CHAPTER I

INTRODUCTION

1.1 Background of the Study

Trade, or commerce, involves the transfer of goods and/or services from one person or entity to another, often in exchange for money. A network that allows trade is called a market.

The original form of trade, barter, saw the direct exchange of goods and services for other goods and services. Barter is trading things without the use of money. Later one side of the barter started to involve precious metals, which gained symbolic as well as practical importance. Modern traders generally negotiate through a medium of exchange, such as money. As a result, buying can be separated from selling, or earning. The invention of money (and later credit, paper money and non-physical money) greatly simplified and promoted trade. Trade between two traders(countries) is called bilateral trade, while trade between more than two traders (countries) is called multilateral trade (Om Sharma and Rajendra Bhandari, Dec 2005).

Trade has become the common means of globalizations. Maximum benefits to stake holders out of least interfered trade administration by states are the goals of Present day trade agreements. In the present emerging concept of globalization and open liberal market economy, international trade is seen backbone of national economy. Increase in foreign trade can help to increases in the living standard of people of find country which in turn helps to increase in the national income. No country can achieve rapid economy growth without mobilizing foreign trade. So Nepal's industrial future heavily depends upon the nature structure and trends of foreign trade. This shows foreign trade plays a vital rate for only country and more essential factor for developing country like Nepal.

Nepal foreign trade structure is broadly categorized into two Biz foreign trade with India and overseas, export by Nepal is hindered by political instability and absence of necessary technical and financial support. Historically, India has been one of the most important trading partners of Nepal. Firstly, close historical, geographical and cultural items between Nepal and India, secondly landlocked position of Nepal are the two major reasons because of which Nepalese foreign trade is concentrated to India. Nepal is bounded by India in the east, west and south whereas there stands China in the north. Because of its landlocked position, Nepal has no option to see other than India .However, expansion of trade with overseas countries substantially increased from 1970.India has been the import trading partner of Nepal since the time unmemorable. Indo-Nepalese trade relations can traced back to ancient times. In the early days, foreign trade of Nepal was limited mainly with India and Tibet. Since the only trade route in between India and Tibet was Nepal, it had helped very much in developing trade of Nepal. Later on during the regime of British India, the development of goods transportation system and the creation of many trade centers in the northern India further helped to enhance trade turnover between Nepal and India.

Nepal was very much isolated from other countries, especially from the developed western countries prior to the political change of 1951.Before 1950, Nepal had an open interaction with Tibet where Nepalese currency was on circulation. The pattern of Nepal's trades with Indiaremained more or less the same during the 19th century and first half of the 20th century. Moreover, Nepal has now maintained trade relation with many countries bilaterally and multilaterally. Trade policy as well as various bilateral and multilateral agreements guides 'Nepalese foreign trade strategy. Even then Nepal's foreign trade is largely dominated by India because the history of trade between Nepal and India is as old as the existence of the two countries for a long time and in terms of present volume, similar socio-economic culture, geo-economic position, and access to sea only through the India. Nevertheless, the mutual understanding and co-operation have never been so easy between the two countries. Besides some bitter experiences Nepal is still very optimistic with the trade relation with India.

Until the beginning of 1990's Nepal's trade was almost directed towards India and the diversification began in the beginning of 1980's with some attractive export incentives. From 1990's now two exportable products, namely hand knotted woolen carpets and ready – made garments are still in the prime place to export, which alone make two – third in 2004/05 (four-fifth in 1999/00) of overseas (other than India) exports and one-fifth of total export. In the recent years, the total share of trade with India is increasing 60.3 percent (2004/05), 63.1 percent (2005/06), 64.6 percent (2006/07) and 64.41 percent (2007/08) where export share with India is 60.3 percent (2007/08) and import share 56.9 percent in the same year (MoF, 2008.

Foreign trade plays a vital role for the upliftment of national economy and to accelerate the pace of a nation's development. It is more beneficial of the developing countries like Nepal to make a significant rise in the living standard of the Nepalese through the competitive trade policy. In this context, this study has made an attempt to analyze some of the key issues related with Indo-Nepal trade.

Trade History of Nepal

Nepalese trade is ancient as its history .Geographical constraint of Nepal become barrier to expand the trade other than India and Tibet. For the detail, the trade history is categorized in following (with china, India, and overseas).

Nepal's ancient trade history with Tibet started using barter system at the time of beginning malla and lichhhavi in 17th century, the establishment of an empire in the Tibet initiated the new trans-Himalayan trading routes between the India Chinese cities. Nepal had been transit point for two big countries.

Trade relation between Nepal and Tibet had grown with the commercial policy of mallarules, who played a significant Role in boosting up trade. New urban trading center like sankhapur, palanchock, dolakha and nuwakot had been developed as trade market and activated trade traffic through caravan to kerung and kuti. PrithiviNarayan shah also wanted to monopolize enter-port trade marts in border of India and Tibet to transshipment by the Nepalese merchant which is defused by Tibetans. In 1770 Tibet closed trade routes to Nepal and suspended all commercial transaction between two countries.

To promote trade, a treaty was signed up with Tibet after conflagration of 1791 and another after the war of 1856, the treaties at reviving the trans-Himalayan trade with Kathmandu as an enter-port center. Tibetan enchanted by the speculation in business with Indiastarted ignoring Nepalese merchant. As a rules it reduced the trade traffic between Nepal and Tibet .the number of Nepalese merchant in Lhasa dropped from 2000 to 500 in 1907 and 40 in 1923.nepal and china signed an agreement based on five principle of peace co-existence and therefore established diplomatic relationship between two countries. This signing was just a prelude to the more comprehensive agreement of 1956,in which both the government expressed the region of Tibet and Nepal would keep continuing two government also allowed people from both countries to establish factories.

Trade relation between Nepal and India, had been established since ancient period. Due to culture and social similarities along with geographical condition .India and Nepal had continuous economic activities. Trading activities between India and Nepal pass through different routes.Butwal was the main route for Indo-Nepal trade at ancient time. The communication among Nepal, Tibet and India had been through kuti-koreng passes connecting Kashmir-Kathmandu, Patna and Lhasa routes.

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

Nepal's trade with other countries does not go back into history due to relative backwardness of the economy as well as the politics and physical isolation in the country. Before 1951 ,the foreign trade of Nepal was limited namely in UK,USA and France .Before the would war 2nd ,Nepal used to import from the countries ,such as England ,Singapore and export their agriculture products like jute .Indo-Nepal trade treaty of 1950 required Nepal to follow a common traffic policy with India and with respect to other countries respective of its peculiar condition and requirement .After1960 Nepalese overseas trade become possible ,for the foreign currencies were needed for development .Nepal's export had to be promoted by diversifying its trade.

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

1.2 Statement of the Problems

Nepal is one of the active members to bring out the south Asian trading Agreement (SAPTA) leading to free trade agreement (SAFTA). Besides SAFTA, Nepal is on record that (BIMST-EC) has been prioritized to bring into operation. These come under regional trade agreements (RTAs) while Nepal has obtained membership of world trade organization (WTO) in 2003, and have become the first member through accession from the least developed countries category. So far no significant achievements have been reaped by Nepal from both the RTAs and the WTO besides becoming a benefited member of the institutions. There is less hope from SAFTA to achieve the goals because of the skirmishes between two giant member countries.

Besides the approval of various treaties in between Nepal and India Nepal produced yet have not got market access in India market as committed on agreement. This is the main problem in the bilateral trade between these countries. Some of the key question are as follows:

- What is the trend of foreign trade of Nepal with other countries?
- What is impact of foreign trade of Nepal in economic development of Nepal?
- What are problem and prospects of foreign trade of Nepal?

1.3 Objectives

The General objective of the study is to analyze the trend of foreign trade of Nepal with India. However, the specific objective of this study are as follows.

- To review the indo-trade Nepal treaty and implication.
- To study the trend of foreign trade between Nepal and India (1990-2015).

1.4 Significant of Study

Trade between Nepal and India plays a dominant role in the economic development of Nepal .Due to the land-locked position of our country. The transit routes has been more accessible with India than any other country. Whereas, Nepal is capable of supplying certain goods and services to India at comparative cost advantage. Though, export to India are confined to only primary goods, agricultural products and raw materials ,there is greater possibility of expanding Nepal's trade with India, which would be very needful for uplifting the national economy.

Since the emergence of mercantilist school, the study of foreign trade has been prominence. Therefore, various researches, investigations and diagnosis has been done by various scholars in the failed of foreign trade. Toanalyze export and import composition and to investigate their effect on economy will be the major concern of this study movement of foreign trade occurs under the consideration of the study. These are the main importance of the study. To update the foreign trade data will be another significance of this study.

1.5 Limitations

This study and analysis will suffer from the following limitations

- Study period is limited to the period of (1990to2015).
- The rest of other countries have been taken here only forcomparison with India.
- One of the major limitation of the this study is that the data which are found inaccurate from the first day and differs to each other even if it is from the same sources. The best attempt to get more accurate date is done with referring two main source is NRB and CBS.

1.6 Organization of Study

This study is divided in to six chapters:

Chapter I:Introduction

This chapter includes background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter II: Review of Literature

This chapter includes relevant literature from review of some books, papers, articles and thesis related to the subject matter of the study.

Chapter III: Methodology

This chapter covers the detail framework of the study such as research design, nature and sources of data, data collection procedures, data processing procedures, variables used in the analysis.

Chapter IV: Review of Indo Nepal Trade Implication. (Historical prospective of Nepalese foreign Trade.)

This chapter include details of trade relation of Nepal with India, under this chapter various treaties between Nepal and India, determining the terms of trade of Nepal is included.

Chapter V: Trend of Foreign Trade with India.

This chapter includes data related to Nepal's foreign trade to analyze the trend of Nepal trade with in total and (specifically) with India.

Chapter VI: Summary, Conclusion and Recommendation.

This chapter is the last chapter, which is concerned with the output of the study in the form of summary, findings and recommendations.

At the end of the study, references and appendices have also been incorporated.

CHAPTER II

REVIEW OF LITERATURE

Foreign trade, as an engine of growth during 20thcentury, has not been so popular. In fact, the implementation of industrialization policies then was of limited degree of international openness. The Import Substitution Industrialization (ISI) strategy of Raul Pervish (1950) and Hans Singer (1950) emerged as viable. Indeed, the debt crisis unleashed in 1982 played a consequential role in reshaping policy views regarding development strategies, growth policy and long-term growth. In this regard Edwards (1993) remarks “In the 1980s, economists dealing with poorer nations began to recommend, with increasing insistence, the development strategies based on market oriented reforms that included as a fundamental component, the reduction of trade barriers and the opening of international trade to foreign competition”. Although, East Asian countries seem to be successful in the field of development through foreign trade still controversies remain. In the judgement of the beneficial effects of foreign trade, most empirical studies are found to be directed to the direct impact of export growth in national income and saving.

2.1Review of Trade Theories

Mercantilism thoughts and ideas steered trade in Europe from the beginning of the sixteenth century until the end of the eighteenth century. In the beginning of the nineteenth century Adam Smith’s trade theory started to gain acceptance. According to mercantilism, welfare was based on the possession of gold and silver. Trade was seen as something good for a country. The disadvantage of mercantilism was that people thought that having more exports than imports, meant a better welfare for your country, as payment was made in metals. A surplus in exports would then mean more gold and silver. According to mercantilism it was believed that one country’s winnings would lead to another country’s losses, which meant that the economic policies were aimed at supporting export and putting restrictions on imports.

As mentioned earlier, Adam Smith’s trade theory was first accepted at the beginning of the nineteenth century. We could say that it was Adam Smith and David Ricardo that laid the foundation for the theory behind international trade.

In Adam Smith book The Wealth of Nation (1776) he compares a country's situation with a family's decision to either buy or produce the product themselves. To get an understanding of Adam Smith's theory one can make the following assumption: Assume that the U.S and UK produce wheat and textile. If the UK is better at producing textiles compared with the U.S, whilst the U.S is better at producing wheat, then these two countries should trade with each other. This assumption means that the UK has absolute advantage when producing textile and should therefore only produce and export textile whilst importing wheat from the U.S. The U.S should do the same but the other way around. If these countries trade, wealth will then increase for both of them. Adam Smith's theories brought about many thoughts, for example, what would happen if a country did not possess any absolute advantages for their products. Would this country have no trade?

David Ricardo had the answers for these questions, with his theory of opportunity-cost that goes hand-in-hand with the theory of comparative advantage. Comparative advantage means that a country should export products that they have the lowest alternative cost for and import products which they have the highest alternative cost for.

What this means, is that, trade occurs between two countries who tend to have international differences, in production technique and productivity. A country benefits from production-specialization if their collected real-income or consumption-possibilities are greater than with self-maintenance.

However phenomena of globalization - national and regional world economies integrating into a global economy at an extraordinary pace - is extending and has a great impact on the economic environment. Governments around the world have liberalized trade and financial markets leading to intensified international flows of goods, capital and services. A world-wide trend towards privatization and deregulation of economic activities has opened up a wider arena for investment. Meanwhile, the rapid development of information and communication technologies has put the world of finance, trade and services into the fast pace of real time across the time zones of the world.

Globalization of trade offers immediate benefits: faster growth, higher living standards and new economic opportunities. On the downside, not all countries have benefited equally from the globalization phenomena. Those that do not have the technical capabilities, infrastructure and institutional capacity found themselves falling behind even further. Africa for instance has only experienced marginal growth over recent years and its share in world trade dropped from 2.7% in 1990 to 2.1% in 2000. And yet equitable spread of the benefits of globalization is vitally important for the health of the whole system. Witness for instance the regionalized financial crises over recent years in South America and the Far East that can have significant destabilizing effects globally. Further concerns regarding the globalization of trade include negative environmental and social implications and loss of cultural diversity. It is the responsibility of world governments, particularly in the developed world, to ensure that systems are in place that do not marginalize already fragile or vulnerable economies.

2.2 International Review

As said earlier that foreign trade has an important role for economic development of country .However all the countries are not equally benefited by it. In context of Nepal International trade is not beneficial as it should be, increasing trade deficit of country is effecting country's economy adversely. Various Research, Analysis has been done by many scholars to identify the various factors effecting the foreign trade of country, relation of foreign trade and economic growth of country and suggest how foreign trade can be use more beneficially. Review of some foreign scholars about international trade (including in context of Nepal) are presented below.

Bela Balassa (1978) conducted study on "Export and Economic Growth" to put further Evidence. In his study, he investigated the relationship between exports and economic growthin the cross-country comparisons between 11 developing countries which has established theindustrial base. He suggested the incremental export-GNP ratio could be the solution for theproblem of positive auto correlation between the GNP and other dependent variables with theforeign trade estimates. He compared the variables of GNP and Per capita GNP in terms ofexport growth and his own hypothetical incremental export-GNP ratio. He found that theincome has been increasing in countries that have followed a consistent policy of exportorientation. To conclude, he explained that export growth favorably affects the rate ofeconomic growth.

William (1981): in his paper analyzed the empirical relationship between economic Growth and export expansion in developing countries with the help of inter-country cross-sectionanalysis. 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 andGrowth of the economy. In his work entitled as "On exports and Economic Growth" he provided a mathematical model representing GOP as dependent variable with independent Variables of export and non-exports. He further classified non-export variables into labor andCapital. Through analysis of the marginal productivity of labor and capital and the growth rateof 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. In this paper, 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-Ohlinmodel 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.

