CHAPTER I

INTRODUCTION

1.1. Background of the Study

International trade is trade between countries. It is the system by which countries exchange goods and services. It enables a nation to specialize in those goods it can produce most cheaply and efficiently (Microsoft Encarta, 2009). The goods and services that a country buy is known as imports and goods and services sold to other countries are called exports (Gonnelli, 1993). Import is a powerful tool that brings additional competition and wide range of products benefiting the consumers (Ohja, 2010) meanwhile export promotes specialization of the productive capacity of domestic producers and intra-national firms due to mass production and higher benefits.

Traditional theories on international trade are of the view that it is important factor for exports promotion and import substitution. Todaro (2012) reveals that traditional international trade theories focus on comparative advantage, specialization and absolute advantage. Heckscher-Ohlin (1919 & 1933) view on international trade believes that "a capital-abundant country will export the capital-intensive good, while the labor-abundant country will export the labor-intensive good" (Chipman, 1965). However, modern economists such as Raymond Vernon (1966) views international business occurs because of international product cycle and comparative advantage.

Foreign trade is considered as an essential factor for accelerating the pace of economic development (Ojha, 2010). International trade influences a wide range of activities including jobs, consumption and the fight against poverty (OECD, 2009) while it also affects the environment and relations among countries (Microsoft Encarta, 2009). Most countries are involved into foreign trade to create employment, raise propensity to save, increase foreign exchange earnings, and raise the productivity of investment moving from less productive use to high productive use (Hussain, 1996). Due to the benefits of openness, it is settled as the integral part of every country.

For developing countries, trade is the primary vehicle for realizing the benefits of globalization (Ojha, 2009). In developing countries, labour and capital are confined into relatively less productive sectors. However, foreign trade encourages the redistribution of labour and capital to relatively more- productive sectors. In particular, it has contributed to the ongoing shift of some manufacturing and service activities from industrial to developing countries providing new opportunities for growth (WDR, 1999/2000).

For LDCs like Nepal, international trade matters more. In order to achieve sustained and higher rate of economic growth, factors of production must be allocated in open economy. The inclusion of factors of production in developed and advanced economies enhances economic development through the effect of globalization. In this regard, Nepal-US trade is more important for Nepal.

Nepal entered into diplomatic relations with the United States of America (USA) on 25 April 1947 as the second country after the United Kingdom. The relations between two countries were upgraded to ambassadorial level in 1953. Nepal established its Embassy in Washington D.C. on 3 February 1958. Similarly, on 6 August 1959, American Embassy in Kathmandu was opened. A number of honorary consuls have been appointed in various US cities. The bilateral relations have remained cordial and friendly and are based on friendship, cooperation, equality and mutual understanding (MOFA, 2013).

The Nepal-US historic trade and economic relations were formally established by signing of a 'Friendship and Commerce Agreement' between two countries on 25 April 1947. The agreement established the diplomatic and consular relation between two countries and helped to further enhance the commercial relations in Most-Favored Nation (MFN) principle in unconditional and unrestricted forms. Since then the trade between Nepal and the United States is being conducted on MFN basis. However, in the context of MFN principle under the World Trade Organization (WTO), this kind of arrangement is losing its ground, as all the WTO member countries get the similar kind of treatment under this principle (Ojha, 2010).

According to the Census Bureau of the United States Department of Commerce, for the 1998, the United States exports to Nepal was 15.6 million USD[1] and total imports from Nepal was accounted 139.5 million USD and trade balance against the United States by 123.9 million USD. Prior to accessing World Trade Organization, exports and imports from and to Nepal were accounted 16.3 million USD and 171.4 million USD, respectively and trade balance was in favour of Nepal by 155.1 million USD in 2003. However, after accessing the WTO, Nepal-US trade has changed dramatically.

From the first year after accessing the WTO, United States exports to Nepal has started to increase. Exports in 2004 was 25 million USD in 2004 than that of 16.3 million USD of previous year. On the other hand, imports from Nepal to the United States was 142.6 million USD in 2004 as compared to 171.4 million USD in 2003 and terms of trade was narrowed-down to 117.6 million USD (Census Bureau of United States Department of Commerce, 2014). Following the tremendous decline, total volume of Nepal-US trade was 110.4 million USD in 2013 consisting 32.7 million USD exports to Nepal and the remaining imports from Nepal.

The top import categories (2-digit HS) from the US in 2013 were: Optic and Medical Instruments ($5 million), Aircraft (parts) ($4 million), Special Other (low value shipments) ($3 million), Manmade Staple Fibers ($3 million), and Perfumery, Cosmetics ($3 million) and the five largest export categories to the US in 2013 were: Textile Floor Coverings ($35 million), Woven Apparel ($10 million), Art and Antiques ($6 million), Knit Apparel ($5 million), and Leather ($3 million) (Office of the United States Trade Representative, 2014).

1.2. Statement of the Problem

Though being the least developed country, Nepal is well endowed in capital and labour resources. However, factors mobilization capacity of Nepal is to poor. Due to limited exportable capacity, foreign trade performance of her has so far been poor. Several factors seem to be responsible, and out of these, landlockedness is one of the major causes for

[1] All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding.

Nepal's weak production base, which is eventually linked with the growth of exports and imports of technology and raw material (Ojha, 2010).

Not only the open border with India but also the limited transit facilities in one or other way have constrained its trade with overseas countries. Since transit through China is virtually impractical, India is only economically viable for all commercial flows. Indeed, no country in the world (excluding Bhutan) is so hopeless dependent on the availability of transit facilities from a single country as Nepal (Poudyal, 1998).

Historically, it is evidenced from almost all trade and transit treaties between these two countries that the transit facilities had in the past always been provided by India in exchange for Nepal's acceptance in giving incentives to Indian goods in Nepalese territories (Ojha, 2010). For this reason, Nepal's trade, especially import trade, in the past virtually had confined to India. Trade with only one partner leaving the options on the basis of comparative advantage virtually obstruct the flow of benefits which is expected to accrue from free trade (Poudyal, 1998). Naturally, in such a situation, neither foreign trade nor the economy can be expected to have speedy growth.

Though there are many hurdles in export trade, the United States of America has remained one of the leading trading partners of Nepal since long. According to the Trade and Export Promotion Centre (TEPC) Nepal, volume of imports from and exports to the United States has been 5.7 billion NRs. and 5.2 billion NRs., respectively in the fiscal year 2012/13. Though declining over the period, US is still the *third largest export destination* [2] that comprises 7.43% of Nepal's total exports in FY 2012/13 after India 66.95% and the European Union 10.02%.

The volume of trade in absolute terms is not that significant and the exports to the US is decreasing year-on-year basis since 2000. Total exports to the United States in 2000 was 229.5 million dollar which constitute around 28 percent of total exports of Nepal in that

[2]The USA is the third largest export destination of Nepal after India and the European Union. Note that European Union is considered in term of region basis. However, United States is the second largest export destination of Nepal in term of country basis after India.

year. International trade account of Nepal shows that total exports to the US in 2009 was just 54.7 million dollar.

Since accessing the World Trade Organization, trade performance with the United States is in negative direction. In FY 2003/04, according to the trade statistics of TEPC imports from US was Rs.1.43 billion while exports to the US was Rs.9.69 billion and trade balance was in favor of Nepal by Rs.8.26 billion. After accessing the WTO, trend of exports to the US has decreased significantly. From 2003/04 to 2012/13, total trade volume of Nepal with the United States has diminished by 0.98 fold that incorporates imports has increased by 3.63 folds however, exports has decreased by 0.59 fold. Trade balance still favoured Nepal by Rs.0.5 billion (decreased by Rs.7.76 billion in comparison to 2003/04), but the trend of export is very critical.

Thus, the central problem of Nepal-US trade is declining trade transactions and weakening export capacity of Nepal to the US after accessing the WTO. Therefore, the research questions are:

i. What is the present situation/status of Nepal-US trade?

ii. How do Foreign Exchange Rate, GSP and Expiration of MFA affect Nepal-US trade?

iii. How can export be promoted to the United States?

1.3. Objectives of the Study

General objective of this study is to identify and analyze the current trade and status of Nepal-US Trade along with demographic status. The specific objectives are as follows:

i. To analyze the trend of Nepal-US trade.

ii. To examine the impact of Forex; GSP and Expiration of MFA on exports of Nepal to the United States.

iii. To explore the measures that can promote export capacity of Nepal to the United States.

1.4. Significance of the Study

Though several studies have been made to examine the status of Nepal-US trade, specific research are not yet on the causes and consequences of declining Nepal-US trade. The responsible determinants of declining Nepal-US are not pointed out empirically. The export of Nepal to the US is not improving as expected which has started to downfall after phase-out of Multi-fiber Agreement (MFA) in 2005.

Thus, this secondary data-based study would be useful to those researchers, policymakers, and other agencies/institutions who are involved in the field of Nepal-US trade. And, it has contributed to identify the major determinants of Nepal-US trade and the measures that can be applied to increase export to the United States.

1.5. Research Hypothesis

For the analysis of Nepal-US trade, one-tailed hypotheses is adopted. That is:

a) Null Hypothesis (H_0):$\mu_1 = 0$ i.e., Nepal-US trade has not declined significantly since Nepal's accession to the WTO.

b) Alternative Hypothesis (H_1): $\mu_1 \neq 0$ i.e., Nepal-US trade has declined significantly since Nepal's accession to the WTO.

1.6. Delimitations of the Study

Followings are the delimitations of the study:

i. This study is limited on Nepal-US trade statistics.

ii. This research covers the data of Nepal-US trade transactions of FY 2003/04 - 2012/13, only of 10 years after Nepal's accession to WTO.

iii. The study is primarily based on secondary trade data of Nepal and the US.

iv. The study is confined the exports trade of Nepal to the US after Nepal's membership in the WTO.

1.7. Organization of the Study

The introduction chapter tries to attempt to get into Nepal-US trade through background of the study, statement of the problem, objective of the study, significance of the study, research hypothesis, delimitations of study the and organization of the study. Chapter two reviews the literature in the light of global trade scenario, trade scenario of Nepal and Nepal-US trade scenario on the basis of various published research articles, books, published data and other relevant information/sources. The third chapter basically examines how the dissertation is conducted, the research methodology. Consequently, the fourth chapter of this report analyses and interprets Position of Global Trade; Position of Nepal's Trade; Nepal-US trade: Nexus of Exports-Imports Status and Nepal-US Trade after Nepal's Accession to the WTO. The final chapter is summary and conclusion section that presents the whole research report in a brief.

CHAPTER II

REVIEW OF LITERATURE

2.1. Global Trade Scenario

Generally, transaction of goods and services between countries is global trade. It is the exchange of capital, goods, and services across international borders or territories (Wikipedia, 2014). If a county buy goods and services that is known as imports and goods and services sold to other countries are called exports (Gonnelli, 1993). International trade is powerful instrument of economic growth and prosperity. It also helps to combat poverty. The status of international trade shows economic power of a country.

Global trade occurs in open economic system. Countries trade with each other to obtain things that are of better quality, less expensive or simply different from goods and services produced at home (Gonnelli, 1993). Microsoft Encarta (2009) reveals that International Trade enables a country to specialize in those goods and services it can produce cheaply and efficiently. In this regard, international trade has made a tremendous contribution to the development of less developed countries in the 19^{th} and 20^{th} centuries and can be expected to make an equally big contribution in the future (Habeler, 1959).

Over the past two decades, trade in intermediate inputs has been growing steadily, accounting for 56 percent of world trade in goods and 70 percent in services, and the share varies greatly by country. The fragmentation of the production chain across borders and the increasing importance among global manufacturers of outsourcing and foreign direct investment explain the growth of intermediate trade (Xu, 2012).

Notwithstanding the economic crisis, world trade has increased dramatically over the past decade, rising almost three-fold since 2002 to reach about US$18 trillion in 2011. Developed countries continue to constitute the main players in international trade, however, developing countries account for an increasing share. As of 2011 almost half of world trade has originated from developing countries up from about one-third in 2002 (UNCTAD, 2013).[1]

Although trade growth has been higher for developing countries during the last decade, this trend is slowly abating. Indeed, data for 2010 and 2011 indicate more homogenous rates of import and export growth across all country groupings, with no dramatic differences between developed and developing countries (UNCTAD, 2013). The recovery of world trade was as vigorous in 2010 as had been its decline in 2009. It lost a great deal of momentum in 2011, however, with the growth of world trade volume slowing from 12.6 percent in 2010 to 6.6 percent. Weaker global economic growth, especially among developed economies, is the major factor behind the deceleration. As a result, over the four-year period that started with the sharp deceleration of world trade in 2008, the level of world import volume has remained well below trend. In the baseline outlook for 2012 and 2013, global economic activity would falter without going into recession. Even with the possibly optimistic assumptions of the baseline, world trade would continue to drift further away from the trend. Against this benchmark, the volume of world trade would be 30 percent below the level that might have been reached had there been no global financial crisis (UNCTAD, 2013).

During the crisis, import volume of developing countries fell to about 13 percent below trend, but recovered strongly, to catch up almost fully with the rapidly rising trend experienced in the early 2000s. In 2010, developing country import growth contributed to half of world trade growth as compared to 43 percent in the pre-crisis period of 2004-2007. Among developing regions, East and South Asia led the recovery in external demand, accounting for about three quarters of the growth of imports of developing economies in 2010, followed by Latin America and the Caribbean, accounting for 17 percent; Western Asia and Africa contributed about 7.0 and 2.0 percent, respectively. China continues to be the key driver of import growth among developing countries, accounting for 37 percent of the growth of imports of all developing countries in 2010. The below-trend recovery of

[1] 'Exchange Rates, International Trade and Trade Policies' is a study series on Policy Issues in International Trade and Commodities. The study is presented by Alessandro Nicita on the United Nations Conference on Trade and Development, 2013 in Geneva, Switzerland.

global trade is almost fully explained by the weaker import demand in developed economies. Import demand had declined to 21 percent below trend by 2009 and did not catch up thereafter (UN/DESA, 2012).[2]

The marked weakness of import demand from developed countries following the collapse in 2008-2009 comes on top of a decade-long decline of their predominance in international trade. Between 1995 and 2010, their value share in world merchandise trade declined from 69 to 55 percent, while that of developing countries increased from 29 to 41 percent. Over this 15-year period, China's share alone increased fourfold from 2.6 percent to about 10.0 percent. Over the same period, the market share of Latin America and the Caribbean increased from 4.5 percent to 5.9 percent. The value of Africa's merchandise exports rose from $100 billion in 1995 to $560 billion in 2010, while its share in world trade improved modestly from 2.0 percent to 3.2 percent. World market penetration of exports from the least developed countries (LDCs), Small Island Developing States (SIDS) and Landlocked Developing Countries (LLDCs) remains extremely limited. For example, even though LDC exports have grown over fivefold since 1995, their world market share is still less than 1 percent. World market shares of SIDS and LLDCs amount to much less than 1 percent (WTR, 2010).

The shifting patterns of trade are associated with the rapid industrial growth of a range of developing countries. Moving from agricultural and other primary production to manufacturing tends to drive up the import intensity of production; moreover, global trade increasingly involves value chains with different geographical locations contributing various parts to the production processes. Such shifting patterns of trade, as well as the increased demand for primary commodities from the rapidly growing economies, has strengthened South-South trade. South-South trade increased at a rate of 13.7 percent per year between 1995 and 2010—well above the world average of 8.7 percent. Over the same period, the South's merchandise exports to the North increased by 9.5 percent per annum. While recent import demand in most developing countries has remained vigorous, only a few of these countries have succeeded in climbing up the global value chain and

[2] United Nations Department of Education and Social Affairs published 'Slowing Merchandise Trade' under the title 'World Economic Situation and Prospects, 2012'.

diversifying their export base to cater to markets previously dominated by developed economies. Indeed, about 83 percent of the increase in the share of developing countries' total world trade between 1995 and 2010 was accrued by the subset of emerging economies (the BRICS[3] plus Mexico and the Republic of Korea). East and South Asia include three of the most dynamic emerging economies—China, India and the Republic of Korea—accounting for about one third of world exports and two thirds of developing country exports in 2010. Some of these gains, as noted, result from growing cross-border specialization involving smaller segments of value chains, which in turn increase trade shares and the value of shipments, imports and exports (UNCTAD, 2013).

The effect of depletion in domestic demand of developed countries is visible also in world trade. In comparison to 2011, the volume of globally traded merchandise goods has hugely declined in 2012. The volume of total merchandise goods traded in 2012 increased merely by 2.5 percent as compared to 6 percent increase in 2011. It was 12.5 percent in 2010. Because of such decline in trading activities of developed countries, no positive sign in the balance of trade was visible even in emerging and developing economies. Trade balance of such countries has declined by 0.7 percent in 2011 and increased nominally by 0.2 percent in 2012. Goods and services equivalent to USD 22,413 billion were traded globally in 2012. This trade is higher by just 0.6 percent as compared to that of 2011 (IMF, 2013).

2.2. Trade Scenario of Nepal

In ancient times, bartered trade prevailed at both domestic and border trade in Nepal (Ojha, 2012). International trade at that time was confined to Tibet and India. At that time, exports of Nepal were mainly agro-products meanwhile imports from Tibet and India were salt, gold, livestock, arms and other precious metals. Treaty of Peace and Commerce was signed between Tibet and Nepal during the time of Pratap Malla which assured the transit passes between Tibet and India (Bhattarai, 2010).

In mediaeval and modern period, international trade of Nepal was confined to East India Company and Tibet/China. The first treaty regarding trade related issues was signed with

[3] Brazil, the Russian Federation, India, China and South Africa

Tibet in 1856, also known as Thapathali Treaty (Bhattarai, 2010). Historical evidence describe explicitly that Indo-Nepal Trade has been preferred major trade of Nepal more than Tibet since Malla regime (Bista, 2011).

In Rana period, India occupied 95 percent of Nepalese trade (Ojha, 2012). Nepal had adopted protectionist trade policy for long period after Rana regime too. During that period, Indo-Nepal trade was the main characteristic of the international trade of Nepal (Bista, 2011) and the negative consequence was macroeconomic instability and crisis. After adopting *liberal policy*[4] since mid-1980s, Nepal opened up border for external sector and moved forward from inward-looking strategy to outward-looking strategy (Acharya, 2012). As a result of open economic policy, Nepal has entered into several bilateral, regional and multilateral trade agreements including SAFTA, BIMSTEC and the WTO. World Factbook (2014) revealed that the March 1989 impasse in negotiations for trade and transit treaties with India seriously damaged Nepal's economy. The transit treaty had allowed goods from third countries entering at Calcutta to pass through to Nepal and exempted them from customs and transit duties.

The process of opening the economy accelerated further after the restoration of democracy in 1990 by introducing new policies and amending existing policies in order to make them compatible with outward oriented regime. Some of these policies include Industrial Policy 1992, Trade Policy 1992, and Privatization Policy 1994 (GON/MOF and ADB, 2010). Since 1970, the share of India gradually declined and the trade with third countries increased by 82 percent in 1995 (Ojha, 2012). The basic notion behind adapting open economic policy is to achieve economic development and growth by attracting domestic and foreign investment, generating employment opportunity and alleviating poverty (Acharya, 2012).

There was a turn around since 1996 and the exports to India increased by eight fold between 1996 and 2001. There was nominal growth of Nepalese exports to India between 2002 and 2007 which started declining after the year. However, India occupies around 60 percent of Nepalese trade in recent years. This basically draws two inferences; one imports from India

[4] Nepal adopted liberalized economic policy after regaining the Democracy in 1980s FY 2049/50 BS.

is increasing at a faster pace and secondly, the exports to third country is decreasing (Ojha, 2012). The share of India in Nepal's total trade has reached at 65.1 percent in FY 2011/12. During same period, out of total exports, 66.80 percent has been exported to India and out of total import, 64.80 percent is imported from India (Acharya, 2012). Trade statistics of TEPC reveals the fact that after accessing to the WTO, trade volume of Nepal is increased significantly. Total trade volume of Nepal by then increases 3.57 folds till FY 2012/13 than that of FY 2003/04 which incorporates total imports increases by 4.43 folds, however total exports increases by nominally 1.43 folds and trade deficit increases by 6.39 folds within the period of 10 years. The ratio of exports on imports for FY 2012/13 was 1:8 than that of 3:8 of 2003/04 which shows how terms of trade has shifted and diverted into import based trade structure (TEPC, 2013)[5].

By critically examining these facts, Khatiwada and Sharma (2002) argued that external Sector of Nepal is historically weak with perpetually increasing trade deficit. In the external sector, exports continued to surge in the recent years and imports remained volatile. Although the growth rate of exports outplaced that of imports, trade deficit widened mainly due to relative larger volume of imports.

Kafle (2006) conducted a study to identify the effectiveness of existing trade policy on foreign trade of Nepal that concludes that Nepal's external sector policy should focus on rapid development in infrastructure establishment of industries that utilizes local resources and fulfill local needs as well as can have production surplus to export, creation of tourism friendly environment and massive promotional activities of tourism etc. The trade deficit has been mainly financed by remittance inflows, therefore the volume and sign of current account is largely determined by volumes of imports and remittance from abroad (Acharya, 2012).

[5] The trade figures are of merchandise goods trade between Nepal and foreign world. The trade statistics presented by TEPC are on fiscal year basis which covers from Shrawan to Ashad of the respective fiscal year. The Nepal Foreign Trade Statistics are based on Automated System for Customs Data (ASYCUDA) and the declaration made by Exporters or Importers on Customs Declaration form after checking it by customs officers of the respective Customs Offices. Products are classified according to H.S. Code (Harmonized System of Commodity description) to identify the product. The values are in Nepalese Rupees (NRs.).

