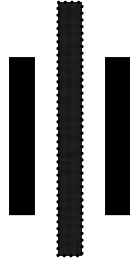


“A STUDY ON THE FOREIGN TRADE OF NEPAL”



Submitted by:

Narayan Kumar Budhathoki
Campus Roll No. : 13
T.U. Regd. No. . 5-1-249-51-96
Master of Business Study
Makwanpur Multiple Campus
Hetauda, Makawanpur

Submitted to:

**Head of Research Department
Makwanpur Multiple Campus
Hetauda, Makawanpur**

(A partial fulfillment for the requirements of Degree of Master of Business Studies)

Makwanpur, Nepal

July, 2008

RECOMMENDATION

This is to certify that the thesis

Submitted by

Narayan kumar Budhathoki

Entitled

A Study on the Foreign Trade of Nepal has been prepared as approval by this Department in the prescribed format of Faculty of Management. This is forwarded for examination.

.....
Mr. Bijaya Krishna Shrestha
(Thesis Supervisor)

.....
Mr. Yub Raj Giri
(Campus Chief)

Date:-.....

VIVA- VOCE SHEET

We have conducted the VIVA-VOCE Examination of the Thesis Presented

By

Narayan Kumar Budathoki

Entitled

A Study on the Foreign Trade of Nepal and found that the thesis to be an original work of the student and written in accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of Masters in Business Studies (MBS).

VIVA-VOCE COMMITTEE

Chairperson, Research Committee:-.....

Member (Thesis Advisor):-.....

Member (External Expert):-.....

Date:-.....

DECLARATION

I hereby declare that the thesis entitled “**A Study on the Foreign Trade of Nepal**” submitted to Makwanpur Multiple Campus, Faculty of Management, T.U., is my original work in the form of partial fulfillment of the requirements for the Masters of Business Studies (**MBS**) under the Supervision of Mr. Bijaya Krishna Shrestha and Mr. Yam Silwal, Lecturer of Makwanpur Multiple Campus, Hetauda.

Date:- July, 2008

Narayan Kumar Budathoki
Campus Roll No. 13
T.U. Regd. No. 5-1-249-51-96

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Narayan Kumar Budathoki
Hetauda

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ABBREVIATIONS

A.D.B. /N	: Agriculture Development Bank Nepal
BIMST-EC	: Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation
BOP	: Balance of Payment
CBS	: Central Bureau of Statistics
CEDA	: Centre for Economic Development and administration
EEC	: European Economic Community
e.g.	: example gratia, for example
ESCAP	: Economic and Social Commission for Asian and pacific
EEZs	: Especial Economic Zones
Etc	: etceteras, and so forth

FNCCI	: Federation of Nepal Chambers of Commerce and Industry
GATT	: General Agreement on Trade and Tariffs
GDP	: Gross Domestic Production
HMG/N	: His Majesty's Government of Nepal
Ibid.	: Ibidem, in the same place
ITC	: International Trade Centre
i.e.	: idest, that is
LDC	: Least Developed Country
MOICS	: Ministry of Industry, Commerce and Supply
NCC	: Nepal Chamber of Commerce
NG	: Nepal Government
NPC	: National Planning Commission
OECD	: Organization of Economic Cooperation and Development
Op. Cit.	: Opere citato, in the work mentioned
SAARC	: South Asian Association for Regional Cooperation
SAFTA	: South Asian Free Trade Arrangement
SAPTA	: South Asian Preferential Trade Agreement
SITC	: Standard International Trade Classification
STCL	: Salt Trading Corporation Ltd.
TPC	: Trade Promotion Centre
TU	: Tribhuwan University
UN	: United Nation
UNCTAD	: United Nations Conference on Trade and Development
WTO	: World Trade Organization

CHAPTER- ONE

INRODUCTION

1.1 BACKGROUND OF STUDY

Nepal is least developed and land-locked country, which lies between two countries India and China. China is in the North and India in the remaining three sides. Nepal's geographical situation is unique in the sense that other land-locked countries have an option to choose among two or more countries' transit facilities for their overseas trade. But India alone enjoys the monopoly over overseas transit to Nepal. Chinese port of Canton is 2800 kilometer from Nepal. So, Nepal is forced to receive the Calcutta port for minimizing transit cost in relation to trade with overseas trade.