Wang, Wei, and Liu (2010) studied the causes of trade flows between 19 OECD countries from 1980 to 1998 by using the augmented gravity equation. Their results demonstrate that geographical distance, domestic technology (R&D) stock, inward FDI and total inward FDI stock, level of GDP and factor endowment are the major factors affecting trade flows

2.3 National Review

Many Nepalese scholar has done research about the Nepal's foreign trade with various country, especially with India. They have analyzed about History of foreign trade, current trend and also recommended various measure to improve the increasing trade deficit. Few of which are discussed below.

Roy (1977): in his article "A Note on Nepal's foreign Trade" pointed out that the increasing trade deficit is a serious concern for Nepal. Hence, it appears that nibbling with exchange rate alone to take care of the payment position is hardly adequate since by all indications trade deficit is tending to become woven inextricably into the very fabric of the Nepalese economy. Nepal has abolished the incentive bonus scheme and introduced a dual exchange rate system for all convertible foreign currencies, he argues that the incentive bonus scheme allowed for many exchange rates depending upon the commodity exported overseas. The writer argues about the often alleged over invoicing of export that is associated with the incentive bonus scheme.

On the other hand, the dual exchange rate system is expected to provide some relief to export. They will be paid for the amounts they are entitled to receive in convertible foreign currencies in accordance with the second rate of exchange of the U.S. dollar, fixed at 16 Nepalese rupees to a dollar. The second rate of exchange will be applicable to all imports except "development goods and materials". The basic exchange of all convertible foreign currencies will be based on the official exchange rate of U.S. dollar of twelve Nepalese rupees to a dollar. It will be valid for overseas payments, for invisible exports, services, capital transfers and for foreign exchange to provide for services and travel. It will also be valid for development goods like petroleum, fertilizer, certain raw material and machinery.

Lastly, he suggested that the dual exchange rate system must be under careful vigilance since there is a dangerous possibility that Indian currency may be purchased and taken to India for buying dollar, which in turn can be transferred elsewhere or registered in Nepal as export earnings, which results in loss for Nepalese economy. He also says that it is also likely that it is also likely that the long predominance of illegal trade along the border will be successfully countered resulting in trade gain for both the countries.

Baskota (1981): in his book “indo-Nepal trade and economic relation” has attempted to an enquiry into the trade and economic relation between Nepal and India. The main objective of study was to examine the prospect of economic gain between the two neighbors. The author highlight on the treaties between Nepal and India in 1923, 1950, 1960 and historical relations. It includes transit trade route of Kathmandu in Trans-Himalayan trade, Indo-Nepalese Trade in Pre-British Period. The author has described about the composition and direction of Nepal’s foreign trade with India in terms of commodity wise, item- wise and SITC.The author describes the structural change indo-Nepal trade and economic relations highlight trade structure that has emerged with growth in trade with overseas countries. This study attempts an economic analysis rather than a more portrayal and description of the indo-Nepalese trade and economic relation. He points that the treaty of 1923 put a death-knell to the Nepalese trade, whereas treaty of 1950 debarred Nepal in précising independent, economic policy, which was viewed as symbol of India’s economic domination over Nepal. In this way, the treaty of 1960 also stood against Nepal’s favors. It studied that Nepal enjoyed favorable trade balance with India during 1944/45-1949/50 where as there is adverse balance in between 1956/57-1969/70.Further,the study included the construction of instability index and concentration of export and import.

Finally, the study point the constraints and suggestions for relevant problem it deals with problem associated with transit, diversification, trade deficit, trade surplus, excise refunds, lack of finance, rightly in the composition of trade items, tariff preferences, production bottlenecks etc. .And suggestion are as follows, Indo-Nepalese trade should achieve the commanding heights but at the same time commodities which are out of the focus in Indo-Nepal trade must find a place in trade with other countries at an increasing pace. India and Nepal must commit themselves to working out concerted foreign economic strategy which is essential not only for the economic growth of India and Nepal but also to that of advancement of the interests of other developing countries should help each other to achieve a good degree of industrial growth, which must be seen as the essential instrument for a balanced restructuring of these two economics etc.

Reejal (1982) in his paper "Nepal is foreign trade and economic development 1956/57 -1979/80''compares the share of export, import and total trade with gross domestic product in the period betweens1964-1978 whereas the share of export, import and total trade has decreased. In the analysis of import function, he tries to derive the relationship between imports and GDP at current and market price. He found that because of low level of income and not improving the standard of living, import are in increasing trends. Finally, the principle of export and import items and computation of effective rate of protection of manufacturing is established. He has used two variable regression analyses by the least square method.

Adhikari (1985) in his article "Trade Relation Between Nepal and India: scope for economic integration" has explained the trade relation between Nepal and India before and after 1947 when British India and Tibet signed a peace treaty in 1904, new trade routes were opened and due to this Nepal lost considerable amount of trade with Tibet. The treaties of 1923 between British, India and Nepal liberalized Nepal's import to third country. Later on new treaties replaced old ones. The author says that the treaties of 1950, 1960, 1972 and 1981 were, just compromise between India's interest to preserve its highly protected market and Nepal's desire for greater freedom to adopt its own independent tariff industry sector. He further says that the probable benefit from custom Union may be higher in favor of India because of significant dimension of India in Nepalese trade.

The author mentioned another interesting thing not being specifically spelled put anything in any treaty is the multinational company's product. Here India asked Nepal to ban export of such goods to India but the product of MNC in India such as pharmaceutical, toiletries, coffee, tea and many other exported to Nepal. It is obvious that the provision of non-tariff barriers and free movements of good between Nepal and India as mentioned in the treaties is conditional.

He noticed another interesting thing that as the bordering over about five hundred miles unauthorized trade is bound to happen regularly.

Lama (1985) in his book “The Economics of Indo-Nepalese Cooperation” published in 1985, seeks to analyze the economics of Indo Nepalese cooperation in terms of aid, trade and private foreign investment. He has covered the year from 1956-1987 and Indian aid to Nepal and Indian private investment in Nepal. He reviews different trade treaties between Nepal and India and analyzes their possible impact on Indo-Nepalese Trade. Similarly he examines the magnitude and composition of Indo-Nepalese trade between 1950 and 1982 and through some light on major irritants in the India-Nepal trade relation.

The book has six chapters covering the second chapters Indo Nepalese trade treaties. The third chapter is devoted to analyze Indo Nepalese trade relations.

The fourth chapter however analyzes in depth the various India aided projects undertaken in Nepal in the light of Nepalese planned economic development. As such fifth chapter has been devoted to examine India’s private foreign investment in Nepal. It gives some light on the contribution of Indian private investment to the industrial development of Nepal as expressed previous. Finally, major findings of all chapters are highlighted.

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

Pant (1990) in his book entitled, “Economic Development of Nepal” things that even though, in recent years, trade diversification process is taking place in Nepal but most of Nepal’s trade is still with India. He further adds that it will take quite some time to increase trade with Tibet of China and trade with other neighbors like Bangladesh which has just bar started. Lastly, he concludes that the process of diversification will be dependent on the development of adequate transport facilities in Nepal and also on the establishment of trade route with different countries. He further adds that the pace of economic development and the inflow of aid have changed the direction of Nepal's foreign trade to some extent.

Shah (1999)took three objectives that are to study Nepal's foreign trade, to analyze export and to examine imports. There are five chapters in her disservice. The information of foreign trade is taken by standard international trade classification. She used mathematical tools, foreign trade multiplier, linear equation and regression analysis. She concluded that Nepal's foreign trade is non-uniform with trade in GDP. She raised recommendation that the detection of non-stationary time series data, and accordingly choosing the functional from, and specification of the variable to analyze the structural changes caused by various economic measures can be done with the help of dummy variable analysis. She concludes that the estimates should be used with precaution because of quality of data and presence of auto correlation.

Sharma (1999) has explain the status of Nepalese foreign trade both in terms of import and had suggested policy prescriptions for enhancing foreign trade performance of the country with empirical analysis based on secondary data. The author has overviewed trade policies, trade treaties and direction of foreign trade with SAARCE countries focusing Nepal's value of export and import since 1992/93 and the world trade organization (WTO).As he says one of the major challenges for Nepal to achieve higher economic growth is systematically unfavorable foreign trade balance characterized by low level of export trade and increasing volume of import of both consumption goods and investment items. He finally highlight on some recommendation, which are: adjustment in exchange, rate regime, to curtail domestic consumption in order to reduce import from India. The study focuses to expand export though supply management of selective items. Moreover the study also focused on the necessity of reasonable tariff protection.

Garanja (2000) in his article "A Note on Prospect of Balance of Trade of Nepal" attempts to project the future trend in foreign trade of Nepal. For this purpose, export, import and trade balance have been computed by applying statistical tools and time series equation, he says that it is not possible to measure accurately the future behavior of foreign trade of Nepal. He assumed that no radical changes would take place in the area of foreign trade. Further, at the national level, the foreign trade policies would also bot be changed drastically. The behavior of foreign market would also not take any rapid change. In brief, it is hoped that the situations of export and import trade would be changed in the earlier pattern.

He pointed that the trade balance of Nepal has remained unfavorable during study period 1974-1996. He also estimates the future value of exports and imports. He pointed out that main cause of trade deficit is higher imports against exports, narrow production and exportable base, infant industrial shape, low level of quality of agro and forest based exportable goods, high transit and transportation cost, land-locked situation, mountainous and rugged geographical structure of the country, lack of sound and effective strategic policies for foreign trade.

Dahal (2001) in his dissertation “A study on Nepalese foreign Trade and its changing scenario” has analyzed the current status of Nepal’s foreign trade. This study concerns the period from 1990 to 1998. In this study focus is given on volume. Composition and direction of Nepalese foreign trade. It examines the terms of trade i.e. the ratio of the index of export price to the index of import prices.

The study comes to the conclusion that may have long-term effect on country’s economy and such deficit usually covered by increased foreign loans and grant, which may further deteriorate the country’s economy.

According to him, government needs to develop local resources sufficiently in the country, increase its trade activities in SAARC, increase the quality of products and send new commodities in internal market.

Subedi (2003) in his dissertation “Nepal’s foreign trade: the changing scenario of size, composition and direction”. He simply used secondary of data and presented the data on tables and compares the data from different angle. He reviewed the implementation of different trade polices implemented by GON and point out the significance of reform measures taken by the government. He touches in brief on different polices of the government such as structural adjustment programmer, Tread policy 1992,industrial Enterprises Act 1992,Exporters’Exchange Entitlement Scheme (EEE), Dual Exchange Rate system, Exchange Convertibility System and so on. However, according to his findings, dual exchange system could not serve the basis objective of the country because exporters did not pay any attention to the question of creating basis and favorable infrastructure for the expansion of the country’s export trade. He recommended making appropriate export plan, expanding the domestic markets, initiatives to private sector, diversification of trade, improvement of trade and transit treaties and searching the alternative routes of trade and progressive tax system should be of immediate concern for nation's presently.

Khanal (2006) in his book foreign trade of Nepal: trend and structure has attempted aim to explore trade relation between Nepal and rest of the world. The analyze export and import composition and to investigate their effect on economy is the major concern of this study.

In this study also emphasized on opportunities and challenges of foreign trade of Nepal. This study has focused the trade activates after the restoration of democracy in 1990s simple statistics have been used and analyzed accordingly. The study based in secondary data.

The study has made an attempt to derive a conclusion with regard to the established objectives of this study. Some statistical tools have been carried out .date and information with regard to trade patterns between Nepal and rest of the world have been used form the published and unpublished research papers, books.

Above most of author express their view Relationship of Export and Economic growth of country. They have concluded that for sustainable development of country Export should be promoted and Trade GAP should be minimized. They have analyzed various factor of trade determinant of trade of Nepal with India and provided remedies for decreasing trade GAP with India.

Roy has explainedthat constant Exchange rate as reason for the increasing trend of trade with India and has suggested to adopt dual exchange rate system with appropriate check system to tackle this problem. Reejal has explain lower level of income and increasing living standard is responsible for increasing import ,Sharma has overviewed that trade policies, trade treaties is challenges for meeting economic growth of country, he suggest to adjust exchange rate in order to curtail consumption of domestic goods and decrease import. Adhikari and Thapa has explained that treaties as reason for reason for concentration of Nepal's trade with India. Other authors has explained, new avenues for trade with India geographical pattern etc as reason for the trade deficits and suggested various remedies.

It is clear for above that various factor like Constant exchange rate, Increase in living standard with low level of Income, various treaties, geographical location, culture,etc.are the reason for increasing Import and trade deficit of the Nepal, measures like adjustment in exchange rate with appropriate check system, privatization, industrial encouragement scheme (trade substitution industries establishment), trade diversification policies can be taken to tackle this problems.

2.4 Conclusion and Research GAP

Above, international and national scholars' has explained various factors effecting the foreign trade of Nepal and its impact on Nepalese economy and they have also suggested various measures for improving performance of Nepal foreign trade. Observation of study of various scholars can be concluded in below point:

i. For the Economic development of country foreign trade has important role, Country has to increase export which in turns helps to increase income level and improve economy of the country.

ii. Trade deficit is tending to become woven inextricably in to the very fabric of the Nepalese economy, Nepal has to abolish incentive scheme and introduced dual exchange rate for tackling these problems.

iii. Treaty of 1923 put a death knell to the Nepalese trade, whereas treaty of 1950 debarred Nepal in précising independent, economy policy which was viewed as symbol of India's economic dominant over Nepal. Trade diversification, commodities which are out of focus in Indo-Nepal trade must be place in trade with other countries is suggested for relevant problems.

iv. Because of low level of income and not improving the standard of living import are in increasing trend.

v. India has ban export of MNC to India however has allowed India to export MNC product like pharmaceutical, toiletries, coffee, tea and many other exported to Nepal. Because of open Boarder unauthorized trade is taking place which can be solved by bordering over 500 miles miles.

vi. Problem of transit and limited resources has hindering the economic development of the Nepalese foreign trade. Trade routes , trade arrangement, incentives for trade diversification and other things like identification of importable items setting up export oriented industries, import control by planned strategically import and establishment of import substituting industries are very essential to overcome these problems.

vii. One of author has explained that introducing dual exchange system could not sever the basic objective of the country because exporter don’t pay any attention to the question of creating basis and favorable infrastructure for the expansion of the country’s export. He recommended making appropriate export plan, expanding the domestic market, incentives to private sectors diversification of trade, improvement of trade and transit treaties and searching the alternative routes of trade and progressive tax should be taken as measures for these problems.

Most of the author has suggested appropriate export plan, diversification of trade, and introduction of dual exchange system, control over unauthorized trade, identifying new routes of transit, establishment of export oriented industries and import substituting industries etc. as measure for decreased trade deficit and promote economic growth.

Recently, economic environment has changed and other than suggestion mention above there are many others measures which can be used as solution for improving performance of the Nepalese trade. Authors has explain to establish export oriented industries but what type of industries has not been suggested. Nepal being rich in water resources, Nepal should establish hydro power industries and export hydro power to its neighbor countries which will help to earn foreign income also will reduce consumption of fuel which in turn decrease import of petroleum products that will help to decrease the trade deficit of Nepal.

Promoting education and tourism which will increase income level of people and raise the living standard of the people, and help in decreasing export. Introducing liberal Foreign Direct Investment policy will help to established industries in country and develop the economy and improve trade performance the country. Also in in recent year export composition of goods has shifted from primary sectors to secondary sector, further Nepal can promote service oriented company like software development, Architecture, engineering and export service, many countries including India has earned signification income from Export of service, Government should make appropriate economic, exchange and tax policies to promote industrialization and export .

CHAPTER III

METHODOLOGY

3.1 Conceptual Framework

This study provides description of the development of foreign trade in the historical perspective.