Basyal (2012) submitted that the wide gap between exports and imports should be sustainably narrowed. Toward these ends, excessive consumption and unnecessary imports should be discouraged. Sound framework and incentives should be built to ensure that the resources are productively utilized. The government policies and arrangements should help ensure such a framework.

The Trade and Export Promotion Centre (2013) reveals that Nepal has signed different trade and transit related agreements with 17 different countries. Nepal, a small land locked country, has an intensive trade network around the world. However, the statistics of trade shows that trade of Nepal is not balanced and facing continuous trade deficit situation (Acharya, 2012). Lack of strong industrial base, limited market access and narrow export product line is considered as major problem for Nepalese economy. Developing industrial infrastructure with capacity development based on competitive advantage can help Nepal to improve from large trade deficit.

Being the least developed country and poor in industrial raw materials and highly equipped machinery, there is minimum chance of cost-effectiveness in Nepalese products. The basic problem which arises in managing the world market is environment including different national policies, business customs and practices along with different political and legal formalities and practices, different monetary units, different levels of technology, different cultural and social practices (Shrestha, 1994).

2.3. Nepal-US Trade Scenario

Economic Survey (2013/14) revealed that the average growth rate of exports of Nepal for the latest decade is 4.3 percent. Meanwhile, growth rate of imports for the aforementioned period has increased by a handsome 16.4 percent on an average. The ratio of exports in total GDP has declined to minor 4.5 percent in FY 2012/13 from 10 percent in FY 2003/04. On the other hand, the fraction of imports in total GDP has increased to a huge 32.9 percent in FY 2012/13 from 25.4 percent in FY 2003/04 (MOF/GON, 2014). This results into a heavy increase in trade deficit which was equal to 15.3 percent in FY 2003/04 in total GDP and became almost double in FY 2012/13 for which the ratio of trade deficit in total GDP was 28.4 percent (Economic Survey/MOF, 2013/14). Similarly, the ratio between exports imports has declined to just 13.8 percent in FY 2012/14 from 39.6 percent in FY 2003/04. Consequently, total imports was 2.5 folds of total exports in FY 2003/04 and within a decade it became 7.2 folds of total exports in FY 2012/13 (MOF/GON, 2014). The aforesaid facts regarding foreign trade concludes that Nepal is unable to gain as expected when it opened-up its border to international arena after adopting liberalization.

Nepal Rastra Bank and Trade and Export Promotion Center (2013) revealed that proportion of the US trade in FY 2003/04 was 5.86 percent which has declined to just 1.61 percent in FY 2012/13. However, exports to the US constituted a very handsome 17.97 percent in total exports in FY 2003/04 percent which has declined to just 7.43 percent in FY 2012/13. Similarly, imports from the US was 1.06 percent in total imports in FY 2002/03, which has also declined to 0.87 percent in FY 2012/13 (TEPC, 2013). In this regard, from export point of view, the USA is still one of the largest export destination and vivid in reducing trade deficit.

No country at this stage of globalization can remain isolated. In this regard, the World Customs Organization (2012) has revealed the theme for 60th anniversary of the WCO "Border divide, Customs connects"[6] which indicates how much international trade important is? For small and land locked LDCs like Nepal, international trade matters more. For the inclusion of factors of production in developed and advanced economies through the effect of liberalization and globalization, Nepal-US trade is very important.

The Nepal-US historic trade and economic relations were formally established by signing of a 'Friendship and Commerce Agreement' between two countries on 25 April 1947 (MOFA/GON, 2013). The agreement established the diplomatic and consular relation between two countries and helped to further enhance the commercial relations in Most-Favored Nation (MFN) principle in unconditional and unrestricted forms. Since then, the trade between Nepal and the United States is being conducted on MFN basis (MOCS, 2014).

[6] "Border divide, Customs connects" is the slogan of 60th anniversary of the World Customs Organization, 2012 by the Secretary General of the WCO, Kunio Mikuriya.

The United States is one of the leading trading partners of Nepal.[7] It is also the biggest source of hard currency primarily from the exports of garments and carpets as well as from tourism (Ojha, 2010).

Office of the United States Trade Representative (2014) states that Nepal is their 164th largest goods trading partner with $110 million in total (two way) goods trade during 2013. Goods exports totaled $33 million; Goods imports totaled $78 million. The U.S. goods trade deficit with Nepal was $45 million in 2013 (USTR, 2014).

After the end of the quota regime under Multi-fibre Agreement (MFA)[8] in 2005, January 1, the exports of Nepali readymade garments and apparel to the United States has declined significantly (Ojha, 2010). Though declining over the period, the United States is still the third largest export destination (7.2%) for Nepalese products.

The volume of imports from and exports to the USA has been 5.03 billion NRs. and 5.8 billion NRs. respectively, in the last fiscal year 2011/12 (TEPC, 2013). The volume of trade in absolute terms is not significant and the exports to the US is decreasing year-on-year basis since 1999-2000. NRB (2013) revealed that total exports to the US in the year 1999-2000 was 180 million dollar, comprising around 28 percent of total exports of Nepal on that year with a huge erosion after that accounting 68 million dollar in 2011-12. The exports of Nepal was in growing stage up to F.Y. 2000/01 and had a total exports of 717 million US$ and the exports to the US was 194 million which was 27.11 percent of Nepal's total exports (TEPC, 2013). This fall in total exports to the US is mainly attributed to the products like readymade garment and pashmina that could not withstand competition with other countries that were exporting textile and garments in the US market (Ojha, 2010). The most important reason behind the decline in the export in the US market is due to the phase out of quota to textiles and apparel. Nepal possesses limited export products that are

[7] USA remains among top ten trading (export) partners of Nepal throughout the period 1997-2012/12.

[8] MFA is Multi-fiber Agreement (Quota System). Quota, minimum or maximum number or proportion of a whole, especially of goods in international trade that may be admitted to a nation, a group, or an institution. Quotas have often been used to guard against unfair discrimination. The USA had provided quotas for Nepalese Garments before 2005, January 1.

concentrated in few markets increasing vulnerability, if things go wrong in these markets (Poudel, 1998). Thus, it is exigent to take double edged approach; first increasing the product range in terms of improvement in design and quality of existing products, development of new products and second identifying niche markets and ensuring access to such markets by removing the tariff and non-tariff barriers. This would require enhancing the current supply side capacity that requires a coordinated trade development plan in place (Ojha, 2010). This will enhance the export capacity of the country.

This statistics of NRB and TEPC statistics exposes that exports trade performance to the USA is measurably poor after Nepal's accession to the World Trade Organization in 2004. Despite the government of United States of America is providing General System for Preferences (GSP)[9] facilities to around 4800 products from the developing and least developed countries (LDCs) in customs eight digit classifications (HS classification)[10], Nepal is not being able to cash this facility to promote export trade to the US. A wide range of Nepalese products (except textile and garments) are enjoying duty-free access to the US market under GSP. However, due to limited export basket of Nepal and mostly confined on textiles and garments, exports of Nepalese products to the US market has seen accelerated decline in recent years (Ojha, 2010).

Nepal has been consistently advocating for duty-free facilities for its exports to the United States, especially for the readymade garments and apparel. Enhancing the trade related capacity of the least developed countries has remained a prime agenda in international trading regime for Nepal (MOFA, 2013). In this context, it is naturally desirous to expand Nepal’s trade and economic relations with potential countries, including the USA, through development of appropriate bilateral instruments, diplomatic relation and mechanism of

[9]Generalized System of Preferences, or GSP, is a preferential tariff system which provides for a formal system of exemption from the more general rules of the World Trade Organization (WTO), (formerly, the General Agreement on Tariffs and Trade (GATT)).

[10] The Harmonized Commodity Description and Coding System also known as the Harmonized System (HS), of tariff nomenclature is an internationally standardized system of names and numbers which came into effect in 1988, developed and maintained by the World Customs Organization (WCO), an independent intergovernmental organization.

consultation in the areas of trade in goods, services, IPR, investment, and technical assistance for enhancing the trade related capacity of Nepal (MOCS/GON, 2013).

As Nepal became the member of the World Trade Organization in April 2004, MFA was phased-out just by January 1, 2005. The expiration of MFA resulted into heavy decline in Nepal's export to the United States. Around 4800 products as per the provision of the World Trade Organization have duty free access to the US under GSP privilege however, Ministry of Commerce and Supplies (2013/14) is lobbying the government of United States to provide GSP facilities on carpet, garments and pashmina products. For this reason, MOCS directed the TEPC to study about the potential exportable goods to the US and to submit a report including recommendations. Recently, TEPC submitted a report to the MOCS citing a list of economically viable exportable items including 100 new products including garments, textiles, apparel and handicrafts to grant GSP in the US market (The Kathmandu Post, 2014).

On the other end, first round of negotiations on Trade and Investment Framework Agreement (TIFA)[11] were made on April 28, 2011 in Washington DC, the USA. However, the second round of negotiations said to be held in Nepal is not being able to scheduled despites Nepal's continuous effort. The proposed TIFA, which will include the new areas of economic cooperation like investment cooperation, services trade, IPR, labor mobility and technical assistance, among others, will definitely help Nepal to boost up its economic ties with world's economic leader–USA, which has also remained one of the most important development as well as trading partners of Nepal since long. Therefore, the conclusion of TIFA is imperative to expand the bilateral economic and trade cooperation and sustain the export trade of Nepal (Ojha, 2012).

The national development plan of Nepal accords high priority to trade as the engine of economic growth. Nepal has drafted new Trade Policy in 2009 that replaces the Trade

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[11]Trade and Investment Framework Agreement (TIFA) is an agreement primarily designed to facilitate dialogue between the two governments: the US and Nepal. TIFA is believed to create an important platform for discussions on trade and investment issues and signed by Deputy Prime Minister and Finance Minister of Nepal, Bharat Mohan Adhikari and the US Trade Representative Ron Kirk on April 15, 2011.

Policy of 1992 in order to promote exports. The Nepal Trade Integration Strategy (NTIS)[12], started in 2009 is being amended. NTIS (2010) has identified 12 export potential products and 7 export potential services as the means of achieving sustainable export and linking trade with the poverty reduction initiatives. In this way, government of Nepal has taken many initiatives to indorse exports to the United States.

2.4. Research Gap

Traditional theorists on international trade are of the view that it is key for export promotion and import substitution. Todaro (2012) revealed that traditional international trade theories focus on comparative advantage, specialization and absolute advantage. Adam Smith (1776) argued that international trade takes on the basis of countries exercising absolute advantage over one another. Ricardo (1817) focused on comparative advantage, which arise due to difference in technology and natural resources. H-O model (1919 & 1933) concluded that the pattern of international trade is determined by different in factor endowments. In 1953, Leontief tested the validity of H-O model.

Modern trade theorists such as Krugman (1988) and Shiozawa (2007) tested comparative advantage of trade following empirical testing. Many other theories such as Gravity model, Ricardo-Saraffa theory and all others are essentially explanations of international trade between countries. In this regard, Sun and Heshmati (2010) arguably remarks that bilateral and multilateral trade bridge the gap between developing and developed economies.

Aubin and Ruta (2011) have found positive correlation between exchange rate and international trade. But, the study of Devkota (2000) showed that change in exchange rate does not affect trade balance of Nepal. Sharma and Bhandari (2005) made a study on foreign trade and its effect on Nepalese economic development and their study concludes that exports growth leads to economic growth. Acharya (2012) has found the determinants of foreign trade of Nepal using gravity model approach. Bista (2013) has analyzed Generalised System of Preferences in Nepalese perspective but his analysis is descriptive

[12]Nepal Trade Integration Strategy (NTIS) is an open repository of information for a wide range of trade related issues in Nepal amended by government of Nepal in 2010.

rather than empirical testing or qualitative analysis. Khanal et al. (2005) have discussed the consequences of expiration of MFA in South Asia but it was published short after the expiration of MFA during the same year. Consequently, Ernst, Ferrer and Zult (2005) have also analyzed the impact of expiration of MFA on trade and employment but their research does not cover the evidence of Nepal.

(Bhattarai, 2010), (Bista, 2011), Khatiwada and Sharma (2002), Kafle (2006) and Basyal (2012) also contributed in the field of international trade but their study do not touch Nepal-US trade properly. Similarly, Ojha (2010) made an attempt to analyze Nepal-US trade, however, it absences empirical evidence. His analysis is beautiful but confined to descriptive analysis only.

Being one of the largest trading partner and prime export destination, Nepal-US trade not never become prime agenda for the policy maker, researchers and trade agencies. Thus, there seems to have no concrete evidence of literature based on empirical testing regarding Nepal-US trade. In this context, Nepal-US trade after Nepal's accession to the World Trade Organization is of prime importance. The empirical testing of Nepal-US trade in the light of foreign exchange rate, generalised system of preferences and expiration of multi-fibre agreement/arrangement proves its significance itself.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the way by which we can explore the ways to solve the problem systematically that ultimately fulfils the objectives of the study. For this research paper, desk study for the collection and analysis of secondary data on US-Nepal trade has adopted. Both qualitative and quantitative analysis has adopted to identify and analyze basic determinants of Nepal-US trade and to find out possible measures that can explore export capacity of Nepal.

3.1. Research Design

This study is both descriptive and analytical. Both qualitative and quantitative information are gathered, presented and analyzed.

3.2. Study Area

The study area is broadly confined in trade sector and especially limited to trade between Nepal and the United States particularly after Nepal has become the member of the WTO till 2013. It gives a clear picture on Nepal-US trade citing various data and information of researchers/experts. The area of the study is further expanded to identify the determinants and promotional measures to encourage Nepal-US trade.

3.3. Nature and Sources of Data

Nature of Data

This study has relied totally on secondary data which are collected by various sources/agencies. Secondary sources of data are used through the review of relevant literature and published and unpublished sources. The nature of analysis is both qualitative and quantitative.

Sources of Data

The research design is mixed methods approach, incorporating both qualitative and quantitative tools to collect secondary data. Quantitative data are primarily secondary. Various published and unpublished national and international sources (GON, NGOs, INGOs, web portals, etc.) are used for quantitative data generation. While using the secondary data for quantitative analysis, the sources of data are adopted on the basis of their accuracy, suitability, validity, reliability and consistency.

3.4. Validity and Reliability of Data

Each data has logically linked to objectives. Information has obtained on the basis of research norms and ethics. Quantitative information has collected on the basis of accuracy, suitability, validity, reliability and consistency of data and their sources both national and international. Reliable and valid trade statistics from trust worthy sources such as TEPC, NRB, WTO, US Department of Commerce, UNCTAD, etc. have used for quantitative information. Sampling design, measurement part, and research design method has carefully applied. The collected information has carefully analyzed to make this report meaningful and maintained the research standard.

3.5. Analysis of Data, Presentation and Interpretation

After the collection of data and information, the data has processed and analyzed as per the purpose of the research. The qualitative information has transcribed and used as the part of analysis. The collected information has presented in the form of cross table, suitable frequency table, charts or bar diagrams. Simple statistical and econometric tools are used during the analysis.

3.6. Model Specification

The analysis has undertaken by using econometric model: the ordinary least square method. That is,

$$Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + U_i \qquad \ldots\{1\}$$

$$(i = 1,2,\ldots \ldots \ldots n)$$

where,

Y = exports trade of Nepal to the United States after Nepal's accession to the WTO.

X_1 = Foreign Exchange Rate.

X_2 = Exports to the US under GSP facility.

X_3 = Exports to the US after phase out of MFA.

α_0 = intercept of the Nepal-US trade trend line.

β_i = magnitude of determinants/constant parameters.

U_i = Error term

And, the estimated regression line becomes,

$$Y = b_0 + b_1 ExR + b_2 GSP + b_3 MFA + \varepsilon \qquad \ldots \{2\}$$

where, exchange rate is real variable and GSP and MFA are policy varialbes.

CHAPTER IV

PRESENTATION OF DATA, ANALYSIS AND INTERPRETATION OF RESULTS

4.1. Position of Global Trade

Various statistics in international trade show that the world trade volume has increased almost three-fold since 2002 to reach about US$18 trillion in 2011. According to the World Economic Outlook, the volume of global trade in 2013 is accounted USD 18.5 trillion and expected to be 19 and 20 trillion USD for the year 2014 and 2015 respectively (IMF, 2014 appendix 1).

IMF has expected that the position of global trade is to increase by 4 percent for current decade (2005-2015). This increment is not strong as of the previous decade (1995-2005) in which world economy realized 6.8 percent annual growth in international trade. From World trade point of view, this decade is quite weak than that of previous. From economic point of view as well, this decade faced many ebbs and flows. The world suffered from economic downturn (economic recession) and giant economies of the world were suffered significantly. Economic powers as USA, China, UK, Canada, Australia, Japan, Germany, etc. had lost significant portion of trade at that period. The main reason behind the shrinking global trade were global financial crisis, economic meltdown and lack of trade enabling environment.

According to the World Economic Outlook, 2014, global trade volume was increased by 9.3 per cent in 2006 on an average, the base year for this decade. The growth rate of global trade had slowed-down in 2007 and recorded 7.1 per cent in comparison to 2006. As the world economic meltdown started in 2008, the volume of global trade had lost significantly and it is reflected in the trade statistics accounting the growth rate of global trade was 2.2 percent in 2008. The global trade volume increased inversely positive one year later of economic meltdown and became (-11.4) percent (negative growth) losing significant portion. Despite the world economic meltdown, the volume of global trade realized tremendous increment in 2010 and 2011 by 14.0 percent and 6.6 percent respectively. However, afterwards the volume of global trade had increased by just 2.6 and 2.7 percent in 2012 and 2013 and IMF has expected to grow the global trade volume by 4.3* percent in 2014 and again 5.3* percent in 2015 (appendix 1).

Figure 4.1: Global Trade Trend

*(*expected growth rate)*

Source: Author's calculation based on Global Trade Trend, International Monetary Fund, 2014.

The position of global trade as per the data of IMF is being depicted in figure 4.1. By analyzing the trend of global trade it can be said that the volume of global trade is expected to increase in days to come and the effects of global meltdown to end. Consequently, the world is expected to realize strong growth rate.

International Monetary Fund has revealed that global merchandise trade for advanced economies and emerging and developing economies for both imports and exports is improving. In 2013, global exports has increased by 2.9 percent comprising 1.8 percent increase for advanced economies and 4.0 percent for emerging and developing economies respectively. Global exports has increased by 5.8 percent for advanced economies and by

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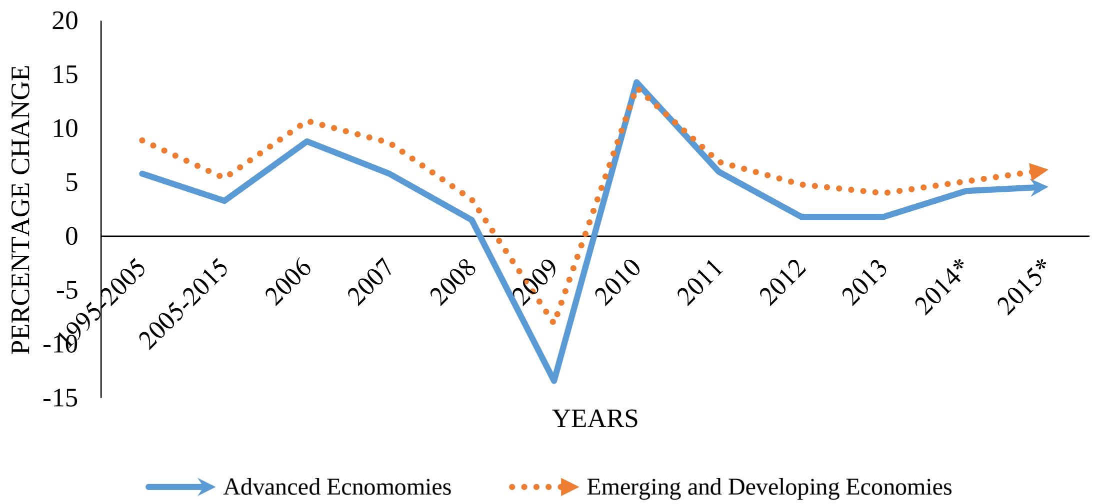
*Expected growth rate of global trade volume. International Monetary Fund (IMF) has expected to grow the volume of global trade by 4.3 percent in 2014 following 5.3 percent in 2015.

8.9 percent for emerging and developing economies for the previous decade (1995-2005). However, for this decade (2006-2015), exports of advanced economies and emerging and developing economies is expected to increase by 3.3 percent and 5.4 percent respectively (appendix 1).

Figure 4.2: Global Exports



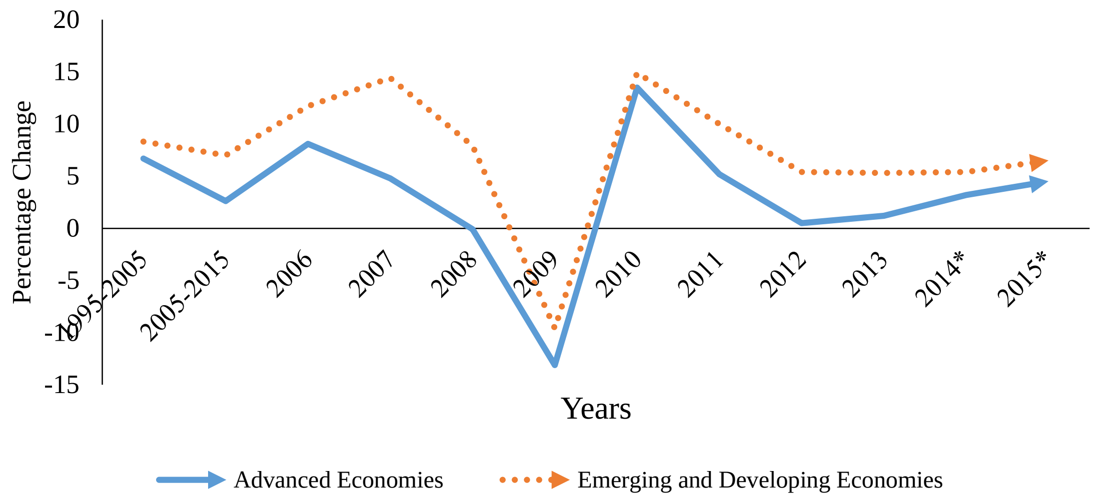
*(*expected growth rate)*

Source: Author's calculation based on Global Exports, International Monetary Fund, 2014.