Nepal lies between the latitude 26°22' to 30°27' North and 80°4' to 88°12' East longitude. Rugged hill and mountain out of 1, 47,181 square kilometer cover more than 83% land. It is 885 Km long and 193 Km wide (in average). The country is divided administratively into 5-development regions, 14 zones, 75 districts, 58 Municipalities and 3912 Village Development Committees. Geographically, Nepal is divided into three regions called Terai, Hill and Mountain each covering 17 percent, 68 percent and 15 percent respectively. More than 80% people are engaged directly in agricultural sector and it also has contributed more than 40% of National GDP and 75% of foreign trade.¹

¹ G.D. Pant & Shyam Joshi, *Introduction to Quantitative Techniques & Nepalese Economy*, Nabin Prakashan, Kathmandu, 2062, P.57.

Nepal's planned economy started from the year 1956 BS. Till now ten five-year plans have been completed. Ten Five Year Plan has already passed which also included perspective plan (20 years). Despite of a series of ambitious development plans and assistance from international aid agencies, Nepal's economic growth is very low. Macro economic indicator exhibits Nepal's economic status as extremely vulnerable, with a GNI per-capita of US\$ 340, Nepal ranks as one of the poorest countries in the world.

Nepal, a small land locked country of Asia, with its per-capita income \$340, is predominantly an agricultural country. Agriculture is still the main industry in Nepal, but performance in the sector is dominated by weather condition and constrained by physical and structural weakness. Due to the lack of irrigation facilities, improved seeds, modern techniques and equipment agricultural productivity are low. Almost 80 percent of the active population is engaged in this sector and producing about 40 percent of GDP.

1.1.1 Definition of International (Foreign) Trade

Before defining the meaning of foreign or international trade, we must understand the meaning of International marketing for making the clarity of foreign trade in effectively and fruitfully.

International marketing is a broad part of the overall marketing system. International Marketing is the performance of business activities designed to plan, price, promote, and direct the flow of a company's Goods and services to consumer or users in more than one nation for a profit. The only difference in the definitions of Domestic Marketing and Marketing activities take place in more than one country incase of International Trade whereas. This apparently minor difference “- - - in more than one nation - - -” accounts for the complexity and diversity and diversity found in International operations.²

² Philip R. Cateora, *International Marketing*, McGraw- Hill International Editions, Singapore, 1997, P.3.

According to Shyam Krishna Shrestha “The performance of business activities that direct the flow of a country’s goods and services to consumers or users in more than one nation is called international trade.”³

So, the transaction of goods and services between the people of different countries is called foreign or international trade.

The objective of International marketing, like in domestic marketing, is also to satisfy the consumers or users. In international marketing also the collection of activities like product, pricing, distribution, promotion and marketing intelligence contributes its essential parts.

Although the goals and principles of international marketing are the same as those of domestic marketing, international marketing has to discharge distinct and complicated challenges and responsibilities than those of domestic marketing. Similarly, although the basic functions are identical in both markets, implementation of the firm’s marketing program can be very different; that is, managing the international marketing can be significantly different from managing the domestic marketing.

The basic problems that arise while managing the International Marketing are the problems related to environments (including different national polices of different political and legal formalities and practices, different monetary units, different levels of technology, different cultural and social practices etc.). The marketing environment of Nepal may be quite different from that of the U.S.A, Japan and European markets. So whatever marketing plans and programs are prepared for Nepalese markets may be quite ineffective to cope with the different levels of uncertainty encountered in foreign markets. Due to these differences, a marketing manager of international business needs to acquire more competence

³ Dr. Shyam k. Shrestha, *Export Market Management in Nepal: A case study*, Padma Academic Publication, Kathmandu, 1995, P.2.

than that required for marketing in a particular foreign country and distinctly different from that demanded by domestic marketing management.⁴

The transaction of goods and services between the people of different countries is called foreign or international trade. In other words, foreign or international trade means the purchase of goods and services by one country from other countries. The basic principle of foreign trade is that the goods and services must cross through the national border. Foreign trade includes both export and import trade. Thus, export trade is goods trade of and services to other countries whereas import is the trade of goods and services from other countries.

Generally, a country export the goods that can be produced at lower cost and import the goods that can not be produced cheaply at home country. All the countries can not produce all goods efficiently. This is the basic reason behind the need of foreign trade. Some countries are rich in natural resources. So, they export raw materials and import industrial products. Some countries like Japan, America, Germany, Italy, France, Canada, and Australia are rich in latest technology, so they export industrial goods and import raw material from other countries. But Nepal has not been able to do above basic principle in foreign trade.

