

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked sovereign state located in the Himalayas and bordered to the north by the People's Republic of China, and to the south, east, and west by the Republic of India. Nepal is one of the least developed countries in the world, with an area of 147,181 sq km (83 percent of the hill and 17 percent of the flat terrain of Terai). Geometrically the country has roughly a rectangular outline located between Latitude 26°22' and 30°27' and longitude between 80°4' and 88° 12', with average east-west axis is 885 km and north-south 193 km. Nepal is one of the richest countries in the world in terms of bio-diversity due to its unique geographical position and altitude variation. The elevation of the country ranges from 60 meters above sea level to the highest point on earth, Mt. Everest at 8,848 meters, all within a distance of 150 kilometers resulting in climatic conditions from sub-tropical to arctic. The mountainous north has eight of the world's ten tallest mountains, including the highest point on Earth; Mount Everest called Sagarmatha in Nepali.

Nepal emerged as a unified state over at that time when Britain was ruling India as a colonial state 200 years ago. Nepal received guarantees of protection from Britain against external aggression and interference without surrendering her autonomy on internal matters. Nepal's relationships with India and China changed after India became independent in 1947, Mao Tse-tung declared the establishment of communist China in 1949, and the political situation in Nepal changed in 1951. A monarch had ruled the country since 1769, but from 1846 to 1950, though the monarch remained on the throne, effective political power was in the hands of the Rana family, who, acting as hereditary prime ministers, ruled the country. The hereditary Rana regime was abolished in 1951 and the monarch regained control of the government.

Nepal attempts to maintain a balanced relationship with both India and China from 1951 to 1996. However, Nepal's relationship with India is closer than her relations with China due to geography and traditional cultural, political, and economic ties. Nepalese monarchs sometimes played the so called "China card" to counterbalance

these ties to India. When this insurgency began, it appeared to be anti-Indian, but in 2001 it was revealed that the Maoist was operating from bases in India. The dynamics of Nepal's relationship with these two countries moved into a different environment after a Maoist insurgency began in Nepal in 1996.

In 1951, Nepal opened up to the world outside after the overthrow of the Rana rule. In 1955, the Afro-Asian Bandung conference and the same year they had admitted to the United Nations (UN). The establishment of diplomatic relations with the People Republic of China in August 1955 because a milestone in Nepal's eagerness and efforts to diversify her external relations and forge new links of friendship and cooperation with other countries of the world, including newly independent countries of Asia and Africa.

The most important trade is Sino- Nepal trade. So far, multi-track approach of trade negotiation has been adopted. That is why, Nepal attempts for achieving economic growth through liberalized, BIMSTEC and the WTO onwards. Bilateral trade with India has been guided by bilateral trade and transit and treaty between Nepal and India. Nepal and China are nearest neighbors situated on the two sides of Himalayas. It has a long history of friendly ties. Since seventh century, historical records show that the friendly exchanges of emissaries between Nepal and China, when various scholars, Monks and state dignitaries started visiting each other's country. Fa-Shiense, a Chinese monk and in the Jin Dynasty and Huen Tsang, another Chinese eminent monk in the Tang Dynasty came to Lumbini, the birth place Lord Buddha, on pilgrimage. During the seventh century A.D. Songstän Gampo, king of the Tibetan kingdom the Tang Dynasty married the Nepalese princess Bhrikuti. In the thirteenth century the Nepalese artisan Arniko built a Buddhist pagoda in Lhasa and also built Miao Ying Temple in Beijing under his supervision.

The trade between Nepal and China is increasing significantly. The second largest trading partner of Nepal is China, in terms of import and seventh largest partner on terms of export. However trade deficit of Nepal with China is increasing as the volume of the trade increasing year by year. Throughout the 80 percent of Kodari-Nylam (Tatopani entry point) land is operated for trade. Just within 30 km of border of each country is allowed for frontier trade. Nepal has only two trade routes with China. One route is linked with China's closest communication center Khasa by road transport, which is 130 kilometer's distance from Kathmandu. Another road

under construction is via Rasuwagadi-Kerung. The distance from Lasha to Kerung is almost 1,000 kilometers, and the distance from Kerung to Rasuwa of Nepal is almost 22 kilometers. The mountainous nature of terrain and weather factor also bears considerable significance for smooth road communication between Nepal and China. Nepal and China have only two immigration points along the border. They are Kodari, with road connections from Kathmandu, and Nara Nangla in Humla, with mule track from Simikot. Tribhuvan International Airport in Kathmandu is the only immigration point for foreign nationals coming by air. There are several passes along the mountains in the Nepal-China border which are not officially manned, through which people of both countries travel around, on seasonal basis.

Since 1961, the road links between Nepal and China, when an 80 kilometer road, Araniko Highway, linking Nepal's capital Kathmandu with Khasa on the Nepal-China border in Tibet was constructed by China. Sybrubesi-Rasuwagadi is under construction. Almost US\$ 20 million is needed stretch of road 10.5 miles from the Chinese border to the Nepalese town of Sybrubesi. (Wikipedia November, 2015)

Chinese side is upgrading the infrastructure in Zhangmu Pass and the surrounding road, and is positively considering initiating construction of the dry port near Tatopani in the Nepali side as early as possible. The Syabrubesi-Rasuwagadi road is now under construction under a Chinese grant. After the completion of this road, the Chinese side will push for the establishment of Kyerong Pass, which will mark the inception of the second trade corridor between China and Nepal.

The border trade based in barter of goods between Nepal and Tibet Autonomous Region of China has been taking place since early periods. Nepalese major exports to Tibet Autonomous Region (TAR) includes food grains, lentils, vegetables and handicrafts while the imports were raw wool, woolen carpets, medicinal herbs and salts. During the ancient and medieval period of history, Nepal was the transit point in conducting trade and facilitating emissaries between India and China. The means of transportation has mainly been through draft animals and head loads as the terrain of high mountains lacked kin toad and other transport infrastructures. Whatever actions done to spread and increase bilateral trade are not satisfactory. It explores that China's rank has gone up in the list of export destination not due to increase of Nepalese export rather due to overall decrease of the Nepalese export elsewhere in the world. Since seven years Nepal's export performance has declined in the name

of various external and internal factors and the export to China which will be unsustainable for Nepal in the longer term.

Both exporting and importing is gradually growth changing of time. However, the export is quite challenging to balance trade. The major trade partner of Nepal is India and China for a long time. The major challenge is imbalance trade between Nepal and China. In 2010/11 year only 1.4 percent occupies the China shares in Nepal's export, whereas 11.7 percent holds the shares in Nepal's total import. In this fiscal year 2014/15, 2.61 percent export and 12.92 percent import shares between Nepal and China. Thus, the growth rate of export and import is gradually increasing in per year. Moreover, Nepal's trade imbalance with China has increased persistently and thus a quest for complementarities in trade and economy has been a common concern. China has achieved a double digit economic growth in recent year bringing a faster pace of development thereby improving the life and living of the Chinese people at large. Nepal could be benefitted from spills-over of China's fast growing economy as a nearest neighbor. But, it requires developing common framework and proper strategy to facilitate trade, investment and economic integration between two countries. Though, the long economic and trade relationship between Nepal and China, the volume of trade could not achieve in comparison to the faster development of international trade in recent decades and Nepal is facing a huge imbalance in its trade with China.

Thus, the trade between Nepal and China is increasing day by day. Nepal exports dominants the primary and agricultural products like rice, fruits, vegetable, oils, leather product, metal product, herb products to China. Whereas Nepal imports electronic goods, computer, vehicle, machinery parts, readymade garments, onion and garlic and a wide variety of household utensils and utility items from China.

Trade Policy, 2015

Nepal government has brought new trade policy in 2015. Previously there were two trade policies, trade policy, 2065 and trade policy, 2049. Trade policy, 2015 has envisioned to achieve economic prosperity by increasing contribution of commerce on national economy via export promotion. The goal of the trade policy is to achieve inclusive and sustainable economic growth by promoting export. The trade policy has put forward two main objectives of reducing trade deficit and increasing

access of goods, services and intellectual property in the regional and global market. The trade policy has come up with the strategy of: a) expanding market and increasing trade capacity through trade diplomacy and through multilateral, regional and bilateral mechanism; and b) increasing the access of Nepali product in the global market via protection and promotion of trade related intellectual property rights. The trade policy has following policies and action plan: a) to promote export by increasing competitive capacity of goods having comparative advantages; b) to reduce trade deficit by strengthening export capacity including development, expansion and strengthening of trade infrastructure; c) to reduce transaction cost through institutional strengthening and trade facilitation (for example, establishing integrated check post on custom offices, upgrading and improving existing north-south highways and conducting feasibility study on possibility of railway and wider highways in the trade route); and d) to effectively mobilize Nepalese embassies and consulate general offices on foreign land for trade diplomacy and export promotion.

1.2 Statement of the Problem

Nepal is facing huge trade deficit. The trade and commerce has failed to get competitive level due to several development policies and strategies. In current situation, Nepal can export only agricultural based raw items which mean it has to import all expensive and final products from other countries. For long time, Nepal is isolated from global market, agriculture based country, least developed and landlocked; these are certain facts which indicates the importance of foreign trade in order to achieve sustainable economic growth and development. The trade sector remains one of the least attended sectors of the economic various measures like Export Exchange Entitle Scherne, Dual Exchange Rate, direct cash subsidy and frequently change in other procedural aspects such as the licensing system and tariff structure were made amid much fanfare but with little impact. Importers always dominate the nature of trade, export. A developing country, like Nepal depends on foreign trade for the achievements of national target and economic growth in order to afford fast growing import needs.

Nepal has not perfectly gone as planner's target due to the lack of exportable or qualitative goods. Nepal is not able to export in the sufficient quantity in the overseas. The trade of Nepal is only limited in India rather than other countries.

Pashmina, Garments, Handicrafts, Woolen or Carpets and Goatskins are the share of exportable main items of Nepal but nowadays they are declining.

However, the performance of the foreign trade has not able to play critical role and it has not been able to fulfill the nation expectation so far. The nation is surrounded by its own problem so the performance of the foreign trade is weak. It has long history of Nepal's bilateral trade with china, however, Nepal's export to China is not encouraging, imports from China on the other side is quite in a large volume. China, as the largest economy of the world has offered duty free quota, free market access in 9000 product for Least Developed countries including Nepal but the country has been failing to take advantage from the earlier list because most of the 370 products in the zero-duty list to China in 2015/16. However, Nepal has not been able to grasp such opportunities. Nepal's export has been stagnated over the years whereas the import volume has increased substantially. This has led to effect on the current account balance and hits even in the balance of payments.

On this ground, this study carried out to assess the Nepal's Trade with China and its problems and prospects. This is why this study exclusively focuses on the trade with China and its problems and prospects.

Based on aforementioned problems, this study answers the following research questions are:

- i. How is the overall foreign trade situation of Nepal?
- ii. What are the main causes of growing deficit trade with China?
- iii. What is the position of China in Nepal's total trade?
- iv. What is the composition and direction of Nepal's trade with China?

1.3 Objectives of the Study

The main objective of the study assesses that Nepal's bilateral trade with china. The general objective of this study is to explore Nepal's trade opportunity in Chinese market. The specific objectives of the proposed study are as follow:

- i. To analyze the trends of Nepal bilateral trade with China.
- ii. To identify the position of China in Nepal's total trade.
- iii. To evaluate problems and prospects of Nepal's trade with China.

1.4 Significance of the Study

This study is entitled as “Problems and Prospects of Nepal’s trade with China”. This thesis is more beneficial to the foreign traders, policies-makers, industrialist, businessmen, and general public or private sectors.

Foreign trade plays a significant role in economic development and impacts on various sectors such as Government, non- government sectors, policy maker, industrial enterprises, researchers, traders, businessmen, and foreign investors and so on. This thesis provides in brief knowledge about foreign trade and its significance in national development, trade direction of Nepal in recent year, policies related to the foreign trade, brief relation with WTO, SAFTA, BIMST-EC, SAARC, ASEAN, problem facing by Nepal in foreign trade deficit and foreign trade policies formulated by Government of Nepal.

