every country produces only for its own needs, then production and consumption of goods would be limited. Clearly such situation hampers economic progress. Furthermore, the standard of the living of the people all over the world would have no chance to improve. Because of foreign trade, people with money can acquire goods and services which are not available in their own countries. Hence satisfaction of consumers can be maximized.

Nepal and China have always good and cordial relations. These relations have been marked by friendliness, mutual support and understanding and appreciation of each other's aspirations and sensitivities. Nepal and China established diplomatic ties in August 1955 which are based on *Panchaseel*. The first economic and technological

cooperation agreement was signed between the two countries in 1956. The history of Nepal-China relations could be traced back to the 5th century when sages and saints engaged themselves in visiting far and wide in the pursuit of knowledge and peace. The marriage of the *Vrikuti* to the Tibetan king, *Srong Tsong Gampo*, in the seventh century and the white Pagoda in Beijing constructed under the guidance of Nepalese Architect, *Araniko* depicts very early relation of Nepal with China. Since 1956, the Chinese co-operation in Nepal's economic development, particularly in building infrastructure and industries and other various aspects such as trade, investment as well as project contract and undertakings in government and private sectors are notable. Those projects and civil works have played a significant role to boost the social and economic development of Nepal.

China is emerging as an economic power of the world, which is a very positive sign for Nepal, and it is necessary to think very seriously to promote trade and investment with China. Some positive developments have been seen between Nepal and China during the last few years and that process needs to be further strengthened for the economic co-operation, between the two countries.

1.5 Limitations of the Study

This study has been carried out with an aim to explore “A Study on Nepalese Foreign Trade with China”. This study constitutes certain limitations given below:

- i. One of the major limitations of this study is that the data which are found inaccurate from the first day and differ to each other even if it is from the same sources. The best attempt to get more accurate data is done with referring three main sources i.e. NRB, FNCCI and TEPC.
- ii. The data on volume and direction of Nepal's foreign trade have been compiled from 1956/57 to 2012/13 but the analysis of composition of goods has been done from the year 2000 only, based on SITC classification due to unavailability of data.
- iii. There have been fewer studies done on Nepal-China trade so it is quite difficult to find the data and information. Hence, there is data gap of some years.

- iv. This study is fully dependent upon secondary data provided by various agencies and organizations.
- v. As mentioned above, this study has been carried out in limited period of time and thus it could not incorporate the opinions of individuals from business sectors, civil society in the sphere of trade related issues.

1.6 Organization of the Study

The study has been divided into five chapters. The first chapter concerns with introduction part. Second chapter covers the review of literature. Third chapter is about research methodology. Fourth chapter includes data presentation and analysis. In this chapter volume, composition and direction of Nepal's foreign trade is presented and analyzed along with Nepal-China trade. Trade direction to different parts of China is also grouped and analyzed. Not only this but also export and import trends of each parts are presented. The last 'fifth' chapter is concerned with summary, conclusion and suggestions.

Bibliography and Appendix are given at the end of thesis.

CHAPTER-II

REVIEW OF LITERATURE

Foreign trade is nothing but trade between the different countries of the world. It is also called as international trade, external trade or inter-regional trade. It consists of import, export and entrepot. The inflow of goods and services in a country is called import trade whereas outflow of goods from a country is called export trade. Many times, goods are imported for the purpose of re-export after some processing operations. This is called entrepot trade. Foreign trade basically takes place for mutual satisfaction of wants and utilities of resources.

2.1 Theoretical Review

The concept of foreign trade was started from the very beginning of human civilization. Economic history deals with the idea of foreign trade by different economists in different time periods. The mercantilist writers emphasized on foreign trade as a means of accumulation of treasure which in turn was to increase the power of state, the classical economists were the supporters of laissez-fair economy who believed in economic liberalization. This implies that classical economists believed on free trade. Adam Smith, the fore runner of classical school, developed his analysis of wealth and its growth in real terms and pointed out the benefit of unrestricted trade. He pointed out that free trade guarantees extensive application of division of labour, which in turn increases labour productivity ultimately resulting in aggregate increase in wealth of country.

But after the world wide great depression in 1930s, a kind of intervention was felt in trade sector also. So the world turned into protectionism. But after the end of Second World War, several factors influenced the development of world trade patterns. At first countries were divided into communist and non-communist nations. The communist group mainly consisting of the East European Nations and China built effective barriers to international trade. On the other hand, the capitalist countries took open and liberal trade policy. But after the failure of communism in the East Europe in 1990s, the whole world turned into economic liberalization and globalization, which upheld the free flow of goods and services from one country to another. Now most of the countries of the world have entered the WTO. This signifies that the world

again turned into classical period. In present era foreign trade is considered as an engine of economic growth.

2.1.1 Nepal China Trade in Historical Perspective

As a neighbor Nepal has been maintaining its relation with China since very early stage of history. In fact, it is difficult to trace the exact time of the beginning of Nepal-China relation. It is because Nepal-China relation at first was not established at State level. It was established between people to people levels. Such relations were out of records and without records the history cannot trace the beginning of relations between the two countries.

The people to people relation between the two countries might have established along with the development of human civilization in these countries. Nepal and China are such countries where human civilization had developed several centuries before the start of Christian era. When such civilizations flourished and human settlements developed extensively in this part of the world, neighbouring people of this era started developing relation for different reasons. With the development of human civilization, political development also took place and states were created by the people. After the creation of states, all neighbouring states themselves established diplomatic and commercial relations. When Nepalese and Chinese people established their relation on their own initiation, it was natural and friendly. It was a relation established by the people themselves. Though that relation was natural one, and was established and maintained by the people of both countries, it was very hard for them to continue and re-strengthen because of physical barrier between the two nations. The great Himalayan range was unsurpassable at that time. Though Nepalese and Chinese people were neighbours since the development of human civilization, they could not have easy and frequent contact. Moreover, during the different period of history Tibet had evolved itself as strong autonomous state. As a result, Nepal could not maintain direct contact with China. However, despite all those difficulties Nepalese and Chinese people were able to maintain their relation to a great extent. Those contacts were maintained in the form of visits of great saints of China to Nepal.

Before dealing with the visits of Chinese saints to Nepal and officials contact between the two states, it would be relevant to say something about the derivation of the name of Nepal itself. It has some connections with Nepal-China relation. The *Vamsavali* (Genealogy) has been remained one of the main sources of Nepalese history though

they are not taken as much reliable ones. According to the version of that *Vamsavali* the name Nepal was derived from Tibetan words "Ne" and "Pal". The Tibetan words "Ne" means house and "Pal" means wool. Both words stand for 'the house of the wool' or 'market place of wool'. It is believed that in ancient time, Nepal produced wool abundantly and as a result Tibetans started calling it "Nepal" (the house of wool). Thus originated the name of Nepal. Though this version cannot be taken as an authentic one for the origination of the name Nepal, it supports the view that there was some sort of relation between Nepal and Tibet in those days. It also signifies that Tibetan people used to visit Nepal even before the time when the name of Nepal was not taken, and Nepal had not evolved as a state. It also signifies the Nepal-Tibetan relation at that time. Mostly their relation was based on exchanging commercial commodities which was essential for them to meet their necessities.

The *Vamsavali* mentions that the first settlement of Kathmandu was made by a Buddhist saint named *Manjushree* who had come to Kathmandu Valley from 'Mahachin' (Great China). If the story is correct it becomes apparent that there would be frequent visit of the people of China and Nepal to each other's country and they had cordial relation at that time and such visits would maintain and strengthen their relation.

Above discussed Nepal-China relation which was based on the visit of *Manjushree* and his creation of the first settlements of Kathmandu valley belongs to the time of prehistoric period. Long after that, during the end of 6th century A.D. another dimension was added to Nepal-China relation. It was the time of *Amsuverma* in Nepal and *Srong Tsong Gompo* in Tibet. At that time, *Srong Tsong Gompo* was very strong ruler of Tibet. According to Tibetan chronicles he married two princesses – one from China and the other from Nepal. The name of Nepalese princess was *Bhrikuti*. The history has raised number of questions about the truth of the marriage of *Bhirkuti* and even doubted the histrionic story of *Bhrikuti* that she spread Buddhism in Tibet. She was helped and co-operated by the Chinese princes in this regard. By their works both princesses became so famous that they were worshipped and revered as *Harit-tara* (Green Star) and *Sweta-tara* (White star) in Tibet.

The story of the marriage of *Bhrikuti* with Tibetan King *Srong-Tsong Gompo* has not been proved by Nepalese historical sources. However, the story has very good impact on Nepal-Tibet and Nepal-China relations.(Thapa,2001:45)

2.1.2 Trade Agreements with China

Since the establishment of diplomatic relations in 1955, considerable efforts have been made to expand trade and commercial intercourse between Nepal and China including the Kingdom's traditional border trade with the Tibet Region. The first agreement signed in 1956 stipulated that "in order to maintain and develop the traditional contacts between the people of Nepal and the Tibet Region of China, the nationals of both parties may trade, travel and make pilgrimage in each other's territory". It provided for the establishment of trade agencies and trade marts both in Nepal and Tibet.

In 1966 a new agreement on trade and other matters was signed. This agreement covering a period of ten years replaced the earlier agreement of 1956. It emphasized the need for making full use of the Kathmandu-Kodari Road for commercial traffic. The new provision brought by this agreement was the exchange of Consulate General between Kathmandu and Lhasa. The border trade was permitted as usual.

One more agreement was later signed in 1968. The Protocol to this agreement concluded in 1969 stated that the overland trade between the two countries would be conducted on the basis of c.i.f. at the point of transfer of goods over the border. The overseas trade was to be conducted on the basis of f.o.b. in the case of Nepal's exports and c.i.f. Calcutta or other ports in the case of China's exports. In spite of all these provisions, the volume of trade did not register a considerable expansion. However, the Chinese side seems to have accomplished their goal of eliminating the role of Nepalese private traders in Tibet and of replacing the traditional trade structures between Nepal and Tibet by state to state trading. Consequently, the number of Nepalese merchants in Tibet declined from about 5000 in the early sixties to a few hundred by 1968.

The agreement of 1974 opened up two additional routes *Rasuwa* and *Yari* for the overland trade. This agreement also made provisions for a "swing credit" of 300,000 for a period of three years. As per this provision, Nepal would not have to pay every year in hard currency. When the amount to be paid exceeded the volume of credit, the difference was to be made by exporting goods. In 1977, this system of swing credit was extended to further three years. The traditional border trade was again permitted as usual.

The trade and payment agreements of 22nd November 1981 between Nepal and China has provided legal basis for the bilateral trade transactions and payments between the two countries.

Salient Features of the Agreement are:

1. The preamble the agreement specifies "For the purpose of further developing and strengthening the economic and trade ties between two countries including the traditional trade between Nepal and the Tibet Autonomous Region of China (ARC) on the basis of equality and mutual benefit: the agreement has been effected by the two countries".
2. Both the countries have agreed to initiate all appropriate measures and facilities to develop trade and have agreed to undertake separate measures in regard to promotion of traditional overland-trade between Nepal and Tibet ARC and overseas trade between Nepal and mainland China.
3. It is agreed by both the countries to regulate mutual trade on the principle of equilibrium as far as possible. As per the Agreement, bilateral trade can be conducted by the trading organizations or importers and exporters of both the countries.
4. The agreement has agreed to provide most favoured nation's treatment on reciprocal basis in all matters relating to duties and related taxes and also to rules and formalities. This provision is not subject to advantages resulting from customs union or similar multilateral agreements.
5. For the development and consolidation of overland trade between Nepal and Tibet ARC, different provisions have been laid down in the agreement.
6. Following trading points along the border have been agreed to utilize.