Global trend of exports for advanced economies is depicted by plain line while exports for emerging and developing economies is represented by dotted line in figure 4.2. From the figure above, it can be said that the exports trend for both advanced and emerging and developing economies are fluctuated in similar way. However, exports of advanced economies is a bit above than that of emerging and developing economies. Global exports for previous decade was stronger than this decade.

Likewise, global merchandise imports has increased by 3.3 percent on an average accumulating 1.2 percent increase for advanced economies and 5.3 percent for the emerging and developing economies in 2013. It had increased by 6.7 percent for advanced economies and by 9.3 percent for emerging and developing economies for the previous decade (1995-2005). However, for this decade (2006-2015), imports of advanced economies and emerging and developing economies is expected to increase by 2.6 percent and 7.0 percent respectively (appendix 1).

Figure 4.3: Global Imports



*(*expected growth rate)*

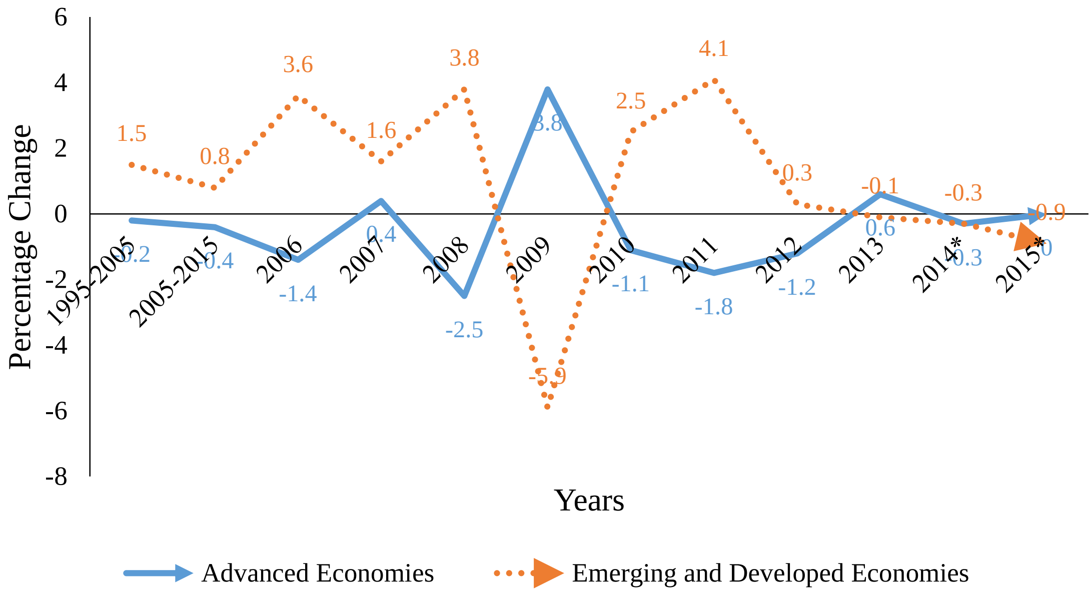
Source: Author's calculation based on Global Exports, International Monetary Fund, 2014.

Trend of global imports is derived for both advanced economies and emerging and developing economies by plain line and dotted line respectively in figure 4.3. From the above figure, it can be concluded that the trend of imports for both advanced economies and emerging and developing economies are also moving in same direction.

Due to heavy decline in trading activities of developed countries, terms of trade of advanced economies is negative for both decades 1995-2005 and 2005-2015. However, terms of trade is positive for emerging and developing nations for both the aforementioned decades. Balance of trade of advanced economies is merely positive for 3 years in current decade. As per the statistics of International Monetary Fund, terms of trade was positive for advanced economies in 2007 by 0.4 percent, again in 2009 by 3.3 percent and by 0.6 percent in 2013. However, IMF has expected the terms of trade in 2014 is to be negative by 0.3 percent and the balanced terms of trade in 2015 for advanced economies (Appendix 1). On the other hand, terms of trade is positive for emerging and developing nations for almost a decade except in 2009 and 2013. In 2009, terms of trade was negative by -5.9

percent and in 2013 also, a nominal negative trade balance by 0.1 percent. IMF has expected that terms of trade in 2014 and 2015 to be negative for emerging and developing economies and to be negative for advanced economies in 2014 and to be balanced trade balance in 2015. The graphical derivation of terms of trade is depicted in figure 4.4, herein below.

Figure 4.4: Global Terms of Trade



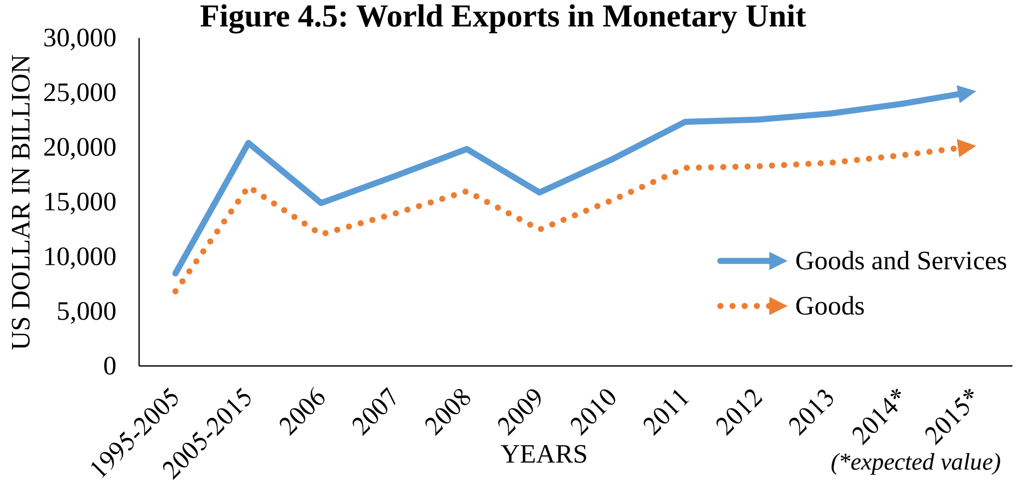
*(*expected growth rate)*

Source: Author's calculation based on Global Terms of Trade, International Monetary Fund, 2014.

The IMF data shows that there exist inverse relationship in terms of international trade balance between advanced economies and emerging and developing economies depicted in figure 4.4. That is, if trade performance of advanced economies is strong, trade performance of emerging and developing economies is seemed to be weak and vice versa. From the virtue of global trade balance, during the recovery period of World Recession, global trade balance for developed economies was negative. However, IMF has expected to have positive global trade balance for developed economies but negative for emerging and developing economies for the fiscal year 2013 and 2014.

Goods and services equivalent to USD 8,482 billion were traded globally in previous decade on an average, annually. Trading of goods solely was worth of USD 6,835 billion for that decade (1995-2005). However, goods and services equivalent to USD 20, 390 billion are expected to be traded globally for this decade (2005-2015) which is almost 2.5 folds of previous decade. On the other hand, global trading of goods is expected to be equivalent to USD 16, 396 billion for this decade which shows global trade of goods is expected to increase significantly than that of services (appendix 1). This the statistics shows that increment in global trade of goods is more vivid than that of services. Global exports trend is presented in figure 4.5 below.

Figure 4.5: World Exports in Monetary Unit



Source: Author's calculation based on World Exports in Monetary Unit, IMF, 2014.

However, the volume of globally traded goods and services and sole goods are in increasing trend as suggested by figure 4.5. Global volume of goods and service trade is represented with a plain line and the volume of global goods trade is depicted by the dotted line. By plotting the value of both trade as revealed in World Economic Outlook, 2014, it can be seen that the volume of both trade is in increasing trend then that of previous decade 2005-2015. Though the volume of goods is higher than goods and services the gap between these two is increasing. It means global trade of services is in increasing trend than that of trade of goods. By analyzing the above all statistics, it can be concluded that the global economic melt-down had chronic effect on global trade. However, the global trade is expected to improve by 2014 and 2015.

4.2. Position of Nepal's Trade

Nepal, an agrarian country, has more than 70 per cent (73.9%) people here are engaged in agriculture. The contribution of the agriculture sector to the total GDP constitutes more than 33 per cent (CBS, 2009).

Nepal, an agrarian country, has more than 70 per cent (73.9%) people here are engaged in agriculture. The contribution of the agriculture sector to the total GDP constitutes more than 33 per cent (CBS, 2009). As agro-based country, her primary exports are confined to agro-products, basically. However, Nepal imports various goods and services and well as strategic raw material of few exports category as well. Total export is drastically increasing on one hand, meanwhile, total export is not increasing as expected, on the other hand.

The table 4.1 below shows that total trade volume of Nepal had increased by 225.66 folds since 1975/76. It constitutes an increase of 11.90 percent in total export in 1975/76-1984/85, 23.04 percent increase in 1985/86-1994/95, 13.53 percent increase in 1995/96-2004/05 and just by 4.76 percent increase in 2003/04-2012/13. Similarly, total imports had increased by 16.38 percent in total export in 1975/76-1984/85, 23.58 percent increase in 1985/86-1994/95, 9.41 percent increase in 1995/96-2004/05 and 17.01 percent increase in 2003/04-2012/13 (TEPC, 2013, Appendix 2).

Trade deficit had increased hugely from 1990s and it became 100.9 billion NRs. in FY 2004/05 within the period of just 25 years from just 620 million NRs. Total export accounted Rs.601.20 billion in FY 2012/13. And total export totaled 77.35 billion NRs. and terms of trade was negative by Rs.523.86 billion (TEPC, 2013).

The ratio between total export and total export had increased almost 1:8 in FY 2012/13 from 1:1.5 in FY 1975/76, in 38 FY period. The portion of exports and imports have constituted 11.4 percent and 88.6 percent in total trade respectively in FY 2012/13 as comparison to portion of total export and imports 39.69 percent and 60.31 percent for the FY 1975/76 (TEPC, 2013). By plotting the data relating to foreign trade balance of Nepal into a graph chart, it results as in the figure 4.6.

Table 4.1: Foreign Trade Balance of Nepal

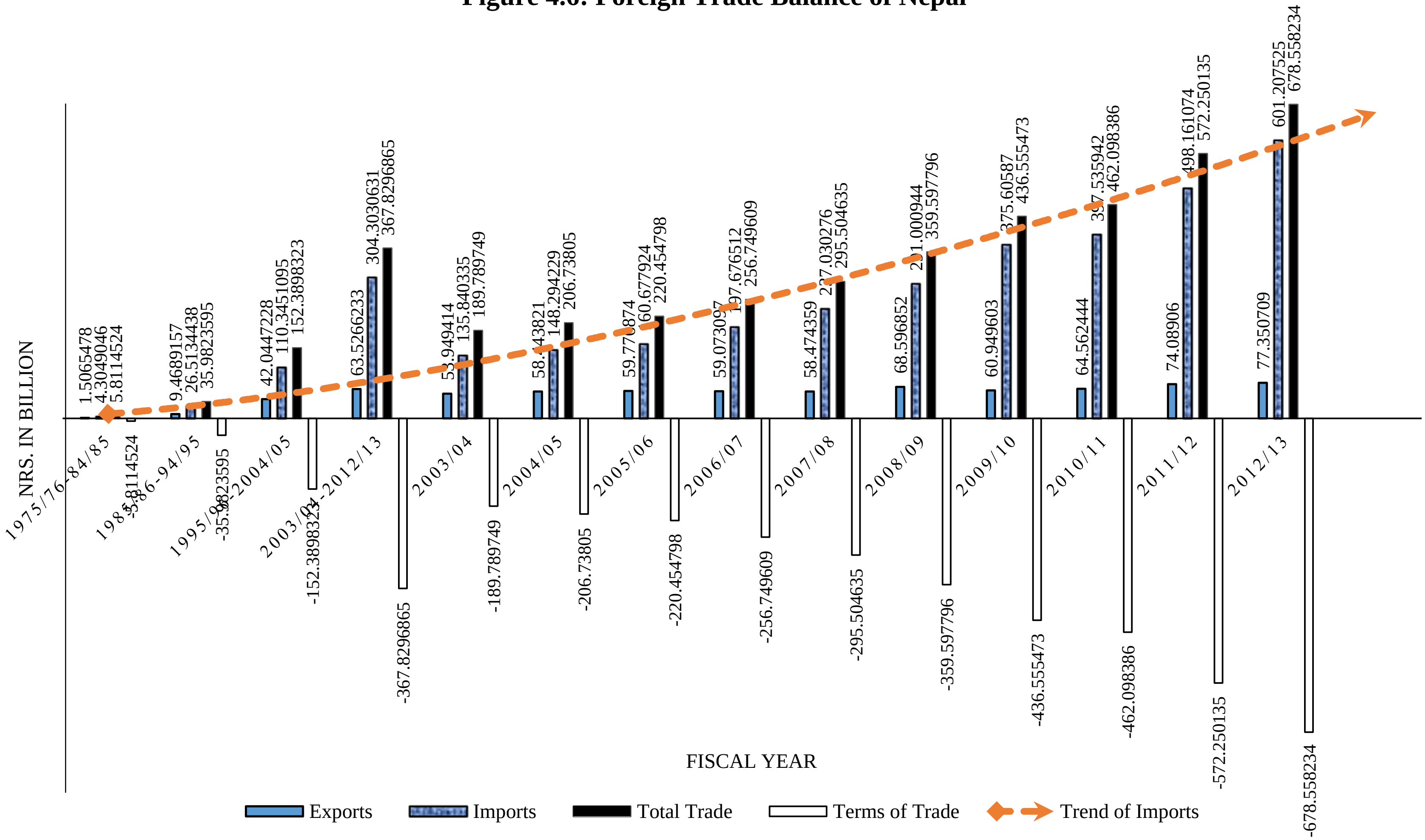
Value in '000 Rs.

Fiscal Year	Total Exports	Annual Change % in Total export	Total Imports	Annual Change % in Total export	Total Trade	Annual Change % in Total Trade	Trade Deficit	Annual Change % in Trade Deficit
1975/76-84/85	1506547.8	11.9	4304904.6	16.38	5811452.4	13.92	2798356.8	26.82
1985/86-94/95	9468915.7	23.04	26513443.8	23.58	35982359.5	23.02	17044528.1	26.04
1995/96-2004/05	42044722.8	13.53	110345109.5	9.41	152389832.3	10.31	68300386.7	7.85
2003/04-2012/13	63526623.3	4.76	304303063.1	17.01	367829686.5	14.5	240776439.7	21.57
2003/04	53,949,414	7.9	135,840,335	5.9	189,789,749	6.5	81,890,921	4.7
2004/05	58,443,821	8.3	148,294,229	9.2	206,738,050	8.9	89,850,408	9.7
2005/06	59,776,874	2.3	160,677,924	8.4	220,454,798	6.6	100,901,050	12.3
2006/07	59,073,097	-1.2	197,676,512	23	256,749,609	16.5	138,603,415	37.4
2007/08	58,474,359	-1	237,030,276	19.9	295,504,635	15.1	178,555,917	28.8
2008/09	68,596,852	17.3	291,000,944	22.8	359,597,796	21.7	222,404,092	24.6
2009/10	60,949,603	-11.1	375,605,870	29.1	436,555,473	21.4	314,656,267	41.5
2010/11	64,562,444	5.9	397,535,942	5.8	462,098,386	5.9	332,973,498	5.8
2011/12	74,089,060	14.8	498,161,074	25.3	572,250,135	23.8	424,072,014	27.4
2012/13	77,350,709	4.4	601,207,525	20.7	678,558,234	18.6	523,856,815	23.5

Source: Trade and Export Promotion Centre Nepal, 2013.

In figure 4.6, foreign trade balance of Nepal is derived with the help of chart and trend line. The above figure shows that the volume of trade is increasing significantly as increasing in total imports. However, the total exports is not increasing as that of imports. The trend of imports is depicted by the dotted line in figure 4.6. And, terms of trade is depicted in the lower portion of the figure. From the figure below, it can be said that foreign trade balance of Nepal is so far been poor.

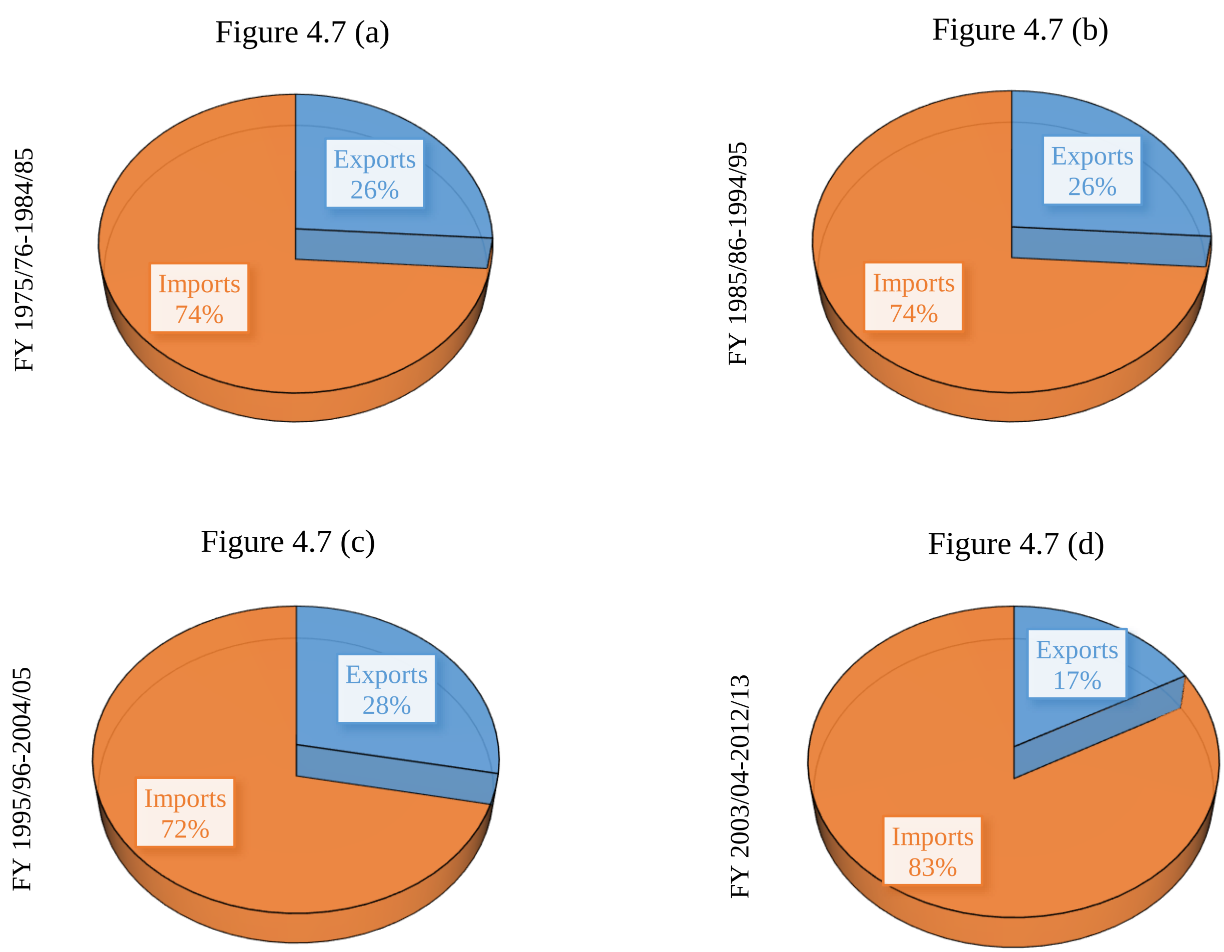
Figure 4.6: Foreign Trade Balance of Nepal



Source: Author's calculation based on Export-Import data of Trade and Export Promotion Nepal, 2013.

The rising gap between imports and exports has exhilarated from 1990s and further widened in 2000s and afterwards. The orientation of exports and imports in total trade for different decades can be depicted as in figure 4.7 below.

Figure 4.7: Nepal's Foreign Trade Balance



Source: Author's calculation based on Export-Import data of Trade and Export Promotion Nepal, 2013.

The foreign trade balance of Nepal is presented in four pie-charts of figure 4.7, particularly export-import portion in total trade volume. In decade 1975/76-1984/85, portion of exports and imports in total trade were 26% and 74 % respectively. For the next decade 1985/86-1994/95 also, the portion of exports-imports in total trade volume had remained the same as of 1975/76-1984/85. From the point of view of terms of trade, Nepal's trade performance was best in four decades consisting 28 percent exports in total trade and the remaining the imports for the decade FY 1995/96-2005/2006. However, the terms of trade balance for this decade remained negative. After accessing the WTO, balance of trade further deteriorated. The portion of imports in total trade volume had increased significantly resulting 83 percent and exports had confined to just 17 percent in FY 2003/04-2012/13.