Foreign trade is exchange of capital, goods and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. In the third world country like Nepal, the role of foreign trade is very important. Nepal can acquire immense comparative advantage from foreign trade by disseminating exportable commodities because still they are primary and agricultural products. In addition foreign trade is essential to those countries, where domestic production of certain commodities involves high cost higher than the cost of importing the same commodities from other countries. The major significances are: This study help to find problems and prospects of Nepal’s trade with China, This study certainly can be helpful to the entrepreneurs who are engaging in trade with China, This study help to take some initiation at promoting some exportable items on which they have a comparative advantage.

1.5 Focus of the Study

This study aims to provide the big picture on “problems and prospects of Nepal’s trade with China” from the period it has been actively engaged in international trade. For this, considering the availability of data, facts and nature of the research, the

study is prepared by incorporating data from 2005/06 to 2014/15. The data taken from central controlling bodies like, NRB, TEPC and Ministry of finance, Ministry of industry and Ministry of commerce and supplies.

1.6 Limitations of the Study

This study has been carried out with an aim to explore foreign trade of Nepal and its significance in national development. This study was following limitations:

- i. This study only tries to explore the problems and prospect of Nepal-China trade.
- ii. This study limited to trade only Nepal and China.
- iii. Study carried out within a specified limited time period.
- iv. This study has focused the trade activities during 2005-2015.

This research is based on the secondary data only. In course of the study, several visits to the concerned institutions and offices were made, viz. NRB, TEPC and Ministry of finance, Ministry of industry and Ministry of commerce and supplies.

1.7 Organization of the Study

The study is organized in five main chapters which are as follows:

i. Introduction

A brief note on the trade relationship between Nepal and China accompanied by an overview of economic reform and micro and macro-economic performance of the both countries has presented in the first chapter. This chapter further chalks out of the basic framework of the study consisting of objective of the study, significance of the study, focus of the study, limitation of the study, and organization of the study.

ii. Review of Literature

This chapter contains the reviews of various literatures and articles related with Nepal's trade. Moreover, this chapter is mainly categorized into two aspect; review of literature in Nepalese and international context.

iii. Research Methodology

This chapter explains the research methodology used in this study which consists; Research Approach, Research Design, Sources of Data, Data collections, Data processing and Analysis.

iv. Data Presentation and Analysis

This chapter explains an analytical section of the study. In this chapter, data are presented, analyzed and derive the conclusion of the study. It deals with various aspects on Sin-Nepal trade relation. Moreover, it has included the trade structure, trend and balance of payments situation between the two countries. Attempt has been made to analyze the provisions made in the bilateral trade and transit treaties in view of the economic co-operation. It has also been made an effort to analyze the impact of the bilateral treaties with the focus in treaties of 2005 onward. For this, data are presented separately trade with China. The problems and prospects for the development of the trade and improving bilateral trade relations between the two countries have been discussed in this chapter.

v. Summary, findings, Conclusion and Recommendations

This chapter is the final part of the study. It consists summary, findings of the study, conclusion of the study has presented with some policy recommendations towards improving the trade structure as well as the trade relation between Nepal and China.

CHAPTER II

REVIEW OF LITERATURE

For this research study the related literature survey is done by consulting various journals, articles, newspapers, thesis, reports and others more relevant books to foreign trade, concept of foreign trade, trade policies about Nepal and rest of the world have been collected compiled and reviewed. However, literature based on Nepalese foreign trade is not so abundant. Very few are found in the form of Books, Articles, Research Papers, Unpublished Dissertation and some web sites. This chapter mostly consists of two types of review (context) i.e. international context and national context.

2.1 International Context

Michaely (1977) analyzed the cross-country data from 41 countries. He analyzed the ratio of growth rate of GNP and per capita GNP from the selected countries. Through regression of the equation using least square method, he found positive association of growth with export expansion. Furthermore, he suggested that, the countries differ from each other in their export proportions due to a variety of factors such as size of the economy, proximity to large markets.

Bela Balassa (1978) investigated the relationship between exports and economic growth in the cross-country comparisons between 11 developing countries which has established the industrial base. He suggested the incremental export-GNP ratio could be the solution for the problem of positive auto correlation between the GNP and other dependent variables with the foreign trade estimates. He compared the variables of GNP and Per capita GNP in terms of export growth and his own hypothetical incremental export-GNP ratio. He found that the income has been increasing in countries that have followed a consistent policy of export orientation. To conclude, he explained that export growth favorably affects the rate of economic growth.

Tyler (1981) analyzed the empirical relationship between economic growth and export expansion in developing countries with the help of inter-country cross-section analysis. He conducted bi-variate tests which revealed the positive associations

between growth and various other economic variables including manufacturing output, investment, total exports and manufacturing exports.

Feder(1983) provided the formal model to show significant relationship between export and growth of the economy. In his work entitled as "On exports and Economic Growth" he provided a mathematical model representing GDP as dependent variable with independent variables of export and non-exports. He further classified non-export variables into labor and capital. Through analysis of the marginal productivity of labor and capital and the growth rate of export he found that there is a positive association between the export and growth.

Bergstrand (1985) applied the gravity model to the study of international trade. The author states that the gravity equation is empirically successful for the explanation of trade flows but maintains that the theoretical foundation is weak in respect of projecting the potentiality of the model. Bergstrand (1989) studied the consistency of the gravity equation with contemporary theories of inter-industry and intra-industry trade. This paper was an extension of the microeconomic foundations spelt out in his earlier paper of 1985 in that the gravity equation incorporated factor endowment differences and non-homothetic preferences.

Montenegro and Soto (1997) also used simulation techniques from their estimated results based on the gravity model to study the distortions in Cuban trade. The paper discusses the Cuban trade structure and identifies the effects of liberalization on the development of trade. The deviation they found between the predicted and actual values from simulation was a consequence of non-economic factors. Import quotas caused significantly lower actual import volumes in Cuba from USA than predicted one. Similar interpretations of the results of simulation are also adopted here to study trade distortion in Nepal.

Sohn (2005) examined the extent to which the gravity model can be employed to study South Korea's bilateral trade flows and thereby applied in the formulation of trade policy. The author found the gravity model to be the best tool for the explanation of South Korea's bilateral trade flows as a single country case. The coefficient on the trade variable showed that Korea's trade flows depend on comparative advantage, income differences, and stages of development rather than on economies of scale, as proposed in Heckscher-Ohlin³ model on the study of

international trade pattern. The author of the present paper also employs the fundamentals of the gravity model by using the product of Nepal's GDP and its trading partners and the simulation techniques applied by Sohn (2005). In this respect, Sohn's paper forms the basis on which research on Nepal's international trade was conducted. (NRB Working paper No. 21 .January 2014)

Schuett Antje (2010) analyzes that well established economic links exist between China Germany and China with some problematic issues on the topics of intellectual property and competition policy. He also analyzes that the non-economic relations are dominated by the human rights topic, which still seems to have no influence what so ever on the booming economic interaction. He has evaluated the bilateral relationship by dividing into economic and non-economic criteria as it is mentioned above too. On economic aspect he has described about competition policy, intellectual property and co-operation councils and at the same time he has analyzed about cultural relations, military relation, regional co-operation, human rights, education, agriculture, tourism and rule of law etc. in non-economic area between these two countries Germany and China. He has also analyzed the German- Chinese Forum for Economic and Technological Co- operation. At last he concluded that economic relations dominate the bilateral relations as both partners expect a lot from the economic collaboration.

2.2 National Context

Shrestha (1980) mentioned that Nepal imports from Tibet has grown considerably but however, exports to Tibet have been declining or growing with an erratic trend which is not sufficient to meet all trade obligation. Rice, sugar, Jute bag, thread, soybean, bricks, and tiles accounted for the export of Nepal at 1980s. In the near future Nepal may not be in a position to export such commodities to Tibet as it was doing at 1980s. In fact, the export of such goods to Tibet does not represent entirely all surplus of the country. The established home industries are not replacing imports from Tibet. Some of the items have been exporting by Nepal for the domestic consumption. Overall exports did not compensate rising imports from Tibet. Transport and transit facility are the obstacles for trade expansion.

Timilsina (1985)analyze the contemporary trade situation in the form of composition, development and balance of payment with the help of secondary data.

The tariff policies adopted in different time periods and how the policy makers are curious about the use of tariff instrument to promote export trade and to protect domestic industries. However the non-tariffs barriers like quota and licensing system are not proving worthy. He concludes that Nepal's foreign trade, instead of working as an engine of economic growth, facing various problems like high import, import of non- essential goods etc. He has also raised some issues like open border, smuggling trade import payment etc.

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

Panta (1994) has attempted to define the meaning of foreign trade in terms of pessimistic view and optimistic view. The author also reviews the foreign trade of Nepalese economy annually as well as periodic plan wise up to the eighth five year plan. He also analyzes foreign trade treaties and policies. This study also deals with import substitution and export promotion. He has analyzed Nepal India trade under the circumstances of liberalization and privatization view and optimistic view. Thus export and import helped in breaking vicious circle and accelerated the economic development. The writer elucidated that foreign trade provided better ground for efficient use of resource which had comparative advantage. In underdeveloped countries like Nepal, agriculture was always the backbone of the economy. But it was always backward and subsistence farming was the rule. Trade helped in commercialization, modernization and of agriculture helped in the establishment of industrial sector.

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

policy studies for FNCCI "Nepal- China Trade, Economic and Cultural Co-operation" in the year (1999) covers various issues of trade between Nepal- China and also the economic and cultural co-operation between these two countries. The book analyzes the volume and composition of trade between the two countries. The book highlights that Nepal's trade with China is a very small proportion of the country's total trade. The average figure of 1994/95- 1997/99 shows that it is only 5 percent. The share of China in Nepal's total exports is only 2 percent and that of import is only 5.2 percent. The author also discusses the major issues and problems in trade promotion between two countries. The author has stated that there are problems of physical infrastructure and other problems like lack of sheds, lack of organized trading system, problem of tariff, trade deflection, check points, visa problems, communication problems, payments problems, lack of exchange rate systems etc. Thus such problems are acting as the hurdles of trade promotion between Nepal and China.

Regmi (1993) has categorized product wise export by taking 20 years trade data of export side only from 1971 to 1990. He has also included the trade policies of 1982 and 1992 and other related policies about industries and trade. The main objectives of the study are to measure the export performance of Nepal between 1971-1990, to examine Nepal's export policy management in the different plan period, to evaluate the role played by export related institutions in the country in the field of export management, to assess the export supply management in Nepal and to evaluate Nepal's export markets and their management, and to suggest export management model for Nepal. He has studied in depth about the foreign trade of export side and also analysed all trade and industry policies.

Sharma (1999) argued that the trade deficit of Nepal has been increasing over the period of 1991/92-1996/97 though export has increased at the average rate of 11 percent per annual year and import has increased at the average rate of 24.7 percent during the period. The ratio of trade deficit to GDP ratio increased from 12.6 percent in 1991/92 to 27.3 percent in 1996/97. Sharma also found export- GDP ratio during the period was 9 percent in average while the import-GDP average ratio was more than 29 percent, which is not a favorable indication for the Nepalese economy. The author also found that Nepal's active participation in many multilateral cooperation arrangements cannot be fully exploited without joining the WTO. Nepal intends to

integrate into the multilateral trading system to increase the supply of tradable items, both goods and services, to attract foreign investment and to gain better market. Nepal has recently submitted a memorandum on foreign trade regime to the WTO office. However, one vital missing factor is the domestic front for Nepal is to benefit optimally from the WTO is a consistent set of strategies and policy instruments to boost-up quality production in sufficient amount for low bulk high value selective commodities.

Singh & Singh (1999) analyzed that Nepal is a primary product producing country; her terms of trade remain unfavorable. Under these circumstances, production productivity and efficiency are to be generated which is possible by foreign trade in the short run. Singh further suggest that under economic reform at global level i.e. liberalization and globalization, Nepalese economy is to be made compatible with these changes, hence cost of production is to be reduced, efficiency and competitiveness are to be generated.

