

CHAPTER - ONE

INTRODUCTION

1.1 General Background

Nepal is a small Land-locked country of the world situated in south Asia. It is surrounded by two big countries India (west, east and south) and China (north). Nepal is technologically backward and economically poor because of geographical difficulties, political instability, lack of entrepreneurship and less effectiveness of administration. In Nepal, industrialization process developed very slowly and agriculture reform too, which is called the backbone of Nepal, now is still in the subsistence level. The volume of internal production is very low, less qualitative and expensive. Being developing country, it is necessary for Nepal to import the technological equipments, industrial production and others machinery equipments etc in a very large volume from abroad. But on the contrary volume of export is very low with comparison to import.

History of foreign trade of Nepal was different. At ancient period, Nepal's foreign trade was limited with Tibet and India. Katmandu was the trade path between Tibet and Indian trade and it was fruitful to Nepal.

Before 1950, Nepal was isolated from world's economic development. Foreign trade was limited, because of internal difficulties was prevalent in the form of slow growth of industrialization, entrepreneurship, agricultural reform, political and social reform and people live with limited demands.

Nepal's relationship with the overseas countries has started only after the establishment of democracy in 1951. Increase in literacy,

political awareness, demonstration effect also supported to develop activities of the people. Development of the infrastructures was also fruitful to develop of industrialization in Nepal. Agricultural diversification and modernization began slowly. Above activities were responsible to develop foreign trade in Nepal.

Before 1990, Nepal's foreign trade and economic activities were being increases very slowly. Internal economic activities were being developed slowly within different plan period since 1956 when first five years plan started. Trade diversification policy was implemented from third five years plan. Then it continued with different plan period, which was supported to the trade expansion in Nepal. Volume of the trade increased but create a big gap between total volume of the export and total volume of the import. In fiscal year 1975/76 total export f.o.b. was Rs.1185.8 million where total import was Rs.1981.7 million. Trade balance is Rs.333.4 millions (NRB 2008). After one decade, result is appeared different. It is right to increase total volume of the trade, export and import but not happened in favor to reduced trade deficit. In 1985/86 total export f.o.b. was Rs.3085.00 millions and total imports c.i.f. was Rs.7742.1 millions and gap between export and import was Rs.-5001.5 millions (NRB, 2008). During this period trade activities in Nepal with overseas countries were being increased. After 1980, liberalization process was implemented but actually liberalization took place after the first people movement in 1990.

During the period of Third Five Years Plan, Government of Nepal focused on external sector reform in the form of trade diversification, employed the policy and sectoral program. Theoretically, they are fruitful to change the structure, pattern and trend of the trade in favor of Nepal. For liberalization of the external sector to development of the National

output GON implemented the Commercial Policy (CP) in 1992 which was the backbone of the development of the foreign trade in favor to Nepal. Because this policy breakout of some hindrances in foreign trade development. Under this policy following activities were being applied.

- End of the quantitative restriction.
- Improvement in export.
- Revision in custom duties.
- Reform in exchange rate system.

Above policy become fruitful theoretically in the growth of export and reduced the trade deficit ratio. It is helpful to the economic development and social reform activities of the nation like reduce the poverty level, creation of the employment level and also increases the National output.

1.2 Statement of the Problem

Nepal is known as agro-based country. There are more than sixty percent of the total populations having agriculture. So that agriculture play very important role in output. In FY 2006/07, 32.1 percent share of the GDP was obtained by agriculture. (Source: MOF, Economic Survey 2008).

The share of the foreign trade in GDP was very low e.g. export GDP ratio and import GDP ratio are shown in table 1

Table -1 Export/GDP and Import /GDP ratio

Fiscal Year	Export/GDP	Import/GDP
2003/04	10.0	25.4
2004/05	10.0	25.4
2005/06	9.0	26.9
2006/07	14.8	29.3
2007/08	13.6	29.9

Source: NRB

During the last six years, result is that volume of imports and exports is increased. Export of goods and services and countries were also increases. But share of trade in GDP is very low. Because in FY 2007/08 total share of export in GDP was 13.6 percent, which is comparatively low to import which was 29.9 percent respectively.

Export trade of Nepal is concentrated with on few commodities, more than sixty percent of total foreign export earning by only three commodities Pashmina, Carpet and Garment. But, market of above commodities was concentrated with Germany and USA.

- What type of problems is being faced by the exporters, industrialist after implication of CP 1992 in the context of foreign trade development? After implementation of CP 1992, Nepalese carpet and Garment's market was started to decreased. Policy is focused to the export promotion, but contrary volume of those goods export started to decrease. As result, Nepalese carpet industry and Garment industry started to closing.

- Why was GON not successful to utilize foreign trade in the context of external sector earning?
- Why is there imbalance between trade policy 1992 and its implication in Nepalese economy?
- Why is there also imbalance between output promotion strategy and its application in Nepal?

1.3 Objective of the Study

The general objective of the study is to know the impact of the CP 1992 on foreign trade of Nepal. The following are the specific objectives developed considering analyzing the overall situation of Nepalese foreign trade.

- To identify trade development under different years.
- To examine the impact of export earning on national output.
- To analyze effectiveness of commercial policy 1992 in the promotion of export and reduction of trade deficit.
- To provide suggestions/recommendations on the basis of findings to overcome the short comings.

1.4 The Significance of the Study

Foreign trade is a source of capital earnings, knowledge and technological gain and fulfillment of the needs. In the line of the fact, research analysis and development of foreign trade is very essential from the view of economic development of the nation and also developed of the foreign trade in Nepal.

This study will point out the problems before implication of WTO and SAFTA in Nepal which will enable the industrialist, financial institutions, traders and the government for planning in the future.

This study also shows effectiveness of trade policy, trend of foreign trade, and its status after liberalization process implication in Nepal and future strategies. This will certainly benefit the researchers, traders, investors, financial institutions etc. to know about foreign trade development in Nepal and its impact on national output.

Unfortunately not much of worth while studies have been carried out in this area which even more increases the importance of such study.

1.5 Research Methodology

1.5.1 Source of Data

Data may be obtained from several sources. Each research project has fully based on secondary data. So that necessary information and data were collected from different official publications and report. They are, NRB, MOF, CBS publishes annual and quarterly report and journal, Economic survey, budget speech, various books published by researcher etc. Some official and non official websites also such as www.mof.gov.np, nrb.org.np etc.

1.5.2 Method of data analysis

Information collected from different sources are tried to systematized, arranged in order and copies analyzed by using statistical tools. Statistical tools are as percentages, average, trend analysis, histogram, pie-chart etc.

1.6 Organization of the Study

This thesis is divided into six chapters. First chapter is the introduction. This chapter covers the general background, statement of the problem, objective of the study, the significance of the study, research methodology and organization of the study.

Second chapter is the review of the literature. Each and every prominent research is based on relevant thinking or which prove as a foot print for those who under take researcher and is known as literature review.

Third chapter is analysis of the CP 1992. On this chapter tries to study trade policy in detail, its main provision, features etc.

Fourth chapter is volume and direction of foreign trade in Nepal. This chapter covers the volume of foreign trade, direction and development of the Nepalese foreign trade and contribution of the external sector to the economic development of the nation.

Fifth chapter is summary, conclusion and recommendation. This chapter covers the overall summary and conclusion of the trade policy.

Then present the bibliography and appendix.

CHAPTER - TWO

REVIEW OF LITERATURE

Each and every prominent research is based on relevant thinking or which prove as a footprint for those who undertake researcher and is known as literature.

Bashyal (2009) stated that Nepal's foreign trade, trend volume, direction among SAARC countries is increasing. She tries to point out Nepalese Foreign Trade from ancient period to now, trade treaties with Tibet and India and its importance among SAARC countries. Large volume of Nepal's foreign trade is with India and then Bangladesh. After the balance of payment crisis in mid 1980's, Nepal shifted towards liberal and market oriented trade policy. The objective of attaining macro economics balance and increasing GDP growth rate on sustainable basis, Nepal implemented the Structural Adjustment Program in 1986/87. But, Nepal couldn't be fully benefited from this first phase reform program. She points out that trade policy of 1992 focused on sustainable trade to enhance the national economy by undertaking liberal policy and by allowing wider participation of the private sectors.

Pokhrel (1982) explains few aspects of Nepal's pattern of foreign trade with overseas countries. His study covering the periods FY 1971/72 to 1979/80. Main focused points of his study are that from ancient time to 1950, Nepal had more or less on trade relation with countries other than India and Tibet. However, trade with India and Tibet continues through out the period of different rulers. But at present, after the identification of the importance of trade diversification, Nepal has trade relation with more than fifty countries of the world.

Neupane (2005) has tried to realize some aspects of Nepal's foreign trade such as volume of foreign trade, commodity composition, direction, trade balance, trend of trade with India and overseas countries. His study covering the period 1993/94 to 2002/03 explores that Nepal's foreign trade has lagged behind due to land-locked ness, only primary goods exports, weak exports performance, deficit trade balance, composition of industrialization in weak etc. The exports side has a fluctuating tendency during the study periods. Oppositely total imports has increases rapidly up to 1996/97 and has fallen down in the next two years and started to increase. Therefore, however even the decrease in import didn't reduce the dominance of import to over export.

Niraula (2004) has tried to realize some aspects of Nepal's foreign trade with India, its present status. His study intends to analyzed export and import between Nepal and India from 1957 to 2003. His study focused on Review of trade and transit treaties with India from trade and co-operation before 1951, an overview to treaty of 2002. In his study he tried to find out as volume of foreign trade was growing increasing from First Five Year Plan period (1956/57 to 1960/61) to Ninth Plan period (1997/98 to 2002/03). Export commodity composition was different that import commodity composition. There was always trade deficit with India. He tried to point out open boarder with India supported to illegal trade; geographical structure of Nepal and less infrastructure development are also responsible to less industrial development on Nepal. So that Nepal's export only primary agro production. India is a big market so that there is also prospect to India Nepal trade.