Name of the border point in Nepal	Tibet, ARC
Kodari	Nyalam
Rasuwa	Kyerong
Yari (Humla)	Purang

7. With a view to improve economic life of the people living along side of the border, both the countries from both sides of the border will undertake traditional barter trade.
8. It is agreed to undertake overland trade on the basis of c.i.f. at the points of transfer of goods over the border or such other places in the vicinity as determined

by local authorities concerned. It is also agreed that the mode of payment should remain to be traditional customary way.

9. The agreement has specified that the overseas trade should be on the basis of c.i.f. or f.o.b. It is also agreed that the mode of payment in overseas trade should be in freely convertible currencies.
10. Both the countries have identified a list of products for the exchange of goods. However, the agreement does not preclude the trade in commodities not specific in the list. It is agreed to grant facilities to each other in respect to issuance of import and export licenses for the trading for commodities.

Table 2.1.2

Nepal's Exports and Imports Commodities in Trade with China

China's Overseas Exports to Nepal	Nepal's Exports to Mainland China
Textiles, Garments, Light Industrial Products, Food Stuffs, Cement, Metals and Steel Products, Lubricant Oil, Chemicals and Others	Jute, Sugar, Timber, Tanned Sole Leather, Medicinal Herbs, Tea and others
Exports from Tibet ARC to Nepal	Nepal's Exports to Tibet ARC
Raw wool, living sheep, salt, yak and yak tails, Carpet and others	Food Grains, Wheat flour, Sugar, Jute Bags and Jute Cloths, Tobacco, Dried Chillies, Candles, Dyestuffs, Soaps, Timber, Cross bred Yak (Male) and others

2.2 Related Studies

Trade between Nepal and China plays considerable role in the acceleration of Nepal's economic development. i.e. on economic front, Nepal and China maintain co-operative relations. The bilateral trade between our two countries is in increasing trend in recent years. Many scholars have written on Nepalese foreign trade with China and rest of the countries of the world in the form of books, various journals, booklets, magazines, research papers and published and unpublished thesis and dissertations. Here the literature will be concerned with the term of trade with China. Therefore the chapter is limited to the review of literature related to Nepalese foreign

trade with China only. Some relevant literature related to trade are also reviewed and included in it during the research period.

Timilsina (1985), in his article Nepal's Trade Scenario: "Its lapses and success for economic development" published in the Economic Journal of Nepal volume 8 No. 3 tries to analyze the contemporary trade situation in the form of composition, development and balance of payment with the help of secondary data. The tariff policies adopted in different time periods and how the policy makers are curious about the use of tariff instrument to promote export trade and to protect domestic industries. However the non-tariffs barriers like quota and licensing system are not proving worthy. He concludes that Nepal's foreign trade, instead of working as an engine of economic growth, facing various problems like high import, import of non-essential goods etc. He has also raised some issues like open border, smuggling trade import payment etc.

Thapa (1986), in his unpublished Ph. D. Thesis, "Historical Background of Nepalese Foreign Trade and Its Diversification" has viewed the problems of transit and limited resources are hindering the development of Nepalese foreign trade. He has analyzed the trade routes, trade arrangements, incentives for trade diversification and other things that help in the development of trade. he has also given the glimpses of Nepalese foreign trade prior to 1961/62 by using secondary data. This study has concluded that the export promotion by identification of importable items, setting up export oriented industries, import control by planned strategical imports and the establishments of import substituting industries are very essential.

Jha (1987), tries to analyze the trade situation of Nepal from 1956/57 to 1985/86. He analyses the overall scenario of the foreign trade and strategies adopted by recent HMG of Nepal to diversify the country's trade to the third countries. This book also covers the study on tariff and transit problems and joint ventures in Nepal. Not only this, but also the book analyzes the composition of export and import of trade direction of trade, structure of trade and tariff rate. It also covers the various aspects of Indo-Nepal trade.

Panta (1991), in his book "Trade and co-operation in South Asia" tries to analyze trade situation among SAARC countries. He has attempted to introduce Nepal and its trade and development efforts more in the field of industrial development particularly. Similarly, trade strategies for South Asia in the context of the SAARC have been

analyzed. Finally, he has put forth some suggestions with respect to trade strategies both in general and group of countries with caution for better preference on economic aspects in particular.

Dahal (1992), has analyzed the contribution of foreign trade to the total revenue of the government. He has examined the contribution of foreign trade and the relationship between foreign trade and gross domestic product of Nepal. According to him, in the case of underdeveloped countries there was low capital investment and industrial backwardness. The underdeveloped countries could not produce their basic requirements, therefore, in order to fulfill their needs such underdeveloped countries need to import goods and services from developed countries. This is the reality of underdeveloped countries like Nepal. Our country Nepal depends on other developed countries for chemicals, medicines, machinery goods etc. So, Dahal explained that foreign trade was important for both developed and underdeveloped countries.

Panta (1994), has attempted to define the meaning of foreign trade in terms of pessimistic view and optimistic view. The author also reviews the foreign trade of Nepalese economy annually as well as periodic plan wise up to the eighth five year plan. He also analyzes foreign trade treaties and policies. This study also deals with import substitution and export promotion. He has analyzed Nepal India trade under the circumstances of liberalization and privatization view and optimistic view. Thus export and import helped in breaking vicious circle and accelerated the economic development.

The writer elucidated that foreign trade provided better ground for efficient use of resource which had comparative advantage. In underdeveloped countries like Nepal, agriculture was always the backbone of the economy. But it was always backward and subsistence farming was the rule. Trade helped in commercialization, modernization and of agriculture helped in the establishment of industrial sector.

In a book edited by **Poudyal (1999)**, saving gaps and foreign exchange gaps are analyzed, highlighting the over widening current account deficit, in the balance of payments and the ensuring danger of debt crisis. The author concludes that in the present situation of Nepal totally liberalizing the economy is harmful to the country, thus the state has to play a more dynamic and responsible role rather than simply let the market forces decide the course of economy

The study report prepared by center for policy studies for FNCCI "Nepal- China Trade, Economic and Cultural Co-operation" in the year (1999) covers various issues

of trade between Nepal- China and also the economic and cultural co-operation between these two countries. the book analyzes the volume and composition of trade between the two countries. The book highlights that Nepal's trade with China is a very small proportion of the country's total trade. The average figure of 1994/95- 1997/99 shows that it is only 5 percent. The share of China in Nepal's total exports is only 2 percent and that of import is only 5.2 percent.

The author also discusses the major issues and problems in trade promotion between two countries. The author has stated that there are problems of physical infrastructure and other problems like lack of sheds, lack of organized trading system, problem of tariff, trade deflection, check points, visa problems, communication problems, payments problems, lack of exchange rate systems etc. Thus such problems are acting as the hurdles of trade promotion between Nepal and China.

Singh and Singh (1999), have tried to analyze foreign trade of Nepal with reference to the commodity composition and direction of trade. They are of the view that foreign trade plays significant role in economic development of developing countries like Nepal. They further say that foreign trade provides indispensable raw materials for development, technical know-how, foreign capital and competition conducive to economic development. It also creates specialization and division of labour in production and market access to developing countries like Nepal.

They have also suggested that under situation like globalization and liberalization, Nepalese economy should be made compatible by reducing cost of production and by generating efficiency and competitiveness. They again added that the pattern of commodity composition is another important issue of Nepalese foreign trade. According to them, import commodity composition of Nepal is more diversified than the export commodity composition. The writers have also emphasized on the direction of trade saying that it indicates a country's international relations, facilities of trade and linking of nations. They also have highlight that export is concentrated to North and Central America and Western Europe where as import is concentrated to the ESCAP regions. At last they have suggested that Nepal should increase exports and reduce import to improve the balance of trade position.

Ghimire (2001), has focused mainly on the trends of international trade of Nepal in between 1990-1999. He has examined Nepal- Tibet trade relations and Nepal- India trade relations. He also has mentioned the trade scenario in between 1960/61- 1988/89. In doing so, he has analyzed the volume of export and import and also

export and import ratio. He also attempts to analyze the direction of foreign trade, and shows that destination of export and import have moved from India to overseas countries. Trade policies of the agreement are reviewed. The analysis of composition of trade is made on one digit classification. He has suggested to encourage high quality production, control of imports, heavy taxes, by formulation of conducive trade policies.

Shah (2001), in her M.A. dissertation titled "The study of Nepal's Foreign Trade 1965/66 to 1996/97" focuses on estimating the volume, composition and import and export in stability with the help of different statistical tools. For export and import and their categories, primary, manufactured, investment and consumer goods are shown in the highest fluctuation. Commodity and geographic concentration ratios are taken as main causes of export instability. Similarly, income and foreign aid are taken as main determinants of Nepal's import trade. The results of multiple regression analysis show that imports are explained by income and foreign aid.

In her analysis she tried to show functional relation of manufactured goods and investment and log linear model is used for the import of primary goods and consumer's goods. Her study shows that the import does not depend upon previous income but only on current income.

The cyclical income elasticity of demand for total import, import of primary, manufactured and consumer goods are shown significant at 1% level. The secular income elasticity for import of primary products, manufacturing products and consumer goods are significant at 10%, 5% and 1% respectively. In case of investment goods, secular income elasticity is greater than unity. Similarly, foreign aid elasticity for primary goods are not significant while for other categories significant at 1%.

Sigdel (2003), analyses the socio-economic relationship between Nepal, Japan and China. Although, Nepal is an economically weak country in comparison with the big countries China and Japan having their good economy, still there are good relations, mutual help and co-operation and lots of sharing between these two countries in terms of economy, culture, religion, education and politics. The book presents a review of Chinese economy from Mao's Deng's and Zhu's time to the modern times. The author also analyzes the Nepal- China socio- cultural and diplomatic relation. The book also explains the Chinese aid in terms of volume and sectoral on distribution of Chinese trade. The book also highlights the Chinese trade and investment in Nepal and precludes the tourism ties between Nepal and China.

Adhikari (2004), in his M.A. dissertation, "A Study on Nepalese Foreign Trade" Presents that landlockedness, primary nature of exports, poor export performance, unfavorable terms of trade, poor industrialization are some of the grasshooth realities of Nepalese foreign trade. These realities have a sound impact on the volume and composition of trade. His study shows that the volume of trade is increasing steadily but the weight export in total volume of trade is discouraging at very low level.

The study is based on secondary source of data information from 1992/93 till 2001/02 and shows that total export trade has a fluctuating tendency and total import has increased up to 1996/97 and fallen down consequently for two years and again started to increase thereafter. He concludes his work mentioning terms of trade of Nepal in the last chapter and giving some suggestions to improve Nepal's foreign trade situation.

Dahal and Aryal (2004), in the topic "Foreign Direct Investment (FDI) In Nepal with Special References to Indian Joint Ventures" state that Nepal has moderately fair investment climate. The strengths are; location between the two potentially largest markets in the world China and India, macroeconomic stability and a relatively liberal economy, trainable and low cost workforce, substantial natural and cultural assets and small and accessible bureaucracy and a generally business friendly government. These are the favorable factors for the investors in such kind of investment sectors like tourism, a variety of agricultural and agro- business activities, hydropower generation and infrastructure development and IT based services as well.

Major weakness comprise landlockedness, poor infrastructure and mostly unskilled work force, rigid and intrusive legislation, frequency of political instability weak implementation and persistent corruption followed by on going insurgency.

Niraula (2004), in his M.A. dissertation "Nepal's Foreign Trade with India, present status and prospects" discussed about trade situation between. Nepal and India from 1963/64 to 2003/04. He reviews different trade and transit treaties conducted between Nepal and India and its impact on Indo- Nepal trade.

Sharma (2005), in his article "Globalization in Theory and Practice" presents that globalization is commonly used as a short hand way of describing the spread and connectedness of production, communication and technologies across the world. It is a key for the business theory and practice. It is a common term for processes of international integration arising from increasing human connectivity and inter charge of world views, products, ideas and other aspects of culture.