This study basically concentrates are exposure, some analysis, a comparison and inculcation of some new dimensions. The study aims at exploring the determinant of foreign trade of Nepal with India. The study concentrates with trend of foreign trade of Nepal with various countries including India and identifying determinants of foreign trade with India. Study is based on secondary sources i.e data published by NRB and CBS therefore analytical method is adaptive for analyzing the trend and to identify the determinant of foreign trade of Nepal (in focus with India). (Tejendra Poudel 2010).

3.2 Data Source

Under the secondary source of information, all the materials related to foreign trade including books, magazines, articles etc. Have been collected from various Websites. Quarterly Economics Bulletin, the regular publication of Nepal Rastra bank has been intensively used so asto get information regarding SITC classification of export and import of Nepalese foreign trade. Other NRB publication like monthly and annually reports and occasional paper also have become a source of information. Data collection by trade promotion center, CBSPublication.

Quarterly economics bulletin of Nepal Rastra bank (NRB) covers the data from 1956/57 to 1970/71 by SITC categories but NRB stopped compiling date and publication from 1971 to 1974 and restarted publishing it from 1974/75 onwards. Its data includes total exports and imports from India and other countries by SITC categories. It also givens data on receipt and expenditure of convertible foreign Exchange, receipt from overseas countries and payment for imports from overseas countries. But there is no similarity between the data published by NRB and CBS. The reason for variation has not been given by NRB. Although the source of date collection is the same, the published date of the Department of customs (DC) after 1980/81 also don’t match with thereof NRB and CBS. The variation in data makes it difficult to give the correct information but we have used data published by NRB and CBS. Study focused on recent development of foreign trade therefore study is based on data published NRB and CBS from 1990/91 to 2014/15.

3.3 Method of Analysis

After collecting the data from various source, these have been arranged in systematic way and tabulated according to the need of research content. The first part of study consists of describing the history, systematic presentation of volume, composition and direction of Nepal's foreign trade with India. Hence, in this part descriptive analysis is followed. Fact are arranged systematically as obtained through secondary source with help of ratio, percentages and graphs to make them comparable and explanatory.

3.4 Study Period

Study has included analysis of History of foreign trade of Nepalwith various country. However it focus on recent development of trade of Nepal after Second World War. Despite the fact that Nepal has very old trade relation with its neighbor countries there is lack of proper records and data.

Quarterly economics bulletin of Nepal Rastra bank (NRB) covers the data from 1956/57 to 1970/71 by SITC categories but NRB stopped compiling date and publication from 1971 to 1974 and restarted publishing it from 1974/75 onwards. Its data includes total exports and imports from India and other countries by SITC categories. It also givens data on receipt and expenditure of convertible foreign Exchange, receipt from overseas countries and payment for imports from overseas countries. But there is no similarity between the data published by NRB and CBS. The reason for variation has not been given by NRB. Although the source of date collection is the same, the published date of the Department of customs (DC) after 1980/81 also don't match with thereof NRB and CBS. The variation in data makes it difficult to give the correct information but we have used data published by NRB and CBS.

After restoration of democracy in 1990,government body has started keeping record in systematic way also before 1990 composition of goods of trade was having similar trend which has been changed along with change in system of countries and subsequent trade treaties, therefore study is based on data published NRB and CBS from 1990/1991 to 2014/15.

CHAPTER IV

REVIEW OF INDO-NEPAL TRADE TREATIES

Geographical constraints of Nepal obviously became barrier to expand her trade other than Indian and Tibet. Trading activities between India and Nepal pass through different routes. Butwal and Tistuing were the main routes linking Indo-Nepal trade. In the seventeen century, the establishment on an empire in the Tibet coined with the opening of new Trans-Himalayan trading routes between the rich cities of the Magnetic plains and Chinese cities quickly captured the trans-Himalayan chances (G.P. Subedi 2003).

Trade relation between Nepal and Tibet has also been going since the time immemorial. Significant growth in Nepal Tibet trade should be attributed to the commercial policy of Mallarulars who played a significant role in the boosting up trade. New urban trading center like Sankhapur, Palanchok, Dolakha and Nuwakot developed trade market and activated trade traffic through caravan to 'Kenung' and 'Kurti' (Regmi 1966). Prithivinarayan Shah also wanted to monopolize enter port trade markets in India and Tibet boarder to transshipment by the Nepalese merchant also was defused by Tibetans, who in 1770 closed trade routes to Nepal and suspended all commercial transaction between the two countries (Banskota, 1981). To promote trade a treaty was signed up with Tibet after configuration of 1791 and another after the war of 1896, the treaties at revising the Trans-Himalayan trade with Kathmandu as an in enter port center. Tibetan enchanted by the speculation in business with Indian started ignoring Nepalese merchants. As a result, it reduced the trade traffic between Nepal and Tibet.

Nepal and China signed an arrangement based on five principles of peace co-existence and therefore established diplomatic relationship between two countries.This signing was just a prelude to more comprehensive agreement of 1956, in which both the government expressed the region of Tibet and Nepal would keep continuing two government also allowed each other people to establish factors (Shrestha 1974).

Trade relation between Nepal and India has been connecting since ancient period. Due to cultural and social similarities and geographical conditions made closure in trade and other activities. The communication between Nepal, Tibet and India was radiated through Kuti-Kenuhg passes connecting Kashmir, Kathmandu, Patna and Lhasa route (Banskota, 1981), Kashmirean had factories at Lhasa, Patna and Kathmandu. Before 19th Century trade with India was in very limited scale. The main items exported to India were metals, precious stones species, tobacco etc. Nepal used to import many goods from Tibet, which subsequently were re-exported from Nepal were rice, timber, honey, ghee, and some artistic metal (Shrestha, 1974). Even today these commodities are the large proportions of export to India. The trade treaties with India greatly developed after 19th Century. The fascinated for superior goods developed during Nineteenth Century and Twentieth Century tremendous increases in imports but export pattern remains same.

Nepal’s trade with overseas countries does not go back into history due to relative backwardness of the economy as well as the political and physical isolation in the country. Before 1931, the foreign trade of Nepal was limited namely U.K., U.S.A. and France. Before the Second World War, Nepal used to import from countries such as England, Japan, and Singapore and export the agricultural products like Jute. Indo-Nepal trade treaty of 1950 required Nepal to follow a common tariff policy with India with respect to other countries respective of her peculiar condition and requirement. After 1960 Nepalese overseas trade became possible, since the foreign currencies were needed for development. Nepal export had to be promoted by diversifying her trade.

Although the foreign trade statics of Nepal has been recorded since only the fiscal year 1956/57, the Nepalese history gives the evidence of the occurrence of foreign trade in the country with neighboring countries, India and Tibet, much before that. After the Rana regime, Nepal’s trade relation began to expand with other modernization process of the country. Institutionalizing the external sector performance of Nepal was started with the beginning of development plans 1956. Realizing the fact that foreign trade is the appropriate means for rapid economic development, the country is giving importance to the sustainable development of the external sector adopting trade promotion policies in different times. Consequently the volume of trade has been increasing gradually and the country has established trade relations with more than hundred countries.

Acknowledging the significance of trade in economic development process, Nepal has been shifting towards liberal and market oriented trade policy since the mid-1980s that was accompanied by various reforms in 1992. The policy makers in Nepal have based trade liberalization policies in a set of two hypothesis (a) liberalization of industrial and trade policies will boost industrial efficiency by providing greater access to imported immediate inputs, capital goods and technology, exposing local products to internal and international competition there by forcing them to lower costs, and removing curbs on the growth and size of firms so as to exploit the scale economies: and (b) improvement in efficiency and the subsequent reduction in costs will stimulate domestic demand and enable Nepal's industrial goods to compete abroad, thereby relaxing demand side constraints on industrial growth (Pant. 1990).

In the past, long and open boarder with India restricted the country's flexibility in framing and implementing independent economic policies. Consequently Nepal had been subjected to negative spillover effects of in work looking and inefficient industrial system in India. But this gradually changed in the early 1990s when India embarked upon bold trade liberalization programmers, including the domestic lowering of barriers to imports of capital goods and other imports into production subsequently. Nepal also started to capitalize on the opportunity to open up as carried out by India. One point is clear that, the speed of Nepalese liberalization is guided by the pace of liberalization in India and the geo-political realities of the country. Hence, full liberalization of the Nepalese trade regime in a short period may neither be attainable nor be desirable. Nevertheless, policy commitments need to be realized and for this substantial improvements may be warranted in the bureaucratic and administrative sectors including removal of impediments and barriers such as procedural delays.

4.1 Indo Nepal Treaties of Trade

Trade carried on by India and Nepal with each other is regulated bydifferent Indo-Nepalese Trade and Transit Treaties. Up to the year 1950, tradebetween the two countries was regulated by the Treaty of Friendship of 1923between Great Britain and Nepal. The first formal trade treaty between BritishIndia and Nepal was signed in 1792. This Treaty was followed by Treaty ofFriendship of 1923. Nepal's transit problem in her trade with other countries apart from India arises out of its landlocked geographical location. The closest sea portfrom Nepal is the Kolkata port which is about 890 kilometers from its capital Kathmandu.Transit facility through the adjacent countries for international trade is animportant factor in the economic development of land-locked countries. The right of unrestricted transit in terms of free flow of goods and people and right of free,access to and from the sea are of paramount importance to land-locked countries.

Theoretically, the right of access to the sea derives from the doctrine "Everynation is free to travel to every other nation and to trade with it."Transit facilities are provided by India to Nepal through Kolkata which isconnected to Barauni and Katihar by broad-gauge rail and from there to Raxaul, Jayanagar and Jogbani in India on the Indo-Nepalese border. After independence,India, with a view to promote economic development of Nepal started extending a helping hand by making available not only domestic resources but also foreign trade facilities through its territory and ports.

4.1.1The treaty of Trade and Commerce – 1950

The Governments of India and Nepal concluded a Treaty of Trade and Commerce on My 31, 1950 with a view to facilitate and promote trade and commerce between the two countries. The Treaty contained provisions regarding Nepal's trade with third countries and those relating to bilateral trade between India and Nepal. It had 10 articles and a memorandum. Before this, the ' Treaty of Friendship' signed with British-India on Dec. 21, 1923 was in force.

In this Treaty, the Government of India recognized Nepal's "full and unrestricted right of commercial transit of all goods and manufactures through the territory and ports of India" (Art.1). It agreed to allow all goods imported at any Indian port and intended for re-export to Nepal to be transmitted to Nepal without breaking bulk *en route* and without payment of any duty at any Indian port (Art.2). The Treaty also secured for the right of passage free of excise and import duties, for goods of Nepali origin in transit, through Indian Territory, from one place to another within the territory of Nepal (Art.3). It further granted Nepal "full and unrestricted right of commercial transit from approved places in Nepalese Territory, through the territories and ports of India, of all goods and manufactures of Nepalese origin, for export outside India (Art.4).

Thus, for the first time India recognized full and unrestricted transit right of Nepal although on the matter of 'Origin of Nepal' and 'transaction without breaking bulk' created practice difficulties.

4.1.2The Treaty of Trade and Transit: 1960

Treaty of Trade and Transit, 1960 was also animated by the desire to strengthen economic co-operation between the two countries, and convinced of the benefits likely to accrue from the development of their economies towards the goal of a common market. The two countries resolved to conclude the Treaty in order to expand the exchange of goods between their respective territories, encourage collaboration in economic development and facilitate trade with third countries. This Treaty of Trade and Transit was concluded between India and Nepal on 11 September, 1960. Customs duties and other equivalent charges as well as quantitative retractions are exempted for the goods originating in either country and intended for consumption. (ibid, 1990).

This Treaty was divided into three parts covering Trade, Transit and General Provisions, all divided into 14 Articles. It was supplemented by a protocol, letters exchanged at ministerial level and a memorandum each designed to lay down specific terms and conditions and procedural arrangements to ensure the smooth working of the provisions of the Treaty. It clearly laid down that the "trade of the contracting parties with the third countries shall be regulated in accordance with their respective laws, rules and regulations relating to imports and exports" (Art. V), thus giving Nepal full freedom of her trade with countries other than India. It also secured for Nepal complete independence of and control over her foreign exchange account (Art. VI). The words "full and unrestricted right of commercial transit" of the Treaty of 1950 were dropped in the Treaty of 1960 but it laid more emphasis on Nepal's transit facilities through Indian Territory and explained transit provisions more clearly and explicitly than the Treaty of 1950 and stipulated to conform them to relevant international conventions (Art. XII). It defined "traffic in transit" and ensured that traffic in transit was not subjected to unnecessary delays or restrictions and was exempted from customs and transit duties or other charges in respect of transit (Art. VII and IX). It was agreed that the present arrangement of refund of central excise duties on Indian exports to Nepal be continued (Art. IV).

The political relations between India and Nepal affected Nepal's transit trade. Mostly, the treaty of 1960 overshadowed the problems of transit by dealing with the deflection of Trade. (ibid, 1990).

4.1.3Treaty of Trade and Transit –1971

The treaty of trade and transit signed between Nepal and India on august 13, 1971 came into effect from August 15, 1971. It contains the provision for trade, transit and general provisions along with protocol, Memorandum Letter of Exchange and Joint Communiqué, There were altogether 7 Articles under trade, 8 under transit and 4 under general provision.

Article 1 of the treaty dealt with the mutual trade between India and Nepal, but it gave a reflection of trade for diversification of mutual trade. According to Article IV, India agreed to promote the industrial development of Nepal though the grant and India offered especially favorable treatment to imports into India of industrial productmanufactured in Nepal in respect of custom duty and quantitative restriction normally applicable to them.(ibid, 1990).

There were some differences between the transit provisions in 1971 from 1961. Article VII of 1960 Treaty provided freedom of transit without dealing with the indispensable measures to ensure the freedom accord, but the Article VIII of 1971. Treaty dealt cautiously preserving her interest. The Article VIII reads:

The contracting parties shall accord to traffic-in-transit freedom of transit across their respective territories through route mutually agreed upon.

Each contracting parting shall have the right to take all indispensable measures to ensure that such freedom, accorded by it on its territory does not in any way infringe its legitimate interest of any kind.

Some other restrictive provisions were added in this treaty, which had not been dealt 1960 treaty. Article XVI was that and reads as follows:

Notwithstanding the foregoing provisions either contracting party may maintain or introduce such restrictions as are necessary for the purpose of:

a) Protecting public morals
b) Protecting human animal and plant life
c) Safeguarding national treasures
d) Safeguarding the implementation of laws, relating to the import and export of gold and silver bullion
e) Safeguarding such other interests as may be mutually agreed upon.(ibid,1990)

Such provision looks in the interest of contracting parties but interpretation may vary between them and may restrict the freedom of transit of landlocked state

4.1.4 Treaty of Trade and Transit: 1978

This Treaty had 12 Articles and was supplemented by Protocol and Annexure A and B. The Treaty came into force on 25th March, 1978 for a period of five years. This Treaty was signed with a view:

1. To fortify the traditional connection between the markets of the two countries,
2. To develop their economies for their several and mutual benefit,
3. To derive benefits of mutual sharing of scientific and technical knowledge and experience to promote mutual trade,
4. To expand trade between their respective territories and encourage collaboration in economic development.

Under this Treaty, India and Nepal were to grant maximum facilities to undertake all measures for the free and unhampered flow of goods needed by one country from the other (Art. II).

To help Nepal develop its industries, India agreed under the Treaty to grant non-reciprocal favorable treatment to imports to India of Nepalese industrial products (Art. IV). Along with the Treaty, a separate Agreement of Cooperation was done to Control Unauthorized Trade. In the protocols also provisions were made for preventing deflection of trade. Through this Treaty India relaxed the conditions for entry of Nepalese goods into India, which had been a major point of difference. Previous Treaty required 90% Indian or Nepalese material, this Treaty required 80% indigenous material (Protocol Art. V).