Bhattarai (2006) has tried to realized some changing scenario of size, composition and direction of Nepal' Foreign Trade from 1984 to 2004. He tried to review the historical prospective of Nepalese foreign

trade. The volume of foreign trade was increasing rapidly but share of total export in total trade was lower with the comparison to total import. Before FY 2001/02 Nepal export overseas countries highly than India. But on the contrary, export to India started to increasing rapidly. In case of import side before 2001/02 Nepal import from overseas countries largely than India. He also analyze the main problem relating to Nepalese foreign trade as less industrial development, open boarder with India which is responsible to illegal trade activities. Nepal is a landlocked country so that need to use Indian port for overseas exports and imports. Nepal employed the trade diversification policy with country wise and commodity wise prospective but not able to achieve the target.

Adhikari (2004) has tried to analysis the volume of foreign trade, composition and direction of Nepalese Foreign trade from 1993/94 to 2002/03. He also point out the overall trade balance of Nepal.

Khatri (2009) focused on introduction of background of the trade competitiveness. He also point out the objectives of the trade policy 1992. In his article he focused that to create an environment necessary to enable the private sectors to play a principle role in the industrialization of the economy, the public sector industries will mostly Ebe privatized and no private sector industries will be nationalized. He also point out in his article; hydro electricity, tourism agro-processing., information technology and human resources development areas may be potential areas for export promotion and import substitution as well as improve competitiveness in foreign trade. Form these sectors development we have to attract Foreign and Non Resident Nepalese (NRN) investments and the remittance. In his article he also point out the problems of the Nepalese foreign trade.

Cheilagai (2009) tries to find out the present scenario of the Nepalese foreign trade after 2000/01. At early decade of the 1900 Nepalese foreign trade was strong. In his article he also reviews the effect to export promotion of the Nepalese Government. His emphasis on his articles to reduce the trade deficit increases the production of the import substitution goods and for gain the concrete benefit from the international trade employed the import substitution and export promotion policy. At conclusion he point out that to gain benefit from foreign trade it is necessary to accept the concept of the public- private partnership.

Above researcher and authors tries to analyze that composition of the Nepalese foreign trade and direction and development and find out that it was unfavorable to the economic development of Nepal. They point out that, geographical difficulties, technological backwardness, political instability, unfavorable trade agreement with India and other countries, illegal trade relation between Nepal, and India, volumes of export concentrated on few goods and few countries. Lack of research and infrastructure development of the Nepal, are responsible to the less development of the Nepal. Before 1990, GON introduced the different policies for trade promotion. But, unfortunately, Nepal didn't utilize it properly. There was big gap between the provision of the different policies and its outcomes. In the prospect of CP 1992, there is also provision of the trade promotion policies and its strategies. Above researcher tries to analyzed the impact in foreign trade in the prospect of different views but not only the prospect of CP 1992.

CHAPTER -THREE

ANALYSIS OF THE COMMERCIAL POLICY 1992

3.1 Trade Policies Before 1992

Nepal started to diversify its trade since 1960's and adopted import substituting industrialization (ISI) policy. Before implementation of the CP 1992, GON had implemented the following trade policies.

1. Exporter's Exchange Entitlement (EEE) scheme (1962)
2. Dual Exchange Rate (DER) system (1978)
3. Single Exchange Rate (SER) system (1981)
4. Trade Policy of Nepal in 1982 (1982)
5. The Nine point Export program (1983)
6. Devaluation in 1985 and 1991
7. Tmhe Auction system (1985-86)
8. The open General License system (OGL) 1989.

Till 1982, in Nepal, export policies and program were made generally in an ad-hoc basis. Before this period, three import measures were taken for expanding exports. These measures were Exporter's Exchange Entitlement (EEE) scheme, Dual Exchange Rate (DER) system and single Exchange Rate (SER) system.

In 1982, government implemented the trade policy. This policy covers the following three aims such as 1. to expand the scope of foreign trade and increased the level of foreign exchange to satisfy the growing import needs and to service external debts, 2.To generate employment opportunity by changing the production, productivity and quantitative standards of exportable goods and 3. To established a wide international

market for indigenous production intended of confiding them to domestic market.

To fulfill the above objectives, some of the major policies were as following 1. Formulation of liberal policy towards the import of capital goods, construction materials, industrial raw materials, production of inputs and articles of daily consumption, 2. Protection to agriculture and industrial commodities from foreign competition, which could be productive with the country, 3. Exemption of local taxes and no restriction on the entry of import goods into the country, 4. Simplification of all administrative procedures.

However, this policy emphasizes on the import side then promotion of the export side. Protection to agriculture and industrial commodity was suitable in early stage of economic development. But, reduction in taxes on import side was supported to entry the unnecessary and unproductive goods into the country.

For fruitful implementation of the trade policy GON brought the Nine points export promotion program in 1993. The salient features of the program were 1. constitution of an export products and export promotion council 2. granting of 10 percent cash subsidy on f.o.b. value of exports 3. Provision to utilize 15 percent of total earning for the import of raw material and capital goods for industrial processing, foreign exchange through exports to overseas countries, 4. reduction on custom duties on goods exported to third countries to only 1 percent, 5, Exemption from customs and sale taxes to industrial exporting their own products, 6. Permission to exporter to borrow a pre export loan up to RS.2-5 million against letters of credit opened by imports. 7. Granting of necessary

refinance by the NRB to commercial banks and compensation to the banks for the losses emigrating from rebate on interest rate.

To easily import the industrial raw materials and essential goods government implemented the open general License (OGS) system on 1989. This provision was fruitful to industrial development on Nepal and export promotion case. But, above provision didn't bring about the satisfactory result as trade data discloses particularly because of administration inefficiencies, political instability, Lack of implementation of various policies. So that there was necessary to bring the provision of another trade policy.

3.2 Commercial policy 1992

In decade of the 90^s, there was democratic movement flow in south Asian countries. And, it also supported to the liberalization, privatization and globalization processes were effort able to economic development of the nation. For fruitful to national economic growth with the utilization of foreign trade, GON employed the CP 1992 which came after multiparty democracy political system reestablished in 1990. On this policy, GON provided trade policy with exports policy, import policy, provision of the foreign exchange, internal trade policy and institutional arrangements which are backbone to trade promotion in Nepalese Economy.

The policy covers the four main objectives. The main focus point of the objective is to increase the participation of the private sector through the creation of an open and liberal atmosphere. Similarly to diversify the trade by identifying, developing and producing the new exportable products for making export trade competitive is also fruitful. Another objective is gradually reduction in trade imbalances but there is

no any clear vision how to reduce the trade deficit. Although the overall objective has given emphasis on sustainable export promotion, it is fruitful to some extent but not sufficient. The objectives in the detailed form are as follows.

- I) To enhance the contribution of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere.
- II) To diversify the trade by identifying, developing and producing new exportable products, promotion of the backward linkage for making export trade competitive and sustainable.
- III) To expand the trade on a sustainable basis through gradual reduction in trade imbalance.
- IV) To co-ordinate trade with other sector by expending employment oriented trade.

Trade Policy

From the overall analysis of the policy, tries to point out that, the policy is focused to emphasis on trade diversification as country wise and commodity wise. The outcomes of the Nepalese government owned corporation is negative like, Nepal Airline Corporation because corruptions, Red tapism, political intervention, lack of responsibility are still there. So that provision of privatization process of the government corporation continually on the basis of sector wise development and ability respectively. The provision of liberal process to attract the FDI in Nepal is fruitful to export promotion industry development. For sustainable development of the foreign trade, policy is focuses on

development of the information technology and necessary institutional provision and also priority is given on reform in quality level and monitoring system. But, geographical situation of the country, level of infrastructure development, economic and political situation of the country, awareness of the people etc attract the trade development of the nation. The outcomes of the policy are different, so that the trade policy is failure to achieve its priority after the implication of it. The detailed form of the trade policies are as follows

- i) The role of public sector will be minimized and used as a catalyst to expand the role of private sector in trade.
- ii) A liberal and dynamic trade policy will be purposed with the objective to improve balance of payment position by promoting exports to increase foreign exchanges earning as well as by fulfilling internal demand of economic and quality products.
- iii) Production of quality goods and services will be increased for internal consumption as well as for exports through effective and appropriate utilization of economic resources.
- iv) Special efforts will be made to promotion and diversification trade both in the range of commodities and country destinations.
- v) Liberal procedures will be adopted for encouraging interactions between trade and industry for sustained export promotion and for fulfillment of internal demand through increased domestic production. Emphasis will be given on modernizing management and technology. On promoting market and on attracting direct foreign direct investment in order to identity and quality of the traditional products.

- vi) The public sector trading corporation will gradually be privatized taking into considerations the development and efficiency of the private sector.
- vii) In support to above policy measures, necessary steps-as pre conditions relating to foreign exchange. Monetary and fiscal policy will be taken up towards full convertibility of the Nepalese currency in trade and service sector. For this purposes major changes will be made in the administrative procedures to make them simple transparent and dynamic.
- viii) Taxation system will be simplifies by introduction necessary changes in order to foster competition in trade.
- ix) Emphasis will be laid on institutional development and information networks as well as on monitoring system and quality improvement for the production of foreign trade.
- x) The existing trade treaties and agreements with various countries and international agencies will be effectively implemented and new ones will be concluded and when necessary for the promotion of international trade.

The overall provision of the trade is effective. Because, policy tries to emphasis to promotion of private sector which is necessary in Nepal. In case of rapid economic development private sector ought to be in front step. If there is suitable environment to implication of the policy, it will bring positive result.

Export Policy

All the priorities of the export policy can be attainable. The main priority of the policy is to increase both the commodity export and services export. The policy is focused to earn external revenue from

skilled manpower and labors export. The outcome of this priority is flow of remittance into country from abroad. Although goods export has not supported much, the remittance has provided relief to the national economic development. Export policies in the detail form are as follows.