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

Bhaikaji Shrestha (2005) has pointed out about ancient trade history of India and China with our country Nepal, which is noted as below:

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

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

In one hand, the developing countries can get benefits with an attempt of foreign trade to the worldwide market in globalization, on the other hand it is a good practice for reducing poverty in the under developed and developing countries. In the case of our country Nepal, globalization is regarded as the useful structural charge in Nepalese economy to increase efficiency, enhance the income of the people and promote equitable distribution. The present situation of Nepal shows that these are the need for the stability of the internal macroeconomic environment to use the opportunities of globalization. So trade is required to be spread all over the countries in the world with the globalization practice. The under developing and developing countries have enough supply of labour which when utilized properly may provide significantly in the development of their countries. The big amount of remittance earned by the country as its major income source can be mobilized and used in different productive sectors. That's why the concluded point is as "globalization is a key factor for the economic development of developing countries like Nepal."

Adhikari (2010) argued that China has been an important bilateral trade partner of Nepal. However, the trade with China is quite lower than India. Nepal's trade with China is lopsided and even more imbalanced than that with India. There was dramatic increased in the import from India in the last few years. The key points with reference to Nepal- China high trade imbalances are infrastructural bottlenecks remain a major impediment, limited access to road; despite ongoing efforts, China-Nepal overland trade remains modest; and given the mountainous terrain in the region, investment to improve infrastructure will have to be substantial.

Bilateral trade between China and Nepal has seen steady development since the establishment of diplomatic ties between the two countries in 1955 and has witnessed rapid expanding after 1996 when Chinese president Jiang Zemin paid a state visit to Nepal and the two governments agreed to further promote good-

neighborly partnership between Nepal and China. Statistics shows trade volume between China and Nepal reached US\$67.74 million in 1997, an increase of 68.7 percent over 1996. The figure soared to US\$220 million in 1999, a sharp rise of over 200 percent compared with 1998. As China is an emerging economic power in the world while Nepal is endowed with rich and untapped natural resources, the combination of Chinese capital and technology with Nepal's will-abounding resources benefit enormously to both countries.

Ojha (2010) mentioned that Peoples' Republic of China is a key player in the international trading system as it has been able to expand markets around the world after it acceded to the WTO. Similarly, Nepal as a least developed country has to strive for sustaining its export base in the wake of competition increased in the destination markets. Moreover, he discussed about the challenges faced by Nepal which are enormous in terms of increasing productive capacity and production, identification of export potentials, domestic value addition and employment generation, and linking trade with poverty reduction programme. Support from the neighboring countries and development partners are very important to overcome these challenges and benefit from openness of trade.

Singh & Khanal (2010) studied Indo-Nepal trading patterns after 1990. They found that the rising proportion of exports to and imports from India in Nepal's total trade has increased its dependency on this neighboring country for trade. The paper does not suggest any possible solutions based on the empirical findings as to how to reduce trade dependency on India.

Basyal (2011) examined how the full implementation of a liberal trade agreement can contribute to the growth of the exporting sector and its significance for the economy of Nepal. The paper recommends that measures to reduce the inflation rate in Nepal could considerably improve trade competitiveness. The recommendations made on how to improve trade are vague and are not supported by empirical results.

NRB Report (2012) on Macro Economy, reveals that the country's Balance of Payment (BOP) has recorded the highest ever surplus of Rs.46.31 billion as of the first four months (Shrawan, 2011- Kartik, 2011) of the current fiscal year. The country started keeping BOP records in 1974/75. According to NRB, the

acceleration in the growth of remittance along with the improvement in the service account helped maintain a comfortable BOP situation.

After two year's period, the country's BOP turned surplus in the second last month of the last fiscal year and continued to grow since. Last year, in the same period, the BOP had recorded a deficit of Rs.5.72 billion. Nepal was compelled to borrow \$42.5 million from the International Monetary Fund under its rapid credit facility to address BOP deficit one and a half year ago. Over the review period, remittance inflow grew by 34.2 percent to Rs.103.20 billion compared to a 13.6 percent growth in the same period a year ago. Under the service account, income from tourism rose by 33.4 percent, against a decline of 14.7 percent in the last year's corresponding period. The country's foreign exchange reserves also surged notably over the period. The foreign exchange rate reserves increased by 25.9 percent to Rs.342.74 billion as of mid November 2011. The figure was at Rs.272.15 billion as of mid-July, 2011. The devaluation of the Nepali currency against the US dollar also fuelled forex reserves growth.

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

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

Subedi (2012) presents that eight years after Nepal's accession to the world Trade organization (WTO), the country's trade deficit has increased four folds and the share of export in GDP decreased to 5 percent from 10 percent. Between 2003-04 and 2010-11, the value of Nepal's total imports almost tripled from Rs.133 billion to Rs.388 billion. But in the same period, Nepal's exports rose from 55 billion to Rs.69

billion (only a 25 percent increase). It shows that in these eight years exports of major items have undergone sharp decline, while imports rose quickly, thereby steadily increasing the trade deficit. He concludes that Nepal's weak export performance is also due to supply side constraints. Supply side constraints like political instability, low connectivity, power crisis and problematic labor relation, among others are playing crucial role in eroding our capacity. Although various trading partners are still providing us preferential market access, we have not been able to overcome non tariff measures in those countries. The review suggests that Nepal must address its supply side constraints and overcome other problems including high transit costs to realize the full potential of international trade.

Thapa (2012) studied the determinants of bilateral trade flows of Nepal and 19 other countries using the gravity model approach. He found that Nepal has a potential for expansion of trade with 9 out of 19 countries, like Bangladesh, Brazil and Italy.

Acharya (2013) identify Nepal's international trade determinants (export, import and trade balance) using the extended gravity model. According to empirical results based on panel data containing Nepal's 21 major trade partners from 2005 to 2010, both exports and imports of Nepal were positively linked with the real GDP of her trade partner countries but exports increased at a higher rate than imports.

2.3 Research Gap

After analyzing the above literatures, it explores on Nepal's international trade were mainly focused on identifying international trade determinants, evaluating the sensitivity of trade openness, and studying the impact of trade liberalization on income inequality. It reviews different nature of Nepal's foreign trade with China from the time period of 2005-2015. However, literatures on Nepalese foreign trade are not so sufficient. It is hardly found in the form of books, articles, research papers and on web sites. Whatever we get this shows Nepal's trade patterns and structure. Most of the research highlighted the issues of Nepal's bilateral trade with India. A very least numbers of research are found in Nepal-China trade relation. They are related to old statistical data only. Among the trade studies, the study on Nepal's trade with China is hardly found. Previous studies made on Nepal's trade with China remains in old data. The overall tradebalance between Nepal and China is not good. China has attained a double-digit economic growth in recent years. As a nearest

neighbor, Nepal has been facing a persistent deficit in the merchandise trade balance due to the rapid growth of imports and lagging growth in exports. As an important aspect of national accounting measures, the foreign trade should be developed as a main source of investment to attain and maintain the goal of industrialization, adequate expansion of employment opportunities, and stability of prices and minimum level of living standard for the weaker section of the country. Nepal gets benefit from spills-over of China's fast growing economy. It is said that trade plays a vital role in Nepal to uplift its socio-economic status. Tibetan Autonomous Region of China is the main important door neighbor of Nepal with vast market, there exists a huge potentiality for expanding Nepal- China bilateral trade. Nepal has high prospects for Chinese investment in different sectors. Thus, studying these facts in view, this thesis tries to find the major problems and prospects of Nepal's trade with China.

CHAPTER II

RESEARCH METHODOLOGY

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

3.1 Research Design

The research design followed in the study is descriptive. The descriptive research is used to analyze fact more meaningful and useful for the study purpose. So, secondary data and information are the source of this research. The secondary data are collected from the different national and international sources. Similarly, the trade performance with different countries is also studied and analyzed with the help of graphical and tabular analysis. In any research study, time frame of reference plays vital importance. The research should be conducted within the specific time frame of reference. In this research study the time period of fiscal years 2005/06 to 2014/15 is taken into consideration.

3.2 Sources of Data

The collection of data is very important source of research study. This research study is fully based on secondary data. In order to make this research a successful one, data have been collected from various types of sources. Among them the major national and international sources used in this study are Economic Survey and Budget Speech, Published document of Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), National Planning commission (NPC), Trade and Exports promotion Center (TEPC) reports of earlier researches, related books, journals, articles, and other persons those engaged in Nepal-China trade.

3.3 Data Collection

In this study data has been collected through secondary sources. The data which are related with foreign trade of Nepal with China are collected. The data are related

about Nepalese trade in the sense of export/import. There are so many data about related studies but only required data has been collected, tabulated, categorized and interpreted. Relevant information has also been collected from books, research reports, dissertations and magazines.

3.4 Data Processing and Analysis

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

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Trend of Nepalese Economy

There are different and burning problems which are identified in Nepal trade. Trade is most vital component of our economy. Exports and imports have a strong bearing on macro economy, employment opportunities and the pace of structural transformation. We depend so much on foreign goods to satisfy increasing domestic demands and a shortfall in production results in imports is higher than our exports. This has resulted a huge trade deficit. Trade plays a vital role in Nepal to uplift its socio-economic status. Nepal does not accounted significant growth and changes as shown in the table 4.1. This table shows the macroeconomic indicators of Nepal. The economic situation of the country, a major indicator of economic development, has not been satisfactory. The nation has achieved average economic growth rate of 4 percent over the decade. The major macro indicators are:

Table: 4.1

Major Macroeconomic indicators

F/Y	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Real GDP growth%	3.7	2.8	5.8	3.9	4.3	3.9	4.6	3.8	5.1	3
Inflation%	8	5.8	7	13.2	10.5	10.7	8.6	10.1	9.1	7.2
GDP (at current price)%	11	11.3	12.1	21.2	20.7	14.6	11.7	11	14.5	9.4
Fixed and saving Deposits/GDP%	35.7	36.9	41.8	43.9	51	50.8	56.4	59.6	62.4	67.1
EXP/IMP Ratio%	34.7	30.5	26.7	23.8	16.2	16.2	16.1	13.8	12.7	10.7
Total trade%	35.8	34.9	34.5	35.6	36.5	33.7	35.1	37.4	41.5	41.9
Current Account balance/GDP%	2.2	-0.1	2.9	4.2	-2.4	-0.9	5	3.4	4.6	2.3

Source: Economic Survey 2014/15, MOF, GOV, 2015.

The country is facing higher inflation since last few years with 13.2 percent, 10.7 percent, 9.1 percent and 7.2 percent likes in FY 2008/9, 2010/11, 2013/14 and 2014/15 respectively. As per revised estimate, Nepal's real GDP was estimated to grow by 5.0 percent in FY 2014/15. Such growth rate, however, is estimated to stagnate at 3.0 percent at basic prices against the growth rate of 5.1 percent in the previous fiscal year. Unfavorable climate for agriculture sector and adverse impact on non-agriculture sector's activities due to earthquake of April 25, 2015 are attributable for such low economic growth rate in current fiscal year.

Although developed and emerging economics are also encountering the pressure of price rate of inflation in Nepal is higher in comparison to those countries. Low economic growth rate accompanied by continued double digit inflation has been adversely affecting economic activities and the people's livelihood.

Table: 4.2

Sectorial Contribution of GDP (%)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Agriculture	1.8	1	5.8	3	2	4.5	4.6	1.1	2.9	1.9
Non-agriculture	5.3	4.4	5.9	4.3	5.4	3.6	4.5	5	6.3	3.6
Industry	4.5	3.9	1.7	-0.6	4	4.3	3	2.7	6.2	2.6
Service	5.6	4.5	7.3	6	5.8	3.4	5	5.7	6.3	3.9
EXP.GDP	9.2	8.2	7.3	6.9	5.1	4.7	4.9	4.5	4.7	4
IMP.GDP	26.6	26.8	27.2	28.8	31.4	29	30.2	32.8	36.8	37.4

Source: Economic Survey 2014/15, MoF, GoN, 2015.