Besides, this Treaty covered a larger variety of products It reflected India's desire to ensure that Nepal no longer remained an exporter of raw material and importer of finished product from India. India had in fact gone a step further. Not only it had exempted goods with 80% Indian or Nepalese components from excise duties, but it also agreed that duty charged on goods up to 50% of such components would be half of what was charged from the most favored nation (Protocol Art. V).

The new important change done in the treaty was the provision of insurance policy. The goods had to be covered by an insurance policy, which was to be satisfied by the collector of customs. That means insurance was to be done with Indian Insurance Company only.

4.1.5Treaty of Transit and Treaty of Trade: 1991

Nepal faced a painful and unprecedented situation of sudden end of both Transit and Trade Treats in 1989, March 23. It affected all aspects of Nepalese life, clearly the first and strait adverse impact on Nepalese economy.

Subsequently, political system changed in Nepal and introduced Multi-party system in 1990. During the Interim period P.M. Mr. K.P. Bhattarai's visit to India, two new separate treaties, Treaty of Transit and Treaty of Trade were done in 1991 with India.

4.1.5.1 Treaty of Transit –1991

All the Articles in this Treaty are similar to 1978 Treaty. So it was just the renewal of the last Treaty. The Protocol to the Treaty and Memorandum to the Protocol were the complementary to the Treaty.

The protocol to the Treaty was also similar to previous one, but with little change. The changes made on Protocol were one the open space provided to Nepal in Haldiya port was not in previous one. Next, two additional routes for transit were added. Actually these two routes were not new addition. In 1978 these two were included for transit purpose by Letter of Exchange. Now, it was just mentioned along with other routes.

These were:

(1). Calcutta- Naxalbari (Panitanki)

(2). Calcutta- Sukiapokhari

The detailed procedures for imports and exports formalities for traffic in transit were given in Memorandum to the protocol to the Treaty.

4.1.5.2 Treaty of Trade: 1991

The Treaty of Trade: 1991 was also just the renewal of 1978 Trade Treaty. All the twelve Articles in the Treaty were similar to 1978 Treaty.

The Protocol to the Treaty of trade made some additional provision to access Nepalese product into Indian market with reference to the Article V of the Treaty. The protocol added one more provision for Nepalese product to access the Indian market.

Further, the Government of India will provide access to the Indian market, on a case-to-case basis, free of basic and auxiliary custom duty and quantitative restriction for manufactured articles, which contain not less than 55percent of Nepalese materials or Nepalese and Indian materials.

Trade Treaty, which reads:

Government of Nepal with a view to continuing preference given to Indian export will waive additional custom duty on all Indian export during the validity of the Treaty.

In Annexure B of the protocol, a list of Nepalese products was given which can enter into Indian market.

For mutual trade one more point was opened between Darchula (Nepal) and Darchula (India) making such points 22 in numbers.

4.1.5.3 Revision in Indo-Nepal Trade Treaty and Treaty of Transit, 1991

At the end of the official visit of Prime Minister of India, Mr. P.V. Narasimha Rao on October 21, 1992, a joint communiqué was issued in Kathmandu, which considerably enhanced India’s bilateral trade preferences to Nepal and further improvement in its transit facility. In accordance with the communiqué, India and Nepal signed three letters of exchange on 16 February, 1993.

4.1.6 Indo-Nepal Treaty of Trade, 1996

This Treaty, signed on December 3, 1996 at Kathmandu, set a landmark in bilateral trade relation between India and Nepal, It gave a new direction in the trade related areas as well as a scope for the trade improvement especially to Nepal. Some of the provisions made in the earlier treaties were replaced and modified. It made the procedures simple and straight so as to remove the procedural delays. Moreover, the Treaty committed the cooperation in more specific and extended manner. Some of the provisions of the Treaty are stated below:

i. Access to the Indian market free of customs duties and the quantitative restrictions for all articles manufactured in Nepal.

ii. Import of articles in accordance with (i) above was allowed by the Indiancustoms authorities on the basis of a Certificate of Origin (COO) issued by the agency designated by the Government of Nepal in the prescribed format for each consignment of articles exported from Nepal to India. But this facility was not provided to the negative list of articles.

iii. On the basis of a certificate issued by the Government of Nepal, for each consignment of products manufactured in the small scale units in Nepal, that the relevant conditions applicable to the products manufactured in similar Small Scale Industrial Units (SSIU) in India for relief in the levy of applicable excise duty rates were fulfilled for such a parity, Government of India agreed extend parity in the levy of additional duty.

4.1.6.1Treaty of Transit, Modifications in 1996

In order to facilitate the provisions made in the renewed Treaty of Trade 1996, it was felt necessary to modify the Treaty of Transit too. As such, some Articles and clauses were modified and revised in the Treaty of Transit, 1991. The major changes made in this Treaty were as follows:

i. The Indian customs authorities posted at Seaports/Border Land Customs Stations shall merely check the "one time lock" of the container put on by the shipping agent or the carrier authorized by the shipping agent or the carrier authorized by the shipping company. If it is found intact, it will be allowed for transportation of the containerized cargoes without examination unless there are valid reasons to do otherwise,

ii. In case where the "one time lock" on die container arriving at Seaports/Border Land Customs Stations in India are found broken or defective, the Indian customs authorities shall make due verification of the goods to check whether the goods are in accordance with the Customs Transit Declaration and shall put fresh "one time lock" and allow the containers to move to the destination. The serial number of the new "one time lock" shall be endorsed in the Customs Transit Declaration.

iv. The procedures stated above were applicable to the Nepalese containerized export and import cargoes moving to and from Seaports and Border Land Customs Stations in India.

4.1.7 Indo-Nepal Treaty of Transit, 1999

This Treaty was signed on 5th January 1999 between the Government of India and Nepal with a desire to maintain, develop and strengthen the existing friendly relations and cooperation between the two countries recognizing the need to facilitate the traffic-in-transit through their territories. It was stated in the Treaty that it would remain in force up to the 5 January 2006 and would, thereafter, be automatically extended for a further period of seven years at a time unless either of the parties gives to the other a written notice, six months in advance.

4.1.8 Indo-Nepal Treaty of Trade, 2002

This treaty was a continuation of the Treaty of Trade, 1996 rather in a revised form. After a series of meetings in New Delhi from 27th February to 2nd March 2002, an agreement was reached to extend the validity of all the twelve Articles of the India-Nepal Treaty of Trade, and Protocols to Articles I, II, III, IV and VI in their present form for a period of five years with effect from 6th March 2002. It was also agreed that the revised Protocol to Article V and the new Protocol to Article IX of the Treaty would also be valid for the same period.

The government of Nepal and Government of India being conscious of the need to fortify the traditional connection between the markets of two countries, being animated by the desire to strengthen economic cooperation between them, and impelled by the urge to develop their economics for their several and mutual benefit, and convinced of the benefits of mutual sharing of scientific and technical knowledge and experience to promote mutual trade and have resolved to conclude a Treaty of trade in order to expand trade between their respective territories and encourage collaboration in economic development. So, this is the reviewed treaty of 2002, it has been agreed to extend the validity of all the twelve Articles I, II, III, IV and VI in their presence from for a period of five years with effective from 6th March 2002. The revised protocol to IX of the treaty annexed to this letter will be valid for same period.

4.1.9 Indo-Nepal Treaty of Trade, 2009

The Government of India and Nepal signed a new trade Treaty on 27th October, 2009 at Kathmandu. This Treaty comprises of 12 Articles and Protocol to the Treaty of Trade and would be valid for a period of seven years. The main highlights of the Treaty of 2009 are:

1. This Agreement is for seven years with the provision of automatic renewal for another term thereby ensuring stability to trading provisions.
2. The provision of providing US Dollar equivalent facility to bilateral transactions conducted in the Indian currency has freed the (bilateral) trading regime from DRP hassles.
3. Tariff free facility is accorded to exports of primary goods, and provision is made for addition of numbers in the list of tariff exempt quantitatively restricted items.
4. India has agreed to avail the port at Visakhapatnam for trade facilitation.
5. Agreement is reached to open up additional four customs points for trade facilitation making total number of points to 26.
6. A new arrangement is made for conducting bilateral trading from cities connected by air services.
7. The Government of India has agreed to enhance the trading capacity of Nepal. India will support to upgrade the level of quarantine and examination facilities under such arrangement.
8. India will exempt the additional tariff levied on Nepalese products on special request of the Government of Nepal.
9. Nepalese products unable to receive favorable status will be accorded the most favorable status, but certificate of origin would be necessary for such products.
10. Provision is made to form an Intergovernmental Committee at to resolvetrading related issues that may emerge.

CHAPTER V

TREND OF FOREIGN TRADE OF NEPAL WITH INDIA

Nepal's foreign trade is heavily skewed in favor of India, and this dependency on the southern neighbor expanded between the years 2000 to 2010.

Experts have attributed the increasing trade dependency on India to lack of development of productivity and competency compared to Indian products. According to them, Nepal's dependence on India took an upward trend after the southern neighbor adopted an open market policy.(Madhab khanal, 2006).

Meanwhile, the NRB study has revealed that Nepal's trade with China is unduly small. Due to the high transportation costs involved in conducting trade with other third countries, Nepal's imports are also concentrated among its nearby trading partners. The study has recommended diversifying the country's exports to China, Japan and the Asian countries.

As a result of the liberal economic policy that the country has been adopting since 1992, its trade is determined by comparative advantages with different economies. Similarly, inter-industry trade is common and trade with the developed countries is also on a rising trend.

5.1 Trend of Total Trade

The total trade of Nepalese foreign trade is increasing every year. An increase in the volume of foreign trade is the crucial factor in the economic development. But increasing in volume of trade export should be increased more than the volume of import. Increased export offers the decrease in import, which further contributes to attain a comfortable surplus in overall balance of payment. The volume of Nepalese foreign trade during the study period (1990/91 -2014/15) is illustrated in the table and figure below.

Table 5.1

Trend of Total Traded

(In Million)

Fiscal Year	Total Trade	Total Export	Total Import	Total Trade GAP
	1	2	3	4
1990/91	30,614.00	7,387.50	23,226.50	-15,839.00
1991/92	45,646.50	13,706.50	31,940.00	-18,233.50
1992/93	56,472.10	17,266.50	39,205.60	-21,939.10
1993/94	70,864.20	19,293.40	51,570.80	-32,277.40
1994/95	81,318.70	17,639.20	63,679.50	-46,040.30
1995/96	94,335.60	19,881.10	74,454.50	-54,573.40
1996/97	116,189.90	22,636.50	93,553.40	-70,916.90
1997/98	116,515.50	27,513.50	89,002.00	-61,488.50
1998/99	123,201.60	35,676.30	87,525.30	-51,849.00
1999/00	158,327.60	49,822.70	108,504.90	-58,682.20
2000/01**	171,341.30	55,654.10	115,687.20	-60,033.10
2001/02	154,333.80	46,944.80	107,389.00	-60,444.20
2002/03	174,282.70	49,930.60	124,352.10	-74,421.50
2003/04	190,187.80	53,910.70	136,277.10	-82,366.40
2004/05	208,179.30	58,705.70	149,473.60	-90,767.90
2005/06	234,014.40	60,234.10	173,780.30	-113,546.20
2006/07	254,077.70	59,383.10	194,694.60	-135,311.50
2007/08	281,204.20	59,266.50	221,937.70	-162,671.20
2008/09	352,167.10	67,697.50	284,469.60	-216,772.10
2009/10	435,159.20	60,824.00	374,335.20	-313,511.20
2010/11	460,514.00	64,338.50	396,175.50	-331,837.00
2011/12	535,928.70	74,261.00	461,667.70	-387,406.70
2012/13	633,657.40	76,917.10	556,740.30	-479,822.80
2013/14	806,357.20	91,991.40	714,365.80	-622,374.30
2014/15[R]	860,003.30	85,319.10	774,684.20	- 689,365.00

Trend of total trade shows a steady growth. The total volume of trade in the fiscal year 1990/91 was Rs. 30,614.00 million and that increase in the remaining years and reached 860,003.30 million in the year2014/15.

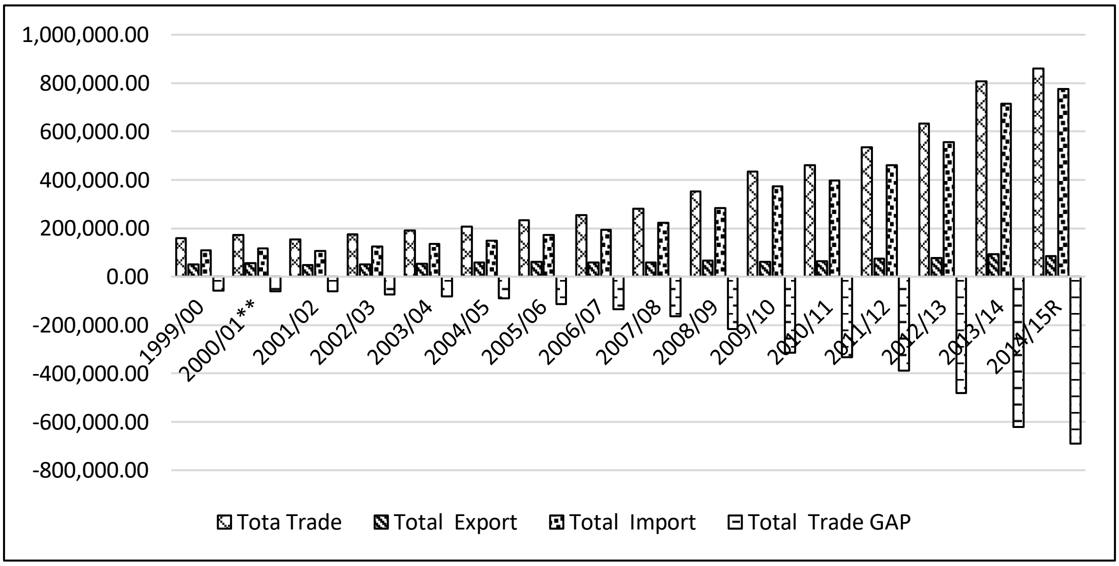
Total Import of Nepal has been increased initially from 1990/91 to 1996/97, there is slight decrease in total import in between 1997/97 to 2001/2002 in comparison with immediate previous year. Again it started increasing from 2002/2003 onward and shows increasing till 2014/15. Total Import was 23,226.5 million in 1990/91 and reached 774,684.2 million in 2014/15.

Total Export of Nepal shows increasing and decreasing trend over Period of our study. Total export of Nepal was 7,387.5 Million in 1990/91 and reached 85,319.1 Million in 2014/15.

Total Import of Nepal has increased by 751,457.7 Million over 1990/91 to 2014/15 however total Export of Nepal has increased by only 77,931.6 Million during 1990/91 to 2014/15, therefore Nepal is having huge trade deficit and it is in increasing trend.

Figure 5.1

Trend of Total Traded



Total Trade of Nepal is in increasing trend, Import of country is growing rapidly than Increase in export resulting in increasing trade GAP. Globalization, introduction of various trade policies over the worlds, low industrial growth etc. play key role in increasing import and trade GAP of Nepal.

Growth Trend of Total Trade, Total Export, Total Import in term of percentage is presented in table below.