- i) The production and quality of exportable products will be raised to make them competitive in the international market.
- ii) Necessary efforts will be made to increased diversify exports of goods and services with the objectives of increasing foreign exchange earnings.
- iii) Exports will be promoted by raising the production and quality of traditional as well as new products. Similarly, more emphasis will be placed in the export of profitable but processed and finished products. For the export promotion of these products, new markets will be identified.
- iv) Foreign exchange earning will be increased and identifying and increasing the production of new products will create opportunities for gainful employment.
- v) Service oriented activities will be promoted to increase foreign exchange earnings.
- vi) Encouragement will be given to the export of hydro electricity on a profitable basis.
- vii) For the effective utilization of manpower. Stress will be given to the development of appropriate and potential skills to promote service sector as well as export of skilled manpower in an organized way.
- viii) Appropriate monetary foreign exchange and fiscal policy will be formulated any necessary changes will be made in the administrative procedures to make them liberal-simple

and dynamic in order to implement above policies on an efficient smooth and transparent basis.

The overall provision of the exports policies aren't effective. There is a provision as encouragement will be given to the export of hydroelectricity on a profitable basis. The market of hydroelectricity is in India. But, India has been developing as a nuclear power country. There is possibility to produce the nuclear electricity cheaply than hydroelectricity. The main effective provision is skilled manpower export. Because, large volume of the unemployment problem is still in Nepal, so that there is possibility to export the manpower to abroad and earn the remittance at high volume.

Export Strategy

The provision of the export work policy is backbone of the export promotion. In this provision some export work policies are suitable. The export licenses would be made simple and attractive. Reform in tax system is fruitful to export promotion, which is noticeable. The provision of establishment of EPZ is also sustainable. According to it tax wouldn't be imposed upon raw materials used by the industries operating under EPZ. However other facilities are not considered. The provision of the tourist able good is suitable because it is a step of coordination of export trade with tourism industry development in Nepal. For export promotion, there is also provision of research, training for the industrial development. But, there is no any provision of establishment of monitoring system after the implication of this work policy. The export work policies in the details form are as follows.

- i) Licenses will not be required for the export of products other than banned on quantitatively restricted items or listed in

annexure no.1. In the cases of quantitatively restricted products, arrangement for issuance of export licenses will be made in consultations with the private sector. Quantitative restrictions in the export of such products will gradually be removed through appropriate taxation measures.

- ii) For export promotion, improvements will be made in the existing transit transport network and its infrastructures. Administrative procedures will also be made transparent, smooth and efficient.
- iii) For the promotion of exports, container services will be introduced and the existing bonded warehousing system will be further expanded and improved.
- iv) The duty drawback scheme for the refund of import duty paid on the importation of new materials and intermediate goods required for the production of exportable products will be effectively implemented. In this context, duty on import of raw materials will be fully exempt taking into consideration the needs of the bonded warehousing system will be introduced for the storage of such materials.
- v) Exports will be free from all charges except the services charge. However, the provisions of para (IV) above will be applicable in respect of the export of essential products.
- vi) For the promotion of exports, export, promotion zone (EPZ) will be established. No duty will be levied on the raw materials and industrial imports used by industries established in such EPZ. Industries exporting more than 90 percent of their product will be granted similar facilities as given to the industries established in EPZ.

- vii) As a preparatory step towards full convertibility of the Nepalese currency in trade and services. Exporter will have a sell in the stipulated percentage the amount of foreign exchange earned through export of goods and services to commercial bank at a rate fixed by the market mechanism and the remaining balance of balance to Nepal Rastra Bank at an exchange rate fixed by the government. No licenses will be required and no quantitative restriction will be import of raw materials (except stipulated) required for the export oriented and import substituting industries. Export valuation system will gradually abolish after the full convertibility of the Nepalese currency.
- viii) Quality will be tested from time to time in order to improve the standard of exportable products and necessary information will be made available for this purpose.
- ix) Simple and convenient procedures relating to pre and post shipment credits will be adopted on a priority basis.
- x) Income tax on income from exports will be fully exempted and income earned from exports to India on the basis of letter of credit or agreed banking document will be free from income
- xi) Emphasis will be given on the development of packaging technology to maintain the quality standard of export products.
- xii) Nepalese missions abroad will be graded up towards exports promotion activities and trade mission will be opened and institutionalized on the basis of feasibility.
- xiii) No quantitative restriction will be imposed on the exportable products carried by tourist while returning from Nepal.

- xiv) Export procedures and documentation, thus be formulated will be short and simple.
- xv) An annual indicative export plan and program on the basis of feasibility will be formulated with the co-operation private sector to promote exports.
- xvi) Necessary information and training relating to technology, marketing and export procedures required for export promotion will be provided on an institutionalized basis and arrangements will also be made for the participation in national and international trade fairs from market promotion.
- xvii) Regular monitoring will be made to avoid destructions in exports and imports. Strong actions will be taken in case of misuse of facilities.
- xviii) Export promotion, research and development and training schemes will be developed new exportable products and for rising the quality and production of the traditional exportable products.

There are many provisions about the export work policy. The overall provisions about the export work policy are attainable. Because, policies cover the monitoring system to export promotion forever, which is fruitful to trade development in Nepal? But, to attain the sustainable export promotion there is also necessary to establish the suitable environment. Political instability of Nepal and less infrastructure development creates as questions, it is possible?

Deemed Export

If any producer earns foreign exchange by selling one's own products to projects run under bilateral or multilateral aides if such

finished or semi finished products are sold to EPZ, such sales will be granted facilities at par with exports. Customs duty, sales tax and income duty levied on such sales will be refunded and the income generated from such sales will be exempted from income tax in addition, foreign exchange earned from such sales can be sold at the fixed by the market mechanism after submitting the stipulated percentage amount to Nepal Rastra bank at the rate fixed by the government.

Import policy

There is a provision of the import policy. The main focused point in the import policy is continually co-inciding the import with the export. Import will be created as a factor which creates the competitive industrial and commercial situation in the country. But there is no any provision other than imposing a tax to reduce the large volume of luxury goods imports. So that it would be play a responsible role to reduce the trade deficit in Nepal. The provision of the import policy is as follows

Import will be planned as a medium of export development and promotion to create competitive industrial and trade environment and also to ease the supply of materials required for the country through the optimum utilization of available resources, in this context qualitative restriction will be replaced gradually by such as to encourage competitive in production. Similarly, Import will gradually be tied up with exports.

Import work policy

In import work policy, there is some provision of import promotion. Strategy is focused to reduce the gap between the export and import. But, there is no any provision of restriction in import goods. So there is possibility to increase the import of luxury goods and reduction in

trade deficit ratio target never been achieved? Because, the increase in the volume of export are less then increase the volume of import. Another importance aspect of the import work policy is continually creation of necessary import work policy and list will be made simple and short. But there is no any provision of how to implicate it and monitoring it too. The detail forms of the import work policy are as follows.

- i. Import will gradually be tied up with exports with a view to creating a well- organized and sustained foreign sector by narrowing the gap between exports and imports.
- ii. The existing imports licensing and control system will be simplified. Qualitative restriction on imports will be gradually replaced through the tariff media.
- iii. Imports of all products other then banded or qualitatively restricted items as listed in Annexure no. 2 will be made free.
- iv. An annual indicative plan will be formulated to manage imports through auction to allocate required foreign exchange for it and to monitor its utilization. Import procedures and documentation will be made short and simple.
- v. Special efforts will be made to reduce transit costs and also to minimum pilferage and demurrage.
- vi. Imports of all goods except some limited items will be allowed through purchase of foreign exchange at the rate fixed by market mechanism in order to make Nepalese currency fully convertible and to gradually tie up exports and imports.

- vii. Necessary valance will be made prevalent deflections in foreign trade.

To attain the fruitful result of the import policy, the provisions of the import strategy are effective. Because, first provision point out that import will gradually be tied up with a view to creating a well organized and sustainable foreign sector by narrowing the gap between exports and import is main focused strategy. If government tries to provides the strong commitment to fulfill this policy. The outcomes of the import strategy will be effective.

Import Licensing Arrangement

As distortions can be minimized by regulating imports through various policy measures than be made under full control of the government. Some items are restricted while some others placed under the auction system requiring licenses and the imports of the remaining items are made free in the process of making imports trade free. Under the system, imports of raw materials, consumer goods, industrial machinery services etc have been made free.

- i. Import license will be required for the import of qualitatively restricted products, products in excess of the number or quality fixed under the personal efforts and the products under the auction system for the commercial purposes.
- ii. Import of all products other than those mentioned in (1) above are made free.

Foreign Exchange Arrangement

The foreign exchange required for import purposes will be made available as follows:

- i. Nepal Rastra Bank will make foreign exchange available at the rate fixed by the government for imports of goods as per notification issued by His majesty's government expenses. Import of such products will be allowed as spelt out under the Para (3) in the process of increasing the convertibility percentage of the foreign exchange.
- ii. Foreign exchange required for the imports of goods under auction will be made available by Nepal Rastra Bank. In the process of increasing convertibility percentage of foreign exchange goods which are under the auction will be gradually allowed to be imported under the Para (3) and the number of such goods will be gradually reduced and brought under the purview of market mechanism.
- iii. Commercial banks will make foreign exchange available at the rate fixed by using market mechanism for the payment of all imported goods increasing industrial raw materials. Spare parts and services and for payments of foreign loans and interest of the non- government sector. Nepal Rasta bank will not make a separate foreign exchange provision for this purpose.

Institutional Arrangement

- i. Board of Trade
- ii. Foreign Trade Policy and Research Institution.
- iii. Nepal Trade promotion organization.

What we see by studying overall policy is that for the development of economy for the growth of contribution in the trade sector. Involvement of the private sector will be made managed and sustainable. Buy identifying, developing and producing exportable goods attention will be given to trade diversification. By decreasing, gradually trade disequilibrium to expand the sustainable trade. The policy was focused on reduced the higher participation of government sectors. It seems this will benefit the process of liberalization. It is extremely necessary to made business competitive, for that reforming, what ever is necessary tax system will be made simple. As a process of privatization, Government Corporation will be gradually changed towards privatization.