Both internal and external trades have major role to play in the economic development of a country. In the present changing scenario of open liberal market economy, international trade, the backbone of national economy, economic growth and foreign trade are closely related. Economic development and foreign currency rise in the national income generally affects its foreign trade whereas the increase in the foreign trade helps to increase the national income.

Encyclopedia Britannica: actually speaking all trade arises because of differences in costs, but trade also tends to narrow these differences. Accounts of

⁴ .Ibid

barter of goods or services among different people can be traced back almost as far as the record of human history.⁶

Thus, the foreign trade is a basic means of economic development. No country can achieve rapid economic growth without the quick development of its foreign trade. But, Nepal has to depend on foreign aid largely even today; as the growth of trade has slowed down due to its poorer economy. Nepal's industrial future largely depends on the nature, composition and direction of foreign trade. Foreign trade covers around 13% of National GDP. This shows foreign trade plays a vital role for any country; and even more for developing country like Nepal.

1.1.2 Nepal's Ancient Trade History:

Nepal's ancient trade history was almost with Tibet by using barter system at the time of beginning Malla and Lichchhavi regime. For the detail, it would be categorized in three separate country wise as follows:⁸

1.1.2.1 with Tibet (China)

Nepalese trade is ancient as its history. Geographical constraints of Nepal become barrier to expand her trade other than India and Tibet. In the seventeen century the establishing on an empire in the Tibet coincided with the opening of new Trans-Himalayan trading routes between the cities of the Gangetic plains and Chinese cities quickly captured the Trans-Himalayan changes.

Trade relations between Nepal and Tibet have also been going since the time immemorial. Significant growth in Nepal & Tibet trade should be attributed to the commercial policy of Malla rulers, who played a significant role in boosting up trade. New urban trading center like Sankhapur, Palanchok, Dolakha and

⁶ Encyclopedia Britannica, vol-18, P 155.

⁸ . Bhai Kaji Tuladhar, *A Case Study on Export Trade of Nepal*, Kathmandu, 2025, PP.7-9.

Nuwakot developed trade market and activated trade traffic through caravan to Kerung and Kuti. Prithivi Narayan Shah also wanted to monopolize enter-port trade marts in India and Tibet border to transshipment by the Nepalese merchant also was defused by Tibetans, who in 1770 closed trade routes to Nepal and suspended all commercial transactions between the 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 Indian started ignoring Nepalese merchants. As a result it reduced the trade traffic between Nepal and Tibet. The number of Nepalese merchant in Lhasa dropped from 2000 to 500 in 1907 and to only 40 in 1923. 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 the more comprehensive agreement of 1956, in which both the governments expressed the region of Tibet and Nepal would keep continuing. Two governments also allowed each other's people to establish factories.

1.1.2.2 with India

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. Trading activities between India and Nepal pass through different routes. Butwal was the main route linking Indo-Nepal trade. The communication among Nepal Tibet and India was radiated through Kuti-Kerong passes connecting Kashmir-Kathmandu, Patna and Lhasa routes.

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 to India. The endogenous 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. The fascinated for superior goods developed during 19th century and 20th century led to tremendous increase in imports but export pattern remain same.

1.1.2.3 with Overseas

Nepal 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 1951, the foreign trade of Nepal was limited namely in U.K, U.S.A, and France. Before the World War II, Nepal used to import from the countries, such as England, Japan, Singapore and export her agricultural 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 her peculiar condition and requirement. After 1960 Nepalese overseas trade become possible, for the foreign currencies were needed for development. Nepal's export had to be promoted by diversifying her trade.

Since exports 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.⁹

⁹ *ibid.*, P.9.

1.1.3 The Age of Globalization of Trade: (1995 to date)

At the global marketing level, the most profound change is the orientation of the company toward markets and associated planning activities. At this stage, companies treat the world, including their home market, as one market. Market segmentation decisions are no longer focused on national borders. Instead, market segments are defined by income levels, usage patterns or other factors that often span countries and regions.

The opportunities in global business abound for those who are prepared to confront myriad obstacles with optimism and a willingness to continue learning new ways. To be globally aware is to have

-) Objectivity
-) Tolerance of culture differences
-) Knowledge of cultures, history, world market potential and global economic, social and political trends.