Table 5.2

Growth of Total Trade

Fiscal Year	Total Trade	Total Export	Total Import
1990/91	….	……	……
1991/92	49.10%	85.54%	37.52%
1992/93	23.72%	25.97%	22.75%
1993/94	25.49%	11.74%	31.54%
1994/95	14.75%	-8.57%	23.48%
1995/96	16.01%	12.71%	16.92%
1996/97	23.17%	13.86%	25.65%
1997/98	0.28%	21.54%	-4.87%
1998/99	5.74%	29.67%	-1.66%
1999/00	28.51%	39.65%	23.97%
2000/01**	8.22%	11.70%	6.62%
2001/02	-9.93%	-15.65%	-7.17%
2002/03	12.93%	6.36%	15.80%
2003/04	9.13%	7.97%	9.59%
2004/05	9.46%	8.89%	9.68%
2005/06	12.41%	2.60%	16.26%
2006/07	8.57%	-1.41%	12.03%
2007/08	10.68%	-0.20%	13.99%
2008/09	25.24%	14.23%	28.18%
2009/10	23.57%	-10.15%	31.59%
2010/11	5.83%	5.78%	5.83%
2011/12	16.38%	15.42%	16.53%
2012/13	18.24%	3.58%	20.59%
2013/14	27.25%	19.60%	28.31%
2014/15	6.65%	-7.25%	8.44%

Total Trade of Nepal shows increasing trend in most of year , it is decreased slightly by 9.13% in 2001/02 in comparison to previous year ,due to decrease in both Import and Export in that year. Total Export of Nepal shows it increased by 85.54 % in 1991/92 in comparison with 1990/91. It shows increasing and decreasing trend over period of study, in 2014/15 it is decreased by 7.25%.Total import of Nepal has increased in most of fly of our study other that slight decrease in 1997/97,1998/99 and 2001/02. Growth rate of recent year i.e. 2014/15 is 8.44%.

5.2Export and Import with India and other Countries

The study of Export and import with India and other countries is important because it indicates a country's international relation, facilities for trade and linking of nation. The Export and import with India and other countries shows the share of export and import destination wise of exportable and importable commodities. In the context of Nepal, direction of foreign trade is important to show whether its trade is diversified to a few region or countries. Below the table no 5.3 and 5.4 shows export and imports with India, china and others countries.

Table 5.3

Export of Nepal from India and other Countries

(Inmillion)

F/Y	Total Export (FOB)	Export to India (FOB)	Export to China	Export to Other Countries
	1	2	3	4
1990/91	7,387.50	1,552.20		5,835.30
1991/92	13,706.50	1,450.00		12,256.50
1992/93	17,266.50	1,621.70		15,644.80
1993/94	19,293.40	2,408.90		16,884.50
1994/95	17,639.20	3,124.30		14,514.90
1995/96	19,881.10	3,682.60		16,198.50
1996/97	22,636.50	5,226.20		17,410.30
1997/98	27,513.50	8,794.40		18,719.10
1998/99	35,676.30	12,530.70		23,145.60
1999/00	49,822.70	21,220.70		28,602.00
2000/01	55,654.10	26,030.20		29,623.90
2001/02	46,944.80	27,956.20		18,988.60
2002/03	49,930.60	26,430.00		23,500.60
2003/04	53,910.70	30,777.10		23,133.60
2004/05	58,705.70	38,916.90		19,788.80
2005/06	60,234.10	40,714.70		19,519.40
2006/07	59,383.10	41,728.80		17,654.30
2007/08	59,266.50	38,555.70		20,710.80
2008/09	67,697.50	41,005.90		26,691.60
2009/10	60,824.00	39,993.70		20,830.30
2010/11	64,338.50	43,360.40		20,978.10
2011/12	74,261.00	49,616.30		24,644.70
2012/13	76,917.10	51,000.00	2,085.80	23,831.60
2013/14	91,991.40	59,613.70	2,840.70	29,537.00
2014/15^{R}	85,319.10	55,864.60	2,229.90	27,224.60

Source:Quarterly economics Bulletin

Total Export of Nepal was initially concentrated to other countries, out of total export of 1990/91 almost 80% of export was contributed by export to other countries and remaining was by export to India, Highest contribution of export to other countries was on 1992/93, it contributed almost 91% of total export. Then after Pattern of export has slowly changed over the year and Export to India has started to increase. In 2014/15 64.8% of total export was made to India. Nepal has not made any export to china till 2012/13 then after it started to export to china also, in 2014/15 export to china contribute about 3% of total export.

Table 5.4

Import of Nepal from India and Other Countries

(In Million)

Fiscal Year	Total Imports(CIF)	Total Imports from India (CIF)	Total Imports from China (CIF)	Total Imports from Other Countries (CIF)
	1	2	3	4
1990/91	23,226.50	7,323.10		15,903.40
1991/92	31,940.00	11,245.50		20,694.50
1992/93	39,205.60	12,542.10		26,663.50
1993/94	51,570.80	17,035.40		34,535.40
1994/95	63,679.50	19,615.90		44,063.60
1995/96	74,454.50	24,398.60		50,055.90
1996/97	93,553.40	24,853.30		68,700.10
1997/98	89,002.00	27,331.00		61,671.00
1998/99	87,525.30	32,119.70		55,405.60
1999/00	108,504.90	39,660.10		68,844.80
2000/01	115,687.20	54,700.90		60,981.30
2001/02	107,389.00	56,622.10		50,766.90
2002/03	124,352.10	70,924.20		53,427.90
2003/04	136,277.10	78,739.50		57,537.60
2004/05	149,473.60	88,675.50		60,798.10
2005/06	173,780.30	107,143.10		66,637.20
2006/07	194,694.60	115,872.30		78,822.30
2007/08	221,937.70	142,376.50		79,561.20
2008/09	284,469.60	162,437.60		122,032.00
2009/10	374,335.20	217,114.30		157,220.90
2010/11	396,175.50	261,925.20		134,250.30
2011/12	461,667.70	299,389.60		162,278.10
2012/13	556,740.30	367,031.20	62,451.20	127,257.70
2013/14	714,365.80	477,947.00	73,318.60	163,100.20
2014/15[R]	774,684.20	491,655.90	100,166.40	182,861.90

Source: Quarterly economics Bulletin

Similarly Import of Nepal was concentrated other countries in 1990/91 in that year, share of import from other countries was around 68.5% and remaining import was made from India. After that share of Import from India has increased and reached to 63.5% in 2014/15. Trade with china was started from 2013/14 in 2012/13 around 11% of Import was made from china which decreased to 10% in 2013/14 and reached almost 13% in 2014/15.

5.3 Trade Balance of Nepal with India

Balance of trade is difference between the value of commodity exported and imported. If the difference between export and import is positives, there is surplus in trade balance and vice versa. If a country having surplus in the balance of trade, the prospect of economics development of that country will certainly be higher. The opposite case is true if there is trade deficit. Thus, trade deficit adversely affected the economic development of a nation. Study of Nepal –India trade in the period between 1990/91 -2014/15,expounds that trade deficit is mounting through exports to India is increasing significantly in recent years ,as a result Nepalese economy has been plagued by the huge trade deficit. The BOT of Nepal with India is shown on the table below.

Table 5.5

Trade Balance of Nepal with India

(Inmillion)

Fiscal Year	Export to India (FOB)	Import form India (C.I.F)	Trade GAP with India
1990/91	1,552.20	7,323.10	-5,770.90
1991/92	1,450.00	11,245.50	-9,795.50
1992/93	1,621.70	12,542.10	-10,920.40
1993/94	2,408.90	17,035.40	-14,626.50
1994/95	3,124.30	19,615.90	-16,491.60
1995/96	3,682.60	24,398.60	-20,716.00
1996/97	5,226.20	24,853.30	-19,627.10
1997/98	8,794.40	27,331.00	-18,536.60
1998/99	12,530.70	32,119.70	-19,589.00
1999/00	21,220.70	39,660.10	-18,439.40
2000/01**	26,030.20	54,700.90	-28,670.70
2001/02	27,956.20	56,622.10	-28,665.90
2002/03	26,430.00	70,924.20	-44,494.20
2003/04	30,777.10	78,739.50	-47,962.40
2004/05	38,916.90	88,675.50	-49,758.60
2005/06	40,714.70	107,143.10	-66,428.40
2006/07	41,728.80	115,872.30	-74,143.50
2007/08	38,555.70	142,376.50	-103,820.80
2008/09	41,005.90	162,437.60	-121,431.70
2009/10	39,993.70	217,114.30	-177,120.60
2010/11	43,360.40	261,925.20	-218,564.80
2011/12	49,616.30	299,389.60	-249,773.30
2012/13	51,000.00	367,031.20	-316,031.20
2013/14	59,613.70	477,947.00	-418,333.30
2014/15^{R}	55,864.60	491,655.90	-435,791.30

Source: Quarterly economics Bulletin

The above the table 5.5 shows that Nepal has been suffering from unfavorable balance of trade with India. The very cause of that deficit balance of trade is dominance of imports over exports. In the fiscal year 1990/91, Nepal's trade balance with India was Rs 5770, millions .The volume of total trade deficit with India continuously increased up to the fiscal year 1995/96 from the initial period of our study. It showed fluctuating trend up to the fiscal year 2000/2001 from 1995/96 and then again increase rapidly up to the fiscal year 2o14/15.it has come to be-35791.0 million.

It is true that India is the key partner from Nepal's perspective in trading relationship so that in succeeding period of our study. The major contribution factors for that are:

narrow base of exportable production ,infants industrial situation ,low quality and high cost product, agro and forest based exportable commodities,landlocked situation, high transit and transportation cost, weak diversification, lack of sound strategic policy for foreign trade etc.

Table 5.6

Ratio of Export Import Total Trade and Trade Deficit with GDP

Indicators		**Fiscal Year**								
	Units	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Export/GDP	*In %*	8.2	7.3	6.9	5.1	4.7	4.9	4.5	4.7	4
Import/GDP	*In %*	26.8	27.2	28.8	31.4	29	30.2	32.8	36.4	36.5
Total Trade/GDP	*In %*	34.9	34.5	35.6	36.5	33.7	35.1	37.3	41	40.6
Trade Deficit/GDP	*In %*	18.6	19.9	21.9	26.3	24.3	25.3	28.3	31.7	32.5

Source: Economy survey by Ministry of finance

Total Trade of Nepal has remain in line of 30 to 40% of Total GDP over period of study taken for analysis of ratio of Total Trade, Export, Import and Trade Gap with Total GDP of country. Ratio of total trade to GDP was 34.9% in 2006/07 and has reached to 41% in 2013/14 and decreased to 40.6 % in 2014/15. Less manufacturing activities in country, agro base products etc. are reason behind high Total trade to GDP ratio.

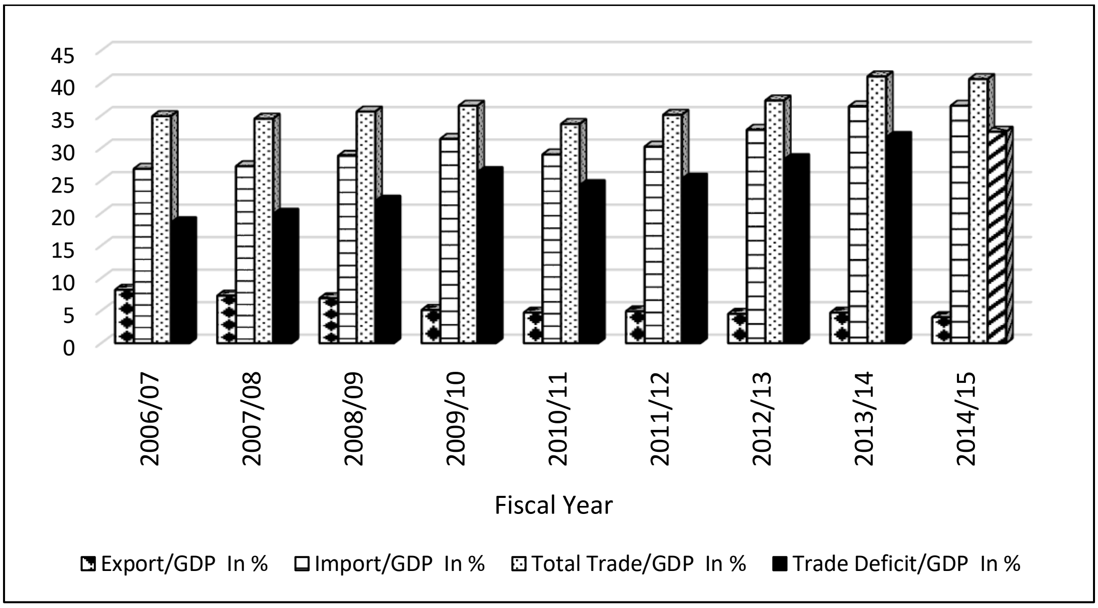
Ratio of Total Export to GDP is very low in Nepal and it is decreasing over year of study, which was 8.2% in 2006/07 and decreased to 4% in 2014/15. This shows contribution of Export to total GDP is very minimum.Ratio of Total Import to GDP has remained in line of 26-36% over period of study. It was 26.8% in 2006/07 and 36.5% in 2014/15.There is increase in ratio over period. This shows 36% of Total GDP of 2014/15 was spent in import made by Nepal.

Above date shows that Trade deficit of Nepal is in increasing trend, Ratio of Trade deficit to GDP was 18.6% in 2006/07 and reached to 32.5% in 2014/15. This implies that out 32.5% of total GDP of 2014/15 was Net loss suffer due to Excessive import over Export. This has adverse effect on economy.

The above data is presented below in graphical form for easy understanding.

Figure 5.2

Ratio of Export Import Total Trade and Trade Deficit with GDP



5.4Composition of Nepal's export to India

In these days structure of trade between Nepal and India have been changed. Agro-based and forest based primary commodities constituted principle export to India in the past but at present manufactured products have replaced them.