To promote the foreign trade in the economic development of Nepal, policy has given special priority in export promotion. Aiming to earn higher amount of foreign currency, the policy was focused on commodity wise and service wise export diversification. For that serviceable business will be given higher priority. There is great possibility of hydro electricity in the Nepalese economy. The policies, which encourage this possibility is the right policy. To operate above functions by formulating monetary exchangeable and fiscal policy the administrative process will radically be restricted.

Import would be applied as a means of development and promotion of export. For that, the gap between export and import would gradually be reduced and creation of sustainable foreign trade situation would be done. Except the full restricted and qualitative restricted goods for export, import of the all the other goods would be opened. Necessary step of monitoring would be managed for not to led the deviation in foreign trade. Similarly to manage the foreign trade, foreign exchange system

would be made more beneficial. For the NRB has been given special right.

Sustainable developments of foreign trade to development it as a helpful means for the economic development of the country. Some of the institutional Arrangement is managed. They are Board of trade, foreign trade policy and research institution and trade promotion organization.

CHAPTER - FOUR

VOLUME AND DIRECTION OF FOREIGN TRADE IN NEPAL

5.1 Volume of Foreign Trade

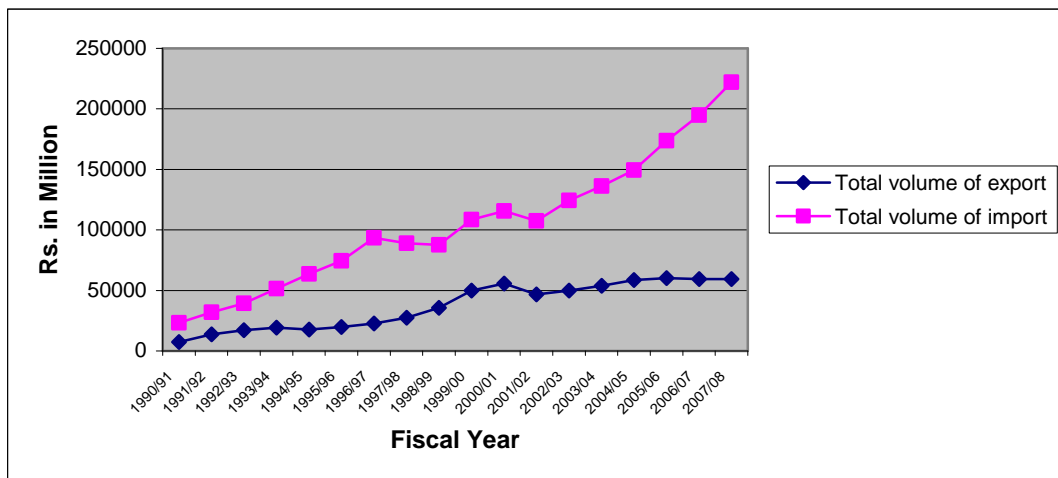
Increase in the volume of foreign trade is an indication of economic development of the nation. But increased in volume of trade export should be increased more than the volume of import. To gain benefit from foreign trade if the total export increased significantly then total import further declined. The increase volume of export offsets the decrease in imports which contributes to attain surplus in overall balance of payment (BOP) further. The total volume of Nepalese foreign trade during the study period (FY 1990/91 to FY 2007/08) is illustrated in table 2 and figure 1.

Table 2: Volume of Foreign Trade**(in percentage)**

Fiscal year	Total export in percentage	Total import in percentage	Total Volume of trade in million
1990/91	24.13	75.87	30614
1991/92	30.03	69.97	45646
1992/93	30.58	69.42	56472
1993/94	27.23	72.77	70864
1994/95	21.69	78.31	81319
1995/96	21.08	78.92	94336
1996/97	19.48	80.52	116190
1997/98	23.61	76.39	116515
1998/99	28.96	71.04	123202
1999/00	31.47	68.53	158328
2000/01	32.48	67.52	171341
2001/02	32.50	67.50	154334
2002/03	28.65	71.35	174283
2003/04	28.35	71.65	190188
2004/05	28.20	71.80	208179
2005/06	25.74	74.26	234014
2006/07	23.37	76.63	254077
2007/08	21.07	78.93	281204

Source: Quarterly Economic Bulletin, mid- January, 2008 NRB and economic survey, FY 2008/09, MOF

Figure -1: Volume of Foreign Trade



The total volume of exports in each and every year has increased quite low and it is not effective in spending up the total volume of trade. From appendix A, in FY 1990/91, total volume of export was RS.7387 million sharing 24.3 percent in total trade and in the FY 2006/07 Rs.59383 million and RS.59266 million sharing 21.07 percent in total trade in the FY 2007/08. The share of export was decreased 27.23 percent in FY 1993/94 as compared to 30.587 percent in previous years 1992/93. And it continues until share of export in total trade is 19.48 percent in FY 1996/97 compared to the preceding respective fiscal years, the share of export in totals trade has improved to 32.48 percent in FY 2000/01 and 32.50 percent in FY 2001/02.

The volume of import in FY 1990/91 Rs.23226 million sharing 75.87 percent in total trade and it went up to Rs.194695 million in FY 2006/07 and Rs.221938 million sharing the 78.93 percent in total trade in FY 2007/08. After two years, the share of import decreased as 69.42 percent in FY 1992/93. Then after three years it continually increased as 80.52 percent in FY 1996/97. Again, it was decreased from FY 1997/98 to FY 2001/02. Again, it was increased from FY 2002/03 to 2007/08 as 71.35, 71.65, 71.80, 74.26, 76.63 and 78.95 percent respective years. The

highest share of import was 80.52 percent in FY 1996/97 as compared to the proceeding respective fiscal years. The volume of import in FY 1990/91 more than fourth time double in the FY 2000/01 and increased the volume of import more than seven times in FY 2005/06.

The total volume (export + import) of Nepalese foreign trade shows a steady growth. It was Rs. 30614 million in FY 1990/91 that went up to Rs 234014 million in FY 2005/06 and Rs 254078 million in Fy 2006/07 and Rs 281204 million in FY 2007/08. The growth in total volume of trade is combined efforts to total volume of export and import, but the weight of the export and import in the total volume of trade should be taken into consideration. Large and increasing import compared to export identified the dominant role of import in the total volume of trade.

During the study period (in FY1990/91 to FY 2007/08), the volume of the export and the volume of the import has increased in absolute term but the volume of import is increased rapidly then the volume of the export. It also created a gap between the total volume of the export and the total volume of the import. To maintain the trade balance it may be necessary to established the equality between the total export and the import but in practice it is not attainable anywhere. In case of Nepal, total volume of export earning was always less then the total volume of the import expenditure. In FY 1990/92, 32 percent of the totals import expenditure was maintained by the total export earning rest expenditure were maintained by the other sources.

Table - 3: Export/Import Ratio

Fiscal Year	Export/Import Ratio
1990/91	0.32
1991/92	0.43
1992/93	0.44
1993/94	0.37
1994/95	0.28
1995/96	0.27
1996/97	0.24
1997/98	0.30
1998/99	0.40
1999/00	0.45
2000/01	0.48
2001/02	0.48
2002/03	0.40
2003/04	0.40
2004/05	0.39
2005/06	0.35
2006/07	0.30
2007/08	0.27
Average	0.37

Source: Table No. 2

The table No. 3 shows a random fluctuation in export/ import ratio. The minimum export/import ratio is 0.24 in FY 1996/97 and maximum export/import ratio is 0.48 in both FY 2000/01 and FY 2001/02. The average export/import ratio is 0.37 in between FY 1990/91 to FY 2007/08. That indicates only 0.37 percent of import could be maintained by Nepalese export. In FY 1990/91 export / import ratio was 0.32 and it

decreased the 5 percent in FY 2007/08. Because of, total import was increased rapidly then total volume of export.

From FY 1990/91 to FY 1992/93 Export/ Import ratio was increased. Because, total export was increased rapidly then total import. From FY 1990/91 to FY1991/92 total export increased by 46 percent and 20.62 percent in FY 1991/92 to FY 1992/93. In import side, total import was increased 27.28 percent from FY 1990/91 to FY 1991/92 and 18.53 percent from FY 1991/92 to FY 1992/93. From FY 1993/94 export/ import ratio started to decreased and it was continue to FY 1996/97. After 1997/98 export/import ratio also started to increased. Export/import ratio was 0.48 in both FY 2000/01 and FY 2001/02. After, FY 2001/02 again started to decreased continually, because share of total import was also increased with the comparison to total export in total trade.

5.2 Composition of Nepalese Foreign Trade

The foreign trade and economic development has close relationship. The foreign trade helps to economic growth of a country. Nepal is an agricultural economy. In case of Nepalese foreign trade that the pattern of commodity composition classified as export and import commodity composition is an important issues .The composition of Nepalese foreign trade analysis on the basis of Standard International Trade Classification (SITC)

EXPORT

5.2.1 Composition of Nepalese Export

Table 4: Composition of Nepalese Export classified by major SITC commodity Groups

(in percentage)