4.2.1. Nepal's Foreign Trade Balance after Her Accession to the WTO

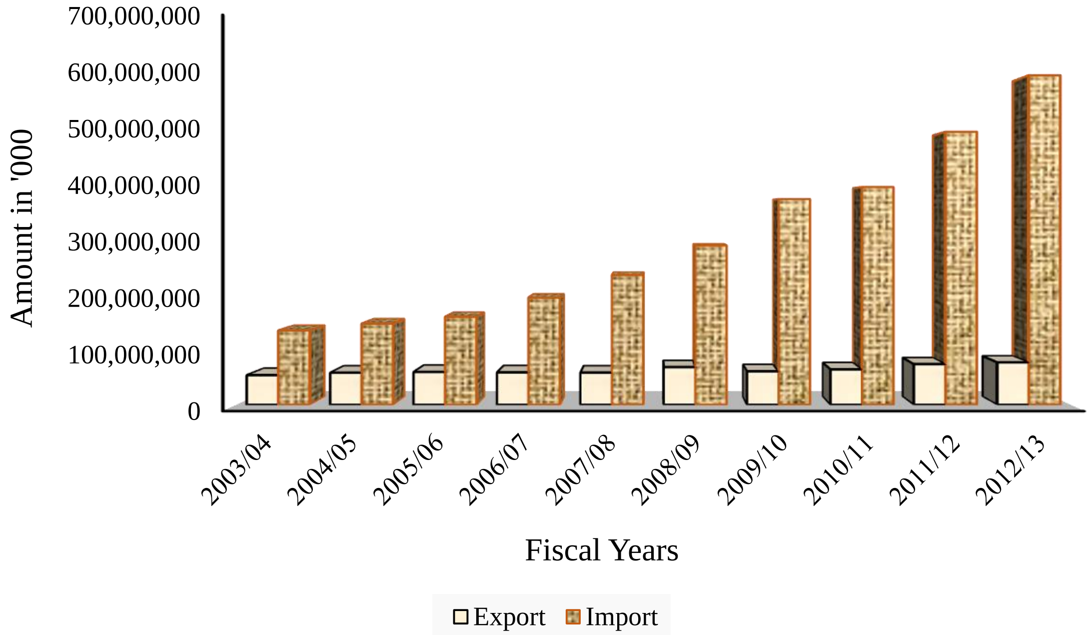
Prior to accessing the WTO, the data of the TEPC suggests that total trade volume was accounted Rs.128.14 billion comprising Rs.35.83 billion of exports and Rs.92.31 billion imports for the FY 1998/99. For that FY imports and exports were accounted for 27.95 percent and 72.04 percent respectively in total trade. The ratio of exports and imports was approximately 3:8 for that particular FY. And, for the base year (FY 2003/04) of the study, total exports was accounted 53.95 billion NRs. (28.42 percent) and total imports was equivalent to 135.84 billion NRs. (71.54 percent), which formed total trade volume as 189.79 billion NRs. The ratio of exports on imports was almost equal as before the trade statistics of 5 year i.e. FY 1998/99.

However, after accessing the World Trade Organization, the trade volume of Nepal has increased significantly. After accession to the WTO, total trade volume of Nepal by then increased 3.57 folds till FY 2012/13 than that of FY 2003/04 which incorporates total imports increased by 4.43 folds, however total exports increased nominally by 1.43 folds and trade deficit increased by 6.39 folds for the period of 10 years. The ratio of exports on imports for FY 2012/13 was 1:8 which shows how terms of trade has shifted and diverted into import basis trade structure (TEPC, 2013).

After Nepal's accession to the WTO, total imports had increased by four point four-three (4.43) times, i.e., near about four hundred fifty per cent however exports had increased merely by 1.43 times, i.e., near about one hundred fifty per cent during a decade. Within the period of 10 years, trade dependency to India was increased by 57.5 per cent to more than 66 per cent. Share of total exports and imports to and from India had increased significantly in this period from 57 per cent and 58 per cent 66 per cent and 67.2 per cent respectively. As trade dependency with India is increasing, trade deficit is also increasing (TEPC, 2013).

Trade position of Nepal according to the trade statistics of Trade and Export Promotion

Figure 4.8: Export Import Trend of Nepal

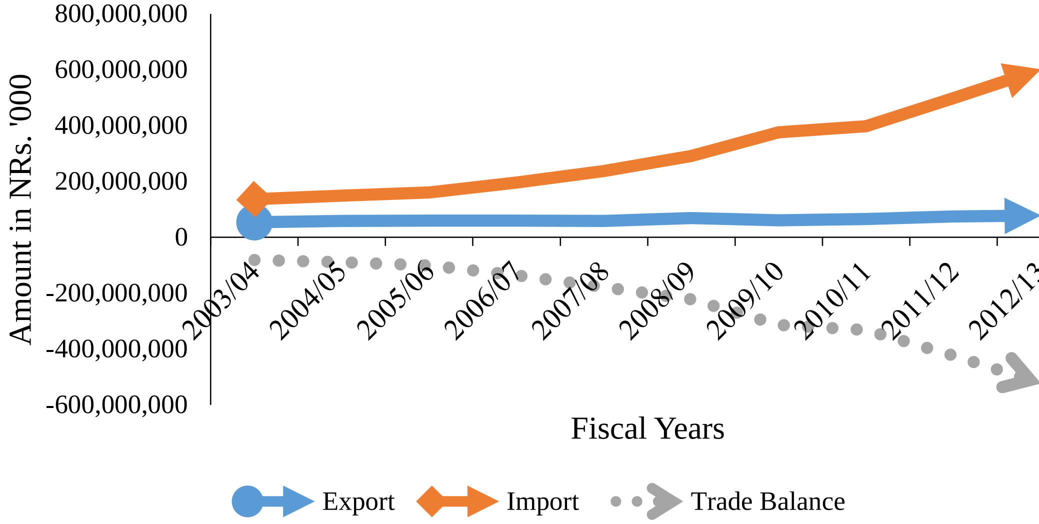


Source: Author's calculation of trade columns based on TEPC, 2013.

Centre (TEPC) Nepal and Nepal Rastra Bank (NRB) is depicted graphically in figure 4.8. This diagram shows that trade balance of Nepal had become largely negative for the study period FY 2003/04 to 2012/13; that is, after Nepal's accession to the WTO. Import trend of Nepal is increasing over-time however, the orientation of exports is not increasing as per expected and as of imports (Appendix 2).

For the FY 2003/04, total imports of Nepal accounted 135.84 billion NRs. Total imports the study period is increased by 4.42 folds in comparison to 2003/04 i.e. 4 hundred 42 percent, annually around 44 percent which is accounted 601.2 billion NRs. for FY 2012/13. Trade status of Nepal is presented with the help of trend line in figure 4.9, below.

Figure 4.9: Trend of Trade FY 2003/04-2012/13

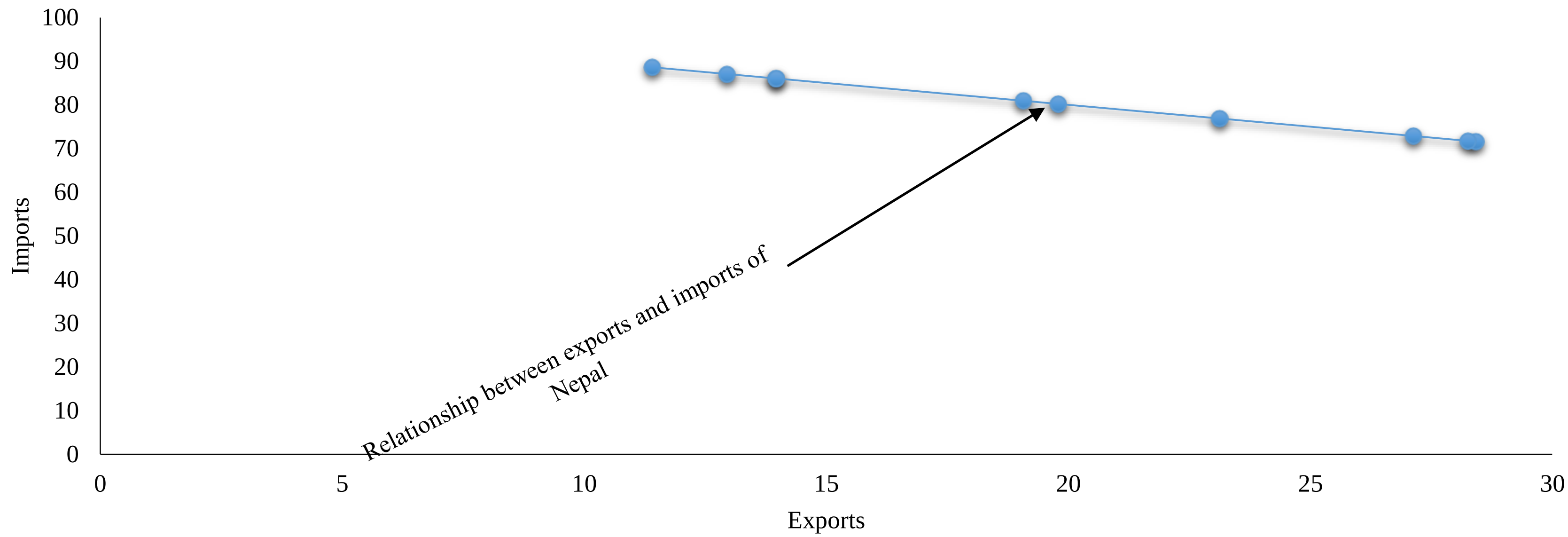


Source: Author's calculation of Trade Trend based on TEPC, 2013.

In figure 4.9, the upward sloping trend line shows the trend of imports and another line almost parallel to the horizontal axis shows the trend line of exports. Similarly, the downward slopping dotted line shows trade balance during the study period. After accessing the World Trade Organization, imbalance of trade is increasing very drastically, depicted by a steady downward sloping trend line. The increasing gap between exports and imports shows that trade balance is deteriorated after Nepal's accession to the WTO (Appendix 2).

Total trade constituted of exports 28.42 percent and of imports 71.58 percent in FY 2003/04 (Appendix 2). The ratio between exports and imports had declined as the trade balance deteriorated further since then. Proportion of exports and imports in total trade had accounted just 11.40 percent and 88.60 percent in total trade in FY 2012/13. The relationship between exports and imports in total trade is depicted in fig. 4.10 below.

Figure 4.10: Export Import Relation of Nepal FY 2003/04-2012/13



Source: Author's calculation of relationship between the proportion of exports and imports in total trade based on TEPC, 2013.

Figure 4.10 depicts that there is inverse relationship between Nepal's total exports and imports. The inverse relationship between exports and imports is presented by scatter diagram. This shows, as imports increases, exports decreases and vice-versa. By observing the figure, it can be concluded that there is linear but inverse relationship between total exports and imports for the study period.

4.2.2. Share of Export and Import in Total Trade

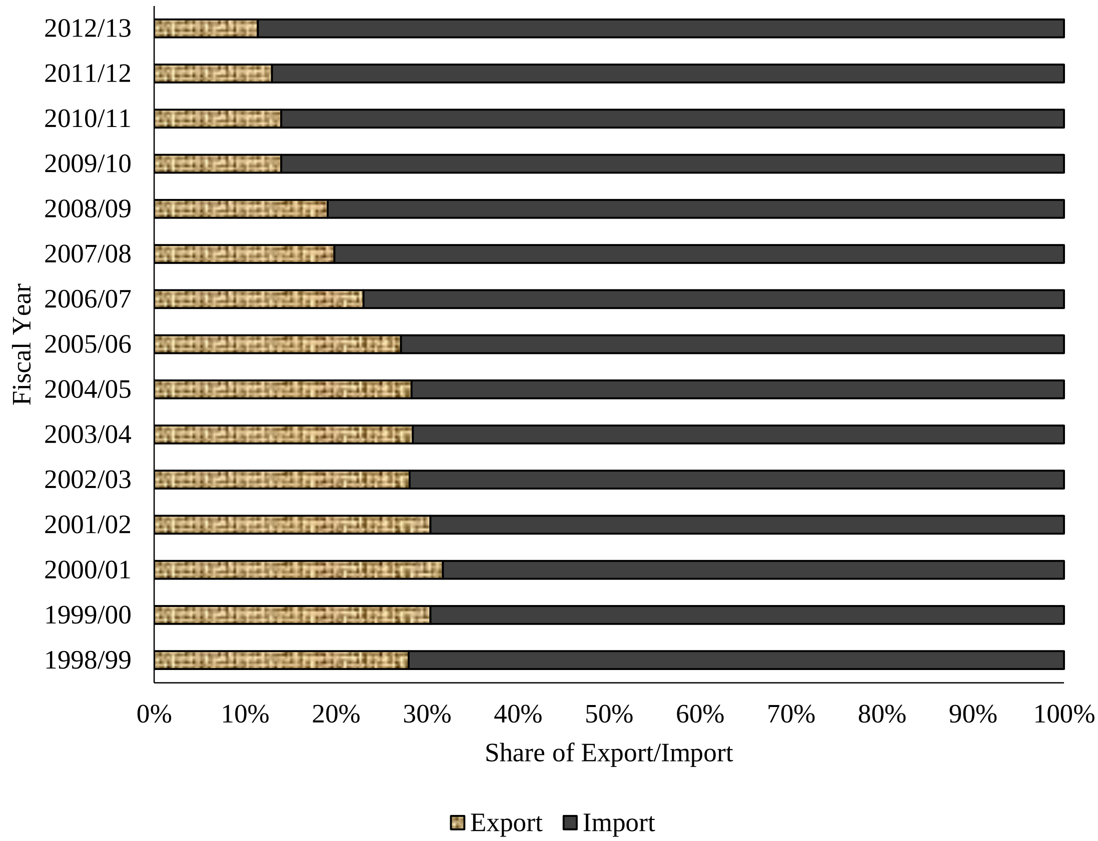
Share of export and import in total trade also shows how the trade performance of Nepal has deteriorating after Nepal accessed the World Trade Organization. The share of export and import in total trade since 1998 is given in the given table 4.2.

Fiscal Year	Export	Import
1998/99	27.96	72.04
1999/00	30.36	69.64
2000/01	31.74	68.26
2001/02	30.37	69.63
2002/03	28.06	71.94
2003/04	28.43	71.57
2004/05	28.27	71.73
2005/06	27.12	72.88
2006/07	23.01	76.99
2007/08	19.79	80.21
2008/09	19.08	80.92
2009/10	13.96	86.04
2010/11	13.97	86.03
2011/12	12.95	87.05
2012/13	11.40	88.60

Source: Economic Surveys: 2003, 2008, 2013, MOFGON.

In 1998/99, share of export in total trade was 27.96 percent and import was 72.04 percent. The share of export in total trade was increasing and had reached its peak in 2000/01 constituting 31.74 percent in total trade. The portion of export in total trade remained almost constant for three respective fiscal year in 2002/03, 2003/04 and 2004/05. As Nepal accessed the WTO, the share of export in total trade started to decline tremendously. In 2005/06, it was declined by 1.15 percent followed by the second heaviest decline in 2006/07 by 4.10 percent retaining 27.12 percent and 23.01 percent in respective fiscal years. Thereafter, the share of export in total trade has fallen tremendously and in FY 2012/13, the portion of export in total trade accounted 11.40 percent only when share of import constitute 88.60 percent share in total trade. The deteriorating international trade performance of Nepal is depicted in figure 4.11 that shows share of export and import in total trade since 1998/99.

Fiugre 4.11: Share of Export Import in Total Trade



Source: Author's calculation based on Economic Surveys: 2003, 2008, 2013, MOFGON.

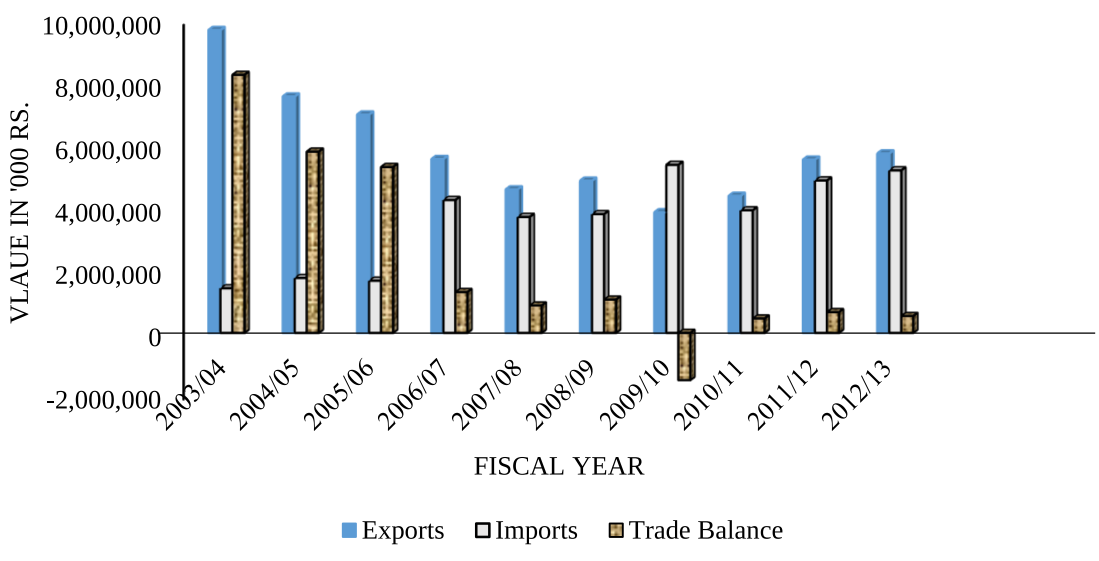
Share of export and import in total trade is depicted in figure 4.11. Share of export in total trade is denoted by dotted portion of bar and share of import in total export is denoted by plain black filling. It shows the portion of export in total trade is declining after Nepal's accession to the WTO while the portion of import in total trade is increase enormously. The bar graph shows poor international trade performance of Nepal since her accession to the World Trade Organization.

As share of export in total trade has declined, terms of trade of Nepal has further deteriorated since Nepal's membership in the WTO.

4.3. Nepal-US Trade Position: Nexus of Export-Import Status

Prior to accessing the WTO, Nepal's trade position with US was remarkably good. For the FY 2003/04, total trade volume of Nepal-US trade relation was 11.12 billion NRs. consisting 9.69 billion NRs. of exports and 1.43 billion NRs. of imports, i.e., in total trade the amount of exports were 87.12 per cent and the remainder 12.88 per cent were imports (appendix 3, TEPC, 2013). However, it started to decline after FY 2004/056. Graphical trade position of Nepal-US trade for the study period is depicted in figure 4.12. The figure shows the position of Nepal-US trade relation was significant from Nepal's perspective. Trade balance was in favour of Nepal by 8.26 billion NRs. for the FY 2003/04. However, after accession to the WTO, Nepal-US trade relation was flipped into opposite direction. That is, imports from the US started to increase heavily and exports trade started to fall downward. Results: terms of trade for Nepal started to decline drastically. And, it became even negative for the FY 2009/10 by 1.5 billion NRs. Afterwards, Nepal's trade balance with the US is nominally positive.

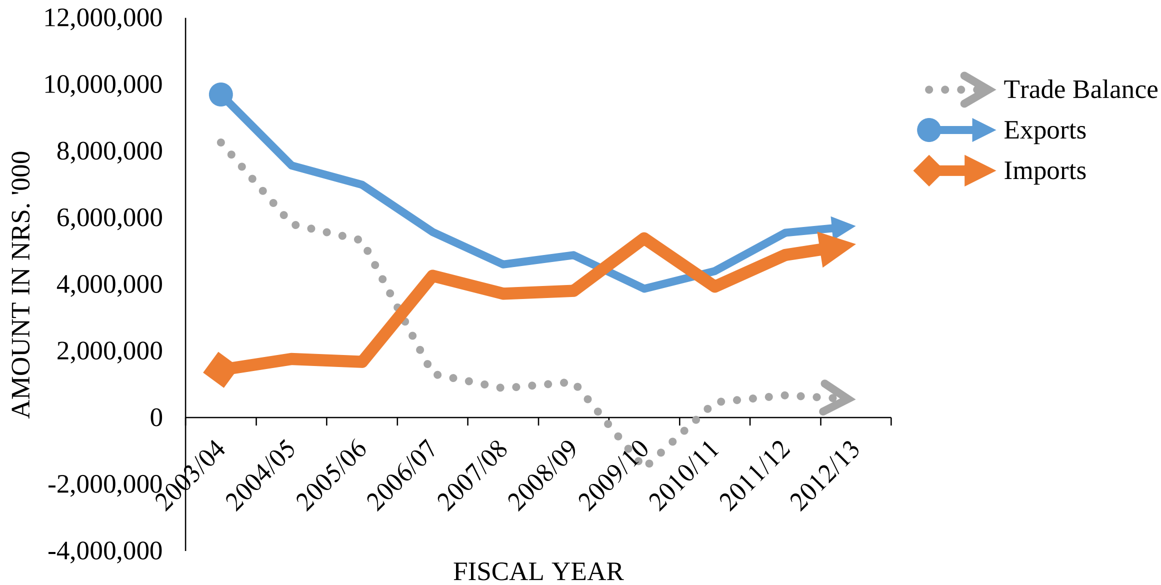
Figure 12: Nepal-US Trade (F.Y. 2003/04-2012/13)



Source: Author's calculation of Nepal-US Trade diagram based on TEPC, 2013.

In figure 4.13, the trade statistics of Nepal-US for the study period is presented by trend line (appendix 3). The trend line of Nepal-US trade relation shows that the exports to the Unites States is in diminishing trend and the imports from the US is in increasing trend after Nepal accessed to the World Trade Organization.