Code:

0 = Food and Live animals

1 = Tobacco and Beverage

2 = Crude Materials, Inedible Except Fuels

3 = Mineral Fuels and Lubricants

4 = Animal and Vegetable Oil Fats

5 = Chemicals and Drugs

6 = Manufactured Goods Classifies Mainly by Materials

7 = Machinery and Transport Equipment

8 = Miscellaneous Manufactured Articles

9 = Commodity and Transactions not Classified According to kind

Table 5.7

Eexport to India Classified by Major Commodity Groups

(In millions)

Fiscal Year	Total	0	1	2	3	4	5	6	7	8	9
1990/91	1,552.20	789.1	2.6	212.1	0	185.9	7.5	339.1	0	15.9	0
1991/92	1,450.00	761.6	1.8	287.5	0	114.5	9.7	246.8	0	28.1	0
1992/93	1,621.70	754.7	5.5	326.9	0	169.6	15.4	317.2	0.9	30.1	1.4
1993/94	2,408.90	925.9	4.1	291.6	0	133.5	202.4	817.9	0.1	33.2	0.2
1994/95	3,124.30	1,315.20	2.8	388.7	0	210.6	256	904.9	2.5	43.6	0
1995/96	3,682.60	1,267.80	1.9	336.5	1.3	137.9	618.1	1,236.10	26.4	56.6	0
1996/97	5,226.20	1,750.80	1.7	381.1	1.4	153.4	1,333.00	1,521.50	11.2	71.6	0.5
1997/98	8,794.40	1,704.20	19.7	329.2	20.6	1,979.40	1,950.60	2,549.40	4.4	236.9	0
1998/99	12,530.70	2,040.50	43.7	353.9	0.5	3,373.00	2,780.30	3,248.00	23.6	667.2	0
1999/00	21,220.70	3,726.20	103.2	498.4	2.2	2,931.40	3,882.00	5,577.70	176.1	4,323.50	0
2000/01	26,030.20	3,992.40	66.7	709.6	1.3	3,931.40	3,995.10	8,907.30	197.8	4,228.60	0
2001/02	27,956.20	4,542.40	141.4	560.2	1.2	7,211.70	3,234.20	9,971.00	314.6	1,979.50	0
2002/03	26,430.00	4,672.30	106.6	682.2	5.2	4,053.20	3,174.10	11,387.70	118.5	2,225.70	4.5
2003/04	30,777.10	4,595.50	42.3	576.5	14.5	3,206.40	3,624.50	16,228.90	219.1	2,262.50	6.9
2004/05	38,916.90	5,389.30	26.5	736.6	3.9	4,858.80	3,577.70	21,353.10	85.7	2,876.20	9.1
2005/06	40,714.70	6,306.70	14.3	1,163.30	0.5	4,145.70	3,564.70	21,928.30	111	3,477.70	2.5
2006/07	41,728.80	5,944.30	12	1,291.60	0	4,337.20	3,977.40	23,763.40	185.7	2,217.20	0
2007/08	38,555.70	7,617.40	10.7	1,181.40	0	2,023.60	2,696.30	22,942.20	300.4	1,783.70	0
2008/09	41,005.90	10,151.10	329.5	1,494.60	40.6	319.6	2,990.80	20,976.00	490.6	4,213.10	0
2009/10	39,993.70	8,591.60	0	2,103.30	0	205.5	1,648.50	25,445.60	528.1	1,471.10	0
2010/11	43,360.40	10,104.50	0	1,509.00	0	310.4	2,673.70	26,396.90	359.4	2,006.30	0.2
2011/12	49,616.30	12,002.70	25.6	1,858.00	0	247.2	2,725.80	29,693.40	193.3	2,868.40	1.9
2012/13	51,000.00	12,901.70	0.02	2,030.90	0	134	3,598.90	28,858.10	197.6	3,278.60	0.2
2013/14	59,613.70	17,698.80	1.6	3,299.90	0	242.8	4,335.20	30,272.00	271.9	3,491.50	0
2014/15	55,864.60	17,078.60	261.1	1,619.70	0.1	108.9	4,571.20	28,186.50	248.7	3,789.80	0

Source: Quarterly economics Bulletin

As the table shows the Nepal's export to India according to SITC categories, the major part is covered by the food and live animals. In the year 1990-91, exported amount was Rs.789.1. in the remaining two years, it declined and later then started to increase. Significant increase can be realized after the fiscal year 1999/00. The share has come to be Rs.17078.6 million in the fiscal year 2014/15. Tobacco and beverages shows the fluctuating nature in prevailing its share to the total export to India. The highest contribution of such groups was in the year 2008/09, at that time it was Rs.329.5 million which has come to become Rs.261.1 million in the fiscal year 2014/15.

Similarly, export of crude materials, Inedible except fuels classified on group 2, shows increasing tendency up to the fiscal year 1992/93 and till then there is ups and down. But UN the fiscal year 2014/15, it is amounted to Rs. 1619.7 million, which was Rs.212.1 million is the years 1990/91. The situation of export of the mineral fuels and lubricants is vulnerable except in the fiscal year 1997/98 with the amount Rs.40.6 of our analysis (1990/91) and has come to be Rs.0.1 million in the fiscal year 2005/06. The share of group 4 (Animals and Vegetable Oil and Facts) seems quite low up to 1996/97. As shown by the table, Indo-Nepal trade and transit treaty was the door to enter on export for group 4 and group 5 (chemicals and drugs). Share of both items is Rs.108.9 million and Rs.4571.2 million respectively against the lowest share in the year 1996/97 Rs. 153.4 million and Rs.1333.0 million respectively.

Manufactured goods mainly by materials under group 6 show the steady growth. The share in the fiscal year 1990/91 wasnRs.339.1 million and it has come to be 28186.50 In the fiscal year 2014/15. There is drastic change in between the time period after and before 1996/97. Export under the group seven has increased only after 1992/93, before that it was nil. The share is very high in the fiscal year 2001/02, which comes to be Rs.111.0 million against Rs. 314.6 million in the year of 2001/02. The export share of miscellaneous manufactured articles was increasing up to the year 1999/00 and become high at that period reaching Rs.4323.5 million from Rs.15.9 million in the fiscal year 1990/91. The share was started to declining after the same year of 1999/00 up to 2004/05 and again increased in the fiscal year 2005/06.

Export of commodity and transactions not classified according to the kind is negligible especially in all years. It is Rs.9.1 million and 10.4 million in 2004/05 and 2005/06 against 0 in the starting year of our analysis.

5.5 Composition of Nepal's Import from India

The composition of Nepal's import from India explicitly shows an increasing tendency ring the fiscal year 1990/91 – 2005/06. In 1990/91 the import share of food and live animalswas Rs.1496.8 million, it went on increasing up to the fiscal year 1993/94 and there was fluctuating tendency up to the 1998/99. The highest import share was in the 1990/00 i.e., Rs.6975.8 before 2005/06. In declined till then and in the fiscal year 2005/06, it has come to be Rs.76664.70 million. From the fiscal year 1990/91 – 2005/06, the import of tobacco and beverage show almost same trend. In the initial year, it was Rs.254.4 million and it is 823.7 million in the 2005/06 but it went on increasing up to the fiscal year 2008/09.

Code:

0 = Food and Live animals

1 = Tobacco and Beverage

2 = Crude Materials, Inedible Except Fuels

3 = Mineral Fuels and Lubricants

4 = Animal and Vegetable Oil Fats

5 = Chemicals and Drugs

6 = Manufactured Goods Classifies Mainly by Materials

7 = Machinery and Transport Equipment

8 = Miscellaneous Manufactured Articles

9 = Commodity and Transactions not Classified According to kind

Table 5.8

Imports from India Classified by Major Commodity Groups

(in Million)

Fiscal Year	Total	0	1	2	3	4	5	6	7	8	9
1990/91	,323.10	1,496.80	54.40	78.40	210.10	1.60	1,280.00	1,948.90	1,629.50	322.10	1.30
1991/92	11,245.50	2,429.90	78.30	55.10	21.30	0.90	1,891.50	3,298.30	2,251.10	18.60	.50
1992/93	12,542.10	2,537.60	443.60	393.00	356.60	3.60	1,912.60	3,966.50	2,284.10	637.30	7.20
1993/94	17,035.40	3,044.90	340.50	395.70	435.00	9.20	2,476.90	5,928.50	3,598.00	805.10	1.60
1994/95	19,615.90	2,834.00	468.80	638.50	379.90	11.40	2,874.40	7,374.40	4,240.10	791.10	3.30
1995/96	24,398.60	3,265.70	437.70	889.50	436.70	51.40	3,540.60	9,472.60	5,301.60	1,001.80	1.00
1996/97	24,853.30	3,658.10	536.80	701.10	499.10	91.50	4,077.00	8,962.20	5,053.70	1,271.20	2.60
1997/98	27,331.00	3,364.80	677.20	1,020.70	479.60	12.00	5,279.50	9,919.60	5,154.20	1,369.00	54.40
1998/99	32,119.70	5,510.00	658.00	1,369.90	513.10	40.00	5,502.00	10,482.10	6,663.50	1,380.70	0.40
1999/00	39,660.10	6,975.80	642.50	1,535.90	778.50	84.00	6,287.70	14,032.40	7,006.10	2,317.10	0.10
2000/01	54,700.90	4,412.30	630.10	2,375.50	10,854.40	418.20	6,628.00	18,089.80	8,686.50	2,605.30	0.80
2001/02	56,622.10	4,989.10	619.30	3,010.60	14,761.90	23.00	5,129.70	18,746.40	7,527.40	1,768.20	46.50
2002/03	70,924.20	6,598.10	600.10	4,297.50	19,605.70	55.40	6,786.90	22,499.60	8,444.80	2,035.10	1.00
2003/04	78,739.50	6,357.90	737.90	4,628.40	21,593.60	107.90	8,083.80	22,807.50	11,923.80	2,156.30	342.40
2004/05	88,675.50	6,750.10	687.50	4,670.40	29,551.30	64.40	10,479.40	22,652.00	11,073.80	2,714.80	31.80
2005/06	107,143.10	10,108.80	724.50	5,437.60	35,665.30	152.60	13,520.80	25,487.40	11,974.00	4,072.10	-
2006/07	115,872.30	8,220.40	712.60	4,764.60	35,612.60	65.60	14,647.70	29,627.50	18,513.30	3,708.00	-
2007/08	142,376.50	9,757.00	877.10	4,700.40	43,146.40	229.70	15,356.40	40,950.90	23,064.80	4,219.70	74.10
2008/09	162,437.60	12,335.30	1,342.30	8,469.90	43,957.20	35.70	14,877.70	40,018.10	33,225.50	8,068.60	107.30
2009/10	217,114.30	15,850.90	2,370.30	14,271.80	54,391.10	301.10	22,167.40	52,454.90	43,791.60	11,477.20	38.00
2010/11	261,925.20	22,175.00	2,135.60	15,772.40	78,986.60	-	25,706.10	58,278.50	42,808.60	15,948.00	114.40
2011/12	299,389.60	30,061.90	2,363.80	14,481.70	100,384.90	8.40	29,626.60	65,361.20	39,120.80	17,842.50	137.80
2012/13	367,031.20	46,541.10	2,583.30	15,051.90	115,320.70	132.60	42,753.50	78,412.70	55,690.20	10,545.10	-
2013/14	477,947.00	65,436.20	2,856.80	22,285.50	142,064.20	437.40	55,028.20	103,884.10	68,781.00	17,173.70	-
2014/15	491,655.90	75,664.70	2,907.30	17,426.10	117,329.70	682.70	56,575.70	116,650.00	87,593.00	16,826.70	-

Source: NRB, Quarterly Economic Bulletin

As shown on the above table 5.8, the import of crude materials, Inedible expect fuels up to 1996/97 is comparatively low, in the year 1990/91, it was Rs.178.4 million and Rs.701.1 million in the 1996/97. After that it has become significant stride and come to reach Rs.17426.1 million in the fiscal year 2014/15. Import share of minerals fuels and lubricants (group 3) in the fiscal year 1990/91 was Rs.210.1 million, it has shown increasing trend up to 3 years later and decreased for one year and again started to increase in the remaining year. Significant increase can be realized only after 2001. In the fiscal year 1990/91 it was Rs.778.5 million, and it became Rs.10, 854.4 million in the year 2000/01. In the current year of 2005/06 share of group 3 is Rs.117329.7 million. The import of group 4 has increased continuously up to 1996/97 and since then it has shown sharp fluctuation. The highest share was Rs.682.7 million in the fiscal year 2014/15. Imports of chemicals and drugs increased continuously up to the 2000/01, reaching Rs.6628.0 million in the fiscal year 2000/01 from Rs.1280.0 million in the fiscal year 1990/91. It decreased in the 2001/02, and again increased and reached Rs.56575.70 million in the fiscal year 2014/15. This group is contributing items in the import from India.

The import of commodities under group 6 fell down from Rs.9742.6 million in 1995/96 to Rs.8962.2 million in 1996/97, but after that there has been growing trend up to the 2008/09. In the same way imports of machinery and transport equipment increased constantly except one year in 2001/02, at that period it has decreased form Rs.8686.5 million in the fiscal year 2001/02 to Rs.7527.4 million in 2002/03. Imports of miscellaneous manufactured articles show the constant growth up to 2001/02 and decreased comparatively. There is extreme increase from the year 2004/05 to 2005/06, reaching Rs.2714.8 million to Rs.4241.4 million. The import of commodities under the group nine from India shows a fluctuating during the study years.

5.6Determinant of Trade Nepal with India

The concept of "globalization" has recently been the subject of considerable attention in both academic and policy circles. This phenomenon broadly refers to the increasing integration of the world economy through financial and trade flows. As economies become more open to international trade, the transmission and propagation of economic fluctuations through trade links has assumed increased importance. An analysis of the cyclical dynamics of international trade therefore has implications in a number of different dimensions, including macroeconomic forecasting, short-run policymaking, and international policy coordination.

Here the significant determinants affecting trade competitiveness with India.

Exchange Rate-Flow of curries is huge between the trading countries, along with increase in foreign trade there will be another risk attached to it i.e. foreign exchange exposure, which may result in loss because of change in exchange rate. Therefore country prefer to trade with those countries whose Fluctuation of exchange rate is very low ,because transaction with countries whose exchange rate fluctuate day to day basis may affect the economic stability of the country.

In Nepal, both the Nepali and Indian rupees were legal tender until 1956. Each day the exchange rate between the two currencies used to be determined by the private money changers on the basis of demand and supply. Sufficiency of Indian rupees or their lack resulted in the swings in exchange rates. However, the change in the exchange rate on a day-to-day basis was an irritant for the people. Quite often, it affected trade and other economic activities between the two countries.

Therefore, as soon as the Nepal Rastra Bank, the central bank of the country, was established in 1956, it began to work towards making the Nepali rupee the sole legal tender and tried to do away with the existing dual-currency system in Nepal. Accordingly, the dual currency system was abolished under Nepal Currency Circulation and Expansion Act of 1957. A new single currency regime was established under which the Nepal Rastra Bank pegged the Nepali rupee to the Indian rupee and fixed the exchange rate at 160 Nepali rupees for Indian 100 rupees. Such a provision entailed that the Nepal Rastra Bank could buy and sell any amount of Indian rupees at the given exchange rate. Therefore many exchange counters were opened in different parts of the country to provide this service. Also, the banking institutions in Nepal were authorised to facilitate the exchange of these currencies at the fixed exchange rate.

Significantly, on June 6, 1966, the Indian government substantially devalued its currency. Nepal on its part had to do little as the Nepali rupee had already been pegged to the Indian rupee. But the end result was that the Nepali currency automatically appreciated vis-à-vis the Indian currency on account of the pegging factor. As such, the new exchange rate between the two currencies was established at Nepali rupees 101 equivalent to Indian rupees 100.

The last adjustment that was made between the two currencies was on February 1, 1993, when the earlier exchange rate of Nepali rupees 160 equivalent to Indian rupees 100 was revived. Thus, for quite a long time the exchange rate between the Nepali and Indian rupees has been largely the same, despite the fact that the Foreign Exchange Regulation Act 1962 allowed the convertibility of Nepali rupees with all other currencies.

Also as per the trade theory, we know that currency depreciation make Indian machine tools cheaper relative to its competitor in the world market. This will raise demand for India's product resulting increased exports, ceteris paribus. Therefore, a depreciation of rupee relative to its competitors is expected to increase the competitiveness of Indian machine tools in the foreign market

Therefore exchange rate between Nepal and India play important role in determining trade with India however because of the fixed exchange rate regime, it is extremely difficult to determine the response of export and import to the exchange rate.

Income level- Income of country play an important role in determining Trade relation of country with other countries. Trade of Countries with High Income will be scattered, whereas in case of low income countries Trade will be highly concentrated to particular country or zone, because country with High Income has good International Bargaining capacity and select trade parties accordingly. However low income countries don't have good international bargaining capacity and has to compromise and have dependent trade relation. Also Demand, supply and quality production of countries differ base on their income capacity. Countries with high income demand, supply and produce high quality products whereas sane will not be case in countries with low income.

Nepal being developing countries with low economic growth have low level of income. Therefore Nepal don't have good international bargaining capacity. Further, even though India has highly growing economy per capita income of India is low compare to other European and American countries, Therefore demand, quality of production and supply of India is similar to demand, quality of production and supply of Nepal.

Low bargaining power of Nepal due to low income and similarity in production and demand scenario of both countries is another factor which contribute to increase trade of Nepal with India.