In one hand, the developing countries can get benefits with an attempt of foreign trade to the worldwide market in globalization, on the other hand it is a good practice for reducing poverty in the under developed and developing countries. In the case of our country Nepal, globalization is regarded as the useful structural change in Nepalese economy to increase efficiency, enhance the income of the people and promote equitable distribution. The present situation of Nepal shows that these is the need for the stability of the internal macroeconomic environment to use the opportunities of globalization.

So trade is required to be spread all over the countries in the world with the globalization practice. The under developing and developing countries have enough supply of labour which when utilized properly may provide significantly in the development of their countries. The big amount of remittance earned by the country as its major income source can be mobilized and used in different productive sectors. That's why the concluded point is as "globalization is a key factor for the economic development of developing countries like Nepal."

Paudel (2007), in his M.A. dissertation "A Study on Nepal's Foreign Trade and its Changing Scenario" has presented that in terms of Nepalese foreign trade composition, export commodity composition is less diversified than import commodity composition. According to him, Nepal is a primary product producing country. That's why Nepal is still far away from the gains of international trade. The sluggish growth of export price relative to rapid growth of import price leave Nepal's term of trade always unfavorable, less than 1. Terms of trade with India is more discouraging than with third countries.

He concludes that Nepal has been suffering from fundamental deficit in its balance of trade. The movement of terms of trade of Nepal is not favorable. So he suggests that government of Nepal must immediately adopt concrete steps to expand its trade and correct the balance of payment situation in the years to come. He again strongly presents that the delay in decision making in this regard may well prove to be quite costly to the nation.

Schuett Antje (2010), in his dissertation "Influence of Economic Relations on Bilateral Relations, A case study of Germany and China" analyzes that well established economic links exist between China Germany and China with some problematic issues on the topics of intellectual property and competition policy. He also analyzes that the non economic relations are dominated by the human rights

topic, which still seems to have no influence what so ever on the booming economic interaction. He has evaluated the bilateral relationship by dividing into economic and non economic criteria as it is mentioned above too. On economic aspect he has described about competition policy, intellectual property and co-operation councils and at the same time he has analyzed about cultural relations, military relation, regional co-operation, human rights, education, agriculture, tourism and rule of law etc. in non economic area between these two countries Germany and China. He has also analyzed the German- Chinese Forum for Economical and Technological Co-operation.

At last he concluded that economic relations dominate the bilateral relations as both partners expect a lot from the economic collaboration.

Subedi (2012), in his article "Eight years of WTO Accession" published on 13th April, 2012 in the national magazine Kathmandu Post Daily presents that eight years after Nepal's accession to the world Trade organization (WTO), the country's trade deficit has increased four folds and the share of export in GDP decreased to 5 percent from 10 percent.

Between 2003-04 and 2010-11, the value of Nepal's total imports almost tripled from Rs.133 billion to Rs.388 billion. But in the same period, Nepal's exports rose from 55 billion to Rs.69 billion (only a 25 percent increase). It shows that in these eight years exports of major items have undergone sharp decline, while imports rose quickly, thereby steadily increasing the trade deficit. He concludes that Nepal's weak export performance is also due to supply side constraints. Supply side constraints like political instability, low connectivity, power crisis and problematic labour relation, among others are playing crucial role in eroding our capacity. Although various trading partners are still providing us preferential market access, we have not been able to overcome non tariff measures in those countries.

The review suggests that Nepal most address its supply side constraints and overcome other problems including high transit costs to realize the full potential of international trade.

Chalise (2012), in his article "Dutch Disease Starts to take Toll on Economy" (High remittance in flow has led to its emergence and fostered complacency among policy makers) published on Aug. 16, 2012 in the magazine 'The Himalayan Times' states that the country seems to have started showing the Dutch Syndrome due to the rise in huge inflow of remittance that has swelled not only the foreign currency reserve but

also the balance of payment and the fall in the manufacturing sector's contribution to the economy, coupled with ballooning trade deficit and real exchange rate appreciation.

He cautioned that high in flow of remittance should not be considered as a substitute to formulating and implementing growth and job creating investment policy reforms. He again adds that productivity should be increased in both tradable and non tradable sectors but if the country continues to experience real exchange rate appreciation, then spending should be diverted to sectors that boost productive capacities of non tradable and non resource tradable sectors.

Sapkota (2012), in the same above mentioned topic puts his opinion as he is trade researcher that, though the remittance has been crucial in reducing poverty and inequality in the last one decade as it has boosted expenditure capacities of poor households and widened their consumption basket, it has also boosted foreign exchange reserves, largely contributed to keeping balance of payments in surplus, and increased gross national savings. But remittance has also been responsible for the Dutch disease effect, which is the loss of competitiveness of non resource tradable sector due to the appreciation of the exchange rate after substantial inflow of resources from one particular sector remittance.

(The term was coined in 1977 by The Economist to describe the decline of manufacturing sector in the Netherland after the discovery of a large natural gas field in 1959- wikipedia).

Rajesh Kaji Shrestha (2012), about the topic 'Nepal- China Trade' published on 25th March, 2012 in the National Daily Newspaper 'The Kathmandu Post' has expressed his views that "Nepal has not been able to take benefits of the duty free access provided by China on 4,000 products. That's why the list should be made more practical and Nepali traders should be made aware about the facility." Given the complicated procedures in quarantine check posts of China affecting exports of Nepali agricultural goods. He urged that for a mechanism under which the Nepal government issues quarantine certificates and Chinese authorities recognizes the certification. He again added that the Chinese side providing duty free access to goods worth RMB 8,000 for traders of bordering Nepali districts was not enough to boost Nepal's exports.

Khanal Rameshore Prasad (2012), expressed his opinion as the balance of payments, foreign exchange reserves and liquidity are in good position. As he has

analyzed micro economic status of the year 2011 that the year 2011 remained satisfactory in terms of balance of payments situation, foreign exchange reserves and liquidity in the financial sector. According to him the culprit called "liquidity" became the biggest snag in the banking sector in the first half of the year 2011, and it has become so again.

The year 2011 certainly did not remain good for the manufacturing sectors. Power shortages and security problems still remain major challenges. On the other hand the number of youths leaving the country for jobs is increasing day by day. There is much less that can be said about governments development efforts, particularly in infrastructure, project performance in every sector has become weak. The reasons are known very well, but there is hardly any zeal in the system to correct it. Tax fraud took lots of space in the media in 2011. There has been some action, but the speed seems to have slowed down.

He reviewed that many skeptics were surprised by the current government's bold move to conclude a long standing bilateral investment promotion agreement and a double tax avoidance agreement with India. Without additional investments in the economy, higher production growth can not be achieved and without growth, the equity agenda remains only on paper.

Post Report (2012), in the topic "Trade Deficit with China Higher Than Overall rate" Which was published on 27 April, 2012 in the national magazine "Himalayan Times" is given as Nepal's trade deficit with China is growing faster than the country's overall trade deficit according to South Asia watch on Trade Economic and Environment (Sawtee) According to the study conducted by sawtee, the trade deficit with China has been growing at an average rate of 27% annually over the last 7 years while the overall trade deficit has increased by 21.9%.

Since FY 2003-04, China's Share in Nepal's global export has diminished to 1.4 percent and import 11.7 percent. This proves that Nepal's exports to China have decreased by an average of 3.1 percent annually during the period. Likewise, the country's imports from the northern neighbour has been increasing by an average of 3.6 percent annually over the same period. Earlier in 2003-04, China's share in Nepal's total exports and imports was 4.5 percent and 8.1 percent respectively.

Basyal Tula Raj (2012), 'The former senior Economic Advisor to the Finance Ministry' in his research study, blames various non-tariff barriers for the lower exports despite the special preferential tariff treatment for 4721 products. According to his

report the value addition requirement of 40 percent is one of the major non-tariff barriers.

Adhikari Ratnakar (2012), an international trade expert, states that a criterion of 40 percent value addition is unreasonable for an least developed countries (LDC) like Nepal given its industrial capacity, it is difficult to produce goods with 40 percent of value addition. Trade barrier in China like quarantine are pretty unpredictable.

The report also attributes the deeper constraints in the supply capacity like reduced production and limited exportable surplus for Nepal's growing trade deficit with China. It also blamed other factors including delays and higher transportation costs, delivery complexities like hassles at customs points, rising uncertainties and non transparency of quarantine requirements, production of lower appealing items both in price and quality, and the governments apathy towards improving trade relations.

The report recommends that expanding production of products having higher value addition and possessing higher export potential to China. As per the report, vegetables, tea, iron and steel products, herbs, lentils, ghee, ginger, aluminium products, handicraft items, and ornamental ceramic articles, among others have a higher market demand in China and export of these products should be increased. Similarly, the government should ensure necessary infrastructure like roads, transport arrangements, container yards, quarantine facilities and technological improvements to minimize the trade deficit. The government should also try to increase Chinese aid to Nepal and encourage the Nepali private sectors to work in co-operation with Chinese investors to invest in Nepal.

NRB Report (2012), on Macro Economy, reveals that the country's Balance of Payment (BOP) has recorded the highest ever surplus of Rs.46.31 billion as of the first four months (Shrawan, 2011- Kartik, 2011) of the current fiscal year. The country started keeping BOP records in 1974/75. According to NRB, the acceleration in the growth of remittance along with the improvement in the service account helped maintain a comfortable BOP situation.

After two year's period, the country's BOP turned surplus in the second last month of the last fiscal year and continued to grow since. Last year, in the same period, the BOP had recorded a deficit of Rs.5.72 billion. Nepal was compelled to borrow \$42.5 million from the International Monetary Fund under its rapid credit facility to address BOP deficit one and a half year ago. Over the review period, remittance inflow grew by 34.2 percent to Rs.103.20 billion compared to a 13.6 percent growth in the same period a year ago. Under the service account, income from tourism rose by 33.4 percent, against a decline of 14.7 percent in the last year's corresponding period.

The country's foreign exchange reserves also surged notably over the period. The forex reserves increased by 25.9 percent to Rs.342.74 billion as of mid November 2011. The figure was at Rs.272.15 billion as of mid-July, 2011. The devaluation of the Nepali currency against the US dollar also fuelled forex reserves growth.

According to the report, the domestic currency depreciated by 12.13 percent against the dollar over the review period. After several years, the country's foreign exchange reserves was able to finance merchandise imports for 10.3 months and merchandise and service imports for 9.1 months.

Despite an immense trade deficit of Rs.107.53 billion as of the fourth month, exports of trade are performing relatively well. Merchandise exports rose by 10.7 percent to Rs.23.69 billion, against 7.7 percent growth in the same period of last year, while imports also grew by 11.8 percent to Rs.135.49 billion. Inflation came down to 8.5 percent in the fourth month of the current fiscal year from 8.9 percent as of third month. However non- food items were the major components to fuel inflation unlike earlier years when food items caused price rise. The price index of food items stood at 8.4 percent and non-food items at 8.5 percent.

2.3 Research Gap

From the review of available literatures presented above, it is noticed that though the various writings are published in the forms of books, booklets, magazines, journals and articles the required appropriate (adequate) publication is not available in the field of Nepalese Foreign Trade with Reference to China. Most of the literatures are concerned with Nepal's overall trade scenario. There are only a few studies concerned with Nepal's trade with neighbouring countries which are two giant nations India and China. They are also related to old statistical data. Among the trade studies, the study on Nepal's trade with China is rarely found. Previous studies made on Nepal's trade with China are also related to old data. For example, the FNCCI study is already nine years old. In the changing world trade scenario, the picture of Nepal's trade with China might have also changed in the last nine ten years. That is why this thesis is quite new and it carries out the data from FY 2056/57- 2012/13 for overall foreign trade of Nepal and the data from 2001/02-2012/13 for Nepal's foreign trade with China. Since the Tibetan Autonomous Region of China is the next valuable door neighbour of Nepal with vast market, there exists a huge potentiality for expanding Nepal- China bilateral trade. Likewise, Nepal also has high prospects for Chinese investment in various sectors. Thus, keeping these facts in view, this thesis tries to analyze Nepal's overall trade with China disaggregated by various regions of China and Chinese investment in Nepal on the basis of recent data.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology plays a vital role to achieve goal from the study of research work. In this chapter research design, nature and sources of data, data collection, data processing and analysis have been discussed by the researcher to make the research work more convenient.