Fiscal year	0	1	2	3	4	5	6	7	8	9
1990/91	13.35	0.15	4.22	0.00	2.72	0.23	58.37	0.00	20.92	0.00
1991/92	14.17	0.09	3.19	0.00	1.17	0.14	55.14	0.00	26.09	0.00
1992/93	10.79	0.08	3.08	0.00	1.02	0.17	59.64	0.00	25.20	0.00
1993/94	6.03	0.06	2.24	0.00	0.72	1.09	56.56	0.03	33.25	0.00
1994/95	8.86	0.06	2.75	0.00	1.21	1.71	52.49	0.21	32.69	0.00
1995/96	9.79	0.05	3.87	0.00	1.26	3.22	52.59	0.17	29.03	0.00
1996/97	11.76	0.07	2.93	0.00	1.38	5.95	48.72	0.26	28.89	0.00
1997/98	11.35	0.08	1.77	0.07	7.76	7.15	42.29	0.21	29.29	0.00
1998/99	10.43	0.14	1.32	0.00	10.08	7.86	37.95	0.27	31.93	0.00
1999/00	8.51	0.23	1.13	0.00	6.48	7.89	31.79	0.79	43.17	0.00
2000/01	8.58	0.13	1.35	0.00	7.37	7.26	33.98	0.62	40.70	0.00
2001/02	10.85	0.13	1.33	0.00	15.8	7.05	37.05	0.78	36.81	0.00
2002/03	12.22	0.31	1.60	0.01	8.37	6.57	35.64	0.42	34.61	0.08
2003/04	11.64	0.28	1.32	0.03	6.26	7.17	43.78	1.15	28.53	0.00
2004/05	11.91	0.10	1.50	0.00	8.64	6.26	48.70	0.35	22.55	0.02
2005/06	11.94	0.05	2.03	0.00	7.11	6.12	47.37	2.00	23.38	0.00
2006/07	11.90	0.04	2.03	0.00	7.50	6.90	51.21	2.09	18.09	0.00
2007/08	22.21	0.04	2.28	0.00	3.48	4.76	50.02	0.54	15.66	0.00
Average	10.35	0.12	2.23	0.006	5.88	4.86	46.85	0.60	28.93	0.00

Major SITC commodity Groups are as follows: 0. Food and Live Animal, 1. Tobacco and Beverages, 2. Crude materials except fuels, 3. Mineral fuels and Lubricants, 4. Animal and vegetable oil and fats, 5. Chemical and drugs, 6. Manufactured goods classified mainly by materials, 7. Machinery and transport equipment, 8. Miscellaneous manufactures articles, 9. Commodity and transaction not classified according to kind.

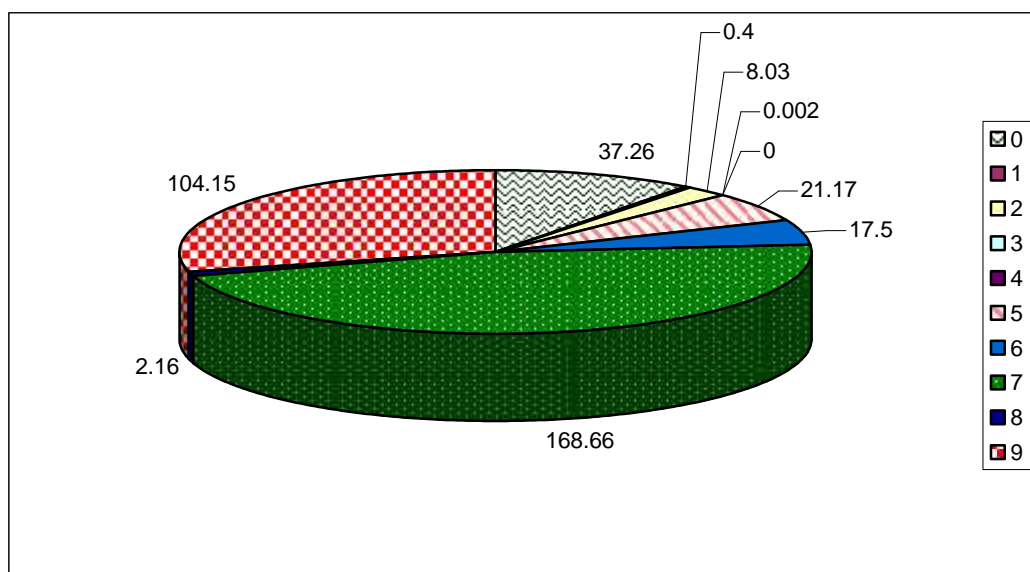
Source: calculated from the data provided by Quarterly Economic Bulletin, mid January 2008 NRB and economic survey, FY 2008/09, MOF.

From Appendix B and table no 4, during the FY 1990/91 to FY 2007/08 Nepalese exports has grown notably manufactured goods plays an important role in Nepalese export through ranges from 32 percent in FY 1999/2000 to 60 percent in FY 1992/93 to the total export in different years. The share of goods and live animals was Rs.986 millions sharing 13.35 percent in FY 1990/91 and reached Rs.13165 million in FY 2007/08 sharing only 22.21 percent of total export. The share of crude materials was 312 million (4.22 percent) in FY 1990/91 and reached to 1350 million in FY 2007/08 sharing only 2.28 percent.

The share of Animal and Vegetable oil and Fats was Rs 201million (2.72 percent) in FY 1990/91 and it reached to Rs 2062 million (3.48 percent) in FY 2006/07. The share of manufactured goods was higher with the comparison to other goods. In FY 1990/91 the share of it was Rs 4312 millions (58.37 percent) in totals export and it increased to Rs 29643 millions in FY 2007/08. Then, the share of miscellaneous manufactured articles in total export was Rs 1548 million (20.92 percent) in FY 1990/91 and it went up to Rs 9282 million (15.66 percent) in FY 2007/08.

The average composition of the export classified by major SITC commodity groups is shown by following pie chart.

Figure -2: Composition of Nepalese export classified by major SITC commodity groups.



On the export composition of Nepalese foreign trade, the share of primary goods is increasing continually and the share of manufactured goods in total export was high but the worth considering fact is that Nepalese exports are limited to few items.

IMPORT

5.2.2 Composition of Nepalese Import

From appendix C and table no 5, the share of Food and Live Animals was Rs 1820 million (7.83percent) in FY 1990/91, which reached Rs 15838 million (7.14 percent) in FY 2007/08. Tobacco and Beverages has a minimum share of total import with the comparison to other. Its share was Rs 257 million (1.10 percent) and it reached to Rs 1238 million (5.58 percent) in Fy 2007/08. The share of crude materials, inedible except fuels was Rs 2013 million (8.67 percent) in FY 1990/91, which reached to Rs 8365 million (3.77 percent) in FY 2007/08. Mineral fuels and lubricants were Rs 2278 million (9.80 percent), which increased

and reached to Rs 43968 (19.81 percent) in FY 2007/08. The share of Animal and Vegetable oil and Fats was Rs.742 million (3.19 percent) in FY 1990/91 and which increased and reached to 9399 million (12.40 percent) in FY 2007/08.

**Table-5: Composition of Nepalese import classified by major SITC
Commodity groups. (In percentage)**

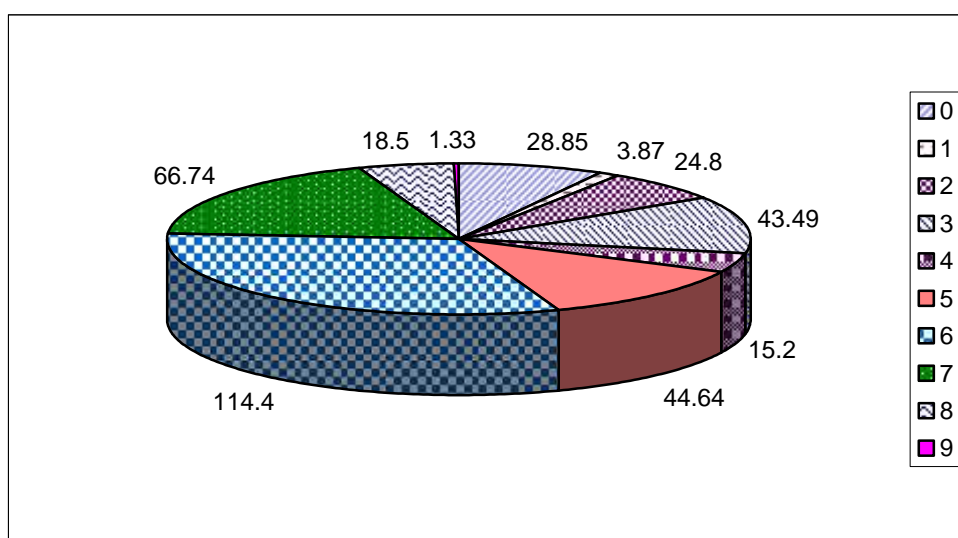
Fiscal year	0	1	2	3	4	5	6	7	8	9
1990/91	7.81	1.10	8.67	9.80	3.19	13.14	25.62	25.74	4.83	0.00
1991/92	9.23	0.90	10.69	11.41	2.51	14.45	26.93	18.45	4.85	0.58
1992/93	7.71	1.19	10.14	9.78	2.77	13.45	26.93	19.64	5.58	0.07
1993/94	7.92	0.71	6.05	9.38	2.83	10.74	29.67	19.46	5.53	0.17
1994/95	7.01	0.78	5.26	7.41	3.23	11.29	39.73	20.06	4.80	0.02
1995/96	6.43	07.71	6.54	7.45	3.80	11.67	37.78	20.55	5.09	0.00
1996/97	5.77	0.61	5.54	7.65	2.48	9.03	47.82	14.75	4.29	1.69
1997/98	5.53	0.89	7.84	10.71	2.28	12.45	36.63	18.80	4.46	0.38
1998/99	8.78	0.98	7.54	10.00	3.80	14.39	29.19	20.45	4.54	0.30
1999/00	9.99	0.84	6.46	8.38	4.09	13.34	31.72	18.94	6.19	0.07
2000/01	5.18	0.78	6.53	9.74	4.83	11.19	35.60	19.90	6.23	0.00
2001/02	5.90	0.67	6.27	14.15	7.34	11.53	30.63	18.17	5.18	0.06
2002/03	7.53	0.64	6.82	16.04	6.23	11.51	28.05	16.65	5.29	1.22
2003/04	6.28	0.75	7.74	16.07	6.33	12.14	36.79	19.05	3.74	1.29
2004/05	6.57	0.68	7.50	20.02	4.02	12.83	24.78	17.57	5.05	0.97
2005/06	7.65	0.67	6.08	20.97	5.86	14.24	23.36	15.07	5.99	0.09
2006/07	6.62	0.50	4.53	18.68	6.23	13.86	24.73	18.67	6.04	0.13
2007/08	7.14	5.58	3.77	19.81	4.23	12.10	25.88	21.63	4.83	0.04
Average	7.18	1.06	6.89	12.08	4.22	12.40	31.78	18.54	5.14	0.37

Source: NRB, Quarterly Economic Bulletin,

The share of manufactured items continued to lead the total import in the study period (FY 1990/91 to 2007/08). The share of chemical and drugs was Rs 3051 million (13.14 percent) in FY 1990/91 which reached to Rs 26863 million (12.10 percent) in FY 2007/08. Manufactured goods classified mainly by materials have largely sharing in total import. It was Rs 5951 million (25.62 percent) in Fy 1990/91 and it reached Rs 57448 million (25.88 percent) in FY 2007/08. The share of machinery and transport equipment in FY 1990/91 was Rs 5991 million and in FY 2007/08 it reached to Rs 48006 million (21.63 percent) in total import. Miscellaneous manufactured articles share in total import was Rs 1121 million (4.84 percent) in FY 1990/91, which reached to Rs 10726 (4.83 percent) in FY 2007/08. The share of commodity and Transactions not classified according to kind has a minimum share and fluctuating contribution in total import.