S.No	Name of Country	Amounts(U.S.D)
1.	Nepal	689.50
2.	India	1,750.00
3.	China	6,497.50
4.	Japan	44,656.80
5.	U.S.A	51,638.10
6.	U.K	41,187.68
7.	France	41,533.87
8.	Germany	45,408.31

Details of precipitate Income of Nepal and some of trading partners is given below.

www.tradingeconomics.com (data of Dec 2015)

Among the Trading partner of Nepal India is having minimum Precipitate Income. Therefore similar Income level has role in Nepal's trade concentration with India.

Price Level- If the other nation's products sell at a lower price than domestic products, consumers will increase their demand for imports.

Slow industrial growth of the country ,High Labor cost, lack of raw materials, energy crisis, etc. make cost /price of product high in Nepal. Whereas cost of production in low in India as compare to Nepal. Also low transportation cost of Indian product make Indian product cheaper that imported similar goods from other countries.

Price level of products is another determinant of foreign trade and low price of products in India a compare to in Nepal has contributed in increase in trade of Nepal with India.

Wages- The lower is real wage it pays, the greater is the firm's competitive advantage, which is expected to result in higher volume of exports. Thus national comparative advantage from the relative abundance of labor endowments provides cost competitiveness for firms at micro-level. India has a relatively abundant endowment of labor. However it is not just the low real wage that leads to comparative cost advantage, but low real wage in relation to productivity of that labor which determines the export performance. This determinant has been captured by the variable quality of labor. Thus the total wage bill or more precisely the share of wages is expected to have, ceteris paribus, a negative association with the export performance. Wage share has been taken as a percentage of sales.

Energy intensity- Energy-intensity, measured in terms of power and fuel expenditure as a proportion of sale, is another important factor that may influence trade performance. A positive relationship between export and energy-intensity can be expected if an industry 111with higher energy intensity is deemed more productive and hence competitive in the foreign markets. On the other hand as a cost it would adversely affect sales but only exports sales.

Policy factors- supply capability is directly related to the policy regime prevailing in the country. We expect that trade liberalization will help domestic machine tool manufactures to expand their scale and provide an incentive system for better export.

Impact of Inflation- If a country's inflation rate increases relative to the countries with which it trades, its current account will be expected to decrease, other things being equal. Consumers and corporations in that country will most likely purchase more goods oversees (due to high local inflation), while the country's exports to other countries will decline.

Sunk Cost-One focus of the exiting literature on the decision to export has been the role of sunk costs. These are costs associated with entering foreign markets that may have the character of being sunk (i.e. once incurred cannot be recovered) in nature. These include the cost of collecting information about demand conditions abroad or cost of establishing a distribution system and service network and cover also the costs of launching product or brand advertising. Potential Firms can enter the export market by paying a fixed entry cost, which is thereafter sunk. A firm may continue to export, rather than exit from exporting even though it is currently unprofitable to do so because profits may become positive in the future and it has already incurred an entry cost which is sunk.

Impact of National Income- If a country's national income increases by higher percentage than those of other countries, its current account is expected to decrease, other things being equal. As the real income level (adjusted for inflation) rises, so it leads to increase the consumption of goods and services. A percentage of that increase in consumption will most likely reflect an increased demand for foreign goods and services.

Subsidies for Exporter- Some governments offer subsidies to their domestic firm, so that those firms can produce products at lower cost than their global competitors. Thus the demand for exports produced by those firms is higher as a result of subsidies.

Many firms in china commonly receive free loan or free land from the government. These firms incur a lower cost of operations and are able to price their products lower as a result, which enables them to capture a large share of global market.

Foreign ownership- Foreign ownership is another determinant that differs greatly between exporters and non-exporters. Thus the degree of foreign owned companies in the population of exporters is high and is expected to be positively related to exporting.

5.7Problems and Prospectus of Nepal-India Trade

Background

Because of its geography, history, cultural and tradition, India has remained Nepal's major trade partner. There is wide scope for trade exposing between Nepal and India because of the geographical proximity both countries can export and import goods required by each other at minimum cost. However, there persist many ups and down in trade flow and structure. For the diversification of trade, desired goal cannot be achieved without smooth operation of traffic in transit. During the operation of this, Nepal is facing many practical problem from initial stage .So, problem related to trade with India are generally of two kind, one legal and next is illegal with the singing of trade treaty in 1996.Much of the problem seemed to resolve. On the other, as common boarder of Nepal and India is open it is highly vulnerable for illegal movement of goods and persons of big economy (India) to small economy Nepal.

The trade relationship with India is very important for Nepal. If it can be operated smoothly, it can help to diversify trade and bring prosperity to Nepal. So, that there are number of prospectus of Indo-Nepal trade which would have positive effect on Nepal's rapid economic development. It is true to say that Nepal's bilateral trade with India creates the market for Nepal's production and helps to diversify Nepal's foreign trade.

5.7.1Problems of Trade with India

There is nothing as such that trade relation with India offers Nepal on a golden plate. It has been thwarted by many problems, which are as follows:

Landlockedness

The very nature of its geographical location i.e., landlockedness makes her aptly handicapped and her trade with India substantially unequal. It is the main bottleneck in expanding Nepal's foreign trade. Everything Nepal wants to export must be routed through India. Nepal also has to face transportation problem such as shortage of railways while importing goods from India. Because of this, sometimes there is considerable delay in getting Indian goods in Nepal, which immediately affects in price level of the country.

There has not yet been any remarkable change in such geographical structure of trade. Therefore, it is not surprising that Nepal is exporting such commodities, which are deficient in her other areas.

Inadequate Market

The major problems for unfavorable balance of trade of Nepal can be located are not finding proper market for Nepalese manufactured goods in the Indian market for Nepalese manufactured goods in the Indian market. There could be various reasons in this respect. The prominent factors may include in business team inability to complete in Indian market on the grounds of quality, price, supply, capacity, etc. In trade terms, it could be quantitative restrictions, product disqualification, etc. It is to be understood that unless sizeable export of manufactured products do not find market; the proportionate to the trade balance cannot be reduced. Therefore proper segment in the market for Nepalese manufactured goods can be seen as one of the major problems.

Problems of Informal Trade

As common border of Nepal and India is open, it is highly vulnerable for illegal movement of goods and persons. Due to the open border, it is frequently reported that goods and imported and exported through unofficial 51 transit points. Smuggling has been major stumbling block in the area of Indo-Nepal trade because it is felt that smuggling between two countries is increasing. Though there is no precise estimate of its volume, it constitutes large volume. Due to illegal inflow of goods, Nepalese industries could not compete in the market causing the Nepalese industries in the verge of collapse. Undoubtedly, the unofficial trade affects the government revenue of both countries. Even with the many agreement to control unauthorized trade between two countries, it is not effectively solved the problem. Thus, informal trade is a major problem of these two countries.

Trade Diversification

A very important problem, which we would like to highlight for action is the problem of diversification. The need for changes in the existing order of Indo-Nepal trade seems to be somewhat obvious form the point that both of these countries are making impressive strides in exports and they are also trying to be self-sufficient at the home front. This means that both these countries have wider vision of exports mainly those items, which are in demand in the outside markets.

The recent trends in Indo-Nepalese trade show that still these countries are trading in traditional commodities in which they have comparative cost advantage. Hence, trade diversification in both commodity wise and country wise is the main problem of Nepal.

Problems Related to Transit

As India is practically single transit country for Nepal, the problems related to it are mostly with India. It means that Nepal has to deal with transit difficulties with India. Landlocked states are geographically at a disadvantage in comparison to the coastal states for they are bereft of an important means of communication i.e., the sea routes, which are important for foreign trade. Consequently, such states as Nepal are generally backward. The lack of territorial access to the sea compounded by remoteness and isolation from world markets is a major cause of their development. No nation today can live in isolation. Trade routes today are the lifeline of a nation. Our country is deprived of such facility, where transport cost is very high (Indu, B 2001).

G.M. Pradhan (1990) has identified some problems in his book transit of landlocked country and Nepal. He points out: Inadequate infrastructure facilities, difficulties to transit facility, the rail transit, insurance policy, etc.

Production Bottlenecks

It has been seen that although there is a demand for the items to be traded in both the countries, producers do find it difficult to meet much demands. Both countries fail to promptly supply the orders. The compliant pertains to production bottlenecks. A joint committee may be set up to look after the prompt supply of quality products at the agreed prices.

Foreign Economic Policy Constraints

Nepal has not been able to Chalk out an independent policy depicting its economic aspirations. The Nepalese official exchange rate with dollar is basically determined by India. In another words, Nepal is in the unique situation of keeping an artificial exchange rate with the dollar area in order to have an equilibrium with the Indian rupee. It is therefore a serious constraint.

Lack of Understanding and Good Faith

For the smooth and continuous trade flows, a certain degree of good faith and understanding is needed. It depends upon the mutual co-operations. In the bilateral trade relation between Nepal and India there is lack of such things. So, the good trade relationship between these nations has been played by such problem.

Frequent Revision in Duties and Rules

It is notable thing that market structure is in uncertainty. It is affected by many non-market variables. Rule and regulation related to export and import duties etc. also play vital role in the foreign trade. It has been frequently noted that the rules, procedures and duties are revised through the government budget. Also the provisions of trade and transit treaties have been changed between two parties. Such types of regular medications create confusion among the business communities. As we have seen that the treaty 1996 has removed the obstacles in the former treaty signed in 1991 for five years. It did not permit Nepalese products with less than 50% raw materials to enter India. Our export to India therefore was negligible.

After the 1996 Treaty, Nepalese products could enter India free of custom duty and quantitative restriction. The removal of 50% of Nepalese raw materials was an important aspect of the treaty. It led to establishment of many big industries keeping the Indian market in view. But as the renewal of this treaty 2002, with enough provision for a new item, export of three items has decreased sharply in recent years. Therefore, trade is also governed to a large extent by trade regulations and related administrative procedures.

5.7.2Prospects

Nepal and India are the same in many respects even though India is relatively more developed country. She has been endowed with much wider and richer resource base and has already made a significant stride in infrastructural, scientific and industrial development. It is doubtlessly a big power in the region because of its size, military set up and political system. In relation to the size of country and its resource endowments, foreign trade will continue to be very important in the Nepalese economy, where there are various natural resource such as water especially of hydroelectricity, mines, mineral and gorgeous flora and fauna to augment tourism sector. But due to lack of capital and skill manpower of the country is facing the emerging problem of capital deficiency and unemployment. Even having enough resources, the country is in critical phase of low equilibrium trap. There is scope for rapid development, which is possible with the mutual co-operation with India. Both country can be each other's market. Even though Nepal need India's co-operation at a large scale in future for sustaining development activities. In this respect, India could play a significant role in accelerating the pace of economic development. Both countries can share mutual benefits by investing in the potential areas, which in turn becomes the means of cooperation. These are as follows:

Hydro Resources

Nepal has a relative abundance of fresh water, which gives rise to its comparative advantage in hydroelectricity. The country has 83000 M.W. hydropower potentiality out of which 42000 M.W. could be economically viable. But until the end of fiscal year 2005/06, only 556.08 M.W. has been exploited, which comes to be 0.67% of total economic viability (Economic Survey 2005/06).

The generation of hydroelectricity can be seen most vital not only to cope with the rising trend in electricity demand but also for the extra demand resulting from the substitution of fossil fuels that may be demanded necessary. Hydro resources is the most important exportable commodity and India is the market for it generation of electricity thus can become the engine of economic growth by promoting cheap electricity input which can provide the basis of competitive manufacturing industries for cheap manufactured exports. Thus, Nepal's electricity has been called white gold with the connotation that Nepal can easily became wealthy as some of oil and mineral rich countries of the Middle East and Africa.

Hence hydroelectricity can be attractive for foreign investment. And by exporting more hydro resources to India, out BOP will be improved.

Tourism

The prospect for tourism is enormous in Nepal, where she has comparative advantage. Nepal is blessed by nature with her beautiful flora and fauna, various lakes, rivers and mountains, which are very important for tourism. So, Nepal a dreamland for tourists is filled up with wonderful natural beauty. Tourism sector has emerged as one of the dynamic and promising sector in the country providing employment opportunities and income generation. It is thus the pertinent sector that could give the new lease of life to the Nepalese economy. This sector provides room for economic cooperation in a number of areas like tourism infrastructure, hotels and resorts and amusement center, etc. investment in these areas offers very promising prospects for profitable investment. As India is the neighboring country, could also gain the benefits from tourism development in Nepal.

Education

Skillful and educated manpower is the demand of today in respective field and areas. India is extending cooperation in the education and training since long back. Both countries can share the technical knowledge and professional talents in both academic pursuits and technical specialization. From that, these countries would have win-win benefit.

Mineral Exploitation

Study has shown that Nepal possess various types of mineral and mines. Exploitation of such hoarded resources need immense level of capital and investment. Due to lack of skilled manpower and sufficient capital these resources have not yet been exploited. With the good cooperation with India these resources could be harnessed so that it can offer the prospects for cooperation and investment.

Information and Communication Technology

Information and communication technology is the backbone of development. India has already moved in the advance stage in the ICT development, particularly in software development. The demand for ICT is likely to increase in future as well. Thus, this has been one of the prominent services trades having potential of high value addition. A couple of joint venture in this sector has already emerged. In view of comparative cheap labor and growing demand for information technology, this sector offers a wide scope to go hand in hand to serve common interest.

Nepal-India Joint venture Initiatives through FDI

Joint venture is defined as the form of association, increasing commercial and industrial collaboration in which two countries share responsibilities for the operation of a company by providing a risk capital.

Nepal offers good prospects for joint venture projects for Indian entrepreneurs. The number of joint venture is increasing in Nepal as a consequences of the policy change in the pattern of investment and ownership of project in this respect, the trade treaty with India, close economic linkage between the two countries have manifested themselves through Indian investment and joint ventures in Nepal, of which over 100 are operational, with a cumulative total Indian investment lying between 36 to 40% of total foreign direct investment in Nepal. A number of Indian companies, including Dabur Hindustan Lever, Colgate have established their manufacturing base in Nepal with the objective to export their finished products to India.

Hence, joint venture between both countries signifies a healthy development in the Indo- Nepal economic cooperation.

CHAPTER VI

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

6.1Summary of Analysis

Foreign trade is considered as an essential factor for accelerating the path of economic development. Most countries are involved into foreign trade to create employment, raise propensity to save, increase foreign exchange earnings, and raise the productivity of investment moving from less productive use to high productive use. Because of the benefits of openness, it is settled as the integral part of every country. For developing countries, trade is the primary vehicle for realizing the benefits of globalization. Import brings additional competition and variety of domestic markets benefiting the consumers.

Benefiting business, foreign trade gives firms access to improved capital inputs such as machine, tools, boosting productivity as well. Foreign trade encourages the redistribution of labor and capital to relatively more productive sectors. In particular, it has contributed to the ongoing shift of some manufacturing and service activities from industrial to developing countries providing new opportunities for growth.

Nepalese foreign trade performance has so far been poor. Several factors seem to be responsible, and of these, its landlockedness is one of the major causes for Nepal's weak production base, which is eventually linked with the growth of exports and imports of technology and raw material. Not only the open border with India but also the limited transit facilities in one or other way have constrained its trade with overseas countries.

Since transit through china is virtually impractical, India is only economically viable for all commercial flows. Indeed, no country in the world (excluding Bhutan) is so hopeless dependent on the availability of transit facilities from a single country as Nepal.

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

In this study we have examine the Trend of total Trade, Total Export , Total import , Trade with India , Export to India and Import from India from 1990/91 to 2014/15.We have also checked ratio of above mentioned items with GDP of country. The analysis of Nepal foreign trade has shown till now, our trade (with India) is not moving toward right direction. It is still missing its right track. This study first clearly depict the historical prospective of Nepal’s foreign trade which shows Nepal foreign trade before 1970 was limited to India and Tibet. Nepal trade with foreign countries doesn’t go back in to history due to relative backwardness of economic as well as political and physical isolation in country.Nepal has been shifting toward liberal and market oriented trade policy since middle 1980s that was accompanied by various reform programs in 1992.