3.1 Research Design

This is descriptive type of research design. The descriptive type of research design is used to make the analyzed fact more meaningful and useful for the study purpose. So, this research study is designed with the help of secondary data and information. The secondary data are collected from the different national and international sources. Similarly, the trade performance with different countries is also studied and analyzed with the help of graphical and tabular analysis. In any research study, time frame of reference is of vital importance. The research should be conducted within the specific time frame of reference. In this research study the time period of fiscal years 1956/57 to 2012/13 is taken into consideration.

3.2 Nature and Sources of Data

The collection of data is very important part of research study. This research study is fully based on secondary data. In order to make this research a successful one, data have been collected from various types of sources. Among them the major national and international sources used in this study are; Trade and Export Promotion Centre (TEPC), Nepal Overseas Trade Statistics, Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), Statistical Year Book Nepal, Nepal- China Chamber of Commerce and Industry (NCCCI), Federation of Nepalese Chambers of Commerce and Industry (FNCCI), Statistical Financial Year Book, International Monetary Fund (IMF, International), National daily magazines; The Kathmandu Post, Himalaya Times.

3.3 Data Collection

In this study data has been collected through secondary sources. The data which are related with foreign trade of Nepal with China are collected through the concerned authorities, personnels and their websites. The data are 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. Relevant information has also been collected from books, research reports, dissertations and magazines.

3.4 Data Processing and Analysis

After collecting data from different sources as mentioned above have been arranged in systematic way and tabulated according to the need of research content. Since this study covers the systematic presentation of volume, composition and direction of Nepalese foreign trade, facts are arranged systematically as obtained through secondary sources with the help of ratios and percentages to make them comparable and explanatory by using the method of descriptive analysis. In order to fulfill the specific objectives, descriptive statistical tools have been applied for the processed and tabulated data. Tables are designed in values, percentages and ratios. Figures are drawn in order to make the results comparable and self-explanatory.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Volume and Direction of Nepal's Foreign Trade

Foreign trade plays a significant role in the economic development of the developing countries like Nepal. Nepal is a least developed country, where inputs for economic development are scarce. So, foreign trade is inevitable for economic development of the country as it provides necessary raw materials, technical know-how, machinery and various goods and services necessary for livelihood. As we know, foreign trade has two components; export trade and import trade. Foreign trade basically export trade is very much necessary as it gives rise to industrial development. It also provides market access to the developing countries like Nepal. Nepalese foreign trade performance has so far been poor. Nepal's export is of low volume low value where as its import is high both in volume and value. It is therefore, Nepal's balance of trade is unfavourable. Nepal's volume of export has not been increasing in the same direction as the volume of import increases. A study of direction of trade is significant to show that whether its trade is diversified to many countries or is limited to a few countries or regions. The direction of foreign trade shows the share of export and import trade in terms of destination. However, the volume and direction of Nepal's foreign trade from 1956/57 to 2012/13 has been explained in brief with the help of table as shown below.

Table 4.1
Volume and Direction of Foreign Trade

(Rs. In Million)

Periods	Exports				Imports				Trade Balance			
	India	%	other	%	India	%	other	%	India	%	other	%
1956/57- 1970/71	4371.1	95.67	197.4	4.32	7390.1	95.26	367.2	4.74	-3019.0	94.67	-169.8	5.33
1971/72- 1985/86	12266.2	60.79	7909	39.2	17267.6	38.61	27450.7	61.38	-5001.4	20.37	-19541.7	79.62
1986/87- 2000/01	92149.7	30.41	210785.1	69.58	279106.8	33.31	558606.4	66.68	-186957.1	34.95	-347821.3	65.05
2001/02- 2012/13	470829.7	64.22	262239.3	35.77	1998883.8	62	1225601.7	38	-1528054	61.33	-963362.4	38.66
Total	579616.7	54.64	481130.8	45.35	2302648.3	55.96	1812026	44.03	1723031.5	56.42	1330895.2	43.57

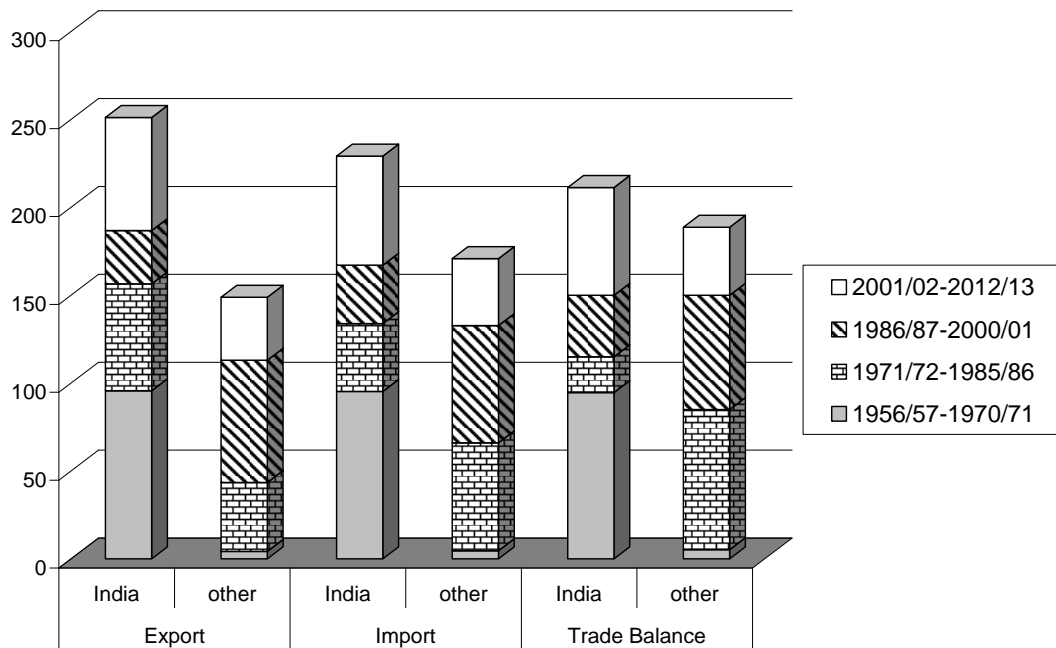
Source: Adopted and calculated from Appendix I

Table 4.1 shows the volume and direction of Nepal's foreign trade during FY 2056/57 to 2012/13. It shows the steady incremental growth of both export trade value and import trade value each period. However, the value of imports against exports is quite high which provided the negative trade balance for Nepal. India has been the major trade partner for a long period of time. In the period of 1956/57 - 1970/71, the value of export to India and other countries was Rs. 4371.1 million and Rs.197.4 million respectively. This reached to 470829.7 and 262239.3 million rupees in the period 2001/02 - 2012/13. The period 1956/57 – 1970/71 is recorded for the highest export share of total exports with India about 95 percent. Then it started to decline and approached to 30.41 percent in 1986/87 – 2000/01 due to diversification of trade policy to other countries. On contrary, the percentage share of export to other countries took positive direction from 4.32 percent in 1956/57 – 1970/71 to 69.58 percent in 1986/87 – 2000/01. At the last of study period, the share of export to India and other countries were 64.22 percent and 35.77 percent respectively. This statistical data indicates how the export growth has been diminishing against imports.

On the import side, the values of import from India and other countries in the period 1956/57 – 1970/71 were 7390.1 and 367.2 million rupees having the shares of 95.26 percent and 4.74 percent respectively. There is tremendous increment in the value of import from India. It reached to 1998883.8 million rupees in the period 2001/02 – 2012/13 with 62 percent share to the total import of Nepal. One of the main reasons of such incremental figure was the high import dependency of Nepal with India. In the year 2000/01, the petroleum product was shifted to India from other countries, so the share of import started to grow till the present day. The value of import from other countries in the study period was also in increasing trend. It was Rs.1225601.7 million in the period 2001/02 – 2012/13 covering 38 percent share against 4.74 percent in the period 1956/57 – 1970/71. The heavy share of import on the total volume of trade with other countries has been found discouraging for the trade balance.

Although the trend of Nepal's foreign trade during the past few years is encouraging, the value of our trade deficit is yet very disappointing. The main reason for increasing trade deficit of Nepalese trade is higher imports against small exports.

Figure 4.1
Volume and Direction of Foreign Trade



4.2 Commodity Composition of Nepal's Foreign Trade

There is a close association between trade and economic development. Foreign trade helps to accelerate economic growth of a country. Composition of trade indicates the pattern of goods that are being exported and imported. In the early stages of development primary goods dominated the bundle of trade composition. Nepal is an agrarian economy with low pace of industrialization and inadequate infrastructural development. Consequently, the export import composition does not show noticeable change.

The composition of Nepalese foreign trade is analyzed on the basis of Standard International Trade Classification (SITC). Table 4.2 shows the commodity composition of Nepalese foreign trade

Table: 4.2
Commodity Composition of Nepal's Foreign Trade

(In Million Rupees)

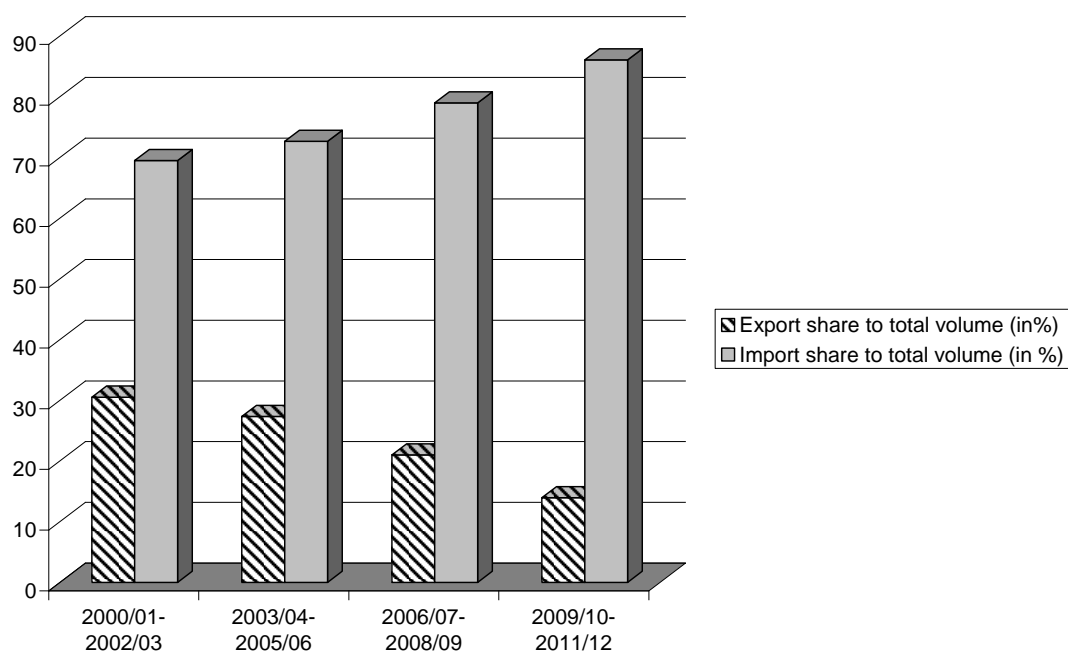
FY	Exports	Imports	Total Volume	Exports share to total volume (in%)	Imports share to total volume (in %)
2000/01-2002/03	152529.5	347428.2	499957.7	30.51	69.49
2003/04-2005/06	172850.5	459531	632381.5	27.33	72.66
2006/07-2008/09	186345.1	701102	887447.1	20.99	79.00
2009/10-2011/12	199423.5	1232178.4	1431601.9	13.93	86.06

Source: Adopted and calculated from Appendix II and III

Referring to table 4.2, the share structure of exports and imports classified by major commodity groups shows that there is a deep domination of exports over imports during the study period. The value of export and import during the period 2000/01-2002/03 were 152529.5 and 347428.2 million rupees with the shares of 30.5 percent and 69.49 percent respectively. The export trade has increased very slowly like tortoise motion as compared to import trade. The value of export reached just 199423.5 million rupees in 2009/10 – 2011/12 where as the value of import was 1232178.4 million rupees during the same period.