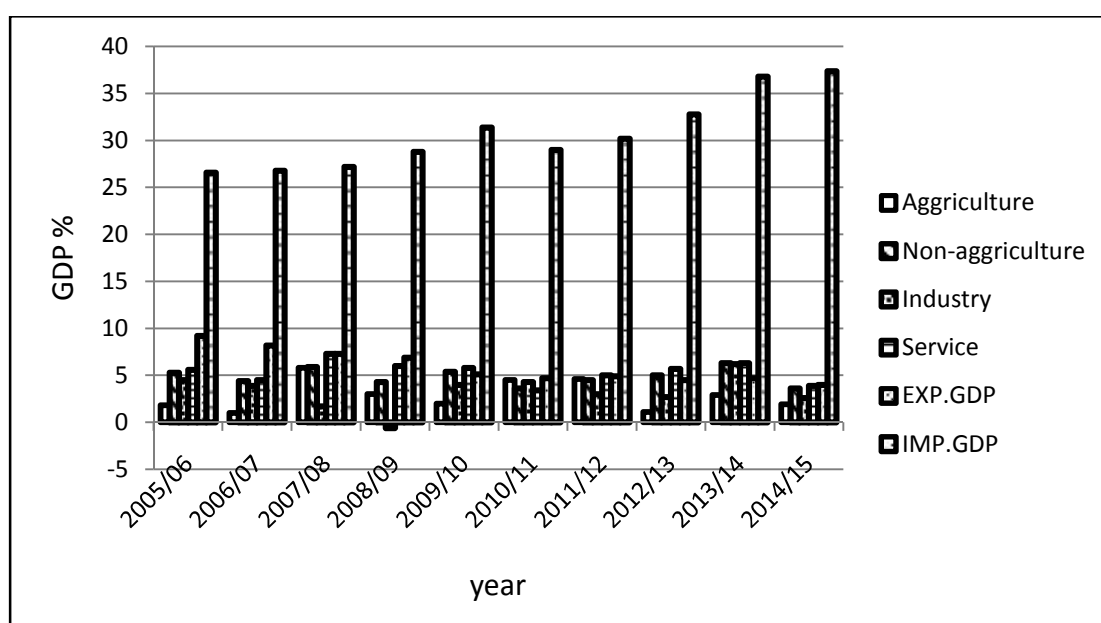
Shown in the above Tab.4.2 the contribution of agriculture as percentage of GDP has been decreasing whereas the contribution of services in GDP has been increased in a slow pace. Contribution of industry was dropped in the year 2014/15. Production in Agriculture sector is estimated to grow by 1.9 percent in fiscal year 2014/15 against the previous fiscal year's growth of 2 percent. Similarly, non-agriculture sector is estimated to grow by 3.6 percent in this year against the growth of 6.3 percent in the previous fiscal year. Among the non-agriculture sector, growth rates of industry and services sector are estimated to grow by 2.6 percent and 3.9 percent respectively in current fiscal year while these table were 6.2 percent and 6.3 percent respectively last year. In the year of 2005/6 export GDP was 9.2 percent it

decreases year by year 2014/15 it's 4 percent. But import GDP also increases 2014/15 it's 37.4 percent.

Increasing trend of service sector contribution to the GDP shows liberalization has helped to promote services. Export and imports of goods and services as a percentage of GDP has been stagnated as there were frequent disturbance in the domestic trading environment. Such as, due to ever extending political transition, problems in industrial environment, lack of private investment. In the above table 4.2 it can be also represented under the figure: 4.1.

Figure: 4.1

Sectorial Contribution of GDP



Source: Economic Survey 2014/15, MoF, GoV, 2015.

4.2 Imports and Exports of Nepal's Customs Offices

Table 4.3 shows the Import and export of Nepal's custom offices in FY 2015/16. It shows the all customs offices in Nepal which records total import and export in both value and percentage. The total import consist NRs 774,712,277 rupees and total export is NRs 70,254,165 rupees. The maximum value of export was NRs.22, 434,649 Rupees (31.93 percent) in the Tribhuvan International Airport (TIA) in the FY2015/16. And maximum value of import was NRs.116, 839,965 Rupees (15.08 percent) in the Biratnagar in the same year.

Table: 4.3**Imports and Exports of Nepal's Customs Offices: F.Y. 2015/16 (2072/73)**

Values in '000 NRs

S.N.	Customs Offices	Import Value	Import Share%	Export Value	Exports Share %
1	Mechi	31,249,748	4.03	5,576,744	7.94
2	Biratnagar	116,839,965	15.08	21,087,760	30.02
3	Janakpur	186,525	0.02		0.00
4	Jaleswor	2,755,243	0.36	5,321	0.01
5	Birgunj	182,030,391	23.50	9,490,902	13.51
6	Dryport	94,752,288	12.23	3,600,791	5.13
7	Bhairahawa	186,486,653	24.07	4,315,919	6.14
8	Krishnanagar	14,925,373	1.93	433,646	0.62
9	Nepalgunj	26,655,425	3.44	1,999,698	2.85
10	Kailali	15,384,213	1.99	665,098	0.95
11	Kanchanpur	928,710	0.12	32,086	0.05
12	Tatopani	618,311	0.08	-	0.00
13	TIA	91,244,895	11.78	22,434,649	31.93
14	Rasuwa	10,654,537	1.38	611,551	0.87
	Total	774,712,277	100	70,254,165	100

Source: Department of Customs Ministry of Finance Government of Nepal Foreign Trade Statistics: 2015/16 (2072/73)

4.3 Volume and Direction of Nepal's Foreign Trade Performance

Nepal is a least developed country, where inputs for economic development are limited. Foreign trade plays a significant role in the economic development of the developing countries like Nepal. So, foreign trade is inevitable for economic development of the country as it provides necessary raw materials, technical know-how, machinery and various goods and services necessary for livelihood. As we know, foreign trade has two components; export trade and import trade. Foreign trade basically export trade is very much necessary as it gives rise to industrial development. It also provides market access to the developing countries like Nepal. Nepal's export is of low volume low value where as its import is high both in volume and value. Nepalese foreign trade performance has so far been poor. Therefore, Nepal's balance of trade is unfavorable. Nepal's volume of export has not been increasing in the same direction as the volume of import increases. A study of direction of trade is significant to show that whether its trade is diversified to many countries or is limited to a few countries or regions. The direction of foreign trade shows the share of export and import trade in terms of destination. However, the volume and direction of Nepal's foreign trade from 2005/6 to 2014/15 has been explained in brief with the help of table as shown below.

Table 4.4
Nepal's Foreign Trade Performance

(Rs.)

	Direction	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Exports	India	417,28,800	385,55,700	435,74,482	399,02,811	428,68,108	49565581	51959287	59613700	55864600
	China	12,02,783	9,44,489	21,51,783	13,80,274	9,25,478	1241186	2476749	2840700	2229900
	Others	159,95,514	189,74,170	22,,870,587	196,66,518	207,68,858	23282293	22914673	29537000	27224600
	Total	589,27,097	584,74,359	685,96,852	609,49,603	645,62,444	74089060	77350709	91991400	85319100
Imports	India	1158,72,300	1423,76,500	1651,19,002	2142,61,109	2591,62,277	336258725	389582476	477947000	491655900
	China	177,18,164	234,33,205	344,65,791	434,45,613	466,29,754	53126367	68454731	73318600	100166400
	Others	622,17,948	712,20,571	914,16,151	1178,99,148	917,43,911	108775982	143170318	163100200	182861900
	Total	1958,08,412	2370,30,276	2910,00,944	3756,05,870	3975,35,942	498161074	601207525	714365800	774684200
Trade Deficit	India	741,43,500	1038,20,800	1215,44,520	1743,58,298	2162,94,169	285824537	337623189	418333400	435791400
	China	165,15,381	224,88,716	323,14,008	420,65,339	457,04,276	51885181	65977982	70477900	97936500
	Others	462,22,434	522,46,401	685,45,564	982,32,630	709,75,053	86362296	120255645	133563100	155637300
	Total	1368,81,315	1785,55,917	2224,04,092	3146,56,267	3329,73,498	424072014	523856816	622374300	689365000

Source: Nepal Rastra Bank and trade and Export Promotion Centre

Table 4.4 shows the volume and direction of Nepal's foreign trade during FY 2006/7 to 2014/15. It shows the steady incremental growth of both export trade value and import trade value each period. However, the value of imports against exports is quite high which provided the negative trade balance for Nepal. India and China has been the major trade partner for a long period of time. Above the table shows that Nepal China trade is far imbalances than the trade between India. Nepal is facing a huge imbalance in its trade with China. In the year of 2010/11 shows that China occupies only 1.4 percent shares in Nepal's export, while it constitutes 11.7 percent share in Nepal's total import. And the trade of the fiscal year 2014/15 it shows that export 2.61 percent and import 12.92 percent share in Nepal's. In the context of India in the year of 2014/15 shows that India occupies 65.47 percent share of Nepal's export and it constitutes 63.46 percent share in Nepal's total import. In the year of 2010/11 China and Nepal's trade deficit 13.72 percent and the fiscal year 2014/15 trade deficit 14.20 percent. Moreover, Nepal's trade imbalance with China has increased persistently and thus a quest for complementarities in trade and economy has been a common concern.

4.4 Exports and Imports of Goods to the World

4.4.1 Export, Import and Trade Balance

Table: 4.5

Nepal's Export, Import and Trade Balance

(Trade in billions Rs.)

F/Y	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Import	160.368	195.81	237.03	291	375.61	390.3	506.7	613.6	786.2	774.7
Export	59.78	58.95	57.47	68.6	60.95	62.7	72.1	77.4	85.2	70.3
Trade Balance	-100.9	-136.88	-178.56	-222.4	-314.66	-327.5	-434.6	-536.2	-701	-704.5

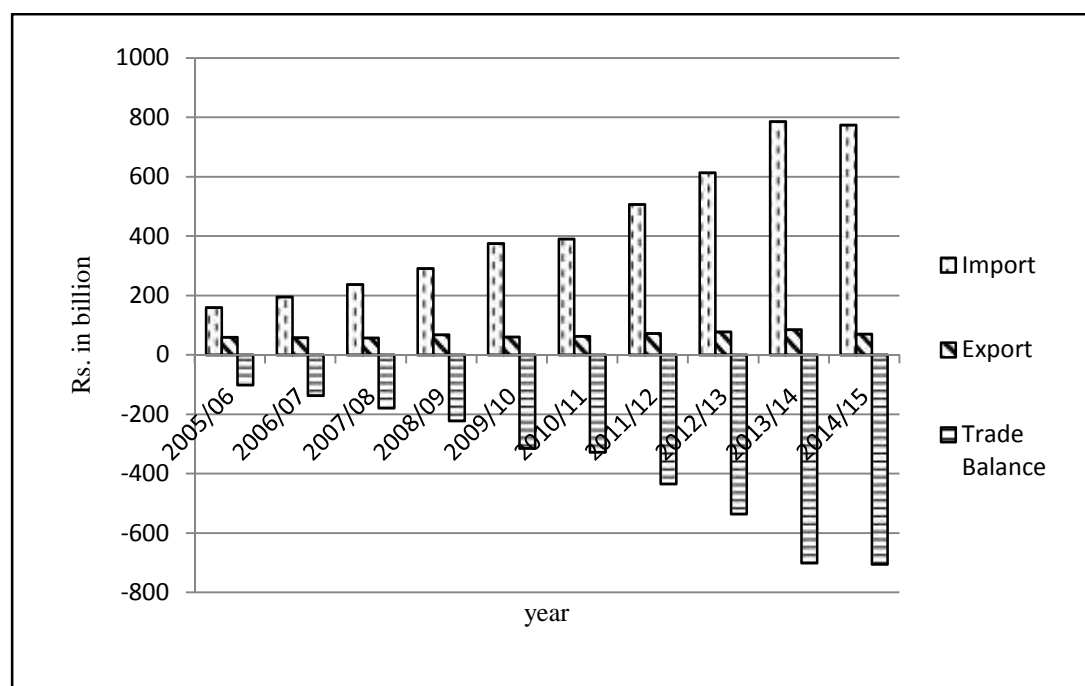
Source: Department of Customs Ministry of Finance Government of Nepal Foreign

As above table 4.5 shows the Nepal's total export, import and also the trade balance. During the recent years especially after export is stagnated and import has been increased thus Nepal accounts high trade imbalances. Nepal's import crossed 160.368 billion in the year 2005/06 and export reached about 59.78 billion. Nepal's trade imbalance continuously increases and reached 786.2 billion import and 85.2

billion export in the year 2013/14. Because of increasing imbalance between exports and Imports, trade deficit has reached to a large volume of import Rs.786.2 billion in FY 2013/14. The trade deficit widened in 2014/15 on account of the fall in exports and import. The trade deficit widened at a lower pace due to slow down in the import and export growth caused by devastating earthquake in the year 2014/15. In the above table it can be also shows in under the figure.