The average compositions of the import classified by major SITC commodity groups are showing by pie chart as follow.

Figure -3: Average composition of Nepalese import classified by major SITC commodity groups.



The composition of Nepalese foreign Trade during the FY 1990/91 to FY 2007/08 shows an increasing tendency. From FY 1999/00 to FY 2007/08 the total export and total import both increased. But, total import increased more than total export, and then trade balance deficit consequently increased in respective years.

5.3 Direction of Nepalese Foreign Trade

The study of direction of trade indicates as country's international relation and provision for trade participation of nations. The direction of foreign trade shows in the share of export and import destination wise of exportable and importable commodities. In case of Nepalese direction of trade shows that whether its trade is diversified or limited to a few regions or countries. Nepalese trade is diversified in more than 150 countries of the world. But here, we have analyzed Nepalese trade direction under classifying only two destinations as India and overseas countries.

From Appendix D before 80's and 90^s Nepalese foreign trade was concentrated with India. In FY 1990/91 total exports to India was Rs 1552 million sharing 21.04 percent in total export and it reached to Rs 38556 million 65.05 percent in FY 2007/08. It was declined to Rs 11450 million in FY 1991/92. On the contrary export to overseas countries shows that a steady growth during the study period (FY 1990/91 to FY 2001/02) and sharing more than fifty percent in total export. In FY 1990/91, the total export with overseas countries was Rs 5835 million sharing 78.99 percent in total export which increased to Rs 29624 million in FY 2000/01 and it reached Rs 20711 million sharing 34.94 percent in FY 2007/08. After, FY 2000/01, there was fluctuation of Nepalese export to overseas countries.

**Table-6: Trade Direction: Export and Import with India
and Overseas Countries.**

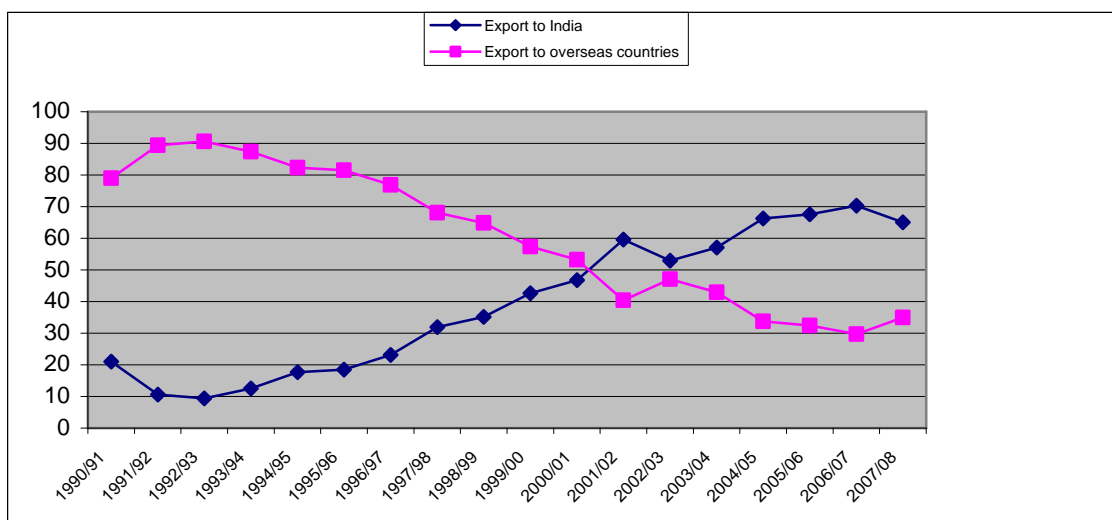
(In percentage)

Fiscal year	Export to India	Export to overseas countries	Import from India	Import from overseas countries
1990/91	21.01	78.99	31.53	64.47
1991/92	10.58	89.42	35.20	64.80
1992/93	9.40	90.60	32.00	68.00
1993/94	12.48	87.42	33.03	66.19
1994/95	17.71	82.29	30.03	69.19
1995/96	18.52	81.48	32.77	67.23
1996/97	23.09	76.91	26.56	73.43
1997/98	31.96	68.07	30.70	69.29
1998/99	35.12	64.88	36.70	63.30
1999/00	42.59	57.40	36.55	63.45
2000/01	46.77	53.23	47.38	52.7
2001/02	59.55	40.45	52.73	47.27
2002/03	52.93	47.07	57.03	42.96
2003/04	57.09	42.91	57.03	42.22
2004/05	66.30	33.70	57.78	40.67
2005/06	67.60	32.40	61.65	38.34
2006/07	70.27	29.73	59.51	40.49
2007/08	65.05	34.94	64.15	35.85

Source: NRB Quarterly Economic Bulletin, mid- January 2008 and economic survey FY 2008/09, MOF.

The import has shown a steady increasing tendency with India and overseas countries. In FY 1990/91 total import from India was RS. 7323 million sharing 31.53 percent in total import and it increased and reached to RS.142376 million sharing 64.15 percent in FY 2007/08. The total import from overseas was RS. 15903 million sharing 64.47 percent in FY 1990/91, which increased to Rs 79561 million,sharing 35.89percent in FY 2007/08. After, FY 1996/97, it started to fall down and reaches to Rs 61671 million in FY 1997/98 and RS.3406 million in FY 1998/99. Again, it started too increased as RS. 68845 million in FY 1999/00, and then started too declined as comparison to previous years. There was fluctuation in to overseas import. Nepalese import was concentrated with India. Because, Nepal was land locked country and also surround by India (west, East and south). There is open border with India. There is no suitable way to reach seaport then across the India. There was also cultural and social relationship with India. So that, Nepal trade activities was concentrated with India then overseas countries.

Figure-4: Export to India and overseas countries.



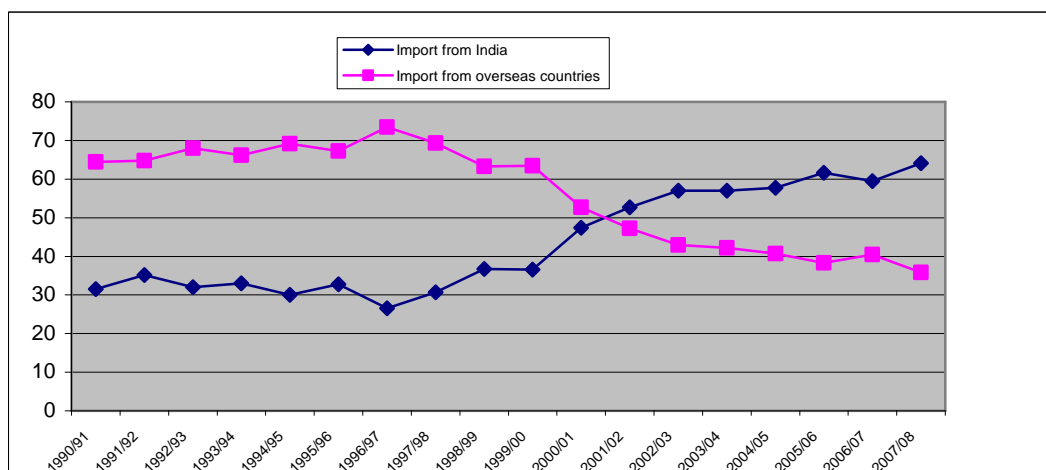
In FY 1990/91, the share of total export to India was 21.01 percent which increased and reached to 65.05 percent in FY 2007/08. The share of total export to India fall down to 10.58 percent in FY 1991/92, 9.4 percent in FY 1992/93, 12.58 percent in FY 1993/94, 17.71 percent in FY 1994/95 and 18.52 percent in FY 1996/97 as compared to 21.01 percent in FY 1990/91. It started too increased from FY 1996/97 to FY 2007/08. In FY 1996/97 the share of export to India was 23.09 percent. The minimum share of total export to India was 9.10 percent in FY 1992/93 and the maximum share of export to India was 70.27 percent in FY 2006/07. Opposite, the share of total export to overseas countries should declined trend. It was 78.99 percent in FY 1990/91, which fall down and reached 34.94 percent in FY 2007/08. The highest share of total export to overseas countries was 90.60 percent in FY 1992/93 and the lowest share of it was 29.73 percent in FY 2006/07.

In FY 1992/93 there was big gap between export to India and overseas countries. The main focused point of the policy is trade diversification with country wise and commodity wise. After implication of the policy table 7 and figure 4 show that export to overseas countries was started to decreasing. On the contrary export to India started to increasing. Before FY 1999/00 more then 60 percent of the Nepalese export was concentrated with in three commodities such as pashmina, Nepalese garment and Nepalese carpet. The market of these commodities was concentrated with in USA and Germany. But, carpet market started to declining cause of child labor issued creation less demand of Nepalese carpet. Bangladesh and India started to produced the better qualitative and cheep carpet. This was comparatively attractive then Nepalese carpet. Nepalese garment market was concentrated in USA but quota system and

terrorist attack in 2001 in WTO head office situated in USA are responsible to less demand of Nepalese Garment.