In addition, the export share to the total volume of trade is accounted highest of 30.5 percent in 2000/01-2002/03 and lowest of 13.93 per cent in 2009/10 -2011/12. But the trend of import trade during the study period is quite opposite as compared to the trend of export trade. The import share to the total volume of trade is accounted highest of 86.06 percent in 2009/10-2011/12 and the lowest of 69.49 percent in 2000/01-2002/03. The Maoist activities adversely affected the trade sector of Nepal during the study period. The civil war started to take place which threaten the industrial sector to invest, expand and operate in any kind of production process in the country. The capital investments started to decline due to the rising investment risks caused by instability in political condition. As a result the export couldn't take place to minimize the trade deficit, rather the import of diversified commodities started to increase because the production severely declined.

Figure 4.2
Commodity Composition of Nepal's Foreign Trade



4.3 Composition of Overseas Trade

Nepal diversified its trade with many overseas countries after 1971. Nepal's major overseas supplier countries in present day are Japan, Germany, Singapore, Hongkong, Saudi Arabia, United Kingdom, USSR, U.S.A, Italy, South Korea, New Zealand, France, China and SAARC member countries. On the other side, the major export markets for Nepal in overseas countries are Germany, U.K., Italy, Japan and Belgium. On the basis of region, the major exports market for Nepal is Asia. America and European Union are the other major partners of Nepal in foreign trade. Classwise composition of overseas trade by trade region is shown in the table 4.3 below:

Table 4.3
Composition of Overseas Trade (Rs.In Million)

FY	Total Trade	Exports	Imports	Total Balance
2001/02-2003/04	524050.5	151347.3	372703.2	-221355.9
2004/05-2006/07	681929.0	177148.5	504780.5	-327632.0
2007/08-2009/2010	1091659.0	188020.9	903638.1	-715617.2
2010/11-2012/13	1712906.5	216002.1	1496904.4	-1280902.3

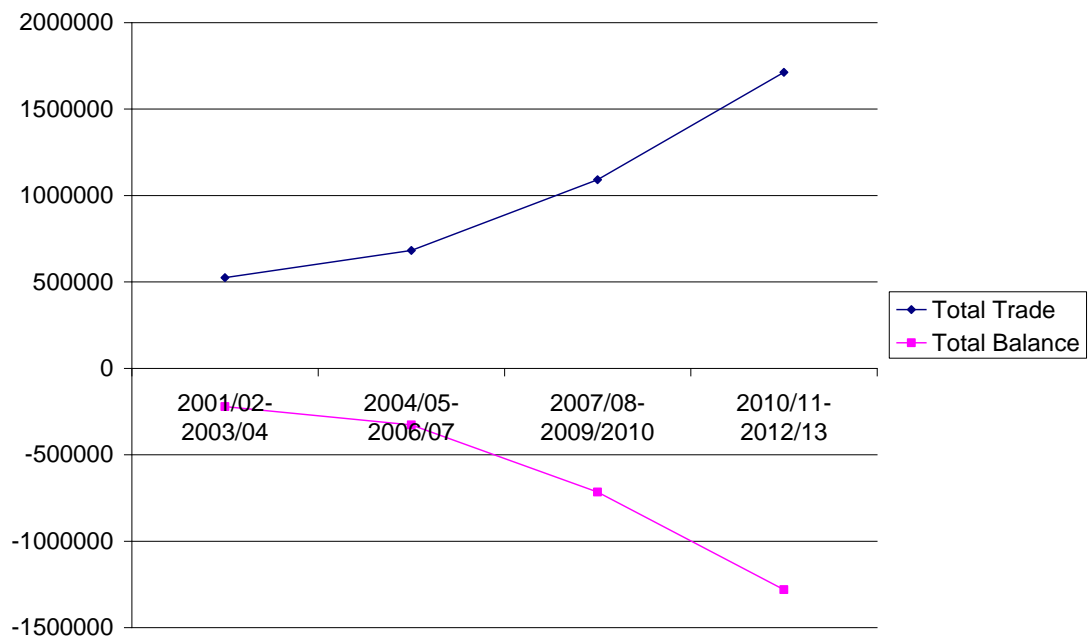
Source: Adopted and calculated from Appendix IV and V

Table 4.3 shows that the total trade of all the trade regions during 2001/02-2012/13. From the table it is obvious that Nepal's foreign trade trend is always negative and unsatisfactory. The total trade of overseas trade regions in 2001/02-2003/04 was Rs.524050.5 million and increased to Rs. 1712906.5 million in 2010/11-2012/13. The value of export in 2010/11-2012/13 was Rs. 216002.1 million against Rs. 151347.3 million in 2001/02-2003/04. Though the export trade increased in each period, the import trade increased tremendously widening the trade deficit during the study period.

On import side, the amount of import in 2001/02-2003/04 was Rs. 372703.2 million. The increment took place continuously and the import value reached to Rs. 1496904.4 million in 2010/11-2012/13. The highest trade deficit constituted Rs.1280902.3 million in 2010/11-2012/13 against Rs. 221355.9 million in 2001/02-2003/04.

If we get closer look on the trends of these exports and imports it is easily noticeable that after the year 2001/02, Nepalese foreign trade has been affected by huge trade deficit with overseas trade regions because of the Maoist activities and political instability in the nation.

Figure 4.3
Composition of Overseas Trade



4.4 Direction of Nepal's Trade with China

China is one of the important neighboring countries of Nepal. Nepal and China have a long history of co-operation but trade and economic co-operation widened only after the establishment of diplomatic relations in 1955 and ever since, Nepal has been receiving financial and technical assistance from China as reliable development partner which is quite notable in accelerating the economic development of Nepal. The bi-lateral trade between our two countries is in increasing trend in recent years. Nepal's trade with China is largely conducted through Tibet and Hongkong. Nepal's trade deficit with China is growing faster than the country's overall trade deficit. The trend of trade in goods for about a decade shows that the trade deficit has been expanding. It is due to the dominance of import than that of export.

The following table shows the overall trade (export/import) between Nepal and China from the year 2001/02-2012/13.

Table 4.4
Nepal's Trade with China

(Rs.In Million)

FY	Total Trade	Exports	Imports	Trade Deficit
2001/02-2003/04	32162.6	5019.2	27143.3	-22124.0
2004/05-2006/07	44780.3	3159.0	41621.2	-38462.1
2007/08-2009/2010	97919.9	3593.0	94326.9	-90733.9
2010/11-2012/13	171737.9	4520.9	167217.0	-162696.1

Source: Adopted and calculated from Appendix VI

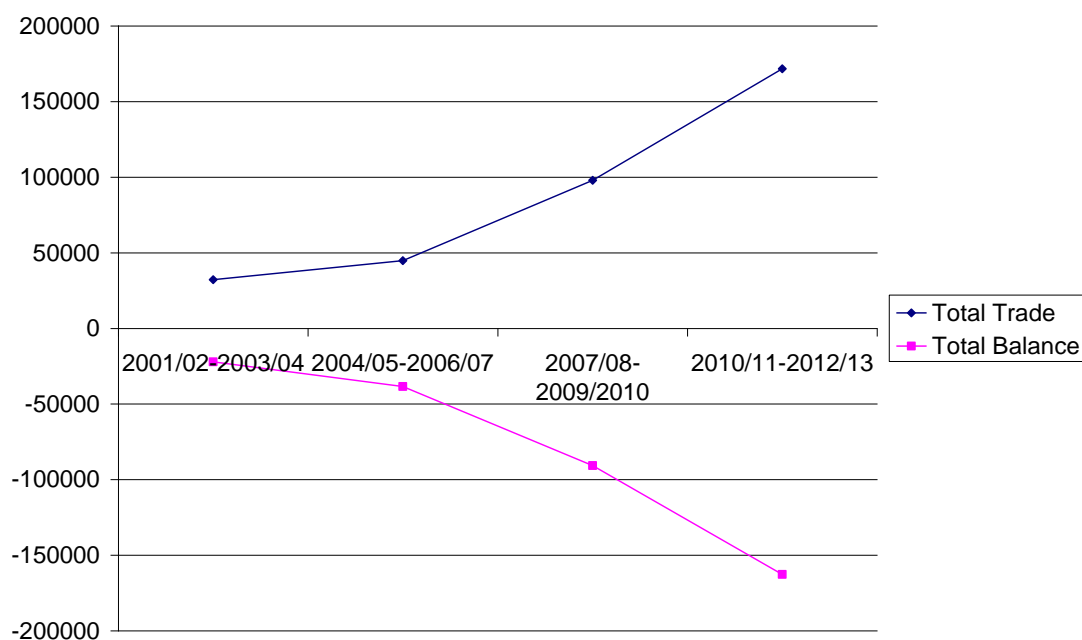
Referring to table 4.4, the total value of export of Nepal has decreased by Rs.498.3 million in the duration of study period. In 2001/02-2003/04, the value of export was 5019.2 million rupees which decreased to 4520.9 million rupees in 2010/11-2012/13. The lowest export value during the study period was 3159 million rupees in 2004/05 - 2006/07.

There is a tremendous change in the value of imports. The increment of the total imports in the period 2010/11-2012/13 was accounted more than 6 times from the starting period of 2001/02-2003/04. The value of import in 2001/02-2003/04 was 27143.3 million rupees which rapidly increased and reached to 167217.0 million

rupees in 2010/11-2012/13. From the table it is clear that the export trade of Nepal to China was in fluctuating trend but the import trade remained in increasing trend during the study period.

The trade deficit with China was quite discouraging for Nepal. Throughout the study period the trade deficit has increased more than 7 times, recorded 22124 million rupees in 2001/02-2003/04 reached to 162696.1 million rupees in 2010/11-2012/13. Nepal has not been able to make notable progress in the production and promotion of exportable goods, except for engaging in the production of a limited number of traditional items. So, Nepal has been facing trade difficulty with China.

Figure 4.4
Nepal's Trade with China



4.5 Relative Position of China in Nepal's Total Trade

Nepalese trade is ancient as its history. Nepal's trade history with Tibet started using barter system at the time of beginning Malla and Lichchhavi regime. Trade relations between Nepal and Tibet had grown with commercial policy of Malla rulers, who played a significant role in boosting up trade. Moreover, Nepal-China relations having a long and illustrious history of friendship, excellent relationship and exchanges, have

taken a new dimension and reached a new height after the establishment of diplomatic relations on August 1955.