Figure: 4.2

Nepal's Export, Import and Trade Balance



Source: Department of Customs Ministry of Finance Government of Nepal Foreign

4.5 Nepal's Major Exporting Countries

As shown in the below table 4.6 Nepal's major export partner is India. There was a decrease by 1.27 percent in the year 2014/15 however; the export volume to India is quite significant. There was a dramatic increase in the export to Bangladesh in the Fiscal Year 2006/07 and even more astounding export in 2007/08 as the export grew by 113.00 percent. Export to the US and Germany which is main destinations to Nepal overseas export continuously declined after 2005/06 and led to negative growth in the overseas export. In the year of 2013/14 China export growth rate 14.29 percent and the FY 2014/15 it decreases 10.54 percent export growth rate.

Table: 4.6**Nepal's 20 Major Exporting Countries and Export**

Value in 000 US dollar

S.N	Countries	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
1	India	581639	596126	551806	532600	571324	613872	610406	591165	594170	586607
2	U.S.A	99906	7450	66634	51039	59952	25982	39152	33587	72522	74683
3	Germany	40625	79590	65699	57357	54615	70209	60348	69625	33634	30910
4	France	18536	36767	33315	32241	35750	40938	30814	33587	12682	11758
5	U.K	16915	14267	15234	18965	17668	19845	15450	20407	20820	20258
6	China P.R	12751	12914	14302	15080	16628	15756	11428	13060	24927	22299
7	Italy	10176	5400	10520	20330	13689	10172	22891	21466	9722	11981
8	Canada	9209	8481	10196	10787	9513	10705	7457	8183	8046	8718
9	Japan	8173	9776	8340	10527	8856	10172	8763	9612	10085	11704
10	Singapore	4608	7992	6972	7873	4274	7640	9518	10968	1367	1707
11	Switzerland	4538	4526	5589	5313	2909	2837	2632	2501	222	277
12	Belgium	4412	5465	5110	3781	2978	4326	2635	2885	2948	2546
13	Spain	4038	3520	4118	3237	3945	4870	4230	3895	3504	3540
14	Bhutan	3404	2730	3567	4294	3080	3302	2903	2730	989	1207
15	Bangladesh	3347	2566	3292	7012	3266	3765	2568	2831	21405	10844
16	Netherland	3271	11783	2972	4391	4028	3274	3585	8595	4629	4238
17	U.A.E	2353	2104	2521	6456	2635	4870	3809	2990	4195	3008
18	Australia	2201	2986	2512	4627	3945	4326	3870	4070	400	5888
19	Hong Kong	1597	4442	2038	8538	18572	3152	8092	5630	3381	1296
20	Denmark	1164	1344	1583	3420	2704	2505	2416	2651	2452	2119
	Sub Total	832863	820229	816318	807868	840331	862518	852967	850438	832103	815588
	Other Countries	21092	21587	20040	27569	24568	20580	23790	21542	70800	37603
	Grand Total	853955	841816	836358	835437	864899	883098	876757	871980	902903	853191

Source: Nepal Rastra Bank and Trade & Export Pormotion Center, Nepal

Exports to Bhutan, Germany, Spain, Singapore, UK, France, Hong Kong accounts ups and downs trend. Nepal exports have been limited to few countries. India, Bangladesh, USA, Germany, UK, France, China, Canada are main

destinations. Bangladesh has been emerged as a main export partner more recently. The construction of the dry port in Birgunj and use of Fulbari- Bangalabanda transit route expected to increase the trade in upcoming years. The overall export growth decreases because devastating earthquake in the year 2014/15.

4.6 Nepal's Major Importing Countries

Import volume of Nepal has been a continuous increase. It reached about 7.8 billion in 2014/15. As shown in the table 4.7, Nepal's major importing partner is India which holds more than 66 percent share in the Fiscal Year 2012/13. China is the second importing partner and holds 10.8 percent of the Nepal's total import in the Fiscal Year 2012/13 with an increasing trend except a small decline in the year 2005/06. In the FY 2014/15 China import increases 12.92 percent. Germany, Argentina, Japan, UAE, Singapore, Thailand are other major partners decreases import cause by devastating earthquake in the year 2015.

Table No. 4.7
Nepal's 20 Major Importing Countries and Import

In 000 US dollar

S.N	Countries	2005/06	2006/07	2007/08	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
1	India	15,30,616	16,55,319	20,64,630	2417400	3250310	3746427	4249113	4518176	477940	4952067
2	China , P.R.	1,72,621	2,38,266	3,17,941	421846	560568	691308	741864	732499	733186	1001664
3	Indonesia	80,683	1,59,602	1,41,622	107174	106446	116472	93707	140303	154768	165525
4	Japan	27,644	46,128	87,830	72107	76255	51362	58154	53772	45385	59584
5	U.A.E	15,653	55,973	79,936	310040	192636	327570	411948	402032	405550	345584
6	Singapore	48,217	78,527	75,267	86562	52270	37790	33570	39008	35461	32611
7	Thailand	37,172	49,421	71,193	95895	101919	101499	105916	101093	93809	99474
8	Argentina	14,352	32,232	55,979	65293	87255	100370	74135	94792	75970	97591
9	Malaysia	35,352	39,923	54,767	55842	66083	71321	69835	56220	65398	78075
10	U.S.A	23,964	60,857	53,116	52590	74071	61620	55908	58957	62889	83472
11	Germany	39,454	34,753	49,005	33354	29397	28312	35204	45592	61595	93732
12	Saudi Arabia	33,281	37,038	38,253	104156	33426	51880	50162	43815	55848	47016
13	Canada	10,216	15,687	37,591	15845	17850	18345	19562	23842	29773	35852
14	Korea R.	25,555	34,007	29,672	57510	72282	82524	57692	46476	37619	38841
15	Australia	20,219	26,496	25,014	61942	40134	19996	23797	24975	21122	32165
16	U.K.	13,735	24,673	23,477	141537	35457	29753	20200	27870	24579	18534
17	Taiwan	8,113	11,371	17,599	20436	18154	26453	27630	27793	-	-
18	Hong Kong	13,299	14,707	16,819	53631	19937	18605	18560	20156	1784	2574
19	Russia	12,865	11,604	16,165	20356	17523	16523	24755	17590	15299	45645
20	France	12,998	8,365	11,909	20672	29508	18870	21253	19860	14149	69308
`Sub Total		21,76,010	26,34,948	32,67,784	4214188	4881481	5617000	6192965	6494821	13513854	7299284
Other Countries		1,19,389	1,62,315	1,49,043	1,56,098	1,84,320	1,67,425	1,75,321	1,79,020	6369995	447558
Grand Total		22,95,399	27,97,263	34,16,827	43,70,286	50,65,801	57,84,425	63,68,286	66,73,841	7143659	7746842

Source: Nepal Rastra Bank and Trade & Export Pormotion Center, Nepal

The above table 4.6 and table 4.7 the growth rate of import 8.44 percent and 5.5 percent growth rate of exports to the world in the FY 2014/15. In the last year of 2013/14 import growth rate 7.04 percent and export growth rate 3.54 percent in the world. So it can be also shows the growth rate of export and import continuously increasing in per year its crates trade deficit. Import growth rate increase 7.04 to 8.44 and export growth rate also increases 3.4 to 5.5 in the year of 2013/14 to 2014/15. It can be also shows import growth rate increases higher than the export growth rate.

4.7 Nepal-China Trade

Nepal has been facing huge and unsustainable trade deficit with China. To reduce huge trade deficit of Nepal with China the government should request for preferential treatment to Nepalese exports to China especially Mainland Chinese and Hongkong markets. Nepal should capitalize on this great opportunity by working together to identify for zero tariffs and preferential treatment goods in which Nepal has comparative and competitive advantage. In globalize economy, Nepal cannot remain on isolation. Now Nepal has trade relation with more than 100 countries. Nepalese foreign trade trends and structure seems not so satisfactory. Gradually increment of trade deficit problem shows the fact that Nepalese trade is dominated by imports. Trade between Nepal and China is taking place since long time in the history which cannot be traced back to any particular year. The traditional barter trade is still practiced by the highland people living in the bordering areas. However, with the fast growth of transport network particularly in the Tibetan side, development of communication network and banking services on both sides of the border, changes are taking place in the practices of doing trade. Payment of the trade through banking channels, door-to-door insurance of traded goods and creation of transporters liability are taking shape and replacing the old system of overland trade.

The efforts done to diversify and increase bilateral trade are not adequate. The first is the insignificant share of China in overall export of Nepal. The share of China in the total export of Nepal was merely NRs.2.47 billion in 2012/13. In the year of 2014/15 Nepal suffered from earthquake so it decreases import NRs.2 billion.

Table: 4.8**Nepal's Exports, Imports and Trade Balance with China**

In Rs

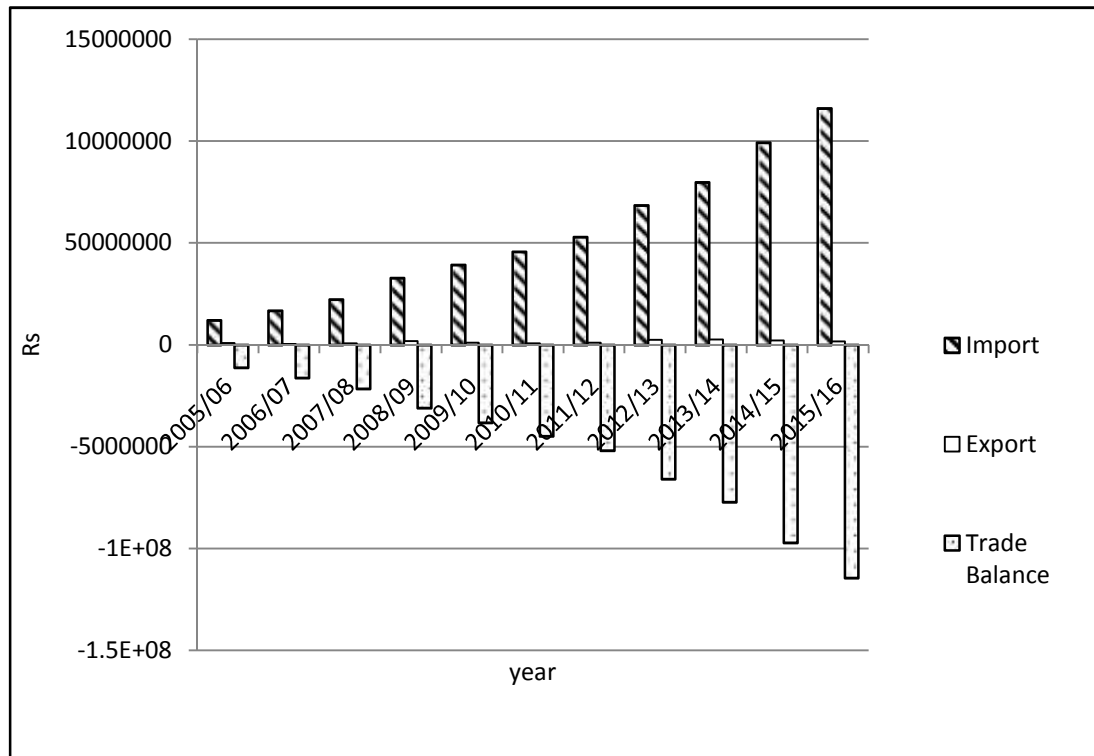
F/Y	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Import	22255845	32852910	39218203	45635962	52924945	68368320	79729264	99281429	116116215
Export	736405	1847934	1008696	746023	985693	2476749	2544303	2060722	1719967
Trade Balance	-21519440	-31004976	-38209507	-44889939	-51939252	-65891571	-77184960	-97220707	-114396748

Sources: Government of Nepal Ministry of Finance Department of Customs

Table 4.8 shows the Nepal's foreign trade during FY 2005/06 to 2014/15. It shows the steady incremental growth of both export trade value and import trade value each period. However, the value of imports against exports is quite high which provided the negative trade balance for Nepal. China has been the major trade partner for a long period of time. In the period of 2005/6, the value of export to China was NRs. 892583 rupees. This reached to NRs.1719967 rupees in the period 2015/16. The period 2013/14 is recorded for the highest export. Then it started to decline and approached to the period of 2014/15 – 2015/16 caused by devastating earthquake in the year 2014/15 in Nepal. This statistical data indicates how the export growth has been diminishing against imports. On the import side, the values of import from China in the period 2005/06 were NRs. 12083497 rupees. There is tremendous increment in the value of import from China. It reached to NRs. 116116215 rupees in the period of 2015/16 the total import of Nepal. One of the main reasons of such incremental figure was the high import dependency of Nepal with China. The value of import from China in the study period was also in increasing trend. The heavy share of import on the total volume of trade with China has been found discouraging for the trade balance. Although the trend of Nepal's foreign trade during the past few years is encouraging, the value of our trade deficit is yet very disappointing. The main reason for increasing trade deficit of Nepalese trade is higher imports against small exports. It can be also represent under the figure.