Internal war was also still in the country. So that, GON not able to find out new destination of export goods market and also find out new exportable goods and market. Political instability, geographical difficulties, less development of infrastructure is responsible for less export growth to overseas countries. That is way the policy is failure to export promotion.

Figure - 5: Import from India and Overseas Countries



In case of import sector, the share of total import from India was 31.53 percent in FY 1990/91 and it reached to 64.15 percent in FY 2006/07. In FY 2000/01 it was 47.38 percent in total share. After, FY 2000/01 petroleum product imports shifted to India from other overseas countries. So that, it has been seen to increased tendency during the FY 2001/02 then import from India started too increased rapidly. Because, share of petroleum product in total import is very large. The highest share of total import from India was 64.15 percent in FY 2007/08 and the lowest share of its was 26.56 percent in FY 1996/97. The share of total import from overseas countries was 68.47 percent in FY 1990/91, which

falls to 35.85 percent in FY 2007/08. During the FY 1990/91 to FY 1999/00, the share of total import shows that some ups and downs. Then it was started to declining. The highest share of total import from overseas countries was 73.43 percent in FY 1996/97 and the lowest share of it was 34.85 percent in FY 2007/08.

The share structure of export and import of foreign and overseas countries shows that in the early of the study period (FY1990/91 to FY 2007/08) there is dominance of overseas countries trade in total export and import trader of Nepal. But after, there is a dominance of India trade in total export and import trade. There is open boarder with the India, so that indirect trade relation is still with India. Another neighbor country of Nepal is China situated in north of the Nepal. But, geographical difficulties create the less trade activity with China. Historical and cultural prospective of Nepal trade with India is remarkable. Because of the geographical cause Nepal export to overseas countries through the India port and import too. Import from India increased large volume during the last ten years. The provision of treaty with India is also supported large trade activity with India then other countries.

5.4 Trade Balance of Nepal

The trade balance of Nepal has remained unfavorable during the study period (FY 1990/91 to 2007/08). The main cause for the deficit trade balance is higher import against the small export. The trade balance of Nepal from FY 1990/91 to FY 2007/08 is illustrated in the table below

Table- 7: Trade balance of Nepal**(In million rupees)**

Fiscal year	Export to India	Export to overseas countries	Import from India	Import from overseas countries	Trade balance with India	Trade Balance with overseas countries
1990/91	1552	5835	7323	15903	-5771	-10068
1991/92	1450	12256	11245	20694	-9795	-8438
1992/93	1623	15645	12542	26663	-10919	-11018
1993/94	2409	16885	17035	34535	-14626	-17650
1994/95	3124	14515	19616	44064	-16492	-29549
1995/96	3683	16198	24399	50056	-20716	-33858
1996/97	5226	17410	24853	68700	-19627	-51290
1997/98	8794	18719	27331	61671	-18537	-42952
1998/99	12531	23146	32120	55406	-19589	-32260
1999/00	21221	28602	39660	68845	-18439	-40243
2000/01	26030	29624	54701	60981	-28671	-31357
2001/02	27956	18989	56622	50767	-28666	-31778
2002/03	26430	23501	70924	53473	-44494	-29972
2003/04	30777	23134	78739	57538	-47962	-34484
2004/05	38917	19788	88675	60798	-49758	-41010
2005/06	40715	19519	107143	66637	-66428	-47118
2006/07	41729	17654	115876	78833	-74147	-61179
2007/08	38556	20711	142376	79561	-103820	-58850

Source: Quarterly Economic Bulletin, mid-January 2008, NRB and Economic survey, FY 2008/09, MOF.

Table no 7 shows that Nepal has suffering from unfavorable trade balance with an increasing tendency. In FY 1990/91 Nepalese trade balance deficit with India was Rs.- 5771 million, which was increased and reached to Rs -103820 million in FY 2007/087. After, five years it continually grows and reached Rs -20716 million in FY 1995/96. Again, FY 1995/96, it started to decrease. There was fluctuating till in FY 1998/99. In FY 1999/00, Trade balance deficit with India was five times higher with the comparison to 2007/08. In case of overseas countries, Nepalese trade balance deficit was Rs. - 10068 million in FY 1990/91. Then trade balance deficit of Nepal shows large and fluctuating tendency. It was falls to RS. - 8438 million in FY 1991/92 and started to increased for six consecutive years and reached Rs. - 51230 million in FY 1997/98. In FY 2006/07 trade deficit with overseas was more then six times higher then in FY 1990/91.

The main reason for the increasing Nepalese trade balance deficit is higher imports contrary to small exports. Some factors, which are responsible to deficit trade balance, are as low volume of exportable production, low level of quality, agro and forest based exportable goods, land-locked situation, high transit and transportation cost, geographical difficulties of the country, unfavorable environment for industrialization, political instability, lack of effective implementation of the trade policy, low level of quality etc.

5.5 GDP, Export and Remittance

5.5.1 Export and GDP

Table -: 8 Total Export, Remittance and GDP

Fiscal year	Remittance as a percentage of GDP	Export as a percentage of GDP	GDP in Rs million
1990/91	1.77	6.1	120370
1991/92	1.55	9.2	149487
1992/93	1.75	10.07	171474
1993/94	1.24	9.68	199272
1994/95	2.31	8.05	219175
1995/96	1.72	7.99	248513
1996/97	1.99	5.95	280513
1997/98	2.32	9.14	300845
1998/99	3.01	10.43	342036
1999/00	3.34	13.23	379488
2000/01	11.48	13.53	411275
2001/02	10.3	10.2	422807
2002/03	10.1	10.1	456675
2003/04	10.9	10.0	496745
2004/05	11.1	10.0	533538
2005/06	14.9	9.2	582348
2006/07	13.8	8.2	728178
2007/08	17.4	7.5	818401

Source: Quarterly Economic Bulletin, mid- January 2008 NRB and Economic survey, FY 2008/09, MOF.

Table No. 8 shows the share of total export in GDP during FY 1990/91 to 2007/08. During 1990/91 to 2000/01, the share of total export in GDP increased. In FY 2000/01, the share touched ever highest rate of 13.53 percentages and declined there after and in FY 2007/08 reaching to 7.5 percentages. The September in 2001, terrorist attack in WTO head office situated in the USA influenced the world market and Nepal also couldn't restrain from this economic slack down spiral allover the world. As a result Nepal's overseas export significantly went down. USA is a major trade partner of the Nepal. After FY 2000/01, the share of export in GDP was started to decreasing. From FY 2001/02 to FY 2004/05 the share of export on GDP was still around the 10 percent and from FY 2005/06 it also started to decrease. During the FY 1990/91 to FY 1997/98 export as a percentage of GDP was still below the double digits such as 5 to 10 percent. The lowest share of export on GDP was 5.95 percentages in FY 1996/97. It shows that, where is the role of the Nepalese export for economic development prospective after implication of the CP 1992.

5.5.2 Remittance as a source of external earning

Export earning is one of the main sources of the external earning. Export earning is obtained by the export of commodity to abroad. In CP 1992, there is also provision of service export. The outcome of this priority is positive with the comparison to commodity export. In FY 2007/08 17.4 percent of the GDP was obtained by the services export earning (remittances). Nepal's export skilled manpower and labor as a form of services export to abroad. But, there is also still a question mark, how long it effective as a sources of the external sector earning of Nepalese economy.

Figure -6: Histogram of the Remittance GDP percentage and Export GDP percentage

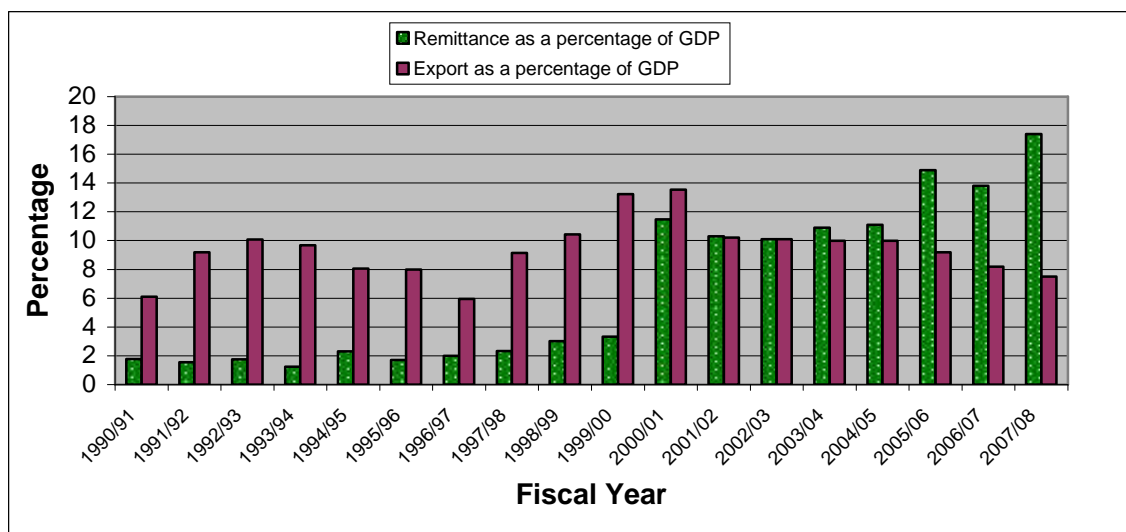


Table No. 8 and figure No. 6 shows that, export and remittance as a percentage share in GDP. During the study period FY1990/91 to FY 1999/00, the share of remittance GDP percentage is very low and on the contrary export as a percentage of GDP is comparatively high. Then, share of remittance is increasing gradually but share of export earning was still around 10 to 12 percentage Points. The lowest share of remittance was 1.24 percent in FY 1993/94 and the highest share of remittance was 17.63 percentages in FY 2007/08. The lowest share of export was 5.59 percent in FY 1996/97 and the highest share of export earning was 13.53 percentages in 2000/01.