Specially, Nepal diversified its trade with many overseas countries only after 1971. In the trade sector, all trading partners are given equal chance to compete and sell their products in the Nepalese market. Due to diversification of Nepal's trade to other countries in the world, China's share in total export of Nepal was very low and negligible. The share percentage of export and import of China in Nepal's total trade from 1993/94-2012/13 is shown in the table 4.5 below:

Table 4.5
Relative Position of China in Nepal's Total Trade

(In Percent)

FY	Exports	Imports	Share of Total Trades in GDP
1993/94-1996/97	2.5	23	7.1
1997/98-2000/01	2.2	15.5	5.6
2001/02-2004/05	3.8	9.6	3.0
2005/06-2008/09	2.1	9.7	4.0
2009/10-2012/13	2.1	11.5	3.9

Source: Adopted and calculated from Appendix VII

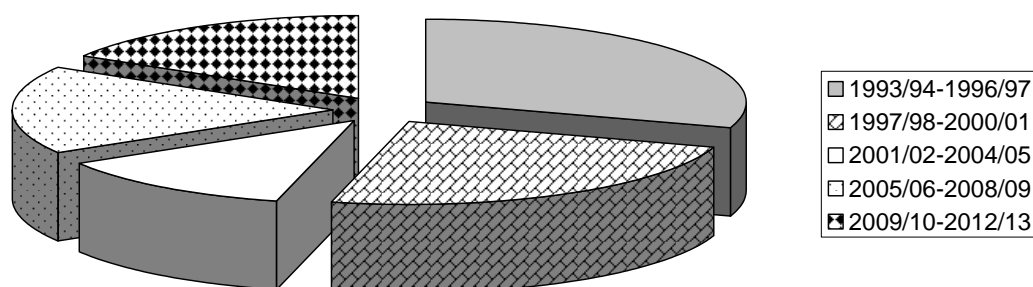
Table 4.5 presents the relative position of China in Nepal's total trade. The average export percent of China in Nepal's total trade remained almost same during the study period except in 2001/02-2004/05. The highest share of export was 3.8 percent which was recorded in the period 2001/02-2004/05. The share of export in 2009/10-2012/13 was 2.1 percent against 2.5 percent in 1993/94-1996/97.

On the import side, the trend of position of import of China was in fluctuating trend. It was recorded 23 percent in the period 1993/94 -1996/97. Then the share of import to the total trade seemed in decreasing order in two consecutive periods 1997/98-2000/01 and 2001/02-2004/05 covering 15.5 percent and 9.6 percent respectively.

However, the percentage share of import rose in 2005/06-2008/09 and 2009/10-2012/13 covering 9.7 percent and 11.5 percent respectively.

Similarly, Nepal's share of total trades in GDP was also in decreasing trend. It was recorded 7.1 percent in 1993/94-1996/97 .Then the share percentage of total trades in GDP sharply declined up to 2001/02-2004/05 and reached 3 percent as the lowest share percentage of total trades in GDP. One of the main underlying factors for such result is the insurgent activities which adversely affected the trade sector of Nepal. The civil war started to take place which threatened the industrial sectors to invest, expand and operate in any kind of production process in the country. The share of total trades in GDP was 3.9 percent in 2009/10-2012/13 against 7.1 percent in the beginning period.

Figure 4.5
Share of Total Trades in GDP



4.6 Share of Different Parts of China in Nepal's Foreign Trade

Nepal and China are closely linked since ancient times. China began its economic co-operation program to Nepal in 1956. After that Nepal has been receiving financial and technical assistance from China as reliable development partner. The long term goals of promoting Nepal's trade capability with China is particularly with Tibet via overland route. Still Nepal's trade with China is largely conducted through Tibet and Hongkong. But no organization has published separate trade share with Tibet after 2007/08. Mainland China is another important part for Nepalese foreign trade. Table 4.6 shows the share of different parts of China in total trade of Nepal with China.

Table 4.6**Share of Different Parts of China in Total Trade of Nepal with China**

(Rs. in Million)

Year	Total Exports to China	Exports to Different Parts as % of Total Exports to China			Total Imports From China	Imports from Different Parts as % of Total Imports from China		
		Mainland China	Hong Kong	Tibet		Mainland China	Hong Kong	Tibet
1993/94	203.1	0.06	14.28	85.68	10010.1	18.20	73.40	8.32
1994/95	323.52	0.007	16.93	83.02	14173	16.20	76.90	6.90
1995/96	578	0.002	4.95	95.03	15773.64	19.61	74.21	6.16
1996/97	646.7	0.08	3.26	96.65	24577.1	12.22	82.36	5.40
1997/98	639	0.08	2.8	97.12	14552.2	28.63	63.80	7.58
1998/99	589.4	0.09	5.26	94.66	10199.18	35.59	48.50	15.90
1999/00	589.2	0.18	49.5	50.30	19331.36	43.14	35.18	21.67
2000/01	665.6	0.40	20.65	79.0	17151.6	36.58	32.51	30.90
2001/02	1101.3	1.70	5.56	92.72	11205.5	38.51	21.96	39.52
2002/03	1717.7	1.82	5.04	93.12	11375.9	41.8	20	38.13
2003/04	2425.2	4.84	3.17	92.00	10941.49	49.67	15	35.33
2004/05	2017.9	2.65	6.41	90.93	14145.6	58.35	9.09	32.55
2005/06	1004.35	10.76	11.12	78.10	13014.42	50.98	7.15	41.86
2006/07	1199.78	4.29	68.74	26.96	17718.16	70.62	5.81	23.50
2007/08	944.42	77.97	22.02	N.A.	23433.20	94.97	5.02	N.A.
2008/09	2151.39	85.89	14.10	N.A.	34465.74	95.32	4.67	N.A.
2009/10	1380.27	73.07	26.76	N.A.	43445.61	90.26	9.73	N.A.
2010/11	927.64	80.42	19.34	N.A.	46629.75	97.86	2.13	N.A.
2011/12	1241.1	79.41	20.58	N.A.	53126.3	99.6	0.57	N.A.
2012/13	2533.71	85.91	14.08	N.A.	68454.7	99.78	0.21	N.A.

Source: Nepal Overseas Trade Statistics, TEPC, FNCCI Nepal.

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Note: N.A. means not available

Looking the export data in table 4.6, the share of Tibet seemed to be the highest among the three parts Mainland China, Hong Kong and Tibet except the share of

export to Tibet in FY 2006/07. During 1993/94 share of Tibet was 85.68 percent, 14.28 percent accounted to Hong Kong and only 0.06 percent to Mainland China. During the year 1999/00, there was an unexpected change in the share of Hong Kong which was 49.5 percent while that of Tibet decreased to 50.30 percent. After a long time i.e. in 2006/07, the share of Hong Kong tremendously accounted as 68.74 percent but Tibet and Mainland China covered 26.96 percent and 4.29 percent respectively. The share of Hong Kong from 2000/01 to 2003/04 decreased but the shares of Tibet and Mainland China were in increasing order. During the periods of 2004/05 and 2006/07, the share of Tibet started to decrease but the share of Hong Kong rose. Mainland China's share remained in fluctuation trend within this period. The table clearly shows that there was no separate trade transaction to Tibet from 2007/08 onwards. That is why the share percentages of China in these years seemed to be high. But the share of Hong Kong was in fluctuation order during this period and it shared only 14.08 percent in 2012/13. Here we conclude that Nepal's export was more diverted towards Tibet than other parts of China.

If we look at the date of Nepal's import from China, it becomes evident that Nepal's import during the early and mid 90s was in large proportion from Hong Kong than other parts of China. During 1996/97, the share of import from Hong Kong was 82.36 percent while that of Mainland China was 12.22 percent and 5.4 percent was covered by Tibet. After 1990/00, Nepal's import got diversified into all three parts of China, 43.14 percent was accounted by mainland China, 35.18 percent and 21.67 percent were covered by Hong Kong and Tibet respectively. Unlike in the early 90s during the period of 2002/03 to 2006/07 mainland China's share of import was in increasing order while the share percentages of Hong Kong and Tibet were in decreasing order. In 2012/13 Mainland China had the highest share percentage because of the joint import percent of mainland China and Tibet which was 99.78 percent while Hong Kong shared only 0.21 percent. Hence we can conclude that the import of Nepal from Hong Kong degraded while the import from remaining parts improved as years passed by.

Findings

Foreign trade plays a significant role in the economic development of the nation. In today's world of economic liberalization and globalization, trade is the most important engine of economic growth and development. The main purpose of foreign

trade towards the developing country is to uplift the sluggish economic condition up to self sustainable rate of economic growth.

In the least developed countries like Nepal, domestic resources are inadequate to meet the rising demand for goods and production is insufficient to fulfill the demand. The level of capital formation of these countries is very low because of the low income level. So, foreign trade is advantageous towards the acceleration of economic growth of the country. The overall findings of the study can be presented as follows;

- Almost 55 percent of Nepal's total trade is confined to India where as other countries share a negligible amount of trade.
- Export commodity composition of Nepal is less diversified than import commodity composition.
- The share of China in Nepal's total foreign trade is about 8 percent only.
- The volume of trade between Nepal and China has been increasing since FY 2001/02.
- Nepal's export items constitute primary ones and import items constitute finished goods.
- The exports trade of Nepal with China seems to be fluctuated but the imports trade seems in rising trend.
- The geo-ecological setting of the country is one of the natural barriers for Nepal's foreign trade with China.
- The unfavourable environment for industrial development, lack of sound and effective strategic policies, inconsistency of government policies, political instability are the major factors hampering for Nepalese trade expansion.
- There are so many trade barriers between Nepal and China. Such as; road, lack of godown/sheds, lack of organized trading system, several check points at Kathmandu-Khasa road, payment problem, visa problem and communication problem. As a result Nepalese trade is not being expanded as our expectation.
- The open border and free flow of goods between Nepal and India also are serious problems for Nepalese products because Indian products are available cheaply in Nepalese market. Owing to smuggling practices, the illegal traders are getting advantage of imports and exports.

CHAPTER V

SUMMARY, CONCLUSION AND SUGGESTIONS

5.1 Summary

Nepal is one of the least developed countries in the world, which is facing the vicious circles of poverty and economic backwardness. Foreign trade, which is considered as an engine of economic growth is not in favour of Nepal.

The study of foreign trade trend and structure shows that it is still unfavourable to Nepalese economy. In other words, large imports against small exports obviously prove that the foreign trade deficit is being widened each year. However, the main purpose of the study is to analyze various aspects of Nepalese trade and economic relation with China. As India has remained the major foreign trade partner of Nepal, while other countries share a very negligible amount in trade. The value of export to India during the period 2001/02-2012/13 was 470829.7 million rupees against 4371.1 million rupees in the period 1956/67-1970/71. Similarly, value of export trade to other countries was 262239.3 million rupees against 197.4 million rupees during the same period. On the import side the values of import from India and other countries were 1998883.8 and 1225601.7 million rupees in 2001/02-2012/13 having the trade deficits 1528054 and 963362.4 million rupees. Economic co-operation between Nepal and China has increased many folds since the establishment of diplomatic relations in 1955. However, despite the rise in volume of trade, Nepal is facing a severe deficit with its northern friend.

Nepal's regular trade with Mainland China is a post 1956 development. But the Nepal's ancient trade history with Tibet started using barter system at the time of beginning Malla and Lichchhavi regime. Trade relation between Nepal and Tibet had grown with the commercial policy of Malla rulers, who played a significant role in boosting up trade. Nepal-Tibet trade used to be carried out through many passes or frontiers by the people of both sides.