Figure: 4.3

Nepal's Exports, Imports and Trade Balance with China



Source: Department of Customs Ministry of Finance Government of Nepal Foreign

Above figure 4.3 shows that share of export to China decreased to 2.6 percent (NRs. 2.0 billion) in the year of 2014/15. Nepal suffered from earthquake 2015 so it decreases import NRs.2.060 billion. But China appears on the seventh rank among the top export destinations from Nepal. This shows that China's rank has gone up in the list of export destination not due to increase of Nepalese export rather due to overall decrease of the Nepalese export elsewhere in the world. Nepal's export performance has declined due to various external and internal factors and the export to China also showed a declining trend.

4.7.1 Nepal's Exports of major Commodity to China

Table: 4.9

Exports of Major Commodities to China

Rs. In million

SN.		2012/13	2013/14	2014/15 ^R	2015/16 ^P
	A. Major Commodities	110.5	835.5	856.5	889.0
1	Agarbatti	31.0	41.1	13.8	5.6
2	Aluminium, Copper and Brass Utensils	128.3	0.0	0.0	0.0
3	Handicraft (Metal and Woolen)	131.1	250.6	178.4	388.0
4	Herbs	0.0	0.0	0.0	0.0
5	Human Hair	0.6	8.7	16.7	13.3
6	Musical Instruments, Parts and Accessories	0.4	0.0	0.1	0.0
7	Nepalese Paper & Paper Products	0.1	0.0	0.0	0.0
8	Noodles	55.4	42.6	47.3	11.4
9	Other handicraft goods	26.8	17.7	45.0	47.2
10	Pashmina	29.8	36.0	24.3	45.2
11	Readymade Garments	88.8	27.8	43.9	15.4
12	Readymade Leather Goods	0.8	1.4	0.4	0.2
13	Rudrakshya	9.6	0.0	10.1	0.0
14	Silverware and Jewelleries	0.7	6.8	4.3	0.5
15	Tanned Skin	407.5	214.3	301.8	143.8
16	Tea	5.1	8.2	13.4	11.7
17	Vegetables	1.7	0.0	0.0	0.0
18	Wheat Flour	107.4	69.3	22.3	4.8
19	Woolen Carpet	85.2	111.2	134.8	202.0
	B. Other	975.3	1339.7	1301.3	612.6
	Total (A+B)	2085.8	2175.3	2157.7	1501.6

R= Revised, P= Povisional

Source: Nepal Rastra Bank based on custom data

Above list of table 4.9 shows the major export commodity of Nepal to China. The major export consist of Agro products (tee, vegetable, white flour), handicrafts products (pashmina) and some metal, woolen products. The few products like noodles, human hair, musical instrumental, valuable and medicinal herbs also occupy very small contribution to export of Nepal.

In the year of 2012/13 the major export commodity are tanned skin (407.5 million), aluminum Copper and Brass Utensils (128.3million) , handicraft (131.7million) and other are of few number given in table above. In the year of 2013/14 the export products of China has be increases in all the expertise products. But in the year of 2014/15 and 2015/16 most of the export to China are decreasing due to divesting earthquake and the blocked that has incurred by Nepal by India due to political instability in the year 2015/16.

4.7.1Nepal's Imports of major Commodity from China

Table: 4.10

Imports of Major Commodities from China

Rs. In million

SN.		2012/13	2013/14	2014/15 ^R	2015/16 ^P
	A. Major Commodities	47417.1	48405.7	63710.9	73262.5
1	Aluminium Scrap, Flake, Foil, Bars, & Rods	781.6	924.7	1314.9	1583.8
2	Bags	425.2	430.2	496.6	524.8
3	Camera	348.1	232.1	457.8	227.9
4	Chemical	945.7	888.4	1094.4	1193.9
5	Chemical Fertilizer	2345.7	4105.8	6670.0	14491.4
6	Cosmetic Goods	222.5	247.5	261.6	317.8
7	Dry Cell Battery	142.4	126.9	188.1	181.7
8	Electrical Goods	5444.4	5996.6	8241.9	7791.3
9	Fastener	137.6	177.0	197.4	191.8
10	Garlic	104.5	359.3	440.7	477.0
11	Ginger	393.1	0.0	0.0	0.0
12	Glasswares	455.8	458.2	833.9	1053.2
13	Medical Equipment & Tools	575.9	585.3	1478.0	1169.4
14	Medicine	466.9	333.0	398.3	478.0
15	Metal & Wooden furniture	512.8	594.2	604.5	742.6
16	Office Equipment & Stationary	566.6	576.8	698.5	571.4
17	Other Machinery and Parts	4705.7	4355.4	7919.6	6886.4
18	Other Stationaries	245.8	264.0	436.8	458.3
19	Parafin Wax	280.1	189.2	239.0	238.7
20	Pipe and Pipe Fittings	2689.4	132.1	462.0	229.4
21	Plywood & Particle board	203.5	214.1	334.4	270.3
22	Polyethylene Terephthalate (Plastic pet chips/Pet Resin)	17.6	134.3	45.6	0.0

23	Raw Silk	420.8	1397.6	1472.2	1247.1
24	Raw Wool	440.3	499.2	500.4	685.5
25	Readymade Garments	4780.8	5784.9	3808.3	5343.6
26	Seasoning Powder & Flavour for Instant Noodles	33.4	50.4	48.0	37.5
27	Shoes and Sandles	1941.9	2034.9	1589.4	2271.8
28	Smart Cards	171.4	244.9	225.1	131.7
29	Solar Pannel	323.8	755.9	576.5	733.7
30	Steel Rod & Sheet	35.8	23.0	543.5	122.5
31	Storage Battery	528.3	399.2	832.8	421.3
32	Telecommunication Equipments and Parts	11896.2	10063.6	14121.2	16336.2
33	Threads –Polyster	102.4	225.4	348.6	282.5
34	Toys	366.1	402.5	486.9	548.6
35	Transport Equipment & Parts	795.8	1091.4	1164.5	1363.6
36	Tyre, Tubes and Flapes	292.5	146.9	194.4	118.8
37	Video Television & Parts	2543.6	2893.5	4026.0	3487.8
38	Welding Rods	229.3	422.2	226.8	383.4
39	Wheat Products	113.3	158.3	148.4	181.4
40	Writing & Printing Paper	390.6	486.9	583.9	486.6
B. Other Commodities		15034.1	16791.4	28460.5	30383.2
Total (A + B)		62451.2	65197.1	92171.4	103645.7

R= Revised, P= Povisional

Source: Nepal Rastra Bank based on custom data

Above list of table 4.10 shows the major imports commodity from China. The major imports consist of machinery part, Telecommunication equipments and part, Readymade Garments, video television, Electrical Goods etc. In the year of 2012/13 the major import commodity are machinery part (4705.7 million), Telecommunication equipments and part (11896.2 million), Readymade Garments (4780.8 million), video television (2543.6 million), Electrical Goods (5444.4) and other are more goods given in table above. In the year of 2013/14 the imports products of China have be increases in all the importee's products. But in the year of 2014/15 and 2015/16 most of the import from China is also increase due to the blocked that has incurred by Nepal by India due to political instability in the year 2015/16.

The above table shows the Export-Import commodity of Nepal during recent few years. The export basket of Nepal dominates the primary and agricultural products like wheat flour, uncooked pasta, vegetable fats, incense sticks, hides and skins and some manufactured articles like handicraft, woolen carpets, and textile and garments

seats of motor vehicles, among others. While Nepal imports electronic goods, telecommunication equipments, computer and parts, vehicle, machinery, readymade garments, onion, garlic, wide variety of household utensils and utility items from China. Nepal's export to mainland China and Hong Kong are insignificant and most of the exports are confined to Tibet Autonomous Region. China has been an important bilateral trade partner of Nepal. However, the trade with China is quite lower than India, the next neighbor. Nepal trade with China is lopsided and even more imbalance than the Nepal bilateral trade with India.

4.8 Possibility of Trade to China

According to the table 4.9, where the major export of Nepal to China has listed, from the table we select maximum exported products as:

Table: 4.11

Possibility of Trade to China in the Year of 2014/15

Commodity	Price in Million
Tanned skin	301.8
Agarbatti	13.8
Handicraft	178.4
Readymade Garment	43.9
Pashmina	24.3
Woollen carpet	134.8

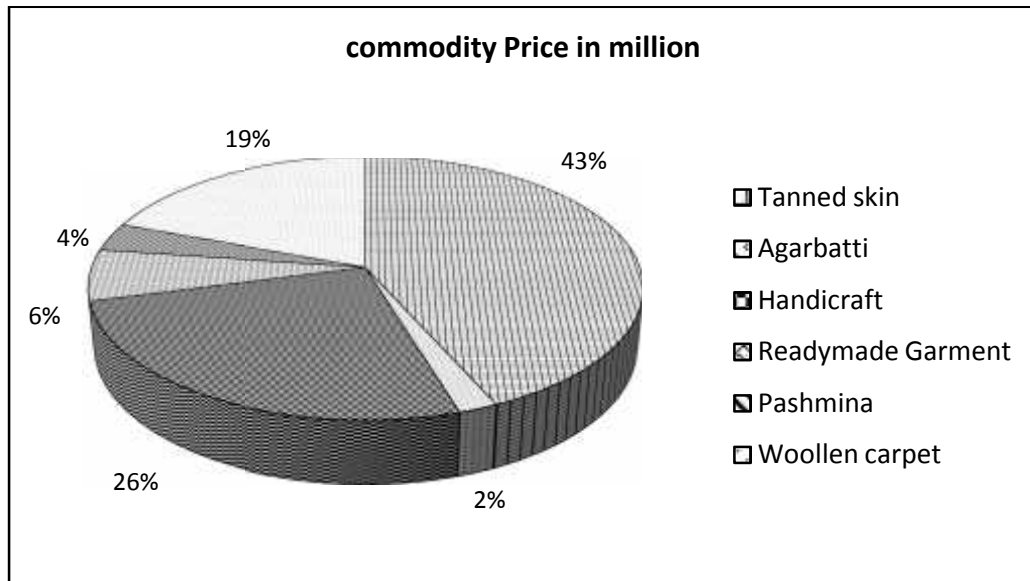
Source: Nepal Rastra Bank 2014/15

Above list of table 4.11 shows the major possibility of trade to China. The major export consist of Agro products (tee, vegetable, white flour), handicrafts products (pashmina) and some metal, woolen products. The few products like noodles, human hair, musical instrumental, valuable and medicinal herbs also occupy very small contribution to export of Nepal. In the year of 2014/15 the major export commodity are tanned skin (301.8million), handicraft (178.4million), Agarbatti (13.8 million), Readymade Garment (43.9million), pashmina (24.3 million)and wollen carpet(134.8 million) given in table above. In the year of 2013/14 the export products of China has be increases in all the exporties products. These products export to some other

countries rose little due to increase in the exports of lentils, Nepali paper and paper products, herbs, wheat, noodles, ceramic products, electric wire and stationery. Medicinal Herbs and Noodles appeared as some possible products to grow in the future after. In the above table it can be also shows in the pie chart.

Fig: 4.4

Possibility of trade to China in the year of 2014/15



Source: Nepal Rastra Bank 2015.

We could not blame the WTO membership in the poor trade performance, because Nepal could not invest properly in trade infrastructure in this time. For example, Government plan to establish Special Economic Zone (SEZ) in Birgunj near from the DryPort is in limbo for a long time without the adequate budget allocation. Moreover, frequent closed down and shortage of power supply deteriorates Nepal's export. Here, we observe that WTO membership and liberalized trade regime alone could not contribute export promotion and economic growth. These efforts should be supported by favorable domestic economic environment.