From 1995 to date, the major improvements are as follows:

1. Since GATT was unable to bring all the countries, rich and poor as well as communist and non-communist blocks, into the single forum, the World Trade Organization (WTO) was created which aimed to bring all the nations into the single forum and legal structure.
2. On January 1, 1995 GATT converted into WTO, which had the objectives of liberalizing trade among all the nations of the world and launched trade globally without discrimination.
3. Till now 148 nations have entered the WTO regime as its members, Nepal also has the member of WTO out of them.

4. Since some of the provisions of WTO are less favorable to the poor and least developed countries; the WTO has been suffering criticism from such countries these days.
5. By the year 2005 all non-member countries need to be restructured their economy to enter the WTO regime.
6. After 2005 the trade of the whole world is expected to be governed by a single regulation as formulated and implemented by the World Trade Organization.

All the countries can't produce all goods and services efficiently. This is the basic reason behind the need of foreign trade. The foreign trade creates specialization in production and provides benefits of specialization.¹²

No country can achieve economic development or rapid economic growth without the quick development of its foreign trade. Nepal's traditional trading partners are India and Tibet, an autonomous region of China. In the past time, the trade percentage with India was 95% of total trade till 1950 AD. And a small percentage of trade was with Tibet.

The trades with overseas countries were almost nil. But it is not beneficial to concentrate trade with only one country. Nepal has been pursuing the policy of trade diversification from third plan (2022-2027 BS). Nepal has established trade relationship with more than 80 countries and has trade transit agreement with 17 countries till now.

Although Nepal can diversity foreign trade, Nepal suffers from a huge trade deficit due to various reasons i.e. low quality and productivity, small size of domestic market, lack of appropriate technology, lack of entrepreneurship, least attempt on exploiting new exportable products, trade and transit problem, lack of

¹² Op. cit. 2.

managerial skills for export management, frequently change in export policy of Nepal Government, lack of infrastructure, etc.

After the restoration of multiparty system in Nepal, Nepal took liberal economy policy and before it's in 1971, Nepal has already established Trade Promotion Center (TPC) for promoting foreign trade of exportable goods and services. Nepal has also provided the various trades, economic, fiscal, monetary, financial, banking, insurance, member of foreign organizations, policies to facilitate foreign trade after adopting liberal economic policy. Nepal has already been member in UNCTAD, SAFTA, SAARC, IMF, World Bank, ADB, WTO, BIMST-EC FTA and so on. It has been an agreement between Nepal and India about trade and transit for the renewal period basis of each 7 year and also with Pakistan, Bangladesh, and Tibet, China in the same way.

1.1.4 Trends of Foreign Trade:

The trends of foreign trade of Nepal are not extremely good in recent decades. In 1956-57 the rupee value of Nepal's export was Rs.95.47 million. It increased to Rs.60074.77 million in 2005/06. With the period of 50 years, the total export increased by 629 times. With the same period, the rupee value of total imports increased from Rs.169.89 to Rs.162840.7 million i.e. by about 958 times. Through the 50 years period, Nepal is suffering from a huge trade deficit. During this period, the trade deficit increased by 1381 times. The total share of GDP from export was 13% in 2005/06.

1.1.5 Nepal's Recent Major Partners of Foreign Trade:

But Nepal can diversify the foreign trade at least country wise as well as commodity wise. The percentage of overseas export, readymade garment and woolen carpet almost covered more than 60 percent and America and Germany were hold maximum export of the overseas export percentage.

The major export partners of Nepal are India, USA, Germany, UK, Italy, Japan, and France. While the major importers of Nepal are India, Singapore, China, Thailand, Malaysia, Indonesia, Korea, Saudi Arabia, Germany, Japan(As per TPC and NRB Report) and are the value of proportion export and import in the beginning of the 21st century.

The major export items of Nepal for India are vegetable ghee, jute product, toothpaste, polyester yarn, pulses, timber, copper product while the major export items for third countries includes readymade garment, woolen carpet, woolen and pashmina goods, handicraft, herbal products, Nepali paper etc. Similarly, the major items import in Nepal are petroleum product, electronics and electrical goods, gold and silver, fabric and readymade garments, medical equipment and medicine, construction related products, sophisticated and deluxe items, machinery and equipment, car, bus, trucks and airplane and its parts etc.

1.1.6 Challenges and Opportunities of Foreign Trade

Nepal is also land locked country out of 28 countries of the world. Three sides of boarder are covered by India and the north side, the sonny range of Himalayan stands as a transit barrier between China and Nepal. Both Nepal and India have been agreed to use 22 routes for promoting mutual trade. Although, India restricts some Nepalese product and only allow for exporting as quota system i.e. vegetable ghee, Acrylic yarn, copper product and zinc oxide.