Nepal's trade with China is the composition of trade with three parts of China i.e. Tibet, Mainland China and Hongkong. But there is no separate trade relation with

TAR since 2007/08 because of the combined trade transaction of both Tibet and China. Nepal's trade with China is also characterized by dominance of imports over exports. In 2001/02-2003/04, Nepal's export to China was 5019.2 million rupees while import from China during the same period was 27143.3 million rupees with the trade deficit 22124 million rupees. The deficit increased tremendously in all the periods and reached to 162696.1 million rupees in 2010/11- 2012/13. China accounts a small proposition of Nepal's total trade. In 1996/97 the share of Nepal's export to China in total export was only 3.0 percent while the share of import from China in total import was 27.0 percent. The total exports earning from China declined to 3159 million rupees in the period 2004/05-2006/07 as compared to previous period 2001/02-2003/04. But in the last two periods i.e. in 2007/08-2009/10 and 2010/11-2012/13 it reached to 3593 and 4520.9 million rupees respectively. Likewise the import of products from China has also increased to 167217 million rupees in 2010/11-2012/13 against 94326.9 million rupees in 2007/08- 2009/10. Among the three parts of China, Nepal's export is highly concentrated to Tibet but regarding import, Nepal has been importing from all the three parts approximately in equal amounts from 2000/01. But, till 1999/00, the largest proposition of import was from Hongkong. The commodity composition of trade both in terms of export and import is different with respect to three parts of China. Nepal's export to Tibet mainly consists of food, grains, wheat flour, sugar, jute bags, and jute cloths, tobacco, dried chilies, candles, dyestuffs, soaps, timber, cross bred yak (male). Imports from Tibet comprise sheep, raw wool, salt, yak and yak tails, carpet, cotton and woolen textiles etc. Hides, readymade garments, wooden and bamboo goods are the major import items from Mainland China. Similarly, coffee, tea, oilseeds, articles of woods are some major items exported to Hongkong and sugar, organic chemicals are some major items imported from Hongkong.

The trade relation between Nepal and China is not so satisfactory because of persistent imbalance against Nepal. The trading environment between the two countries is not conducive owing various problems like transportation, payment problem, lack of credit facility, absence of dry port, trade deflection and communication problems.

5.2 Conclusion

There are different and burning problems which are identified in Nepal-China trade. Trade is most vital component of our economy. Exports and imports have a strong bearing on macro economy, employment opportunities and the pace of structural transformation. We depend so much on foreign goods to satisfy increasing domestic demands and a shortfall in production results in imports which is twenty seven times higher than our exports. This has resulted a huge trade deficit. Research on the import pattern and consumer behavior is necessary to promote exports to China. There is no doubt that while extending the trade and economic relationship, different aspects need to be endorsed side by side such as policy, infrastructure, bank, insurance, ware house and the like. Infrastructure is what is hampering our trade. We are still using the existing old route, which is narrow for trade and transportation. Technical support from China to balance the bilateral trade is another problem. Customs capacity administrative process, lack of credit facility, absence of dry port, language, payment problem, low capacity exporters are the other major problems in trade promotion between Nepal and China. However, this study analyses some of the strengths and problems of Nepalese trade specially with China as follows:

- Nepal's export performance is very poor and limited to a few items. Due to heavy dominance of imports over exports, trade deficit with China has been widening.
- Nepal is still primary goods exporter and China, an exporter of manufactured products. This has created balance of trade deficit to Nepal.
- Agricultural sector, which is the backbone of Nepalese economy, has poor performance. Similarly, industrial sector is still at infant stage and the contribution of industrial sector to total GDP of Nepal is very low. Consequently, share of total trades in GDP is also in decreasing trend.
- As Nepal and China are friendly neighbouring countries, Nepal can achieve so many benefits and have chance to expand export, to improve trade deficit and to correct BOP situation.
- There are prospects for investment from the Chinese side on hydropower projects as well as in construction, pharmaceuticals, minerals, cement, banking and education.

- Despite the geographical constraints, an infrastructure and industrial bottleneck, Nepal has comparative advantage in terms of labour intensive manufacturing and agricultural products. Nepal as a least developed country can acquire facilities while exporting goods to the EU and the USA. Comparatively, it is much cheaper for Tibet to import goods from Nepal than bring them from mainland China.
- There is a great prospect of increasing Nepalese exports to China. An analysis of China's import structure amply shows that Nepal can significantly expand export of cereals, sugar, live poultry, vegetables, oranges and flour to China.
- The several constraints which Nepal has been facing in terms of foreign trade with China are lack of godown, lack of organized trading system, language problem, quality issues, lack of exchange rate system and visa problem.
- Nepal uses only one transit (trade route) trade with overseas countries other than India and China. Although, Nepal can use other trade routes such as *Fulbari Banglaband* through Bangladesh but it is yet depending on the transit treaty to India.
- Due to the adoption of liberal economic policy, government levied international trade tax to generate revenue but it neglected the aspect of import substitution. So the trade deficit of Nepal with China became more acute.

5.3 Suggestions

Nepal has been facing huge and unsustainable trade deficit with China. To reduce huge trade deficit of Nepal with China the government should request for preferential treatment to Nepalese exports to China especially Mainland Chinese and Hongkong markets. Nepal should capitalize on this great opportunity by working together to identify for zero tariffs and preferential treatment goods in which Nepal has comparative and competitive advantage.

The following suggestions for the government of Nepal and the private sector with regard to improving Nepal- China trade could be fruitful for both the countries.

- Export and import houses should be established to expand Nepal's foreign trade with China.
- Nepal should organize more trade fairs, product exhibition and investment seminars in China and needs to increase our participation in trade and

investment fairs in China to promote and expand bilateral trade and investment.

- The government should request China to provide Nepalese traders or their representatives with multiple visas for up to one year.
- Both Nepal and China should jointly remove existing trade barriers like customs, quarantine, transportation etc.
- Language barriers should be removed by encouraging the traders to learn Chinese language and culture which is very important while doing business with Chinese people.
- Necessary arrangements should be made for reducing delays and hassles in terms of trade and there should be increased required cooperation from the border officials.
- The government should focus check-post hassles along the Araniko highway for ensuring convenient, smooth and efficient trade transit.
- Vague processes for the traders at the China border should be reduced.
- The government should provide Chinese businesspersons or their representatives with multiple visas with duration of stay up to one year.
- The government should request China for early construction of dry port at *Rasuwagadhi* as prospective route for China-India trade transiting Nepal.
- Special attention should be given to agriculture and primary products like poultry and meat-products that are losing market in China due to its strict quarantine requirement. Accreditation and upgrading of Nepal's present lab facilities is of upmost importance in order to solve this problem. Importance of diversification of Nepal's export basket and need for the exporters to carefully study China's import demand.

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Appendix-I
Direction of Nepal's Foreign Trade

(Rs. In Million)

Year	Exports				Imports				Trade Balance			
	India	%	Other	%	India	%	Other	%	India	%	Other	%
1956/57	93.4	97.8	2.1	2.2	165.8	97.6	4.1	2.4	-72.4	97.3	-2.0	2.6
1957/58	70.5	96.2	2.8	3.8	150.4	94.9	8.1	5.1	-79.9	93.9	-5.3	6.1
1958/59	116.7	99.0	1.2	1.0	218.2	97.7	5.2	2.3	-101.5	96.2	-4.0	3.8
1959/60	131.3	99.7	0.4	0.3	269.9	93.9	17.6	6.1	-138.6	89.0	-17.2	11.0
1960/61	209.2	99.8	0.5	0.2	375.1	94.2	22.9	5.8	-165.9	88.1	-22.4	11.9
1961/62	263.9	99.5	1.3	0.5	439.7	98.9	4.7	1.0	-175.8	98.1	-3.4	1.9
1962/63	286.0	99.4	1.7	0.6	598.9	99.2	5.1	0.8	-312.9	98.9	-3.4	1.1
1963/64	284.0	97.7	6.8	2.3	595.6	98.5	9.0	1.5	-311.6	99.2	-2.2	0.7
1964/65	433.2	98.3	7.4	1.7	806.4	98.5	12.5	1.5	-373.2	98.6	-5.1	1.3
1965/66	361.2	96.4	13.4	3.6	763.5	97.6	18.5	2.4	-402.3	98.7	5.1	1.2
1966/67	417.0	97.8	9.4	2.2	465.1	96.6	16.2	3.4	-48.1	87.6	-6.8	12.3
1967/68	373.4	95.0	19.6	5.0	440.1	92.2	37.1	7.8	-66.7	79.2	-17.5	20.7
1968/69	539.5	94.3	32.6	5.7	693.3	93.2	50.6	6.8	-153.8	89.5	-18	10.4
1969/70	463.5	94.7	25.9	5.3	791.3	91.5	73.3	8.5	-327.8	87.3	-47.4	12.6
1970/71	328.3	81.9	72.3	18.1	616.8	88.2	82.3	11.8	-288.5	96.6	-10	3.3
1971/72	333.8	64.2	186.0	35.8	808.7	91.0	76.6	9.0	-474.9	129.9	109.4	18.3
1972/73	496.4	78.6	135.1	21.4	872.0	88.6	111.8	11.4	-375.6	94.1	23.3	5.9
1973/74	513.3	74.9	172.3	25.1	976.8	84.0	186.4	16.0	-463.5	97.0	-14.1	3.0

Year	Exports				Imports				Trade Balance			
	India	%	Other	%	India	%	Other	%	India	%	Other	%
1974/75	746.7	83.9	142.9	16.1	1475.7	81.3	338.9	18.7	-729.0	78.8	-196.0	21.2
1975/76	893.7	75.4	232.1	24.6	1227.1	61.9	754.6	38.1	-33.4	38.9	-522.5	61.1
1976/77	779.6	66.9	385.1	33.1	1343.5	66.9	664.5	33.1	-563.9	66.9	-279.4	33.1
1977/78	498.1	47.6	548.1	52.3	1534.1	62.1	935.5	37.9	-1036.0	72.8	-387.4	27.2
1978/79	650.1	50.1	646.7	49.9	1581.7	54.8	1303.0	45.2	-931.6	58.7	-656.3	41.3
1979/80	520.9	45.3	629.6	54.7	1786.4	51.3	1693.7	48.7	-1265.5	54.3	-1064.1	45.7
1980/81	992.4	61.7	616.3	38.3	2179.2	49.2	2249.0	50.8	-1186.8	42.1	-1632.7	57.9
1981/82	994.4	66.7	497.1	33.3	2280.9	46.3	2649.4	53.7	-1286.5	37.4	-2152.3	62.6
1982/83	843.3	74.5	288.7	25.5	2499.6	39.6	3814.4	60.4	-1656.3	32.0	-3525.7	68.0
1983/84	1160.7	71.9	453.2	28.1	3058.0	46.9	3456.3	53.1	-1897.3	38.7	-3003.1	61.3
1984/85	1601.7	58.5	1138.9	41.5	3895.8	50.3	3846.3	49.7	-2294.1	45.9	-2707.4	54.1
1985/86	1241.1	40.3	1836.9	59.6	3970.9	42.5	5370.3	57.5	-2729.8	43.6	-3533.4	56.4
1986/87	1302.6	43.5	1688.8	56.5	4262.1	39.1	6643.2	60.9	-2959.4	37.4	-4954.4	62.6
1987/88	1567.8	38.1	2546.8	61.9	4595.8	33.1	9273.8	66.9	-3028.0	31.0	-6727.0	69
1988/89	1034.9	24.7	3160.4	75.3	4238.7	26.1	12025.0	73.9	-3203.8	26.5	-8864.6	73.5
1989/90	602.5	11.7	4553.7	88.3	4674.5	25.5	13650.4	74.5	-4072.0	30.9	-9096.7	69.1
1990/91	1552.2	21.0	5835.3	79.0	7323.1	31.5	15903.4	68.5	-5770.9	36.4	-10068.1	63.6
1991/92	1450.0	10.6	12256.5	89.4	11245.5	35.2	20694.5	64.9	-9795.5	53.7	-8438.0	46.3
1992/93	1621.7	9.4	15644.8	90.6	12542.1	32.0	26663.5	68.01	-10920.4	49.8	-11018.7	50.2
1993/94	2408.9	12.49	16884.5	87.51	17035.4	33.03	34535.4	67.0	-14626.5	45.3	-17650.9	54.7
1994/95	3124.3	17.7	14514.9	82.3	19615.9	30.8	44063.6	69.2	-16491.6	35.8	-29548.7	64.2