Figure 4.13: Export Import Trend of Nepal-US Trade

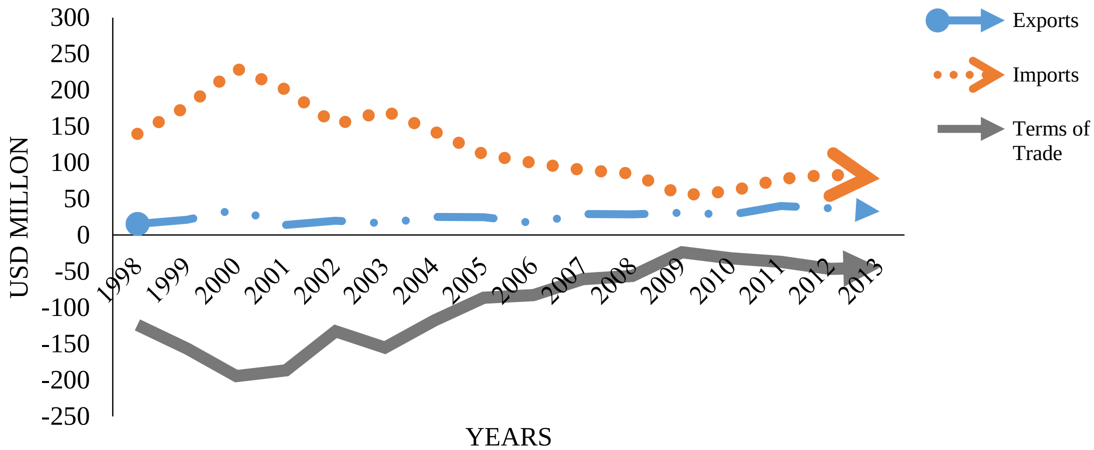


Source: Author's calculation of Trade Trend of Nepal-US trade based on TEPC, 2013.

In above fig. 4.13, exports the US for the study period by flatter downward sloping line. Trend of imports is represented by upward sloping line. And, steepy downward dotted line stands for trade balance of Nepal and US trade relation for the study period. Initially for the FY 2003/04, trend line of export is above than trend line of import and there is a wider gap between between imports and exports. It suggests that exports dominate imports and trade balance is subject to be in favour of Nepal for initial phase. However, trend line of imports started to dominate the trend line of exports from FY 2006/07 and the gap between exports and imports shrinks in figure 4.13. The trend further worsen and Nepal has realised the wrost situation in FY 2009/10 when trade balance was negative for Nepal.

However, the trend line of Nepal-US trade as per the data of the Census Bureau of the United States Department of Commerce shows that terms of trade is negative but declining from US point of view depicted in figure 4.14 (appendix 4). According to the trade statistics of Census Bureau of the United States Department of Commerce, the exports and imports to and from Nepal were accounted 15.6 million USD and 139.5 million USD respectively and terms of trade was against US by 123.9 USD million for the year 1998. Trend of imports had reached its utmost limit in 2000 for which year imports from Nepal was accounted 229.5 million USD and exports to Nepal was accounted 35.1 million USD. Thereafter, the trend of imports from Nepal to US the has started to decline.

Figure 4.14: Nepal-US Trade: From US Point of View



Source: Author's calculation of Trade Trend based on TEPC, 2013.

After Nepal's accession to the WTO, the position of trade shifted to the US's position. The trade statistics of Nepal-US trade relation according to the Census Bureau of United States Department of Commerce is examined in figure 4.14 above. Here, exports to Nepal is indicated by semi-dotted line with arrow-cap and a circle at the starting point of the trend line. Imports from Nepal is depicted by a dotted line and terms of trade is represented by a smooth line with arrow cap. From the figure, it is derived that the US's exports to Nepal is in increasing trend after 2004 while imports from Nepal has decreased drastically.

4.3.1. Share of US Trade in Total Trade of Nepal

The share of US trade in Nepal is very nominal. From import point of view, it also matter a little in international trade. However, from export point of view, it matter more. Since Nepal is realizing positive trade balance with the US, export trade is main concern.

Table 4.3: Share of US Trade in Total Trade of Nepal

Fiscal Year	Share of Trade in Total Trade	Share of Import in Total Import	Share of Export in Total Export
2003/04	5.86	1.06	17.97
2004/05	4.52	1.19	12.95
2005/06	3.93	1.04	11.70
2006/07	3.83	2.16	9.45
2007/08	2.81	1.57	7.86
2008/09	2.42	1.31	7.11
2009/10	2.12	1.43	6.34
2010/11	1.80	0.99	6.80
2011/12	1.82	0.98	7.49
2012/13	1.61	0.87	7.43

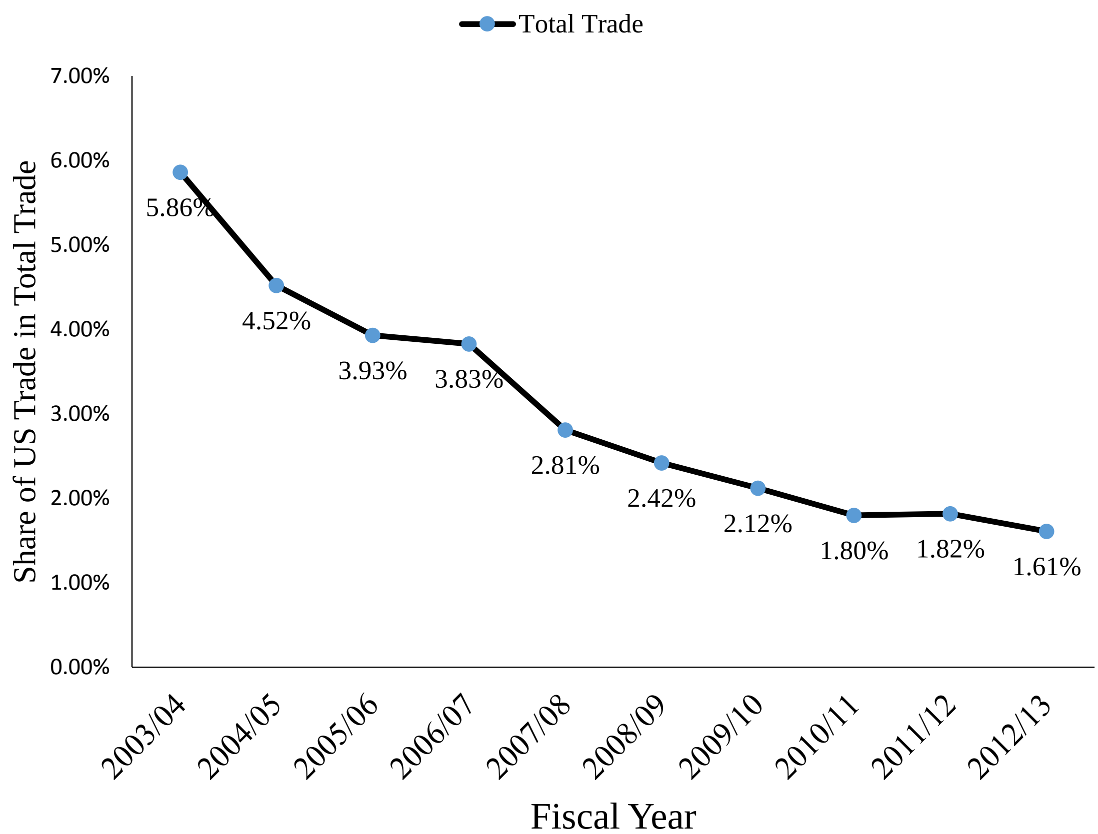
Source: Trade and Export Promotion Center, 2013.

In table 4.3, share of US trade in total trade of Nepal is presented. Initially in 2003/04, portion of US trade in total trade was 5.86 percent and it started to decline afterwards and accounted 1.61 percent in total trade in 2012/13, which is the lowest for the study period.

Similarly, share of import from the US in total import was 1.06 percent in 2003/04 which also declined to 0.87 percent in 2012/13.

However, exports matter more. Share of exports to the US accounted a very handsome 17.97 percent in total export of a Nation in 2003/04. It also started to decline after Nepal accessed to the WTO. In 2004/05, share of exports in total exports was 12.95 percent follwed by 11.70 percent in 2006/07. Afterwards, share of exports confined into single digit accounting 6.34 percent for 2009/10 in total exports of the country, which is the lowest portion of export to the US out of country's total export. However, as exports to the US revived again, share of exports to the US also revived and accounted 7.49 percent and 7.43 percent in FY 2011/12 and 2012/13 respectively. The graphical representation of proportion of US trade in total trade of Nepal is depicted in figure 4.15, which also shows the deteriorating trade performance of Nepal with the USA after her accession to the World Trade Organization.

Fiugre 4.15: Share of US Trade in Total Trade of Nepal



Source: Author's calculation based on TEPC, 2013.

4.4. Foreign Exchange Rate Volatility and Exports to the US

Foreign exchange is the currencies or short-term monetary claims of foreign countries (Douch, 1989). Microsoft Encarta (2009) has expressed 'exchange rate' as in relation to foreign exchange of money, the price of a country's currency expressed in terms of one unit of another country's currency. According to R. R. Paul (2008), the rate at which one currency is exchanged for another is called the exchange rate. It expresses the external purchasing power of home currency.

Todaro (2012) has stated that the rate at which the domestic currency may be converted into (sold for) a foreign currency such as the U.S. dollar is exchange rate. This conversion does not measure the relative domestic purchasing power of different currencies. There has been an increasing role of macroeconomic policies, especially the exchange rate policy, to enhance the exports and provide neutral incentives to import-competing and export-oriented industries (Ali Kemal & Quadir, 2005). Exchange rate is crucial factor for foreign trade both imports and exports determination (Froyen, 2004). Abin and Ruta (2011) have expressed that on average, exchange rate volatility has a negative (even if not large) impact on trade flows. The extent of this effect depends on a number of factors, including the existence of hedging instruments, the structure of production (e.g. the prevalence of small firms), and the degree of economic integration across countries.

Real exchange rate index is a good indicator of competitiveness of a country's export capacity as it shows the price of the country's goods and services relative to the price of goods and services of other countries (Alam, 2005). Fall in RER index suggests that the products of one country are cheaper than the products of other countries which in turn lead the demand for the country's exports may increase. Alam (2005) mentioned that a depreciation in exchange rate also affects exporters' returns positively making export more profitable which in-turn may encourage firms to increase volume of export. Direct links between exchange rates and trade, in particular the heavily debated question as to whether exchange rate uncertainty reduces the incentives to trade internationally (IMF, 1984). Again many analyses show that depreciation may coincide with greater exchange rates volatility and uncertainty and such uncertainty may have adverse effects on export (Alam, 2005).

Among the tools of export promotion and import curtailment, exchange rate devaluation is one. However, this is not a sufficient tool in case of under-developed countries like Nepal because there is no monopoly power over its exports and no monopsony power over its imports. Also, the financial market in such nation is not well developed and the economy is not monetized. Thus, to correct the trade deficit, stabilization tool such as exchange rate policy and fiscal and monetary policies have greater role (Devkota, n.d.). So, this study is basically undertaken to understand the impact of exchange rate on export trade balance to the US. For the sake of simplicity, forex is taken in US$ only.

Foreign Exchange Rate of Nepal for Study Period

For this study, annual exchange rate of 1 US dollar in NRs. is taken into consideration. The average annual exchange rate for the study period is given below in table 4.4.

Table 4.4: Average Annual Exchange Rate of 1 US dollar

Fiscal Year	Average Annual Exchange Rate (in Rs.)
2003/04	73.60
2004/05	72.27
2005/06	72.06
2006/07	72.32
2007/08	65.04
2008/09	76.88
2009/10	74.54
2010/11	72.37
2011/12	81.02
2012/13	87.99

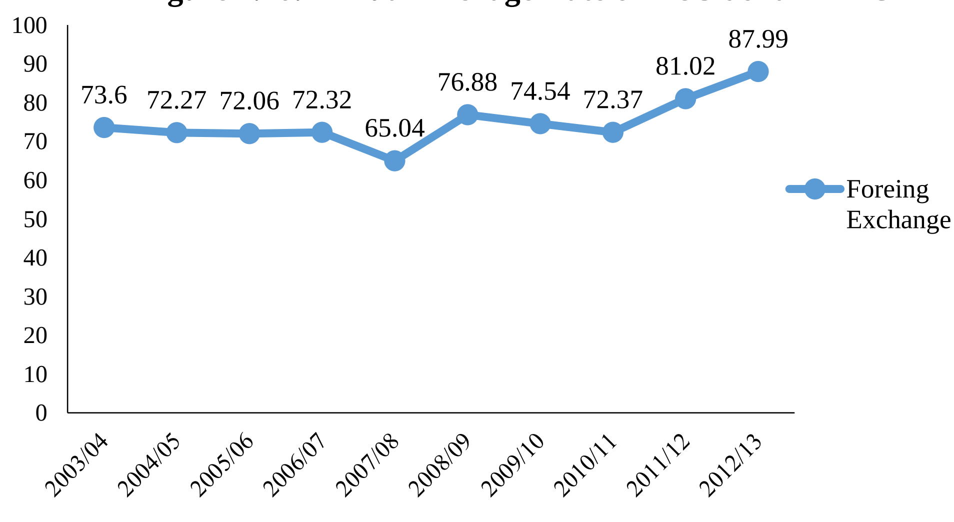
Source: Nepal Rastra Bank, 2013.

The average annual exchange rate of US$ 1 is presented above in the given table 4.4. The data is sourced from NRB. According to the Nepal Rastra Bank, the average annual exchange rate of 1 US Dollar for FY 2003/04 was Rs.73.60. It was declined by Rs.1.33 in

FY 2004/05 and became Rs.72.27 for US$ 1. The average annual exchange rate remained almost stable for next two fiscal year. As the Indian Currency (IC) became stronger as US dollar became weaker ever for the study period and became Rs.65.04 for USD 1 in FY 2007/08. Again in FY 2008/09, the tremendous increment is seen and annual average exchange rate of USD 1 resulted into Rs.76.88. The average annual exchange rate was declined for next two FY and became Rs.74.54 and Rs.72.37 respectively in FY 2009/10 and 2010/11 for 1 US dollar. As IC became weaker in 2011/12 to USD and as a cross exchange rate, the NRs. became Rs.81.02 of 1 US dollar for 2011/12 increasing 8.65 rupees than that of FY 2010/11, second heaviest increment for the study period after FY 2008/09 in which the Rs. was devaluated in relation to US dollar by Rs.11.84. Again, for the concluding FY (FY 2012/13) of study period, the NRs. became weakest among the FYs of study period resulting Rs.87.99, the average annual exchange rate of 1 US dollar. From table 4.4, it can be said that average annual exchange rate of 1 US dollar is increasing since 2010/11.

The trend line of average annual exchange rate of 1 US dollar is given below in figure 4.16. Figure 4.16 shows how average annual exchange rate of 1 US dollar has changed over the period. It depicts, foreign exchange rate of Nepal is unstable and this instability causes to fluctuate trend in figure 4.16.

Figure 4.16: Annual Exchage Rate of 1 US dollar in NC



Source: Author's calculation based on Nepal Rastra Bank, 2013.

4.4.1. Foreign Exchange Rate and Exports to the US: the Relationship

The relationship between foreign exchange rate and Nepal-US Trade relation shows how the exchange rate affect Nepal-US trade relation, the exports to the US, the imports from the US and trade balance. Though, foreign exchange rate affects trio variables exports, imports and trade balance, the study is confined on exports to the US only which is depicted in table 4.5.

Table 4.5: Nepal-US Trade Relation Situation: Factor - Exchange Rate

Fiscal Year	Exports to US (in Rs.'000)	Imports from US (in Rs.'000)	Trade Balance (in Rs.'000)	Annual Average Exchange
2003/04	9,695,977	1,433,261	8,262,716	Rs.73.60
2004/05	7,570,742	1,763,842	5,806,900	Rs.72.27
2005/06	6,993,442	1,677,499	5,315,943	Rs.72.06
2006/07	5,571,274	4,259,983	1,311,291	Rs.72.32
2007/08	4,598,900	3,718,141	880,759	Rs.65.04
2008/09	4,878,573	3,808,616	1,069,957	Rs.76.88
2009/10	3,867,223	5,384,826	-1,517,603	Rs.74.54
2010/11	4,392,600	3,930,988	461,612	Rs.72.37
2011/12	5,551,916	4,885,225	666,691	Rs.81.02
2012/13	5,750,120	5,207,770	542,350	Rs.87.99

Source: NRB and TEPC Nepal, 2013.

Generally, exchange rate is attributed to have direct relationship with exports. It means the currency of a country and export trade have direct association. That is, as the currency of a country is devaluated, export trade becomes more profitable and entrepreneurs are encouraged to exports more due to increasing profit. On the other hand, if the currency of a country is overvalued, entrepreneurs are discouraged to exports due to decreased profit. However, after Nepal's accession to the World Trade Organization, no concrete relationship between export trade to the US and annual average exchange rate of 1 US dollar has existed.

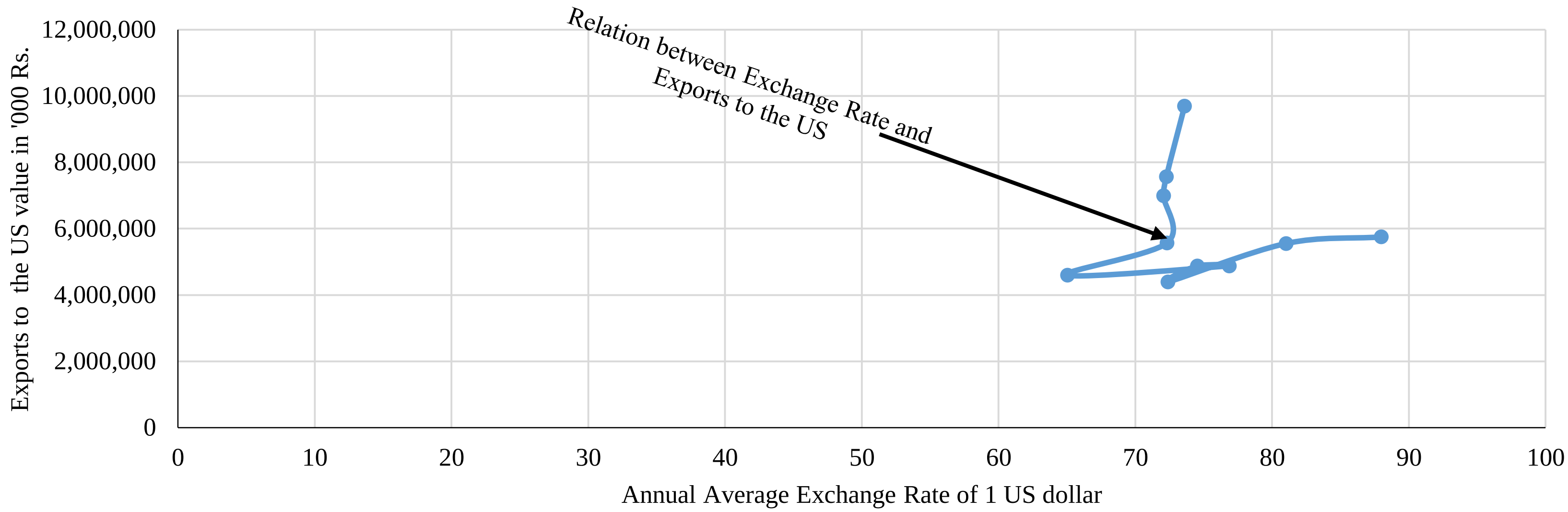
For the base year of this study FY 2003/04, average annual exchange rate of 1 US dollar was Rs.73.60 and total exports to the US was equivalent to Rs.9.69 billion Rs. In FY 2004/05, the annual average exchange rate of 1 US dollar became Rs.72.27 and it reflected into exports trade to the US was worth equal to 7.57 billion. There seems to have direct association between exchange rate and total exports to US.

Again for FY 200/06, there exists direct relationship between annual average exchange rate of 1 US dollar and total exports to the US worth equivalent to Rs.72.06 for the former and Rs.6.99 billion for the later (table 4.5, above). However, it can be seen from the above table that exchange rate and exports to the US has inverse relationship in FY 2006/07.

Later on, the trend of inverse association between exchange rate and total exports in FY 2010/11, 2011/12 and 2012/13 also, resulting average annual exchange rate of 1 US dollar Rs.72.37, Rs.81.02 and Rs.87.99 respectively and total exports to the US for three respective fiscal year was Rs.4.39 billion, Rs.5.55 billion and Rs.5.75 billion.

From the statistics, it can be concluded that exchange rate has very little influence on export trade to the US. And, observing the fact, there exists no concrete relation between exchange rate and exports to the US after Nepal's accession to the WTO. The relationship is depicted here in figure 4.17.

Figure 4.17: Relationship between Exchange Rate and Exports to the US



Source: Author's calculation on Relationship between Exchange Rate and Exports to the United States, based on TEPC and NRB, 2013.

The given figure 4.17 exhibits the relationship between annual average exchange rate of 1 US dollar and exports to the US. From the figure, there exists no clear-cut association between exchange rate and exports trade to the US. However, observing the fact it can be said that exports to the US was its' peak level for in FY 2003/04 for which annual average exchange rate of 1 US dollar was Rs.73.60 and total exports to the US was equivalent to Rs.9.69 billion, which is the base year of the research. And, total exports realized its lowest level in FY 2009/010 for which average annual exchange of 1 US dollar was Rs.74.54 and total exports was accounted Rs.3.86 billion. Analyzing the fact, it can be said that Nepal-US trade is almost not influenced by exchange rate. It is decided by other factors rather than exchange rate. Therefore, there exists no association between exchange rate and exports to the US.