The possibility of export major commodities increases to China. The major export consists of Agro products (tee), handicrafts products (pashmina) and some metal, woolen products. The few products like human hair, tanned skin also occupy small contribution to export of Nepal. Possibility of exports major commodities increases to China is shown table No.4.12.

Table: 4.12
Possibility of Exports Major Commodities Increases to China
Rs. In Million

SN.	Major commodities	2012/13	2013/14	2014/15 ^R	2015/16 ^P
1	Handicraft (metal and woolen)	131.1	250.6	178.4	388.0
2	Woolen Carpet	85.2	111.2	134.8	202.0
3	Other handicraft goods	26.8	17.7	45.0	47.2
4	Pashmina	29.8	36.0	24.3	45.2
5	Readymade Garments	88.8	27.8	43.9	15.4
6	Human Hair	0.6	8.7	16.7	13.3
7	Tea	5.1	8.2	13.4	11.7

R=Revised, P=Provisional

Source: Nepal Rastra Bank based on custom data

Above list of table 4.12 shows in the year of 2015/16 the major export commodity are handicraft (388.0 million), Woolen Carpet (202.0), Pasmina (45.2), Readymade Garments (15.4), Human Hair (13.3) and Tea (11.7). In the year of 2013/14 the export products of China has be increases in all the expertise products. But in the year of 2014/15 and 2015/16 most of the export to China are decreasing due to divesting earthquake and the blocked that has incurred by Nepal by India due to political instability in the year 2015/16.

The lists another five sectors that emerged as possible export potentials/prospects. The select of the export potential sectors is presents a detailed discussion of each of the sectors. The export potential sectors cover about 30 percent of current goods exports and the vast majority of service exports (broadly defined to include exports of labor services). In term of merchandise exports, the assessment is that many of the selected sectors represent some of the most dynamic (or potentially dynamic) goods exports over the short and medium term. Export potentials are shown in below.

List of goods and services of export potential/ Prospects

Agro-food

1. Cardamom
2. Ginger
3. Honey
4. Lentils
5. Tea
6. Noodles
7. Medicinal herbs/essential oils

Craft and Industrial Goods

8. Handmade papers
9. Silver jewellery
10. Iron and steel
11. Pashmina
12. Wool products Services
13. Tourism
14. Labour services
15. IT and BPO

Services

16. Health services
17. Educations
18. Engineering
19. Hydro-electricity

Other Potential Export Sectors

20. Transit trade services
21. Sugars

22. Cement
23. Dairy products
24. Transformers

4.9 Major Problems of Nepal – China trade

Nepal is land-locked and least developed country. Though foreign trade gives average 15.7 percent GDP of national production, Nepal has been suffering huge trade deficits and trade and transit problems due to various reasons. Nepal has just entered into WTO membership, SAFTA and BIMST-EC as multilateral and bilateral agreement and cooperation. Nepal may be the transit point for the huge economy India and China; it is the main issue point towards the recent year. The major problems are explained below.

1. Physical infrastructure
2. Lack of godown/sheds
3. Lack of organized trading system
4. Trade deflection
5. Communication problems
6. Various charges at Khasa and other problems
7. Several check points barriers Kathmandu-Khasa road
8. Payment problem
9. Quality Issues
10. Lack of exchange rate system
11. Visa problem
12. Customs capacity
13. Lack of credit facility
14. Absence of dry port
15. Administrative process
16. Manpower

17. Information and awareness

Some problems are explained below:

1. Physical Infrastructure

The problem of trade with China highly deprive of physical infrastructure. Nepal is surrounding by Himalayan in the northern part where the China lies. The poor road infrastructure and the difficult land topography also a cause for obstacles for trade with China. There is only a single road facility from Kathmandu (Nepal) with China (Khasa), it seems to be very poor and insufficient way to trade with China because due to low quality of road facilities the goods are not delivery according to the time schedule which increased the cost of transportation as well as prices of goods.

2. Lack of Godown/sheds

The cargo is at present handled in open space owing to total lack of shed/Godowns at customs office at Tatopani and Khasa. It's most unsatisfactory during the rainy season.

3. Lack of Organized Trading System

The main issues at Khasa trade is mostly depend on personal good will and faith. There are no registered trading houses for conducting trade in a secured environment. The Tibetan exporters importers operate from small apartments land the Nepalese counterparts have to visit them for delivery and receipt of export, import consignments.

The Nepalese traders are always in anxiety about the receipt of consignment at the scheduled date against their advance payment. There have also been some frauds, which suggest that Nepalese traders have to operate under considerable risk and uncertainty. There is no mechanism to voice the concerns of Nepalese traders to the government authorities in Khasa. The Nepalese government has given the same preferential treatment to import from Tibet Autonomous Region of China as that given to imports from India. Although Nepalese goods are also to be given preferential treatment in Tibetan territory, but the Tibetan side does not seem to strictly follow this rule.

4. Trade Deflection

The provision made in the Trade Treaty between the two countries for unrestricted and free trade by people residing within 30 kilometers of either side of borders

believed to be causing trade deflection and discover aging trade through the formal channel.

5. Communication Problem

Language is a major obstacle for effective communication between the traders/investors of two countries. Since majority of Tibetans and almost all Chinese traders/investors do not know Nepalese and the majority of Nepalese do not know Chinese of Tiberan, there is a great problem in effective communication between the two parties. English could be the common medium of communication, as almost all-Nepalese traders/investors can communicate in English, but this is not the case with the Chinese.

6. Various Charges at Khasa and other Problems

The Nepalese exporters are compelled to pay unnecessary charges at Khasa to get the export consignment through the customs. These include inspection charges, garbage and waste management fee, municipality fee etc .There is no standard rate of these charges and the rate is frequently changed the Nepalese exporters have pass through a cumbersome process of paying money for various purposes at the rate dictated by the representatives of concerned offices. As a way out from all these hassles, the Nepalese traders appoint Tibetan agents who get the consignment cleared through all these procedures. The commission agents sometimes charge exorbitant fee.

Nepalese goods also face various other obstacles. Such as problem in transporting commodities inside Tibet. requirement to pay duty on movement of goods beyond Khasa to other areas of Tibet, and restriction to move commodities to the periphery of Khasa.

7. Several Check- Points Barriers Kathmandu- KhasaRoad

The Nepalese traders have to undergo throughout a cumbersome process of inspection by customs, police, and municipalities at inspection by customs, police, and municipalities at several places while exporting to and importing goods from Khasa. The factual observation corroborates the finding of the TPC study that there are seventeen checkpoints and barriers on a road length of 114 km. The ITA study has also pointed out this problem. The traders have the bear unnecessary

hassles in clearing the consignment from this checkpoint and also have to pay charges which have no standard norm.

8. Payment Problem

The trade with Tibet takes place on the basis of barter or cash. Around 70 percent is on barter basis and the rest 30 percent is on cash basis. Even though efforts have been made in recent years to introduce Letters of credit, volume of trade conducted with Tibet through this method is insignificant. Trade through LC is best with various constraints such as lack of organized transport companies, uncertainty about the quality of goods and uncertainty about timely delivery, as such; Nepalese traders seem to prefer doing business directly rather than on LC basis. The Tibetan businessmen are not also accustomed to international business practices, Nepalese traders importing foods on cash payment have to bear the risk of theft because there is no Nepalese bank in Tatopani border. The Nepalese traders who are staying in Khasa on official permits are also not allowed to open bank account in the Chinese Bank in Khasa.

9. Quality Issues

Tibetan as well as Nepalese traders frequently question about the quality of goods. There have been complaints from the Tibetan side about the quality of ghee, flower biscuits etc. exported by Nepal. The Nepalese traders procure this export item from various producers that have varying quality standards. Similarly some items imported from Tibet, particularly electronic goods, although cheap are taken as inferior goods by the Nepalese consumers. These goods become non-functional within a short time period. As in the case of Nepalese export items, the Tibetan traders procure these items from various producers at the informal sector and there is no system of quality inspection. The TPC study also suggests various quality related problems that the Nepalese traders have to face while exporting vegetables and fruits of Tibet.

) Tibetan trade due to its toughest, altitude terrain climate, language and after 1960 due to less transparency in rule and regulation, new people were hesitant to enter into this market. After 1960 traders who used to go to Tibet freely had to undergo through security, which made people a little bit scared to visit frequently.

-) Since this trade was totally dominated by barter system Nepalese traders who for examples want to sell vegetable ghee may have to barter with raw wool or some other products. The trader in Nepal who does not have his product selling mechanism such as raw wool will have a hard time disposing the goods. This scenario in the first place did not encourage quite a good number of Nepalese traders into business with Tibet.
-) In certain border points Nepalese traders can trade only with specific shops but not with other private sector people.

10. Lack of Exchange Rate System

The Exchange rate of China is not officially declared by Nepal government. So, there is a huge problem of exchanging money between the Chinese and Nepalese traders. This has been a major hurdle in conducting trade on cash payment basis. Though the Tibetan traders accept Nepalese currency, but in the absence of official exchange facility the surplus Nepalese currency probably find their ways in the parallel market for dollars in Nepal.

11. Visa Problem

The most important thing is the invitation letter from China counterparts for visa who wants Kathmandu and other various trading centers of China in connection with their business. The Chinese embassy in Kathmandu delays in visa process. It takes two to four weeks for procedure of obtaining visa is cumbersome and time consuming which is not convenient to traders who need to travel at a short notice. This has given rise to commission agents who procure visa for the traders on commission charges. The single visa is inconvenient to the businessmen who need to visit China frequently. The same is true for the Chinese businessmen.

4.10 Challenges and Opportunities of Foreign Trade

Out of 28 countries in the world, Nepal is also a landlocked country. Three sides of its border are covered by India and the north side, the snow range of Himalayan stands as a transit barrier between China and Nepal. Both Nepal and India have been agreed to use 22 routes for allowing for exporting as a quota system i.e. vegetable ghee, Acrylic yarn, copper product and zinc oxide.

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

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

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

- a. Rising in Employment and Income Level
- b. Promote Healthy Competition
- c. Technological Progress
- d. Reducing Dependency on Domestic Market
- e. Gaining International Market Experience
- f. Exploiting Excess Product Capacity
- g. Advantage of Specialization
- h. Access to Raw Materials
- i. Expansions of Market

- j. Increase Sales and Profit
- k. Attraction of Foreign Investment
- l. Expanding Research and Development

The major challenges facing by Nepal are as follows:

- a. Weak export base
- b. Policies related problems
- c. Lack of innovation desire of entrepreneurs
- d. Human resource development and institutional development
- e. Special and differential treatment to LDC
- f. Rules of origin and preference erosion
- g. Using banking channel for trade transition Inadequate Infrastructure
- h. Low productivity
- i. Ever-widening trade gap
- j. Managing trade deficit

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

Nepali market is dominated by foreign goods. Trade policy has always emphasized balancing trade deficits by means of import-substitution and export promotion. But experience has shown that foreign luxury goods are increasingly flooding the Nepalese market. And in the same ratio domestic manufacturers have surrendered to the competition. Some people have compared Kathmandu to a “mini- Hong Kong” and the consumers have been waved away from locally goods. Although Nepal’s per capita income is US\$340 dollars only, most Nepalese have been exposed to foreign goods. How do they afford all these things? And how long can this situation continue? These are serious questions for the future.

In many developing countries, however, the import substitution policy is not successful. There are two reasons for this:

- 1) Difficulties are encountered in financing the foreign exchange component of the investment needed for the production of import-substitution goods.
- 2) There is comparatively low production of these goods that are imported,

Hydro-electricity is the main sources of Nepal. Nepal is the second richest country in hydro-electricity in the world. Nepal can reduce the existing trade deficit by selling hydro-electricity to neighboring countries for earning foreign currency. Many foreign investors are interesting to join our projects to produce the hydro-electricity. In another side, Nepal's green vegetables and fruits are demanding in golf countries, Singapore, Thailand, Malaysia and other countries. The salt trading has just established its branch office in Doha, Qatar for exporting these type products in golf countries. Now, world has been a small village as the sense of network e-commerce. Nepal can also expand its software business in global market.