Year	Exports				Imports				Trade Balance			
	India	%	Other	%	India	%	Other	%	India	%	Other	%
1995/96	3682.6	18.5	16198.5	81.5	24398.6	32.8	50055.9	67.2	-20716.0	38.0	-33857.4	62.0
1996/97	5226.2	23.1	17410.3	76.9	24853.3	26.6	68700.1	73.4	-19627.1	27.7	-51289.8	72.3
1997/98	8794.4	32.0	18719.1	68.0	27331.0	30.7	61671.0	69.3	-18536.6	30.1	-42951.9	69.9
1998/99	12530.7	35.1	23145.6	64.9	32119.7	36.7	55405.6	63.3	-19589.0	37.8	-32260.0	62.2
1999/00	21220.7	42.6	28602.0	57.4	39660.1	36.6	68844.8	63.4	-18439.4	31.4	-40242.8	68.6
2000/01	26030.2	46.8	29623.9	53.2	45211.0	39.1	70476.2	60.9	-19180.8	32.0	-40852.3	68
2001/02	27956.2	59.6	18988.6	40.4	56622.1	52.7	50766.9	47.3	-28665.9	47.4	-31778.3	52.6
2002/03	26430.0	52.9	23500.6	47.1	70924.2	57.0	53427.9	43.0	-44494.2	59.8	-29927.3	40.2
2003/04	30777.1	57.1	23133.6	42.9	78739.5	57.8	57537.6	42.2	-47962.4	58.2	-34404.0	41.7
2004/05	38916.9	66.29	19788.8	33.7	88675.5	59.3	60798.1	40.7	-49758.6	54.8	-41009.3	45.2
2005/06	40714.7	67.59	19519.4	32.4	107143.1	61.7	66637.2	38.3	-66428.4	58.5	-47117.8	41.5
2006/07	41728.8	70.27	17654.3	29.7	115872.3	59.5	78822.3	40.5	-74143.5	54.8	-61168.0	45.2
2007/08	38555.7	65.05	20710.8	34.9	142376.5	64.2	79561.2	35.8	103820.8	63.8	-58850.4	36.2
2008/09	41005.9	60.57	26691.6	39.4	162437.6	57.1	122032.0	42.8	121431.7	56.0	-95340.4	44.0
2009/10	39993.7	65.75	20830.3	34.2	217114.3	57.9	157220.9	42.0	177120.6	56.5	136390.6	43.5
2010/11	43346.0	67.1	21214.4	32.9	261631.2	66.3	133270.0	33.7	218285.2	66.1	112055.6	33.9
2011/12	49616.3	66.8	24644.7	33.2	299389.6	64.8	162278.1	35.1	249773.3	64.4	137633.4	35.5
2012/13	51788.4	66.9	25562.2	33.1	397957.9	66.1	203249.5	33.8	346169.4	66.0	177687.3	34.0

Sources: Ministry of Finance, GON/Nepal, Economic Survey , Various Issues

Appendix II

Total Exports Classified by Major Commodity Groups*

(In Million Rupees)

Commodity Groups F/Y	Total	0	1	2	3	4	5	6	7	8	9
2000/01	55654.1	4776.6	75.6	751.1	1.3	4104.0	4041.7	18909.3	343.6	22650.9	0.0
2001/02	46944.8	5094.2	145.7	624.5	1.6	7421.4	3308.2	17394.9	364.9	12589.3	0.0
2002/03	49930.6	6100.9	138.7	800.1	5.5	4278.7	3279.0	17794.7	208.2	17281.5	43.3
2003/04	53910.7	6276.9	55.2	714.3	14.5	3375.7	38685.9	23601.7	619.5	15380.1	6.9
2004/05	58705.7	6993.5	31.6	881.6	4.2	5070.3	3677.6	28590.6	207.6	13239.6	9.1
2005/06	60234.1	7192.0	25.0	1223.4	3.2	4284.6	3686.9	28533.0	1201.9	14081.6	2.5
2006/07	59381.1	7055.8	23.2	1368.0	0.0	4454.9	4091.6	30412.2	1240.9	10736.5	0.0
2007/08	59266.5	13164.9	24.3	1350.7	0.0	2062.0	2823.5	29643.3	912.9	9281.7	3.2
2008/09	67697.5	19145.3	354.2	1973.1	41.7	362.9	3087.3	28241.6	625.3	13859.7	6.4
2009/10	60824.0	13155.2	18.4	2469.6	0.0	267.2	1676.9	33395.2	725.0	9116.5	0.0
2010/11	64338.5	14531.8	1.7	1923.3	0.0	409.0	2679.5	33496.5	379.7	10911.1	5.9
2011/12	74261.0	15930.3	101.8	2587.0	0.0	331.7	2737.3	39008.9	277.5	13284.0	2.5
2012/13	76917.2	18089.1	214.3	3278.7	7.9	156.4	3852.2	39857.6	519.3	10938.2	3.5

Sources: Nepal Rastra Bank, Quarterly Economic Bulletin- 2012

Major Commodity Groups:-

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

Appendix III

Total Imports Classified by Major Commodity Groups

(In Million Rupees)

Commodity Groups F/Y	Total	0	1	2	3	4	5	6	7	8	9
2000/01	115687.2	5994.4	906.1	7559.6	11269.2	5589.2	12949.1	41188.0	33027.8	7210.2	0.8
2001/02	107388.9	6333.2	717.1	6734.1	15200.8	7887.5	12380.9	32889.1	19513.8	5670.3	62.1
2002/03	124352.1	9370.5	792.2	8479.3	19944.1	7750.5	14315.5	34888.2	2020702.1	6582.7	1523.0
2003/04	136277.1	8554.0	1026.8	10550.6	21904.1	8634.4	16544.9	36510.5	25694.4	5103.8	175.8
2004/05	149473.6	9820.7	1015.6	11207.0	29927.3	6016.3	19179.7	37047.4	26262.1	7551.8	1445.7
2005/06	173780.3	13298.7	1161.8	10562.3	36447.0	10196.6	24750.2	40600.5	26194.6	10417.8	150.8
2006/07	194694.6	12895.9	957.9	8829.3	362.0	12137.6	26995.9	48145.3	36357.4	11755.0	258.3
2007/08	221937.8	15838.3	1238.3	8365.1	43968.5	9399.1	26863.3	57448.4	48006.4	10726.2	84.2
2008/09	284469.6	20471.1	1412.8	12543.0	45293.7	9004.3	31579.1	76070.0	68009.5	19977.3	108.0
2009/10	374335.2	23765.5	2854.9	19888.9	56781.1	9320.5	39669.6	116129.8	84517.2	21366.6	41.1
2010/11	396175.5	2926.4	2167.1	19480.2	81234.5	14733.8	45272.1	91337.8	85331.5	27234.8	120.3
2011/12	461667.7	40783.4	3081.9	17773.2	102771.0	17918.4	49017.3	114781.6	82413.6	32972.2	155.1
2012/13	556740.2	61118.6	4449.4	21365.3	119470.7	17551.5	64242.9	109565.5	100203.1	32659	26114.0

Sources: Nepal Rastra Bank, Quarterly Economic Bulletin- 2012

Major Commodity Groups:-

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

Appendix IV

Composition of Overseas Exports by Trade Region, 2001/02 to 2010/11

(In Percent)

Regions	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Asia (Including India)	64.00	59.04	64.70	72.86	73.13	76.48	78.14	77.48	78.77	77.24	78.18	78.76
Africa	0.02	0.02	0.89	0.07	0.18	0.50	0.18	0.90	0.21	0.17	0.46	0.17
America	20.52	26.19	19.04	13.95	12.90	10.60	9.37	8.59	7.96	8.24	8.87	8.53
European Union	14.33	13.75	13.98	11.97	12.26	10.99	10.87	11.09	11.10	11.80	10.66	10.02
Europe (Excluding E.U.)	0.96	0.80	1.18	1.04	1.22	1.01	1.09	1.26	1.28	2.03	1.29	1.94
Oceania	0.16	0.20	0.21	0.21	0.31	0.41	0.36	0.67	0.67	0.52	0.54	0.59
Other Countries	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Total Value (In Mn. Rs.)	47386.8	50011.1	53949.4	58443.8	59776.9	58927.8	58474.40	68596.90	60949.60	64562.4	74089.0	77350.7

Source: Trade and Export Promotion Centre

Note: N.A. means not available

Appendix V

Composition of Overseas Imports by Trade Region, 2001/02 to 2010/11

(In Percent)

Regions	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Asia (Including India)	89.49	88.40	89.07	89.80	89.65	88.15	89.00	87.16	89.26	91.27	91.67	92.61
Africa	0.17	0.10	0.26	0.17	0.18	0.50	0.33	0.33	0.17	0.51	0.49	0.37
America	3.21	2065	2.92	2.86	3.12	4.89	4.72	4.14	3.21	3.60	3.41	3.13
European Union	4.47	6.26	4.83	4.17	3.93	4.19	3.79	4.44	4.12	2.50	2.32	2.17
Europe (Excluding E.U.)	1.30	0.93	1.04	1.15	1.60	0.87	1.07	1.84	1.64	1.41	1.54	1.21
Oceania	1.47	1.67	1.88	1.85	1.52	1.39	1.09	1.09	1.69	0.72	0.57	0.50
Other Countries	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total %	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Total Value (In Million Rupees)	108634.80	128228.10	135840.30	148294.20	160677.90	195808.40	237030..30	291000.90	375606.90	397535.9	498161.0	601207.5

Sources: Trade and Export Promotion Centre

Note N.A. means not available

Appendix VI
Nepal's Trade with China

(In Million Rupees)

Year	Total Trade (E+I)	Export	Import	Trade Deficit
2001/02	9784.5	1040.0	8744.4	-7704.3
2002/03	10730.0	1631.0	9098.9	-7467.9
2003/04	11648.0	2348.1	9299.9	-6951.7
2004/05	14747.7	1888.5	12859.1	-10970.6
2005/06	12976.0	892.5	12083.4	-11190.9
2006/07	17056.6	377.9	16678.6	-16300.6
2007/08	22992.2	736.4	22255.8	-21519.4
2008/09	34700.8	1847.9	32852.9	-31004.9
2009/10	40226.8	1008.6	39218.2	-38209.5
2010/11	46381.9	746.0	45635.9	-44889.9
2011/12	54367.5	1241.1	53126.3	-51885.1
2012/13	70988.4	2533.7	68454.7	-65921.0

Sources: Trade and Export Promotion Centre

Appendix VII
Relative Position of China in Nepal's Total Trade

(In Percent)

Year	Exports	Imports	Share of Total Trades in GDP
1993/94	1.0	20.0	5.3
1994/95	2.0	23.0	6.9
1995/96	3.0	22.0	6.9
1996/97	3.0	27.0	9.4
1997/98	3.0	17.0	9.4
1998/99	2.0	12.0	3.3
1999/00	2.0	18.0	5.5
2000/01	2.0	15.0	4.5
2001/02	3.0	11.0	3.2
2002/03	4.0	10.0	2.9
2003/04	5.0	8.0	2.8
2004/05	3.4	9.5	3.2
2005/06	1.7	8.1	3.7
2006/07	2.0	9.0	2.8
2007/08	1.6	9.9	5.8
2008/09	3.1	11.9	3.8
2009/10	2.2	11.6	4.0
2010/11	1.4	11.7	3.5
2011/12	1.6	11.5	3.8
2012/13	3.2	11.3	4.5

Sources: Nepal overseas trade statistics, TEPC, FNCCI Nepal.
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