The average percentage of export earning as a percentage of the GDP is 8.8 percentage. Now remittance earning would be going higher than export earning. So that, contribution of the export earning on GDP is comparatively low. After, implication of the commercial policy 1992, Output of the export earning not much better than before. There was big

gap between export promotion strategy and its output in case of Nepalese economy.

Each and every countries necessary to earn foreign exchange earning. Without foreign exchange earning it is very difficult to maintain the international trade balances forever. In case of Nepal one of the importance sources of foreign exchange is remittance. In CP 1992, there is a provision of skill manpower export to abroad as services export. In present context, large volume of unskilled labor flow in Gulf countries and Malaysia, but, there salary is comparatively very low with the comparison to skilled manpower. Lack of employment opportunity in Nepal manpower export tried to make relief to reduced the unemployment pressure and other hand it also play the big roll to earn export earning in Nepal. Table No. 8 and figure No. 6 shows that, during the study period FY 1990/91 to FY 2007/08 first ten years share of commodity export in GDP is comparatively high then the share of remittance in GDP. After in FY 2000/01, share of remittance in GSP was increased by double digits as 11.48 percent to decreasing, but volume of export is increasing which is comparatively less then increased the volume of the remittance.

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 Summary and Conclusion

Nepal is one of the least developed countries of the world. Nepalese foreign trade sector specially export trade which is considered to be the engine of growth has been deteriorating rather than improving. The volume of import is increasing massively than the volume of export.

The study is concentrated with the impact of the Commercial Policy 1992 to development of the Nepalese foreign trade. It tries to find out seasonal contribution of foreign trade. Contribution of the external sector to growth national output.

CP was implemented when the flow of the globalization, liberalization and privatization was prevalent on the country. Along with the establishment of the democracy, then took the new path in which to fulfill the needs of the economic development. The contribution of foreign trade was also said to be important. To promote FDI government should flexibility but the sustainable and believable source of external sector was considered export earning. But trade diversification would have been country wise and commodity wise but it couldn't be done. As a result, after the terrorist attack on world trade on September 11, 2001. The trade with USA reduced and demand of the carpet exports to Germany also reduced. That's why, earning from overseas gradually reduced.

It also can be found that because of the internal difficulties of the Nepal the industrial sector development has been affected during the

period of Maoist insurgency many physical infrastructures were destroyed and new infrastructures couldn't be developed. As a result import increased and even the reform in quality wasn't done in case of the exportable goods. Different legal trade treaties with the nearest neighbor country India along with other then many provisions were not friendly in favor of Nepal. Therefore export couldn't be promotes and trade deficit included. On the other hand, trade policy couldn't be implemented effectively and also because of this output of the CP 1992 was not dutiful.

-) Overall trade balance is not favorable to Nepal, because in fiscal year 2005/06 total export earning was also able to payment 34.7 percent of total import. The size of import was very big than the size of export and import growth rate is comparatively high with the comparison of rate of export growth so that trade deficit is going to be increasing.
-) Nepal's export performance is very poor and limited to a few items. Due to the heavy dominance of import over export, trade deficit with India has been widening.
-) Trade policies do not seem to encourage export. Exports have to undergo through a since of official enforcement, before, they can finally export the products.
-) Nepal has fundamental trade deficit problem with both India and overseas countries that may have a long term effect on the country's economy.
-) CP and also other's Nepal's foreign trade policy is directed more towards import expansion with than export promotion and import substitution.

-) Nepalese export commodity composition is less diversified than import commodity composition. It is also less diversified country wise on definition wise.

6.2 Suggestion and Recommendations

-) GON should give emphasis on export oriented industries.
-) To reduce import, domestic industries should be encouraged to produce consumer goods. By leaving heavy tax on luxury goods, we can reduce the import of such items.
-) Government should encourage for high quality production and also there is a need to introduce new exportable commodities and analyzed their comparative advantages in relation to foreign products.
-) Government should give emphasis on the infrastructures development so that natural resources of the country can be properly used.
-) Government should provide certain facilities and support industries qualities. These supports could be in the form of training in design product development product marketing strategy etc.
-) Private sector should be given reasonable facilities and incentives because it plays dominant role in the country's export trade. They often complain that government has never been able to fulfill its commitments such as situation should not be allowed to remain in the country.
-) To improve trade balance, the government has given the priority of the policy measures of devaluation, which seems to be a short-term measure. But for the successful implementation of devaluation,

governments need to develop local resources sufficiently in the country. Otherwise, it may have adverse effects on the economy.

) Nepal needs to diversify its trade to overseas countries by developing its link with them regular seminar should be conducted to explore the possibilities.

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APPENDICES

Appendix A

Fiscal year	Total volume of export	Total volume of import
1990/91	7387.59	23226.5
1991/92	13706.5	31940.0
1992/93	17266.5	39205.6
1993/94	19293.49	51570.8
1994/95	17639.2	63679.5
1995/96	19881.1	74454.5
1996/97	22636.5	93553.4
1997/98	27513.5	89002.0
1998/99	35676.3	87525.3
1999/00	49822.7	108504.9
2000/01	55654.1	115687.2
2001/02	46644.8	107389.0
2002/03	49930.6	24389.0
2003/04	53910.7	136277.1
2004/05	58705.7	149473.6
2005/06	60234.1	173780.3
2006/07	59383.1	194694.6
2007/08	59266.5	221937.7

Source: Quarterly Economic Bulletin, 2008, NRB and Economic Survey 2008/09, MOF.

Appendix - B

Composition of Nepalese export classified by major SITC commodity groups (Rs. in million)

Fiscal year	0	1	2	3	4	5	6	7	8	9
1990/91	987	11	312	0.0	201	18	4312	0.1	1546	0.0
1991/92	1942	14	437	0.0	160	20	7557	0.3	3576	0.0
1992/93	1863	13	532	0.3	176	29	10298	1.2	4352	1.4
1993/94	1163	13	432	0.0	138	212	10913	6.4	6415	0.2
1994/95	1563	11	485	0.0	214	302	9260	37	5766	0.1
1995/96	1947	10	769	1.3	251	302	10456	35	5772	0.0
1996/97	2662	15	663	1.4	313	640	11029	60	6540	0.5
1997/98	3123	23	487	21	2136	1353	11637	58	8090	0.0
1998/99	37244	50	470	0.5	3597	2804	13540	97	11393	0.0
1999/00	4240	117	561	2.2	3230	3933	15839	391	21507	0.0
2000/01	4777	76	751	1.3	4104	4042	18.909	344	22651	0.0
2001/02	5094	146	624	1.6	7421	3308	17395	365	12589	0.0
2002/03	6101	139	800	5.5	4279	3279	17794	208	17281	43
2003/04	6277	55	714	14	3376	3866	23602	169	15380	6.9
2004/05	6993	32	882	4.2	5070	3678	28591	207	13240	9.1
2005/06	7192	25	1233	3.2	4285	3687	28533	1202	14082	2.5
2006/07	7056	23	1368	0.0	4455	4092	30412	1241	10736	0.0
2007/08	13165	24	135	0.0	2062	2823	29643	913	9282	3.2

Source, Quarterly Economic Bulletin mid- January 2008, NRB and Economic survey FY 2008/09, MOF.

Appendix - C

Composition of Nepalese Import Classified by Major SITC Commodity Groups. (RS. in million)

Fiscal year	0	1	2	3	4	5	6	7	8	9
1990/91	1825	257	2013	2278	741	3051	5951	5391	1121	2.0
1991/92	1947	288	3416	3645	802	4,615.3	8600	5892	1548	187
1992/93	3025	469	3977	3834	1085	5265	11633	7702	2186	28
1993/94	4085	368	3122	4837	1457	5541	19147	10037	2884	91
1994/95	4464	501	3348	4717	2056	7193	25301	13028	3057	15
1995/96	4786	509	4866	5549	2831	8687	28130	15301	3795	2.0
1996/97	5400	591	3487	2160	2328	8504	47742	13795	4016	1530
1997/98	4926	739	6977	9537	2026	11077	32602	16735	3974	347
1998/99	7619	846	6248	8737	3339	12476	25638	18064	4302	266
1999/00	10839	906	7012	9098	4446	14474	34420	20548	6683	78
2000/01	5994	906	7560	11269	5589	12942	41188	23.028	7210	0.8
2001/02	6333	717	6734	15201	7887	12381	32889	19514	5670	62
2002/03	9370	792	8479	19944	7450	14319	34888	20702	6583	1523
2003/04	8554	1027	10551	21904	8634	16545	36510	25694	5104	1753
2004/05	9821	1026	10207	27927	6016	19180	37047	26262	7552	1445
2005/06	13299	1162	10562	36447	10196	24750	40600	26194	10418	151
2006/07	12896	958	8829	36362	12138	26996	48145	36357	11757	258
2007/08	15838	1238	8365	43968	9399	26863	57448	48006	10726	84

Source: Nepal Rastra Bank, Quarterly Economic Bulletin mid- January 2008 and economic survey, FY 2008/09, MOF.

Appendix - D

Nepalese trade direction: export and import with India

and Overseas countries

(In million rupees)

Fiscal year	Export to India	Export to overseas countries	Import from India	Import from overseas countries
1990/91	1552	5835	7323	15903
1991/92	1450	12256	11245	20694
1992/93	1623	15645	12542	26663
1993/94	2409	16885	17035	34535
1994/95	3124	14515	19616	44064
1995/96	3683	16198	24399	50056
1996/97	5226	17410	24853	68700
1997/98	8794	18719	27331	61671
1998/99	12531	23146	32120	55406
1999/00	21221	28602	39660	68845
2000/01	26030	29624	54701	60981
2001/02	27956	18989	56622	50767
2002/03	26430	23501	70924	53473
2003/04	30777	23134	78739	57538
2004/05	38917	19788	88675	60798
2005/06	40715	19519	107143	66637
2006/07	41729	17654	115876	78833
2007/08	38556	20711	142376	79561

Source: Quarterly Economic Bulletin, Mid-January 2008.NRB and Economic survey FY 2008/09, MOF

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