The study then provides clear view regarding the volume, direction, composition and trade balance of Nepal with India (also in total where applicable). The volume of Nepal’s trade with India is found to be increasing continuously, share of Export before 2000/01 is very low. The export volume with India was only 21% in 1990/91 and increase to 65.5% in 2014/15.Similarly Import from India also has increased from 31.5 % in 1990/91 to 63.5% in 2014/15.

The direction of trade shows the share of export and import destination wise of exportable and importable commodities. Both Export and Import of Nepal with India before 1996/97 was minimum .After the 1996 trade treaty, Nepalese product could enter India free of custom duties and quantitative restriction so there was phenomenon increase in export to India, and flow of goods from India also increase accordingly.

The composition of Nepal export to India has been changed .In past Primary products /commodities constitute the principal export to India but at present manufacturing product have replaced them. Export of primary product such as food and live animals, Tobacco and beverage etc. shows decreasing trend toward India. And Import of food and live animals, manufacture items mainly classified as material, machineries and equipment has increase mainly during recent years.

Trade balance of Nepal has remains unfavorable with increasing deficit with India during our study period. Trade balance with India was Rs 5,770.9 Million in 1990/91 and reached 43, 5791.30 in 2014/15.The main reason for the growing trade deficit is the prevalence of Import over Export. To over solve the overriding problems Nepal needs to have adequate market penetration and import substitution policy.

Identification of determinant of foreign trade of Nepal with India, and finding problems and prospects of India Nepal trade is another objective of this study. We have identified few of determinants accountable for increasing trend of foreign trade of Nepal with India. Nepal is an underdeveloped country; it cannot uplift the economic situation automatically. Nepal needs support of other countries. India is great growing powerhouse of world can help in its development.

6.2Conclusion

Nepal has been suffering vicious circle of poverty and economic backwardness. NoDoubt, Nepalese foreign trade plays vital role to make economic strength and prosperity ofthe 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. However, this study analyses some of the strengths and weakness of Nepalese trade as follows.

Strength of Nepalese Trade:

i. Nepal is very much rich on natural resources such as hydropower, mines etc. and thereare high potentialities of agro based industries too.

ii. Being a member of WTO, SAPTA and SAFTA, Nepal can achieve so many benefit. And have chance to expand export, to improve trade deficit and to correct BOPSituation.

iii. Development of information technology and introducing of new technology on someIndustries are encouraging factor to assure quality and competitive products.

iv. Adequate work force with Low labor cost can easily available throughout the country.

v. Various national and international agencies are seeking to invest in Nepal, in the case of proper investment promotion al programs; it can achieve high investment fundsThis excels the economic reformation of the country.

vi. There is high potential to bring FDI to strengthen export trade oriented industries.

vii. The political condition of the country is in the stage of transformation. Since, civilWar has been ceased; there is high potential for the tourism based industry as it had been serving the Nepalese economy for a long period. The positive direction forFostering tourism industry has been opened with the peace process.

viii. Democratic system has reestablished and decade long moist insurgency is finally over .And the party is reformulated as one of the biggest political party of Nepal at present day. Hence, with the political stability, Nepal can exploit its core competencies such as tourism, hydro-power, herbs and minerals, etc.

Weakness of Nepalese Foreign Trade:

i. One of the main reasons for losing foreign market for Nepal's product is the childlabor issue and quality of the product itself. The government should facilitate thedomestic industry and provide proper subsidies to pro mote foreign trade and regulate the serious human exploitation issues in grass root level.

ii. Nepal uses only one transit to (trade route) trade with overseas countries other than India and China. Although Nepal can use other trade routes such as FulbariBanglaband through Bangladesh but it is yet depends on the transit treaty to India

iii. Though the agricultural is the fundamental aspect of the Nepalese economy, it hasbeen extremely disappointing. Transit and transportation cost is too high and there isno effective rural- urban linkages practices too.

iv. Unfavorable environment for industrial development, lack of sound and effectivestrategic policies, inconsistency of government policies , political instability and a decade more long moist problem are hampering facts for the Nepalese trade expansion.

v. Due to the adoption of liberal economic policy, government levied international tradetax to generate revenue but it neglected the aspect of import substitution. So, the tradedeffects of Nepal became more acute.

vi. Export procedure documentation, Quality industrialization and quality mix, Lack ofhuman resources and R & O, Insecure of FD I, Lack of dry port facilities, High transport cost and problems in the seaport are also consider the barrier to expandNepalese export trade.

vii. Lack of diplomatic efforts, India oriented policies, condition imposed by donoragencies, donor driven strategies, poor implementation , not effective monitoring andevaluation mechanism, no price and reward system, red tape on bureaucracy can also be consider the challenging scenarios.

viii. Nepalese domestic industries cannot produce enough goods for Nepalese growingpopulation.

6.3Recommendation

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 notso satisfactory. Gradually increment of trade deficit problem shows the fact that Nepalesetrade is dominated by imports. It also indicates that there are various barriers on Nepalesetrade. Although Nepalese government has introduced different policies and measures withregular modification, Nepalese trade cannot take positive direction towards the nation.

However, there is future potential to expand export trade. Therefore, government should takeimmediate action. This study has some suggestions for the promotion and expansion ofNepal's foreign trade especially exports trade and consequent economic growth of thecountry. The following measures should be considered.

i. As soon as possible political settlement must be assured with the coordination of allthe stakeholder of the nation. Without Political stability and consistency, nothing canbe achieved.

ii. In favor of country's interest, effective diplomatic efforts with strong political –willand commitment should be taken by the government.

iii. It is necessary to make export plan having the framework of enhancing strategies ofexport and discouraging the volume of import that can reduce trade deficit problems.To reduce imports, domestic industries should be encouraged to produce consumergoods, which can be done by increasing tax on imported items.

iv. Government should have the strategies to protect domestic industries that can beexercised by imposing quantitative restriction on imported items, developing of infantindustries and expanding domestic markets.

v. Government role should be defined as catalytic in practice not only on paper.Government should empower and attract the private sector involvement by makingenvironment friendly policies.

vi. Foreign trade should be directed towards export promotion, import substitution and export diversification. Policies must not be influenced by foreigners.

vii. Diplomatic efforts should be started and search appropriate trade and transit routewith overseas trade. Proper action should take towards rethinking about the trade andtransit treaties with India.

viii. Government should invest more on R & D, as we as human resource development.Similarly proper utilization IT, introduced of changing technology on new establishedindustries are essential.

ix. Implementation of policies should take care in an effective manner as well asmonitoring and evaluation of policies is essential.

x. There are possibilities of trading activities with SAARC countries. It does not onlyreduce trade concentration with India, but also work as a milestone towards muteAlco-operation. It increases the possibility of joint venture in establishing industries.

xi. Provision of Surveillance at borders where goods are smuggled can be controlsmugging practices across the borders, especially with India. In this regard, publiccooperation should also be sought.

xii. Export should be increased by improving the quality of product, introducing newcommodities, reducing cost of production, generating export surpluses, encouragingresearch and development.

xiii. Imports substitutes should be encouraged by adopting improved indigenoustechnology curving non-essential and luxury imports and controlling populationgrowth. It should also diversify its imports and exports markets and products via trade agreements and developing friendly relations.

xiv. Open market policy will be beneficial for the country only when Nepalese productsshould be able to provide opportunities not to taste international products in thecountry but also to give the taste to others in the same proportion.

xv. Nepal should give higher priority to rim over the nation's deficit problem by adoptinglong-term measures like penetration to export market and effective application andexecution of import substitution regime.

xvi. Trade oriented industries can be strengthen as there is high potentiality of bringingFDI in sectors such as hydro-power, eco-tourism etc. in Nepal.Overall, Nepalese foreign trade situation suggests that though Nepalese trade has been facingtoo barriers, it have some potential too. To reduce gradual trade deficit government must immediately take action towards the direction of expanding export.

Appendix I

Major Items Export from India

S. No.	Major Commodity	S. No.	Major Commodity
1	Vanaspati Ghee	37	Rice bran oil
2	Polyester yarn	38	MS Pipes
3	Zinc sheet	39	Brans
4	GI Sheet	40	Turpentine
5	Textiles	41	Writing & Printing Papers
6	Other Threads	42	Ghee
7	Other Wire	43	Brooms
8	Sacks	44	Dried Ginger
9	Juice	45	Live Animal
10	Readymade Garments	46	Jute Cuttings
11	Chemical	47	Vehicles Parts
12	Twines	48	Kachha
13	Plastics Utensils	49	Marble Slab
14	Tooth Paste	50	Cinnamon
15	Pulses	51	Linseed
16	Cardamom	52	Handicraft Goods
17	Bags	53	Vegetables
18	GI Pipes	54	Veneer Sheet
19	Hessian	55	Beer
20	Cattle Feed	56	Hair Oil
21	Noodle	57	Biscuits
22	Catechu	58	Linseed Oil
23	Toilet Soap	59	Bristle
24	Rosin	60	Fruits
25	Hide & skins	61	Turmeric’s
26	Copper Wire &Rod	62	raw Jute
27	Oil Cakes	63	Yak's Tail
28	Ginger	64	Mustard Seeds
29	Shoes & Sandals	65	Wheat Flour
30	Particle Board	66	Chyawanpras
31	Pashmina Goods	67	Cotton Seeds
32	Hazmola	68	Maize
33	Stone& Sand	69	Rice
34	Iron Scraps	70	Salseed Oil
35	Herbs	71	Vegetable SEEDS
36	Herbal Medicines	-	Miscellaneous

Source:Nepal andthe World A Statistical Profile(FNCCI)2015

Appendix II

Major items of Import from India

S. No.	Major Commodity	S. No.	Major Commodity
1	Deiseal	32	Cumin Seed&Peppers
2	kerosene	33	Tyer,Tube&Flaps
3	Petrol	34	Wire Production(nail,nut&bolt etc.)
4	Transport Vehicle &Spare parts	35	Other Petroleum production
5	Medicine	36	Insecticides
6	Other Mach.Equip& Spare Parts	37	Plastics Utensils
7	Chemical	38	Pipe & Pipe Fittings
8	L.P Gas	39	Synthetic Textile
9	Rice	40	Salt
10	Cement	41	Live Animals
11	Electrical Equipment& Goods	42	Sugar
12	Synthetic Thread	43	Sanitary Wares
13	Cotton Textile	44	Enamel & Other Paints
14	Coal	45	Other Thread
15	Chemical Fertilizer	46	Aluminum Utensils
16	Readymade Garment	47	Bitumen
17	Vegetable	48	Hand Tools
18	Cosmetics Goods	49	Dry Cell Battery
19	Agricultural Equipment &Parts	50	Cotton
20	Fruits	51	Bottom &Fastener
21	Writing & printing Paper	52	Shoes& Sandals
22	Pulses	53	Chewing Tobacco
23	Baby Food& Other Milk Production	54	Incense Sticks
24	Tobacco	55	Cooking Stove& Parts
25	Radio,Television,Deck& Parts	56	Molasses Sugar
26	Other Textile	57	Wheat
27	Glass Sheets&Glassware's	58	Coffee
28	Cotton thread	59	Tea
29	Lubrication Oil	60	Pan Leaves
30	Other Stationery Goods	-	Miscellaneous
31	Books & Magazines		

Source:Nepal andthe World A Statistical Profile(FNCCI)2015

REFERENCES

Adhikari, R. (1985).*Trade relation between Nepal an India; Scope for economic integration*, the economic journal Kathmandu.

Bela, B. (1978). *Exports and Economic GrowthJournal Cf Development Economics*.

Montenegro, S. (1997). *A paper on distortion in Cuban trade*.

Banskota, N.P. (1981). *Indo-Nepal trade and economic relations*, New Delhi: B.R. Publishing Co-operation.

Feder, G. (1983). On exports and economic growth, *Journal of Development Economics*.

Dahal, S. (2001). *A case study on Nepalese foreign trade and its changing scenario* (Unpublished master's thesis). Tribhuvan University, Central Department of Economic (CEDECON), Kirtipur, Kathmandu.

Indu, B. (2001) *Compulsions of a landlocked state*: A *case study of Nepal India relation* Batra Book Service NewDelhi.

Khanal, M. (2006). *Foreign trade of Nepal: Trend and structure*(Unpublished master's thesis). Tribhuvan University, Central Department of Economic (CEDECON), Kirtipur, Kathmandu.

Lama, R.K. (1985). *The economics of indo -trade Nepal cooperation's case study on trade aid and private foreign investment.* New Delhi: M.N. Publication and Distributors.

MoF/GoN (2015). The Economic Survey FY 2014/15. Kathmandu Ministry of Finance (MoF)/Government of Nepal (GoN).

NRB (2016). Quarterly Economics Bulletin (various issues). Kathmandu: Author.

Sharma, O.,&Bhandari, R.(2005).Foreign trade its effect on Nepalese economics development.*TheJournal of Nepalese Business Studies.*

Pant,R. (2005).*Foreign trade and economic development of Nepal*, unpublished(Unpublished master's thesis). Tribhuvan University, Central Department of Economic (CEDECON), Kirtipur, Kathmandu.

Pant, K. (1990).*Economics development of Nepal*, Nabin Prakasan.

Poudel, T.N. (2010). *Prospects and problem of Nepalese foreign trade with India*(Unpublished master's thesis). Tribhuvan University, Central Department of Economic (CEDECON), Kirtipur, Kathmandu.

Roy, R. (1977). *A note on Nepalese foreign trade*, article. Economics times.

Reejal, P.P. (1982). *Nepal's Foreign Trade and Economy Development (1956/57-1979-80)*. An Unpublished M.A. Dissertation in Economics, T.U., Kathmandu.

Shah,S.(1999).*A study on Nepalese Foreign Trade (1974/75-1996-97),* Unpublished M.A. Dissertation in Degree in Economics Institute of Humanities and Social Science, T. U., Kirtipur.

Sharma, S. (1999). *Nepal's foreign trade: Trend and Issue,* Center for Policy Studies, Kathmandu.

Shon, R. (2005). South Korea's Bilateral Trade Flows, *Journal of Development Economics*.

Shreatha. G.R. (1974).*Nepal India bilateral Trade Relations: problem and prospect ministry of finance*, Nepal research and information system for the non – aligned and other developing countries.

Subedi, G.P. (2003). *Nepal's foreign trade: the changing scenario of size, composition and direction*(Unpublished master's thesis). Tribhuvan University, Central Department of Economic (CEDECON), Kirtipur, Kathmandu.

Thapa, R.B. (1985). *Historical background of Nepalese foreign trade and its diversification*(Unpublished doctoral dissertaton). Tribhuvan University, Central Department of Economic (CEDECON), Kirtipur, Kathmandu.

Tyler, W. (1981). *Growth and Export Expansion in Developing Countries: Some Empirical Evidence. Journal Development Economic. Treaty of Trade, Treaty of Transit and Trade Related Agreements between Government of Nepal and Neibouring Countries (India, People's Republic of China &Bangladesh),* Amended and updated up to July 2010, Published by: Nepal Transit and

Warehousing Company Limited (An undertaking of Government of Nepal), July 2010.

Retrieved from http:// www.nepalnews.com.np

Retrieved from http http:// www.tpc.gov.np

Retrieved from http http:// www.wb.org.np

Retrieved from http http:// www.sawtee.org

Retrieved from http http:// www.fncci.org

Retrieved from http http:// www.npc.gov.np

Retrieved from http http:// www.nrb.org.np