4.5. Generalised System of Preferences (GSP) and Exports to the US

Generalised System of Preferences (GSP)

Generalised System of Preferences is a set of trade preferences granted on a non-reciprocal basis by developed countries to developing countries (Romalis, 2003). It is a preferential tariff system as the obligation of the WTO that secures a system of exemption in imports to the developed countries from the developing countries in a generalised, non-reciprocal and non-discriminatory preference scheme. It involves reduced MFN Tariffs or duty-free entry of eligible products exported by beneficiary countries to the markets of donor countries (Jones, 2014). As per the GSP privilege, the WTO member country should treat all the imports from the WTO member countries in the similar way they treat the imports of their "most favored" trading partner.

The GSP provides preferential duty-free entry for up to 4,800 products imported into the United States from 123 designated beneficiary countries and territories, including 44 least developed beneficiary developing countries (UNCTAD, 2010). It was discussed during the GATT ministerial meeting in 1963 and proposed by the United Nations Conference for Trade and Development (UNCTAD) in 1964 to encourage developing country's exports and investment. It was hoped that this program would thereby contribute to economic development (Romalis, 2003). The system was negotiated over the 1964-1971 period with the first major scheme implemented by the European Economic Community (EEC) in July 1971, with Japan following in August 1971, and the US in January 1976 (Baldwin, 1977). All GSP schemes involve tariff concessions to a range of developing countries exports (Romalis, 2003).

Preferential treatment is given in the form of reduced or zero rates of customs duties. The GSP scheme is specifically designed to benefit certain developing countries and integrate them into the world economy. The main objectives of granting trade preferences to developing countries are a) to enhance export earnings, b) to promote industrialization, and c) to encourage economic development.

The exporting countries must comply certain conditions: Rules of Origin and Direct Transport Rule for European Union (EEC, 2014); Rules of from a Designated Beneficiary

Country, Rules of Eligible for GSP Treatment and Rules of Origin in the US (UNCTAD, 2010).

There are many limitations to all GSP programs. Not all developing countries are included (Baldwin, 1977). Programs typically exclude products where developing countries have the greatest comparative advantage (Devault, 1996). Export eligibility ceilings are often binding (Macphee and Rosenbaum, 1989). The programs impose strict rules of origin requirements (UNCTAD, 2001) and do not remove non-tariff barriers (Clark and Zarrilli, 1992). Up to 42 countries have been temporarily dropped or permanently "graduated" by the US at some time since 1976 (Ozden and Reinhardt, 2002a).

GSP, the United States and Nepal

Generalised System of Preferences (GSP) is a U.S. trade program inaugurated to promote economic growth in the developing world by providing preferential duty-free entry for up to 5,000 products from 123 designated beneficiary countries and territories instituted on January 1, 1976, by the Trade Act of 1974 (U.S. Customs and Borders, 2014). The US trade statistics showed that from its inception in 1976, beneficiary countries rapidly increased their exports of products under the program until the early 1980s. From then on, the scheme begins to decline. Some of the decline is due to reductions in MFN tariffs. But a series of adjustments to the US GSP scheme helped to slowly strangle most of the life out of it. Products were selectively removed from the scheme, "competitive need limits" were adjusted, and key countries were removed from the program (UNCTAD, 2010). The GSP program also supports U.S. jobs. The US businesses imported $19.9billion worth of products under the GSP program in 2012, including many inputs used in U.S. manufacturing. According to a 2005 U.S. Chamber of Commerce study, over 80,000 American jobs are associated with moving GSP imports from the docks to farmers, manufacturers, and retail shelves (US International Trade Commission, 2014).

The administration system of the US GSP programme has two distinct areas. The day-to-day operation of the programme is primarily the responsibility of the United States Customs Service, which is part of the Department of the Treasury. While many of the policy issues in the GSP are theoretically decided by the President of the United States, in reality the latter's decisions are made on the basis of advice provided by the Office of the United States Trade Representative (USTR) and other agencies (UNCTAD, 2010).

The aspect of GSP in the United States is simple. All products that are eligible for preferential treatment enter entirely free of duty. According to the US Customs and Borders, for an import to qualify for duty-free treatment under the GSP, it must meet the following three requirements:

(a) It must be from a designated beneficiary country;

(b) It must be eligible for GSP treatment; and

(c) It must meet the GSP rules of origin.

To be eligible in designated beneficiary, the country may not be a Communist country, unless such country receives Normal Trade Relations (NTR) treatment, is a WTO member and a member of the IMF and not dominated by international communism.

Articles eligible for duty-free treatment are defined at the eight-digit level of the Harmonized Tariff Schedule of the United States (HTSUS). The products eligible for GSP treatment include most dutiable manufactures and semi-manufactures, as well as selected agricultural, fishery and primary industrial products that are not otherwise duty-free.

The rules of origin provide that an article must be shipped directly from the beneficiary country to the United States without passing through the territory of any other country or, if shipped through the territory of another country, the merchandise must not have entered the commerce of that country en route to the United States. In all cases, the invoices must show the United States as the final destination.

Nepal is listed as an independent and least developed country in order to grant GSP facility. More than 5,000 products from Nepal are eligible to enter the United States duty-free under the GSP program. Of these, approximately 3,500 of these products are duty-free to all countries in the GSP-program and the remaining 1,500 are duty-free only for least-developed beneficiary developing countries (LDBDCs). The US businesses imported $1.16 million worth of products under the GSP program in 2011, including $5.1 million from Nepal.

Many items are eligible for GSP duty-free treatment. These include: most manufactured items; inputs used in manufacturing; jewelry; many types of carpets; certain agricultural and fishery products; and many types of chemicals, minerals and marble. Among the products that are not eligible for GSP duty-free treatment are most textiles and apparel; watches; and most footwear, handbags, luggage, and leather products. As the mentioned products covers a big portion of Nepal's exports to the US, the GSP is unable to become a beneficiary system for Nepal. In order to enhance it's (Nepal's) export capacity, government of Nepal and Nepalese entrepreneurs are advocating duty-free access to a list of 100 new products including garments, carpets, pashmina and handicraft products to the US which totaled more than two-third of total exports of Nepal to the US.

4.5.1. Relationship between Generalised System of Preferences and Exports to the US

The government of the United States introduced GSP privilege for Nepal only after Nepal's accession to the World Trade Organization. Before that, Nepal was enjoying quota regime under MFA in textiles and apparel products. As quota regime was phased-out in January 01, 2005, Nepalese products can entered into the US market under GSP system. As GSP excludes textiles and apparel; watches; and most footwear, handbags, luggage, and leather products, Nepal can export a very limited products to the US under this duty-free scheme despite there are up to 5,000 products for which GSP is assured by the government of the USA. Those goods exported to the United States under GSP as mentioned in the USITC is given herein the table 4.6.

The United States International Trade Commission (USITC), revealed that there was no exports under GSP in FY 2003/04. After accessing to the WTO and accreditation of GSP to the government of Nepal, she has exported goods worth of Rs.39,748 in FY 2004/05 followed by Rs.4,68,390 in FY 2005/06. However, the value of Nepal's exports to the US under GSP went into 7 digits in FY 2006/07 for which exports of Nepal accounted Rs.4.12 million.

Table 4.6: Exports to the United States under the GSP privilege

Fiscal Year	Annual Average Exchange Rate of 1 US dollar in NC	Values in US dollar	Values in Rs.[2]
2003/04	Rs.73.60	0	0
2004/05	Rs.72.27	5500	39748
2005/06	Rs.72.06	6500	468390
2006/07	Rs.72.32	57000	4122240
2007/08	Rs.65.04	285000	18536400
2008/09	Rs.76.88	321000	24678480
2009/10	Rs.74.54	451000	33617540
2010/11	Rs.72.37	941000	68100170
2011/12	Rs.81.02	840000	68056800
2012/13	Rs.87.99	418000	36779820

Source: Nepal Rastra Bank, 2013 and US International Trade Commission, 2014.

In FY 2007/08 and 2008/09, the value of Nepal's total exports under GSP scheme was Rs.18.53 million and Rs.24.67 million respectively followed by Rs.33.61 million and Rs.68.1 million in FY 2009/10 and 2010/11 respectively (USITC, 2014). In FY 2011/12, exports to the United States under GSP scheme had reached its peak accounting worth of goods equal to Rs.6.80 million. However, for FY 2012/13, it had downed almost half of FY 2011/12 accounting Rs.36.77 million.

[2] The values in Rs. reflect (mirror) value of exports to the US under GSP as per the US International Trade Commission, 2014. They are derived by multiplying the value of goods exported to the US under GSP and the average annual exchange rate of 1 US dollar in Nepalese Currency.

Relationship between GSP and Exports to the US

Here, in table 4.7, the relationship between total exports to the United States and exports to the United States under Generalised System of Preferences is derived.

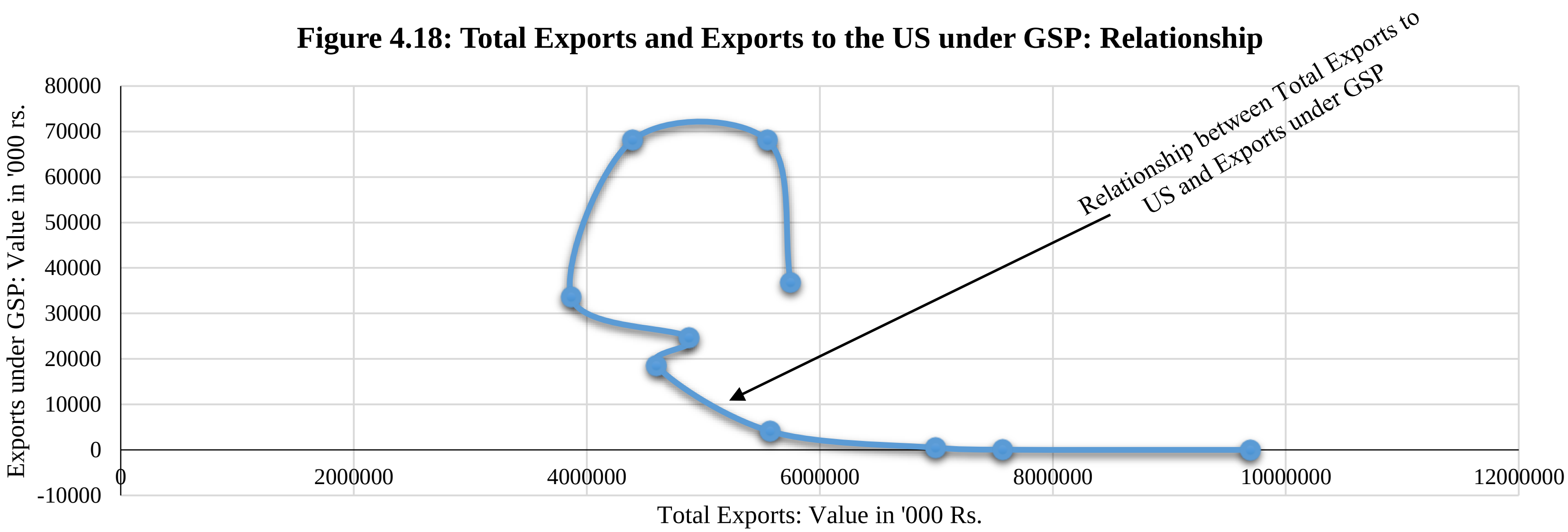
Table 4.7: Total Exports and Exports to the United States under the GSP

Fiscal Year	Total Exports to US (Value in Rs.)	Values in US$	Values in Rs.
2003/04	9695977000	0	0
2004/05	7570742000	5500	39748
2005/06	6993442000	6500	468390
2006/07	5571274000	57000	4122240
2007/08	4598900000	285000	18536400
2008/09	4878573000	321000	24678480
2009/10	3867223000	451000	33617540
2010/11	4392600000	941000	68100170
2011/12	5551916000	840000	68056800
2012/13	5750120000	418000	36779820

Source: Nepal Rastra Bank, 2013 and US International Trade Commission, 2014.

By analyzing the given data, for the base year of the study, when government of the United States of America was not allowing GSP to Nepal, total exports to the US from Nepal was equivalent to Rs.9.69 billion and exports under GSP was null. However, after Nepal's accession to the WTO, there exists inverse relationship between total exports to the US and exports to the US under GSP scheme. As exports under GSP scheme is increasing total exports to the US is diminishing and vice-versa. This relation can further traced with the help of graphical diagram and interpretation.

Figure 4.18: Total Exports and Exports to the US under GSP: Relationship



Source: Author's calculation based on Nepal Rastra Bank, 2013 and US International Trade Commission, 2014.

The relationship between total exports to the United States and exports to the US under GSP scheme is depicted in figure 4.18. The figure shows that there exists inverse relationship between GSP and exports to the US from Nepal. Total exports realized its peak level when GSP was nullified in FY 2003/04. And, total exports to the United States was its lowest level when exports under GSP was Rs.33.61 million for the FY 2009/10. However, from the point of view of GSP, it is its' lowest in FY 2004/05, the first when Nepal was accredited GSP after Nepal's accession to WTO when total exports for that FY was Rs.7.57 billion. Exports under GSP realized its peak level in FY 2010/11for which exports under the duty-free scheme of the US government was worth of 68.10 million rupees. From graphical analysis, there exists inverse relationship between these two variables viz. GSP and total exports to the US.

4.6. Expiration of MFA and Exports to the US

Multi-Fiber Arrangement/Agreement (MFA)

The Multi-Fiber Arrangement (MFA) is quantitative restriction to limit international trade in textile and clothing (Naumann, 2006). MFA governed the world trade in textile and garments from 1974 to 2004. It all started with the Long Term Agreement (LTA) regarding International Trade in Cotton Textiles being signed in 1962 under GATT policies whereby certain countries[3] agreed to have quotas introduced (Aprill & Carteza, 2006). Replacing the LTA, Multi-Fiber Agreement was set up in 1974 as a set of formal quota agreements and restrictions, governing textiles and the clothing trade between developing countries and the developed world. Since 1974, import quotas have been applied to 73 countries in the global South, mostly in Asia (Wikipedia, 2014).

The MFA is the offspring of a decade-and-a-half of earlier, short-term agreements on the export of textiles and apparel among developed and developing countries. The MFA codified these agreements into a more comprehensive system covering nearly "1000 different allotments encompassing scores of categories" from 47 countries (Collins 2003). Under its guidelines "individual quotas were negotiated which set precise limits on the quantity of textiles and apparel which could be exported from one country to another. For every single product a quota was specified" (Collins 2003).

There are a number of reasons cited for the introduction of the MFA, although the most widely accepted is that of the developed world using it as a form of protectionism to secure their own textile industries against the threat posed by low-cost competition from less developed countries. However, by giving quotas to individual nations, it also gave them a guaranteed share of the rich countries (BBC News, 2004). This is in contrast to some other justifications for the MFA, for example 'a major aim of the multi-fiber agreement has been to provide greatest scope for newly industrialized countries to increase their share of world trade in textile products whilst at the same time maintaining some stability for textile production in the developed economies' (UKEssays.com, 2014).

[3]Hong Kong, China, Pakistan, India and the US (Nordas, 2004).

As part of the Uruguay Round of negotiations in 1994, the World Trade Organization took responsibility for administering the MFA. Negotiators agreed that the MFA would be eliminated and full liberalization would be implemented on 1 January 2005. This was accomplished with the Agreement on Textiles and Clothing (ATC) in 1995 under which quotas were phased out in four stages over a ten-year period. The MFA created a system for the gradual elimination of quotas on apparel and textiles. Stepped quota phase-outs were scheduled for 1995, 1998, 2002, and 2005, when all quotas were to be eliminated. In addition, the United States agreed to reduce its tariff barriers, from a "trade weighted average of 17.2 percent ad valorem in 1994 to a trade weighted average of 15.2 percent ad valorem in 2004," during the ten years (Evans and Harrigan, 2004). Finally MFA expired on 1 January 2005.

Nepal and the MFA

The MFA was supposed to be a temporary agreement and comprised mainly of trade between developing countries and the US and the EU. By 1981, 80% of imports of textiles and clothing going into the US was covered by bilateral quota agreements covering 20 countries. The agreement was renegotiated four times and in 1991 it was decided that it would expire in 1994. During the final years of the agreement, six countries[4] applied quotas which had applied exclusively to imports from developing countries (Aprill & Certeza, 2006).

In the early 1980s, Indian business interests established the ready-made garment industry in Nepal to circumvent quota restrictions. However, during the past two decades, Nepalese entrepreneurs have established themselves in the industry. By 2000, Nepalese own almost 90 percent of garment companies operating in Nepal[5] Garments are a major export industry, accounting for almost 50 percent of total exports (Shakya, 2004)

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[4] EU, US, Canada, Finland, Norway and Austria (Nordas, 2004).

[5] About 51 percent of these industries are registered as sole proprietorship, 40 percent are partnerships, and about 9 percent are foreign joint ventures (Shakya, 2001).

The Nepalese garment industry is excessively dependent on one primary market, the United States, which accounts for more than 80 percent of Nepalese garment exports. Even in the narrow market base, the products are limited to a few categories, such as women's dresses, men's shirts, and cotton trousers and shirts. Together, these three categories account for almost 60 percent of the entire apparel output. Therefore, any change in composition of the U.S. imports is likely to affect the Nepalese garment industry (Khanal & et al., 2005). Same thing happen as the MFA expired in January 01, 2005. Nepalese garment exports have declined from about $188 million in 2000 to $106 million in 2004. A report suggested that garment exports have continued to decline since the expiration of the MFA.[6] Since 1 January 2005, Nepalese garment exports have amounted to $16.7 million. This is a significant decline from $32 million in the same period last year (Katmandu Post, 5 April 2005). Similarly, the number of garment firms has decreased from about 1,000 in 1994-95 to about 100 in 2004 (Gautam and Lamsal 2005).

Nepal seems to be the only certain loser in South Asia. Its quota under the MFA was generous, and thus it benefited from the MFA regime. With the MFA expiration, it is not in a competitive position relative to most other South Asian countries (Khanal & et al., 2005).

The expiration of the MFA is likely to have an adverse impact on Nepal's economy. In a quota-free world, the Nepalese garment industry confronts a competitive environment and a difficult political situation. Small firm size, lower labor productivity, high cost of transportation, lack of government support, and political instability are likely to have adverse effects. Dominated by small firms, the industry lacks technological sophistication and skilled labor. Furthermore, labor productivity is lower in Nepal compared to the other South Asian countries. Nepal's difficult geographical terrain increases transportation time and cost significantly (Khanal & et al., 2005).

Nepal is in a state of panic. After continuous growth of the garment industry during 1980s and 1990s under the quota regime, Nepali garment exporters feel the crunch of their competitiveness. The ex-vice president of the Garment Association of Nepal, Prashant

[6] According to the Garment Association of Nepal, garment exports had declined by an average of 48 percent since January 2005.

Pokharel, said "We are on the verge of a life and death situation" (Dhakal 2005). Mr. Pokharel echoed those sentiments: "This industry is as good as dead unless some miracles happen and quota system is revived in some form" (Gautam and Lamsal 2005). Thus, the saving grace of the Nepali garment industry may have to depend on legislation pending in the US House and Senate that would provide duty-free status to Nepali garment exports (Khanal & et al., 2005).

The viability of the Nepalese garment industry will depend on whether it will be granted duty-free status in the U.S. market and whether there will be spillover effects. Both of these conditions, however, are extremely uncertain.

4.6.1. Relationship bewteen Expiration of MFA and Exports to the US

Expiration of MFA seems to have adverse effect in exports to the US. When the world trade of textiles and clothing was ruled by MFA, the exports trade of Nepal was too good, particlularly in textiles and apparel. However, as the MFA phased-out, exports of textiles and apparel has lost its significant portion in table 4.8.

Table 4.8: Total Exports to the US

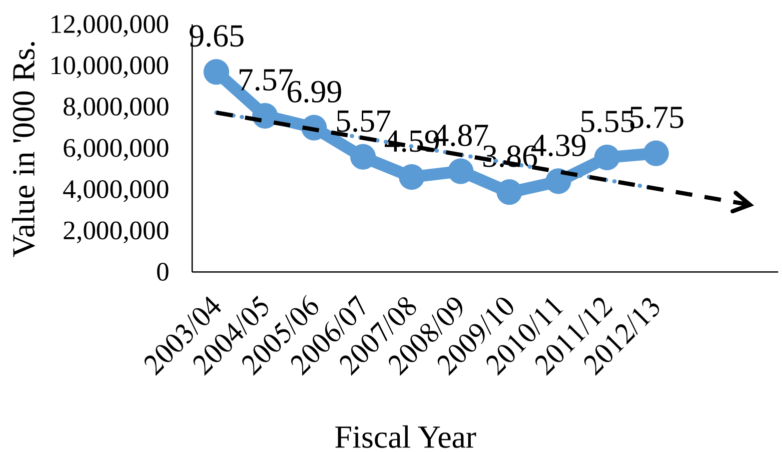
Fiscal Year	Exports to the US (Value in 000' Rs.)
2003/04	9,695,977
2004/05	7,570,742
2005/06	6,993,442
2006/07	5,571,274
2007/08	4,598,900
2008/09	4,878,573
2009/10	3,867,223
2010/11	4,392,600
2011/12	5,551,916
2012/13	5,750,120

Source: Trade and Export Promotion Center, 2013.

According to the TEPC Nepal, before the expiration of MFA, total exports to the US was accounted Rs.9.69 billion in FY 2003/04. However, as multi-fiber arrangement came to its end, exports to the US has realised adverse effect. Exports trade has realised Rs.2.12 billion contraction in export to the US that accounted 7.57 billion NRs. in FY 2004/05, just the year by which MFA had expired. Following the decreasing trend of exports, total exports to the US accounted Rs.6.99 billion and Rs.4.57 billion in FY 2005/06 and 2006/07 respectively. Exports trade to the US became more pitiable then. In FY 2007/08, volume of total exports was equivalent to Rs.4.59 billion and Rs.4.87 in FY 2008/09. Export trade to the US realised its lowest point in FY 2009/10 for which total exports accounted Rs.3.86 billion. However, the diminishing trend of exports to the US has broken-up in FY 2010/11 and afterwards. In 2010/11, total exports to the US accounted Rs.4.39 billion followed by Rs.5.55 billion in FY 2011/12 and Rs.5.75 billion in FY 2012/13.