The nearest port of Nepal is Calcutta, which is far 300 kilometers from Nepal border. Nepal has also been transit agreement with Bangladesh. The ports are Fulbari and Chatgaown. Nepal can use them for exporting/importing goods and services. It is not more far about 27-kilometer from Nepal. But this port is not

more useful till now. So, Nepal has no alternative transit route for its overseas cargo except Calcutta port (India), which provides very poor infrastructure and physical facilities to Nepal traders.

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

On the foremost objectives of every country to get involved in foreign trade is to accelerate its economic development. Only through trade a country can earn foreign exchange and in return can import goods, which cannot be manufactured by itself. For both developing and under developed nations, foreign trade in the economic development of a country can be seen in the following perspectives.¹³

1. Advantage of Specialization
2. Technological Progress
3. Importation of Technology know-how
4. Access to Raw Materials
5. Expansions of Market
6. Rising in Employment and Income Level
7. Foster Healthy Competition
8. Attraction of Foreign Investment
9. Reducing Dependency on Domestic Market

¹³ Gottfried Haberler, *Dynamic Benefits of Trade*, Prentice Hall Inc, USA, 1994, P.80

10. Gaining International Market Experience
11. Exploiting Excess Product Capacity
12. Expanding Research and Development
13. Increase Sales and Profit

The major challenges facing by Nepal are as follows:

- 1) Inadequate Infrastructure: Infrastructures play a vital role for the development of the nation but there are so many problems, which are high transportation cost, inadequate transport service and inadequate and unsatisfactory warehouse facilities
- 2) Low productivity
- 3) Ever-widening trade gap
- 4) Weak export base
- 5) Policies related problems: Nepal's foreign policies possess a number of hurdles in foreign trade such as complicated documentation procedure, higher transportation cost, limited freedom on foreign exchange earning, lack of trained human resources and capacity building, absence of adequate legal provisions, difficulties on procurement of raw material, non-implementation of the announced policy and delayed refund of duty drawback and advanced VAT deposit.
- 6) Lack of desire for innovation in entrepreneurs.

Trade policy does have a link in the process of development, but these studies do not indicate how many activities are likely to be undertaken and suggest relative importance of export and import competing activities in an optimum allocation or how that allocation would change with growth. Anyway, the finding

of the several study support the core fact that trade policy can play a detrimental role in the process of economic growth of any country.¹⁴

Foreign goods have a domination role in the Nepali market. Trade policy has always emphasized balancing trade deficits by means of import-substitution and export promotion. But experience has shown that foreign luxury goods are increasingly flooding the Nepalese market. And in the same ratio domestic manufacturers have surrendered to the competition.

Some people have compared Kathmandu to a “mini- Hong Kong” and the consumers have been waved away from locally goods. Although Nepal’s per capita income is US\$340 dollars only, most Nepalese people have been exposed to foreign goods. How do they afford all these things? And how long can this situation continue? These are serious questions for the future.

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

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

Nepal is the second richest country in the world in hydro-electricity. Nepal can sell its hydro-electricity power to neighboring countries for earning foreign currency to reduce the existing trade deficit. To produce the hydro-electricity, many foreign investors are interesting to join our projects. In another side, Nepal’s green vegetables and fruits are demanding in golf countries, Singapore, Thailand, Malaysia and other countries. The salt trading has just established its branch office in Doha, Qatar for exporting these type products in golf countries.

¹⁴ . Anneo Kruger, *Trade Policy as an Input to Development*, American Economic Review, May1980, p.55

Now, world has been a small village as the sense of e-commerce. Nepal can also expand its software business in global market.

1.1.7 The Efforts for Promoting the Modern Export Trade of Nepal

Till 1951, Nepal was kept in a state of virtual isolation from the outside world. It was only in 1956 that the country launched its first 5 years plan and got into the process of development. But till 1960 no attempt was made to diversity the countries overall trade that was confined to India alone. After 1970 the establishment of Trade Promotion Center (TPC), Nepal could diversify its foreign trade to overseas countries. Growth rate in exports dropped in the same period due to lack of exportable goods. At the same period imports were increased in rapid pace. Although only the sixth plan exports received special attention. For export promotion, government realized need of some special export policy to reduce import from India and increased export to India and Overseas.¹⁵

Considering the urgent need of comprehensive trade policy in the country, the TPC is (an agency of Nepal Government) which is a national focal point of export promotion of the country. Nepal Government decided to take a concrete action in the matter and, approached the task of drawing up a new export strategy hiring qualified independent consultants early in 1981 to analyze the country's export problems and suggest remedies.