CHAPTER V

SUMMARY, FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

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

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

The study “Problem and prospect of Nepal’s Trade with China” has shown that till now, our trade is not on the right direction. This study analysis that the history, trend, volume and trade between Nepal and China, Bilateral trade between Nepal and China as well as trade composition and determinants of exports and Imports. The following information summarizes the picture of Sino-Nepal trade situation in brief.

Nepal and China share age old cardinal and harmonious bilateral relation since the time immemorial in every aspect of social affairs. Bilateral trade has remained a major instrument to strengthen the ties between the countries. In 1955 the Diplomatic relation was established, both countries concluded several bilateral instruments and established bilateral mechanisms to promote trade and investment.

In ancient time the trade between countries was a sample of bilateral trade. Gold, salt, daily consumption good and husbandry products were major trading items. At

present, products like Agarbatti, Tanned skins, Electronics, Garments, Machinery are imported where ashandicrafts, pasmina shawls, food items and agricultural products are exported to China. The volume of Nepal China trade is growing and so is the trade imbalance. This needs to be corrected to make our bilateral trade sustainable in the long run. Duty free access to the markets in China for Nepalese products could be one measure for narrowing this trade deficit.

The trend of Trade between two countries is increasing significantly. China is the second largest trading partner of Nepal in terms of import and seventh largest partner in terms of export. However trade deficit of Nepal with China is increasing as the volume of the trade increasing year by year. More than 80 percent of land trade is operated through Kodari-Nylam (Tatopani entry point). Frontier trade is also allowed within the 30 km of border of each country.

Despite of long economic and trade relationship between Nepal and China , the volume of trade could not developed faster in comparison to the development of international trade in recent decades and Nepal is facing a huge Trade imbalance with China. However, the value of imports against exports is quite high which provided the negative trade balance for Nepal. India and China has been the major trade partner for a long period of time. Nepal is facing a huge imbalance in its trade with China. In the year of 2010/11 China occupies only 1.4 percent shares in Nepal's export, while it constitutes 11.7 percent share in Nepal's total import. And the trade of the fiscal year 2014/15 that export 2.61 percent and import 12.92 percent share in Nepal's. This shows that China is one of the important trading partners of Nepal. There is huge trade gap between Nepal and China. The urgent attention of the government should be taken to be minimizing the Trade deficit of Nepal with China.

So it can be also shows the growth rate of export and import continuously increasing per year. Moreover, Nepal's trade imbalance with China has increased persistently and thus, a quest for complementarities in trade and economy has been a common concern. China has attained a double digit economic growth in recent year bringing a faster pace of development thereby improving the life and living of the Chinese people at large. As a close neighbor, Nepal could be benefited from China's fastest growing economy. But, this required development of common framework and proper strategy to facilitate trade, investment and economic integration between two countries.

This thesis has been divided into five chapters and other sub-chapters for making fruitful and effective. The main objective of the study is to analyze about problems and prospects of Nepal's trade with China. To justify thesis writing and the collected review of literatures, there should be necessary to conduct research methodology. Therefore, in chapter three, the analytical and descriptive research methodology have been applied with taking secondary data for analyzing and presenting. The collected data for the descriptive analysis, foreign trade problems and issues and policies reform is critically analyzed. Data has been taken from FY 2005/06 to 2014/15 as country wise, commodity wise, from CBS, MOF, TPC and NRB etc. The collected data has been presented in both tables and figures.

5.2 Findings of the Study

The significant role in the economic development of the nation is foreign trade. Trade is the most important engine of economic growth and development with the help of liberalized and globalized world today. The foreign trade plays a vital role to uplift the sluggish economic condition up to self-sustainable rate of the developing country. In the countries like Nepal, domestic resources are inadequate to meet the rising demand for goods and production. The level of capital formation of the countries is very low because of the low level of income. So, foreign trade is advantageous towards the acceleration of economic growth of the country. The overall findings of the study can be presented as follows:

-) The share of China in Nepal's total foreign trade is about 8 percent where as India is biggest player with 55 percent.
-) The geo-ecological setting of the country is one of the barriers for Nepal's foreign trade with China.
-) There are so many trade barriers between Nepal and China. Such as; road, lack of godown/sheds, lack of organized trading system, several check points at Kathmandu-Khasa road, payment problem, visa problem and communication problem.
-) Export commodity composition of Nepal is less diversified than import commodity composition.

-) Nepal's export items constitute mainly of Raw materials and import items constitute of finished goods. The exports trend of trade between Nepal and China seems to be fluctuating but the imports seems rising.
-) The value of import is increasing massively than the value of export in study periods. Although the government has introduced several policies to give a proper direction to the nations export trade. It is not moving in the right track and it is creeping under so many problems.
-) Because of the increased attraction on imported goods, productivity of the country has been deteriorating. The qualities of the products are also not satisfactory so they are unable to compete in the international market.
-) Landlocked feature of Nepal is one of the biggest bottlenecks in its trade expansion. Although it is a natural and permanent type of problem for landlocked country like Nepal, it should be solved through the political/diplomatic efforts and commitment.
-) The export of agriculture production has been declining as growth in agricultural production has hardly been able to keep pace with population expansion. The agricultural production has affected export- GDP ratios.
-) In Nepalese trade sector, tariff is levied just to enhance revenue not to provide protection to domestic industries. There exists absence of attention in the production of consumer goods to reduce import.
-) Nepalese domestic industries cannot produce enough for Nepal's growing population.
-) The role of export in relation to export led, export- import ratio, foreign aid and debt service ratio, BOP, foreign currency and employment generation has not been satisfactory. The share of agriculture production has dominated in GDP of Nepal.
-) The agricultural sector, which is the backbone of Nepalese economy, has been extremely disappointing. Similarly industrial sector is still in infant stage. Industrial sector in Nepal is still looked at as a neglected sector because it requires heavy investment and whose output can be tasted only after a long period.

5.3 Conclusions

Trade is most vital component of our economy. Exports and imports have a strong bearing on macro economy, employment opportunities and the pace of structural transformation. We depend so much on foreign goods to satisfy increasing domestic demands and a shortfall in production results in imports is higher than our exports. This has resulted a huge trade deficit. Research on the import pattern and consumer behavior is necessary to promote exports to China. There are different problems which are identified in Nepal-China trade such as road, lack of godown/sheds, lack of organized trading system, and several check points at Kathmandu-Khasa road, payment problem, visa problem and communication problem. Nepal has been suffering vicious circle of poverty and economic backwardness. No doubt, Nepalese foreign trade plays vital role to make economic strength and prosperity of the nation. To give proper direction to our export trade, the government has introduced several policies and efforts have done. Nevertheless, the outcome has not achieved properly. The share of trade on GDP is about 10% but especially export trade has been deteriorating rather than improving. There is no doubt that while extending the trade and economic relationship, different aspects need to be endorsed side by side such as policy, infrastructure, bank, insurance, ware house and the like. Infrastructure is what is hampering our trade. We are still using the existing old route, which is narrow for trade and transportation. Technical support from China to balance the bilateral trade is another problem. Customs capacity administrative process, lack of credit facility, absence of dry port, language, payment problem, low capacity exporters are the other major problems in trade promotion between Nepal and China. However, this study analyses some of the strengths and problems of Nepalese trade specially with China as follows:

-) There is a great prospect of increasing Nepalese exports to China. An analysis of China's import structure amply shows that Nepal can significantly expand export of cereals, sugar, live poultry, vegetables, oranges and flour to China.
-) The several constraints which Nepal has been facing in terms of foreign trade with China are lack of godown, lack of organized trading system, language problem, quality issues, lack of exchange rate system and visa problem.

-) Due to the adoption of liberal economic policy, government levied international trade tax to generate revenue but it neglected the aspect of import substitution. So the trade deficit of Nepal with China became more acute.
-) Nepal's export performance is very poor and limited to a few items. Due to heavy dominance of imports over exports, trade deficit with China has been widening.
-) Nepal is still primary goods exporter and China is exporter of manufactured products. This has created trade imbalance between two countries.
-) Agricultural sector, which is the backbone of Nepalese economy, has poor performance. Similarly, industrial sector is still at infant stage and the contribution of industrial sector to total GDP of Nepal is very low. Consequently, share of total trades in GDP is also in decreasing trend.
-) As Nepal and China are friendly neighboring countries, Nepal can achieve so many benefits and have chance to expand export, to improve trade deficit and to correct BOP situation.
-) There are prospects for investment from the Chinese side on hydropower projects as well as in construction, pharmaceuticals, minerals, cement, banking and education.
-) Development of information technology and introducing of new technology on some industries are encouraging factor to assure quality and competitive products.
-) Adequate work force with Low labour cost can easily available throughout the country.
-) Various national and international agencies like NRN are seeking to invest in Nepal, which will enhance trade sector too.

5.4 Recommendations

Nepal has been facing huge and unsustainable trade deficit with China. To reduce huge trade deficit of Nepal with China the government should request for preferential treatment to Nepalese exports to China especially Mainland Chinese and Hongkong markets. Nepal should capitalize on this great opportunity by working together to identify for zero tariffs and preferential treatment goods in which Nepal has comparative and competitive advantage. In globalize economy, Nepal cannot remain on isolation. Now Nepal has trade relation with more than 100 countries. Nepalese foreign trade trends and structure seems not so satisfactory. Gradually increment of trade deficit problem shows the fact that Nepalese trade is dominated by imports. It also indicates that there are various barriers on Nepalese trade. Although Nepalese government has introduced different policies and measures with regular modification, Nepalese trade cannot take positive direction towards the nation. However, there is future potential to expand export trade. Therefore, government should take immediate action.

The following suggestions for the government of Nepal and the private sector with regard to improving Nepal- China trade could be fruitful for both the countries. This study has some suggestions for the promotion and expansion of Nepal's foreign trade especially exports trade and consequent economic growth of the country. The following measures should be considered.

-) Special attention should be given to agriculture and primary products like poultry and meat-products that are losing market in China due to its strict quarantine requirement. Accreditation and upgrading of Nepal's present lab facilities is of utmost importance in order to solve this problem. Importance of diversification of Nepal's export basket and need for the exporters to carefully study China's import demand.
-) Our trade sector is handicapped by lack of potential exportable products. But only an assement of export potentials and selection of appropriate export commodities is not sufficient to promote our foreign trade, it requires to launch comprehensive product development programmers, assess product suitability, acceptability and appropriate product adaptation most effectively and efficiently to foreign markets.

-) As soon as possible political settlement must be assured with the coordination of all the stakeholder of the nation. Without Political stability and consistency, nothing can be achieved.
-) In favor of country's interest, effective diplomatic efforts with strong political -will and commitment should be taken by the government.
-) It is necessary to make export plan having the framework of enhancing strategies of export and discouraging the volume of import that can reduce trade deficit problems. To reduce imports, domestic industries should be encouraged to produce consumer goods, which can be done by increasing tax on imported items.
-) Government should have the strategies to protect domestic industries that can be exercised by imposing quantitative restriction on imported items, developing of infant industries and expanding domestic markets.
-) Areas of comparative advantage should be identified and environment for investment should be created in those sectors. Moreover, import trade should be developed as the component of industrial development.
-) Export and import houses (SEZs) should be established to expand Nepal's foreign trade with China.
-) Nepal should organize more trade fairs, product exhibition and investment seminars in China and needs to increase our participation in trade and investment fairs in China to promote and expand bilateral trade and investment.
-) Both Nepal and China should jointly remove existing trade barriers like customs, quarantine, transportation etc.
-) Language barriers should be removed by encouraging the traders to learn Chinese language and culture which is very important while doing business with Chinese people.
-) Necessary arrangements should be made for reducing delays and hassles in terms of trade and there should be increased required cooperation from the border officials.

-) The government should focus check-post hassles along the Araniko highway for ensuring convenient, smooth and efficient trade transit.
-) The government should provide Chinese businesspersons or their representatives with multiple visas with duration of stay up to one year.
-) The government should request China for early construction of dry port at Rasuwagadhi as prospective route for China-India trade transiting Nepal.
-) Government role should be defined as catalytic in practice not only on paper. Government should empower and attract the private sector involvement by making environment friendly policies.
-) Export should be increased by improving the quality of product, introducing new commodities, reducing cost of production, generating export surpluses, encouraging research and development.

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