Graphical derivation of the exports trend after the expiration of MFA is traced in figure 4.19. Exports to the US has declined drastically after the expiration of MFA indicated by a bold and non-linear line. The trend of exports is depcited by the dotted line.

Figure 4.19: Exports to US and its Trend



Source: Author's calculation based on TEPC and NRB, 2013.

Given table 9 presents the trend of exports of textiles and apparel after phase-out of MFA.

Table 4.9: Exports of Textiles and Apparel to the US after Expiration of MFA

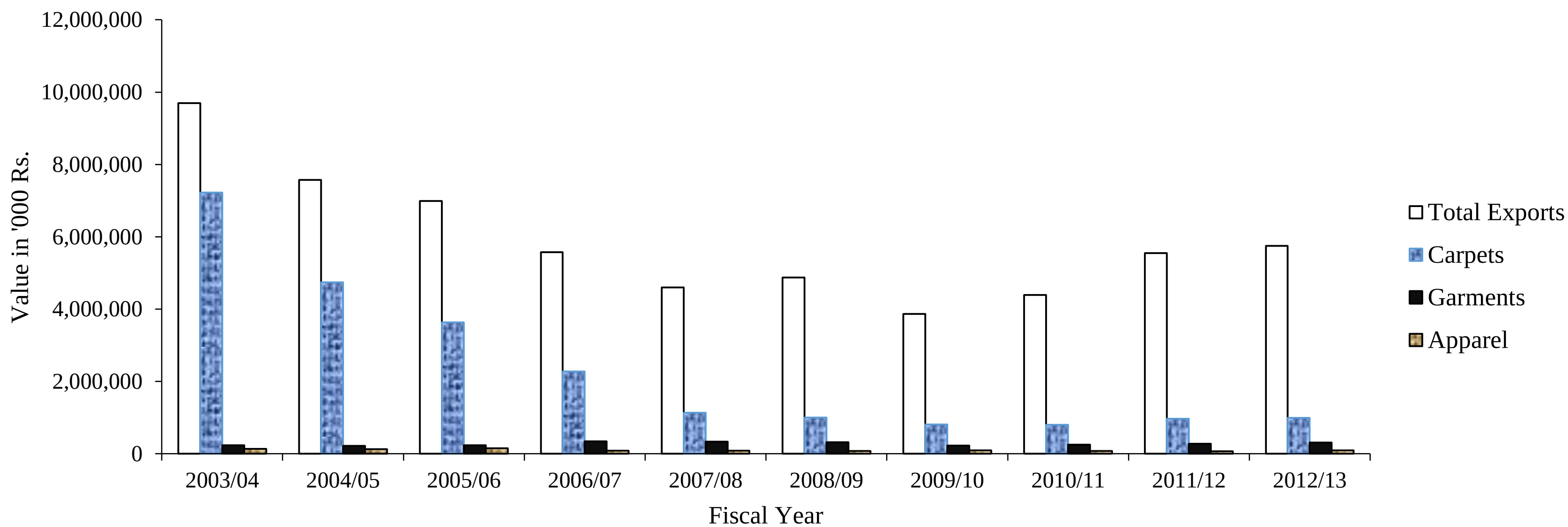
	Commodity						
	Total Exports	Carpets		Readymade Garments		Woolen and Pashmina Cloths	
Fiscal Year	Value in '000 Rs.	Quantity in Sq. Mtr.	Value in '000 Rs.	Quantity in Sq. Pcs	Value in '000 Rs.	Quantity	Value in '000 Rs.
2003/04	9,695,977	287,052	1,360,739	27,971,436	7,220,727	NA	231,559
2004/05	7,570,742	376,617	1,825,951	18,283,923	4,741,948	NA	220,640
2005/06	6,993,442	708,565	2,126,884	13,170,589	3,630,200	NA	234,659
2006/07	5,571,274	336,601	1,639,832	7,625,765	2,276,707	NA	341,226
2007/08	4,598,900	371,849	2,282,778	3,985,350	1,137,533	NA	332,456
2008/09	4,878,573	348,653	2,177,243	2,810,334	1,004,465	NA	315,162
2009/10	3,867,223	185,658	1,517,411	3,360,375	807,964	NA	229,022
2010/11	4,392,600	243,588	1,878,742	4,000,719	799,582	NA	254,005
2011/12	5,551,916	259,633	2,569,829	3,258,100	968,954	NA	274,271
2012/13	5,750,120	220,920	2,641,942	3,094,965	995,574	NA	310,596

Source: TEPC and NRB, 2013.

From the statistics above, it depicts that expiration of MFA resulted negatively in total exports and exports of readymade garments to the United States. However, the effect of expiration of MFA on exports of carpets and woolen and pashmina cloths is very nominal or almost null. Total exports to the US was Rs.9.69 billion in FY 2003/04 which was attributed by carpets of worth Rs.1.36 billion, readymade garments of worth Rs.7.2 billion, woolen and pashmina cloths of worth Rs.0.23 billion and the remaining others. Exports of readymade garments for FY 2003/04 was 74 per cent of total exports. However, after expiration of MFA, exports of garments to the US has declined termediously from Rs.7.22 billion to Rs.4.74 billion in FY 2004/05 follwed by the declined in FY 2005/06 and 2006/07 resulting Rs.3.63 billion and Rs.2.27 billion respectively. And, the portion of readymade garments in total exports to the US has declined from 74 precent in FY 2003/04 to 63 percent in FY 2004/05 and 52 and 41 percent in FY 2005/06 and 2006/07 respectively.

Follwing the termendious decline on exports of readymade garments, total exports to the US also declined significantly accounting Rs.7.57 billion in FY 2004/05, Rs.6.99 billion and Rs.5.57 in FY 2005/06 and 2006/07 respectively. The downturn of exports to the Unites States did not stopped there. It further went down in FY 2007/08, 2008/09 and 2009/10 and became Rs.4.59 billion, Rs.4.87 billion and Rs.3.86 billion respectively which is chariterised by declined exports of readymade garments in FY 2007/08, 2008/09 and 2009/10 becoming Rs.1.13 billion, Rs.1.004 billion and Rs.0.80 billion respectively resulting 25 percent, 21 percent and 21 percent respectively in total trade. After that, total exports to the United States has revived. However, exports of readymade garments is yet to be revived. The condition of shifting pattern of export trade to the US further can be examined with the help of follwing diagrams and charts.

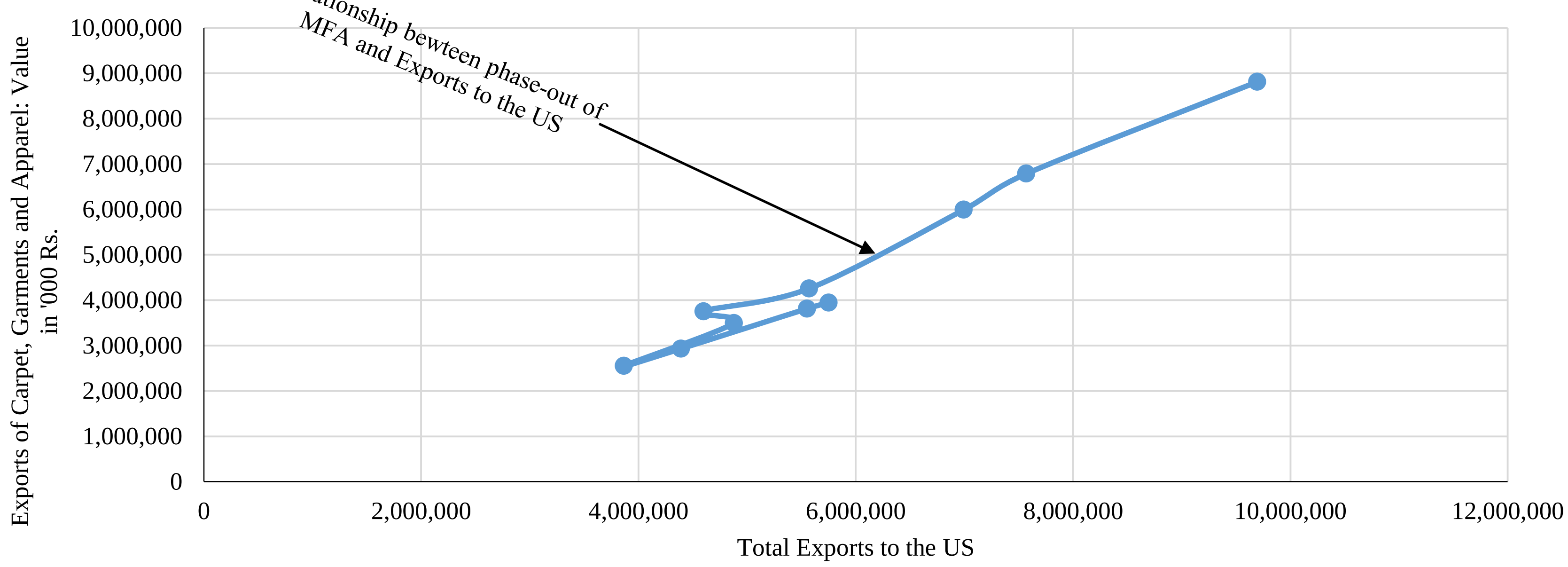
Figure 4.20: Export trend to the US after Expiration of MFA



Source: Author's calculation based on TEPC and NRB, 2013

The figure 4.20 shows exports of carpets, readymade garments (garments) and woolen and pashmina cloths (apparel) to the US after Nepal accessing to the WTO. The figure suggests that initially, exports to the US was good enough. But, after Nepal's accession to the WTO and expiration of MFA, export trade weakened as the exports of carpets diminishes. However, export trend of garments and apparel remained almost unaffected after the expiration of MFA. Relationship among exports to the US and phase-out of MFA (combining exports of carpet, garments and apparel) is seen as in figure 4.21.

Figure 4.21: Impact of phase-out of MFA on export trade to United States



Source: Author's calculation based on TEPC and NRB, 2013.

Figure 4.21 exhibits the relationship between phase-out of multi-fiber arrangements and exports to the US. From the diagram, there exists direct association between phase-out of MFA and exports trade to the US. When the MFA was in effect, total export trade was equivalent to Rs.9.69 billion comprising the quota-regime items of worth Rs.8.18 billion in FY 2003/04. In 2004/05, as the MFA was over and Nepal accessed to the WTO, both exports to the United States and amount of textiles and apparel started to decline tremendously. In 2004/05, exports of Nepal to the US was accounted Rs.7.57 billion consisting the elements of textile and apparel of worth Rs.6.78 billion. The declining trend of exports of textiles and apparel items continued for next 5 years as it realized the lowest level of exports equivalent to Rs.2.55 billion in FY 2009/10 where total exports to the Unites States also realizes its lowest level in the similar FY realizing just Rs.3.86 billion exports.

After that, as total exports to the US started to revive slowly accounting Rs.4.39 billion and Rs.5.55 billion in FY 2010/11 and 2011/12 respectively, the portion of textiles and apparel also followed the same trend worth equals to Rs.2.93 billion and Rs.3.81 billion for those respective years. And, in FY 2012/13 also as the amount of exports of textile and apparel has increased, the total exports to the United States also followed the similar trend.

From these facts, it can be said that exports to the United States of Nepal very much depends on textiles and apparel after the phase-out of quota regime also. Though the government of the United States of America is providing duty-free entry to a list of approximately 5,000 products in the US market but the exportable capacity of Nepal is limited. And, due to this limitedness, Nepal is not being able to cash the opportunity of duty-free access under GSP system.

By analyzing this, it can be concluded that the exports capacity of Nepal could increase only if the exportable capacity of textiles and garments would increase. So, government and entrepreneurs should have to focus on other items along with textiles and garments. The statistical analysis of the relation between phase-out of MFA and exports to the United States is given below.

The compact form of exports of textiles and apparel items can for the study period is given below in table 10.

Table 4.10: Aggregate Exports of Textile and Apparel

Value in '000 Rs.

		Commodity			
Fiscal Year	Total Exports	Carpets	Garments	Apparel	Aggregate of Textiles & Apparel
2003/04	9,695,977	1,360,739	7,220,727	231,559	8,813,025
2004/05	7,570,742	1,825,951	4,741,948	220,640	6,788,539
2005/06	6,993,442	2,126,884	3,630,200	234,659	5,991,743
2006/07	5,571,274	1,639,832	2,276,707	341,226	4,257,765
2007/08	4,598,900	2,282,778	1,137,533	332,456	3,752,767
2008/09	4,878,573	2,177,243	1,004,465	315,162	3,496,870
2009/10	3,867,223	1,517,411	807,964	229,022	2,554,397
2010/11	4,392,600	1,878,742	799,582	254,005	2,932,329
2011/12	5,551,916	2,569,829	968,954	274,271	3,813,054
2012/13	5,750,120	2,641,942	995,574	310,596	3,948,112

Source: TEPC and NRB, 2013.

The table 4.10 shows that the exports to the United States is mostly confined within three products: Carpets, Garments and Apparel. These three products together constituted more than two-third of the total exports to the US, till date. For the base year of the study, total exports was Rs.9.96 billion out of them carpets, garments and apparel constituted approximately 90.89 percent of total exports and these three products together constituted Rs.8.81 billion in 2003/04. The trend of exports remained same for 2004/05 attributing more than 89 percent of textiles and apparel out of Rs.7.57 billion total exports. These three products together constituted 85.67 percent, 76.42 percent and 81.60 percent in FY 2005/06, 2006/07 and 2007/08 respectively. The portion of textile and apparel was 71.67 in 2008/09. However, the portion of textile and apparel was to its lowest in FY 2009/10 constituting only half (52.35 percent) of total exports which was equivalent to Rs.2.55 billion. After that, both portion of textile and apparel in total trade and total trade also have increased and for the final two year of the study period, textile and apparel constituted more than 68 percent in total exports.

4.7. Complete Model Analysis

The complete model comprises three variables viz. foreign exchange rate (forex.); generalised system of preferences (GSP) and expiration of multi-fiber arrangement (MFA). Combining these three variables, the relationship among exports to the United States will be analyzed herein.

Empirical Analysis of Complete Model

The estimated regression line be $Y = b_0 + b_1ExR + b_2GSP + b_3MFA + \varepsilon$ ...{1} where, b_0 (intercept); b_1, b_2 and b_3 (slopes) are parameters of the regression line. Y is total exports to the US after Nepal's accession to WTO, $X_{i's}$ (X_1: Foreign Exchange Rate; X_2: GSP and X_3: Expiration of MFA) are the variables considered for this research paper and ε_i is estimated error term.

Computation of the data taking the log value (appendix 5), the author derives following results:

Table 4.7.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.997	0.995	0.992	0.0109

a. Predictors: (Constant), X_3, X_1, X_2

Source: Author's calculation of total exports to the US on exchange rate, GSP and Expiration of MFA based on NRB and TEPC, 2013 and USITC, 2014.

From the model summary, correlation between total exports to the US and combined three variables (exchange rate, GSP and expiration of MFA) seems strongly positive. As, R is 0.997, this depicts perfect positive correlation between $X_{i's}$ and Y, that means the model is fit at 99.5%. Similarly, R^2 0.995 which shows goodness of fit of the regression line. The value of $\bar{R}^2$ is 0.992 which also proves the regression line is good fit. Standard error of the estimate is 0.0109. By analyzing R^2 and $\bar{R}^2$, it can be concluded that the regression line of total exports to the US on exchange rate, GSP and expiration of MFA is of best fit.

Table 4.7.2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.130	3	0.043	363.068	0.0004
	Residual	0.001	6	0.000		
	Total	0.131	9			

a. Dependent Variable: Y

b. Predictors: (Constant), X_3, X_1, X_2

Source: Author's calculation on exports of textiles and apparel to the US after expiration of MFA and total exports to the US based on TEPC, 2013 and USITC, 2014.

By analyzing the ANOVA table, the calculated value of F is 363.06 and critical value of F at 5% level of significance for (3, 6) is 4.76. Since, F_{cal} (363.06) is greater than $F_{tab.\ (0.05)}$ with degree of freedom (3, 6) 4.76, H_0 is rejected. Hence, H_1 is accepted. F is significant only at 0.04 percent level of significance. That means, there is direct link between Y and $X_{i's}$. In other words, exchange rate; GSP and expiration of MFA affect the total exports to the United States after Nepal accessed to the World Trade Organization while three variables considered together.

Again, analyzing the result from coefficients, the t-statistics for X_1 is 5.852, for X_2 is (-1.29) and for X_3 is 14.68. Since, t_{cal} (5.852) for X_1 is greater than critical value of t, that is $t_{tab\ (0.05)}$ with degree of freedom (10-1 = 9) is 1.833, H_0 is rejected. Hence, H_1 is accepted. Again, t_{cal} (-1.295) for X_2 is less than critical value of t, that is $t_{tab\ (0.05)}$ with degree of freedom (10-1 = 9) is 1.833, H_0 is accepted. Also, t_{cal} (14.68) for X_3 is greater than critical value of t, that is $t_{tab\ (0.05)}$ with degree of freedom (10-1 = 9) is 1.833, H_0 is rejected. Hence, H_1 is accepted. This means, exports to the US has very much affected by the exports of textiles and apparels to the United States.

Table 4.7.3: Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.138	0.355		3.208	0.018
	X_1	0.626	0.107	0.181	5.852	0.001
	X_2	-0.004	0.003	-0.083	-1.295	0.243
	X_3	0.672	0.046	0.931	14.677	0.000

a. Dependent Variable: Y

Source: Author's calculation on exports of textiles and apparel to the US after expiration of MFA and total exports to the US based on TEPC, 2013 and USITC, 2014.

The parameters of the given regression $Y = \alpha + \beta X_1 + \Upsilon X_2 + \lambda X_3 + \varepsilon$ line are obtained as α equals to 1.138 which is the constant parameter (intercept of the regression line). It means even if no factor of the above influence the exports of Nepal to the US, the exports would be of Rs.1.138 thousands. And, β (slope of foreign exchange rate: average annual exchange rate of 1 US dollar in NC) is 0.626 which suggests that if average annual exchange rate of 1 US dollar changes by 0.626 rupee, total exports to the United States would change by 1 thousands rupees. Foreign exchange rate is significant at 1% level of significance. Similarly, Υ (slope of GSP: exports to the US under GSP) is -0.004 which proposes that if exports to the US under GSP changes by (-0.004) rupee, total exports to the United States would change by 1 thousand rupees. And, GSP is significant at 24.3% level of significance. Consequently, λ (slope of expiration of MFA: exports of textiles and apparel to the US after expiration of MFA) is 0.672 which submits that if exports of textile and apparel changes by 0.672 rupee, total exports to the United States would change by 1 thousand rupees and is significant less than one percent. Again, standard error for α is Rs.0.355 thousands, for β is Rs.0.107, for Υ is Rs.0.003 thousands and for λ is Rs.0.046 thousands.

The estimated regression line now becomes $Y = 1.14 + 0.63X_1 - 0.004X_2 + 0.67X_3 + \varepsilon$ ... {4.1}.

Curve fit for the regression line can be traced as in figure 4.22.

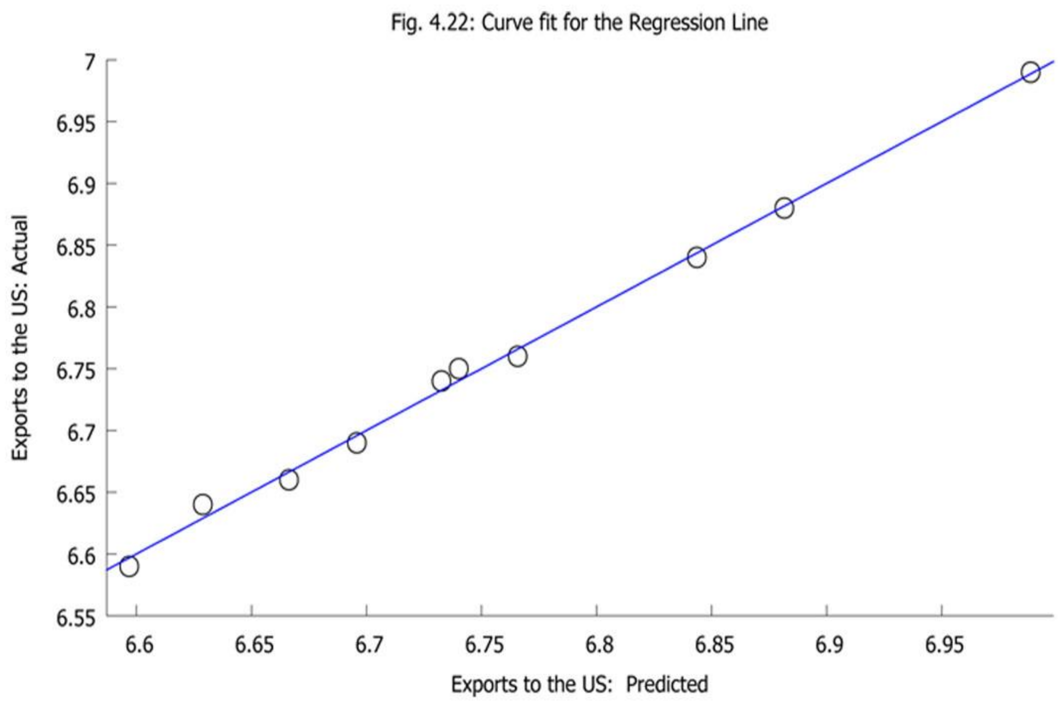


Figure 4.22 shows the curve fit for the regression line for exports to the US. X-axis shows the predicted exports to the US and Y-axis shows the actual exports to the US for the study period based on time-series data. The straight line is the regression line and small circles are the predicted values of exports to the US. The difference between the dotted circles and the line is standard error of the regression line. The derived regression line shows the goodness of the fit of the regression line i.e. good fit on actual exports of predicted exports.

4.8. Determinants of Nepal-US Trade

According to the WTO, there are four primary determinants of international trade viz., demography, investment, technology and energy and other natural resources. However, transportation costs and institutions are also considered as fundamental economic factors that shape the overall nature of trade and explain why countries trade.

Demography

In Nepal, demographic transition as per the division of the WTO is in its early stage that leads increase in per capita income and the size of middle class population. As a result the consumption of recreation equipment, cars, mobiles, etc. is increasing. The United States is the exporter of such goods and the trend of import of Nepal from the US is increasing significantly after accession to the WTO.

International migration is a component of demographic change. Migration from Nepal to the USA is another demographic factor of Nepal-US trade relation. Migrants are generally working-age adults and can reduce dependency rates in receiving countries. Migrant networks promote trade between source and host countries in two ways. First, they reduce trade costs relating to informational, language and institutional barriers while facilitating the creation of business relationships. Secondly, migrants boost trade because they demand disproportionately more goods and services from their origin country. Same scenario exits in Nepal-US trade relation.

The business relationship between Nepal and US is increasing through reduced costs of trade relating informational, language and institutional barriers after Nepal's accession to the WTO. However, export trade of Nepal seems to be benefited very little from this philosophy. On the other hand, the demand for goods and services from the US is boosted by the migrants Nepalese that results in excessive import.

Investment

Investment in physical capital can lead to the emergence of new players in international trade, especially in the context of international supply chains, and change the comparative advantage of countries already widely engaged in international trade. However, negative investment is key to declining trade between Nepal and the US. When Nepal accessed to the WTO, the country was in the peak of Maoist insurgency. Many industries were withdrawn their investment due to the insecure environment and as the country landed into peace process, the political parties and leaders are unable to make common consensus for peace and development. The political unrest and insolvent transitional phase negatively results in Nepal-US trade. Export industries are not expanding despite the investment capacity of the economy. Reasons behind this lackluster investment situation are political unrest, insolvent political transition, labour unrest and lack of trust between GON and business entrepreneurs. Further, the investment possibility is further weaken by the power-cut. These situations halted investment in friendly ways and that deteriorates the exportable capacity of the country. In international arena, the trade is guided by the comparative-advantage. But, the goods produced in such hurdles reduces the competitive capacity in international arena.

Technology

The geography of technological progress is changing. New players are emerging among the countries driving technological progress, and technology transfer is becoming more regional. However, technological state of Nepal is measurably poor. This ultimately weakens international trade performance of a country. Results: the export trade is not growing as expected though import from the US is growing dramatically.

Energy and other natural resources

The disposition of energy, land and water resources has a crucial bearing on the volume, pattern and growth of international trade, particularly in a world where these resources are distributed unevenly. The link between national endowments of natural resources and exports is readily apparent in the case of energy and land but less so in the case of water. Typically, countries with energy reserves and land will tend to export products that use these factors intensively.

Nepal is well endowed country in terms of natural resources. There is huge potentiality of hydro-electricity and other strategic natural raw materials. Despite being the second richest country in water resource endowments, the country is facing 12^{+} hours power-cut in a day. The poor exploitation capacity of natural endowments is key to huge trade deficit of Nepal. Though, there is enormous potentiality of energy and natural resources but no utilization or limited utilization of these resources hampers Nepal-US trade in many ways: declining exports capacity, inefficiency of production method and many more.

Transportation costs

Transportation costs affect the volume, direction and composition of international trade. Transportation costs drive a wedge between origin and destination prices, so higher transportation costs will reduce the volume of trade. Furthermore, if transportation costs are charged on a per unit basis rather than simply proportionately to the price of the traded good, higher transportation costs will tend to decrease the share of low-quality goods and goods with low value-to-weight ratios in international trade.

For Nepal, to be the landlocked country is curse in international trade. It reduces her exports and competitive capacity in international arena. Nepal should have to export either from air-ways directly or via waterway after crossing the broader of two giant economies either India or China. No doubt, airway is the most expensive transportation mechanism which reduces the competitive competition in international arena of a producer or the producing country. And, the waterway to export goods is not easy for Nepal. Using the bay of the Indian Ocean for export is only the economically viable way. For this also, exporters should have to cross miles of road from Nepal to India and again India to the bay of the sea. In case of exports to the US, exporters have to pass irritating thousands miles which decreases the competitive capacity of Nepalese goods. Losing the competitive capacity, export trade to the US after Nepal's accessed the WTO has declined tremendously.

Institutions

Institutions include social norms, ordinary laws, regulations, political constitutions and international treaties within which policies are determined and economic exchanges are structured. There are three sets of institutions: political institutions, such as the form of government and political borders; economic institutions, such as the quality of the regulatory system and the rule of law; and cultural institutions, such as those embedded in social values. However, Nepal-US trade is suffered from poor institutional setting that ultimately leads to reduce her exports to the US.

Limitedness of exportable goods

Exportable items of Nepal to US are limited. The export trade of Nepal to the US largely depends on garments and textile items. The government of the USA is providing GSP facilities for more than 4,800 goods for developing economies. However, Nepal is lobbying to the US government to provide GSP facilities on textile and garment items. The business sectors and producers only see the potential export feasibilities on textile and garments. Thus, R&D should be made on other sectors which has export potentialities to the US in which Nepal bears comparative advantage.

Determinants of Nepal-US Trade: Forex, GSP or Expiration of MFA

From empirical analysis, it can be said that Nepal-US trade is much affected due to policy variables rather than real variable after Nepal's accession to the World Trade Organization. By this virtue, exchange rate has also influenced Nepal-US trade after Nepal accessed to the WTO. GSP, the policy variable matters a little but in negative direction. However, expiration of MFA has mattered significantly. It means, Nepal's exports to the US is very much determined with the exports of textiles and apparel even after the expiration of MFA. Though, the government of the USA is providing duty free access to about 4,800 goods under the GSP, but exports of Nepal to the US has influenced a little due to the GSP privilege.

CHAPTER V

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Findings

The United States of America is the second largest export destination of Nepal. Though declining, the importance of Nepal-US trade is not minimized. After Nepal accessed to the WTO, exports trend of Nepal to the US has declined tremendously. Exchange rate has significant influence on exports of Nepal to the US as there is persistent increase in exchange rate. Accreditation of GSP matters but a little. However, expiration of MFA has resulted continuous decline in exports to the US due to reducing exports of textiles especially garment products.

Total exports of Nepal has increased by 1.43 folds that accounted Rs.53.94 billion in FY 2003/04 and became Rs.77.35 billion in 2012/13. Total increase in exports in monetary units for the study period is Rs.23.40 billion. Trend of total exports shows the weak export base of Nepal after her accession to the WTO.

The empirical analysis of past 10 years reveals that exports to the US depends on the exports of textiles and apparel products. Textiles and apparel products constitute more than two third of total exports to the US after Nepal accessed to the World Trade Organization.

Empirical analysis shows that exchange rate has also influenced the exports to the US. The GSP has negative influence on exports however, expiration of MFA has significant impact on exports to the US. After Nepal accessed to the World Trade Organization, the exports pattern has realized adverse effects because of contraction of exports of textiles and apparel. It is due to the fact that two-third of total exports constitute textiles and apparel products. And, the determinant of Nepal-US trade is policy variable rather than real variable.

To sum up, it can be said that export trade of Nepal has declined tremendously after Nepal's membership in the WTO. The main reason behind this shrinkage is due to reduction on exports of textiles and apparel items. Expiration of MFA has mattered the most. Nepal-US trade is guided by policy variable. Thus, policy prescription will only be the remedy of this problem.

5.2. Conclusions

Export trade is globally accepted as a means of economic development and prosperity. Realizing the fact, GON has taken various initiatives towards export promotion including policy and institutional reforms. However, those initiatives are minimal to promote export trade in comparison to mountainous import. In case of Nepal’s export to the USA which is declining over the period, is to sustain the export of existing but declining exportable items like garment, carpet, pashmina and handicrafts and development and promotion of new products and services. Similarly, enhancement of domestic supply capacity and promotion of export potential products is also very important.

At the time of WTO membership, Nepal committed to open up various services sectors for foreign equity participation, realizing that Nepal possesses immense opportunities for foreign investment in various services sectors. But, such commitments of Nepal and prospects for investment in the country should be widely disseminated, so that foreign investors, including from the USA, will come to Nepal for investment in potential sectors. In this context, it is naturally desirous to expand Nepal’s trade and economic relations with potential countries, including the USA through development of appropriate bilateral instruments and mechanism of consultation in the areas of trade in goods, services, IPR, investment, and technical assistance for enhancing the trade related capacity of Nepal. Therefore, the conclusion of TIFA will be an appropriate mechanism to start such bilateral process.

Conclusion of TIFA between Nepal and the USA has the inherent advantages of promoting mutuality in trade and investment. The agreement once concluded will establish a US-Nepal Council on Trade and Investment at the level of Commerce Secretary that will; monitor overall trade and investment relations, identify the opportunities for expanding bilateral trade and investment and issues related to IPR, workers right, environment, and also work for capacity building and technical assistance, trade facilitation and promotion of the public- private dialogue on trade and investment issues. The council will work as interlocutor in way of resolving the issues related to trade and investment and facilitate the bilateral trade. Meanwhile, it will also work as a platform to engage in constructive dialogue for taking up any issues that are specific to trade, investment and other economic matters.

However, apart from concluding TIFA with the USA, there are many challenges ahead for strengthening Nepal's trade and economic relations with its trading partners, including the USA. Signing of TIFA will not automatically expand trade nor will help to attract more investment from the USA. It will require developing the national capacity to produce more goods and services, improvement in the quality and overall productivity of the economy. Besides, there is need of building trade negotiations capacity to optimize the benefits from trade negotiations. The Ministry of Commerce and Supplies would require to constitute the team of negotiators that will select potential countries to initiate process for negotiating bilateral agreements; identify areas to be covered in the amendments or new agreements; prepare action plan to initiate negotiations; identify stakeholders (government, private business and others) and initiate consultation with them for preparation of negotiation position; make necessary arrangements to correspondence with potential trade partners and hold discussion on such agreements. Thus, coherence between trade policy and sector -wide policies are very important in order to mainstream trade in national development agenda. Last but not the least support from various development partners including the US will count very much in giving a fresh impetus to Nepalese trade and economy.

5.3. Recommendations

The followings are the remarkable ways that can be recommended to overcome the declining export to the US:

5.3.1. Legal Reforms and Strengthen Business Enabling Environment

Legal Reforms of all trade related policy, acts, regulations and procedures, review and update of Nepal Trade Integration Strategy (NTIS), 2010 should be taken into account for strengthening Nepal-US trade. Current situation of industrial security and power-cut should be strengthen by maintaining rule of law and providing electricity to the industries.

5.3.2. Institutional Reforms

Institutional reforms is another mechanism to strengthen Nepal's export to the US. For this purpose, a fully authorized National Accreditation Board should be established without any delay. Likewise, the TEPC should be restructured and strengthen to make it a 'center of excellence' for international trade. And, linkage and coordination between foreign trade related organizations should be reviewed.

5.3.3. Strengthen Infrastructure, Transport and Logistic Facilitation

To improve export trade to the US, infrastructure, transport and logistic facilitation should be strengthen under the leadership of Customs Department. Similarly, to increase export trade to the US, transport facilitation is another imputation. Likewise, logistic facilitation for export trade should be assured.

5.3.4. Enhance Product Supply Capacities and Market Access Conditions

In order to increase Nepal’s export to the USA, enhancement of product supply capacities of declining exportable items like garment, carpet, pashmina and handicrafts and development and promotion of new products and services is most. Similarly, enhancement of domestic supply capacity and promotion of export potential products is also very vital. Besides, enhancement of market access conditions for exportable items is furthermost to promote export trade to the US.

5.3.5. Conclusion of TIFA

Conclusion of TIFA will be an appropriate mechanism to enrich export trade to the US. Conclusion of TIFA between Nepal and the USA has the inherent advantages of promoting mutuality in trade and investment. The agreement once concluded will establish a US-Nepal Council on Trade and Investment at the level of Commerce Secretary that will; monitor overall trade and investment relations, identify the opportunities for expanding bilateral trade and investment and issues related to intellectual property rights, workers right, environment, and also work for capacity building and technical assistance, trade facilitation and promotion of the public- private dialogue on trade and investment issues.

Appendix 1

Summary of the World Trade Volumes and Prices (concluded)

(Annual percent change)

	Averages										Projections	
Year	1996-2005	2006–15	2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015*
Trade in Goods												
Volume of Trade												
Exports												
Advanced Economies	5.8	3.3	8.8	5.8	1.5	–13.4	14.3	6.0	1.8	1.8	4.2*	4.6*
Emerging and Developing Economies	8.9	5.4	10.7	8.7	3.4	–8.1	13.8	6.9	4.8	4.0	5.1*	6.2*
Imports												
Advanced Economies	6.7	2.6	8.1	4.8	–0.1	–13.1	13.5	5.2	0.5	1.2	3.2 *	4.5*
Emerging and Developing Economies	8.3	7.0	11.7	14.4	7.9	–9.6	14.9	10.0	5.4	5.3	5.4 *	6.5*
Terms of Trade												
Advanced Economies	–0.2	–0.4	–1.4	0.4	–2.5	3.8	–1.1	–1.8	–1.2	0.6	–0.3*	0.0*
Emerging and Developing Economies	1.5	0.8	3.6	1.6	3.8	–5.9	2.5	4.1	0.3	–0.1	–0.3*	–0.9*
World Exports in Billions of U.S. Dollars												
Goods and Services	8,482	20,390	14,891	17,336	19,830	15,880	18,916	22,317	22,535	23,083	23,990*	25,123*
Goods	6,835	16,396	12,035	13,920	15,984	12,469	15,167	18,123	18,260	18,591	19,281*	20,132*
Trade in Goods												
World Trade[1]												
Volume	6.8	4.0	9.3	7.1	2.2	–11.7	14.0	6.6	2.6	2.7	4.3*	5.3*

*(*expected value)*

Source: International Monetary Fund, 2014.

[1] Average of annual percent change for world exports and imports.

Appendix 2

Trade Situation of Nepal

Value in '000 Rs.

Direction	F.Y. 2003/04	% in Total	F.Y. 2004/05	% in Total	F.Y. 2005/06	% in Total	F.Y. 2006/07	% in Total	F.Y. 2007/08	% in Total	F.Y. 2008/09	% in Total	F.Y. 2009/10	% in Total	F.Y. 2010/11	% in Total	F.Y. 2011/12	% in Total	F.Y. 2012/13	% in Total
Exports																				
India	30,777,100	57	38,916,900	66.6	40,714,700	68.1	41,728,800	70.8	38,555,700	65.9	43,574,482	63.5	39,902,811	65.5	42,868,108	66.4	50,933,222	68.7	51,788,460	67
# China P.R.	2,425,174	4.5	2,017,901	3.4	1,004,357	1.7	1,202,783	2	944,489	1.6	2,151,783	3.1	1,380,274	2.2	925,478	1.4	1,241,186	1.7	2,533,710	3.3
Others	20,747,140	38.5	17,509,020	30	18,057,817	30.2	15,995,514	27.2	18,974,170	32.5	22,870,587	33.4	19,666,518	32.3	20,768,858	32.2	21,914,652	29.6	23,028,540	29.8
Total	**53,949,414**	**100**	**58,443,821**	**100**	**59,776,874**	**100**	**58,927,097**	**100**	**58,474,359**	**100**	**68,596,852**	**100**	**60,949,603**	**100**	**64,562,444**	**100**	**74,089,060**	**100**	**77,350,709**	**100**
Imports																				
India	78,739,500	58	88,675,500	59.8	107,143,100	66.7	115,872,300	59.2	142,376,500	60.1	165,119,002	56.7	214,261,109	57	259,162,277	65.2	321,346,419	64.5	397,957,920	66.2
# China P.R.	10,941,473	8.1	14,145,609	9.5	13,014,427	8.1	17,718,164	9	23,433,205	9.9	34,465,791	11.9	43,445,613	11.6	46,629,754	11.7	53,126,367	10.7	68,454,731	11.4
Others	46,159,362	34	45,473,120	30.7	40,520,397	25.2	62,217,948	31.8	71,220,571	30	91,416,151	31.4	117,899,148	31.4	91,743,911	23.1	123,688,289	24.8	134,794,873	22.4
Total	**135,840,335**	**100**	**148,294,229**	**100**	**160,677,924**	**100**	**195,808,412**	**100**	**237,030,276**	**100**	**291,000,944**	**100**	**375,605,870**	**100**	**397,535,942**	**100**	**498,161,074**	**100**	**601,207,525**	**100**
Trade Deficit																				
India	47,962,400		49,758,600		66,428,400		74,143,500		103,820,800		121,544,520		174,358,298		216,294,169		270,413,196		346,169,460	
# China P.R.	8,516,299		12,127,708		12,010,070		16,515,381		22,488,716		32,314,008		42,065,339		45,704,277		51,885,181		65,921,022	
Others	25,412,222		27,964,100		22,462,580		46,222,434		52,246,401		68,545,564		98,232,630		70,975,053		101,773,636		111,766,333	
Total	**81,890,921**		**89,850,408**		**100,901,050**		**136,881,315**		**178,555,917**		**222,404,092**		**314,656,267**		**332,973,498**		**424,072,014**		**523,856,815**	

Source: NRB and TEPC, 2013.

Appendix 3

Nepal-US Trade Situation

Value in '000 Rs.

Fiscal Year	F.Y.2003/04	F.Y.2004/05	F.Y.2005/06	F.Y.2006/07	F.Y.2007/08	F.Y.2008/09	F.Y.2009/10	F.Y.2010/11	F.Y.2011/12	F.Y.2012/13
Exports	9,695,977	7,570,742	6,993,442	5,571,274	4,598,900	4,878,573	3,867,223	4,392,600	5,551,916	5,750,120
Imports	1,433,261	1,763,842	1,677,499	4,259,983	3,718,141	3,808,616	5,384,826	3,930,988	4,885,225	5,207,770
Trade Balance	8,262,716	5,806,900	5,315,943	1,311,291	880,759	1,069,957	-1,517,603	461,612	666,691	542,350

Source: NRB and TEPC, 2013.

Appendix 4

Nepal-US Trade: From US Point of View

Value in million dollar

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exports	15.6	21.1	35.1	14.1	19.9	16.3	25	24.7	16.6	29	28.5	31	28.3	40.3	37	32.7
Imports	139.5	177.5	229.5	200.4	152.6	171.4	142.6	111.2	99.4	89.9	84.9	54.7	60.5	77.4	83.5	77.7
Trade Balance	-123.9	-156.4	-194.4	-186.3	-132.7	-155.1	-117.6	-86.5	-82.8	-60.9	-56.4	-23.7	-32.2	-37.1	-46.5	-45

Source: Census Bureau of the United States Department of Commerce, 2014.

Appendix 5
Complete Model Analysis

FY	Total Exports Value in '000 Rs. (Y)	Exchange Rate Value in Rs. (X_1)	GSP Exports Value in '000 Rs. (X_2)	Exports of Textiles and Apparel Value in '000 Rs. (X_3)
2003/04	9,695,977	73.60	0.00	8,813,025
2004/05	7,570,742	72.27	39.75	6,788,539
2005/06	6,993,442	72.06	468.39	5,991,743
2006/07	5,571,274	72.32	4122.24	4,257,765
2007/08	4,598,900	65.04	18536.40	3,752,767
2008/09	4,878,573	76.88	24678.48	3,496,870
2009/10	3,867,223	74.54	33617.54	2,554,397
2010/11	4,392,600	72.37	68100.17	2,932,329
2011/12	5,551,916	81.02	68056.80	3,813,054
2012/13	5,750,120	87.99	36779.82	3,948,112

Source: NRB and TEPC, 2013 and USITC, 2014.

Taking the log value of Y and $X_{i's}$ considering base 10, Y and $X_{i's}$ become as follows:

Fiscal Year	Y	X_1	X_2	X_3
2003/04	6.99	1.87	-3.00	6.95
2004/05	6.88	1.86	1.60	6.83
2005/06	6.84	1.86	2.67	6.78
2006/07	6.75	1.86	3.62	6.63
2007/08	6.66	1.81	4.27	6.57
2008/09	6.69	1.89	4.39	6.54
2009/10	6.59	1.87	4.53	6.41
2010/11	6.64	1.86	4.83	6.47
2011/12	6.74	1.91	4.83	6.58
2012/13	6.76	1.94	4.57	6.60

Source: Author's presentation based on NRB and TEPC, 2013 and USITC, 2014.

Clarification: Exports to the US under GSP is sourced from United States International Trade Commission, 2014. And, X_2 is the mirror value for this study: the product of exports to the US under GS and Nepal's average annual exchange rate of 1 US$ of respective year. As log (0, base 10) is infinity (∞), for FY 2003/04, the value of total exports is considered Rs.1 to accomplish mathematical calculation.

Note: Textiles and apparel consists of three variables: carpets, garments and apparel products. Value of Y and X_3 seems almost equal. It is because overlapping of data due to the fact that exports of textiles and apparel products constitute huge portion in total exports to the US.

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