The consultants began to work with a combination of desk research and field study. Data and information were collected from various sources such as: TPC, Government Corporation, government departments and the federation of chamber of commerce and industry. Exporters of products such as handicraft, spices, biscuits, and confectionery, jute and goatskins were contacted and interviewed to get their views on export problems and possible solutions.

¹⁵ Dr. Shyam k. Shrestha, *International Marketing Decisions Nepalese Perspective*, Buddha Academic publishers & distributors Pvt. Ltd., Kathmandu, 2003, PP.180-181.

The team also analyzed the government's fiscal, exchange rate, interest rate and industrial policies in relation to export promotion. Finally, members of the team visited Thailand, Bangladesh, India and Sri-Lanka to get first hand information on their trade promotion policies and institutional arrangements for export promotion.

The consultants carried out an in depth evaluation of Nepal's situation and proposed a detailed action plan for a new national export expansion program. The report prepared by the consultants analyzed the role and performance of the export sector in Nepal's economy, the policy measures that influenced export trade, the principle export trade, and the principle export constraints. Institutional arrangements for trade promotion and the obstacles are to formulate and implement a comprehensive export strategy.

At the end of 1981, the TPC submitted the proposed strategy to the government for consideration. The government appointed a special committee, having representatives of the government and the private sectors to study the recommendations and to advise the ministry concerned on the formulation of a new trade policy. The council of ministry acted favorably upon the proposals and as a result new trade policy was formally announced on 31 June 1982 by the ministry of commerce and supplies.

Similarly, the elected democratic government of Nepal has announced a new trade policy in 1992 for the promotion of Nepal's foreign trade, especially export trade

1.1.8 Nepal's New Trade Policy (1992)

The new trade policy of Nepal, which has currently been brought into effect, into gradually enhance the contributions 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, to diversify

trade by identifying, developing and producing new exportable products through the promotion of background linkages for making export trade competitive and sustainable, to expand trade on a sustained basis through gradual reduction in trade imbalance, and to coordinate trade with other sector by expanding employment oriented trade.¹⁶

Objectives

The new export policy of Nepal aims at providing the people with income and job opportunities through the medium of export trade; opening of a wide international market for indigenous products instead of confining them within the narrow bounds of the internal market only, expanding the scope of foreign trade raising the level of foreign exchange earning, which will put the national economy in a better position to meet the growing import needs and to service external debt, and stepping up contacts with international market through the medium of export, so that high technology, skill and management capabilities of the country can be further developed.

Features of Export Policy

The ultimate aim of export trade should not be confined to the earning of foreign exchange. It should help in boosting the economic growth of the country. Since there is little production of materials for development and construction in the country, it has import huge quantity such material for the expansion of development in the country. And has to import huge quantity of most essential consumer goods to meet the rising demand of population, while, at the same time, the country has to go on reducing its mounting trade deficits by promoting and diversifying export.

¹⁶ . ibid., PP 181-186.

However, in the present day situation, import has been increasing every year and export growth has been deteriorating due to lack of exportable products and institutional infrastructure in the country. In this context the responsibility of export policy to protect national interest and boost up economy growth of the country. The strategy currently launched in the country has some characteristics in this regard.

Routes and Transit Agreement with India and China

Nepal and India has agreed to use mutual trade by using 22 routes and India agreed to allow 15 routes for overseas export via India which is clearly mentioned the transits and trade agreement of Nepal and India in 2002.

The treaty of trade and transit arrangement between the two countries Nepal and India has been recently signed in 2002 that has mentioned several trade arrangements as follows:

1. Strengthen cooperation and trade by exploring and undertaking all necessary measures.
2. Provide preferential treatment on 14 primary products including agricultural products, forest products, horticultural products, rice, pulses, timber, live animals, birds, fish, bees, honey, raw wool, milk, herbal medicines, yak tails, etc.
3. Prevention against infringement and circumvention of the laws, rules and regulations of either country in regard to foreign exchange and foreign trade.
4. Accord unconditionally to each other treatment no less favorable than that accorded to any third country with respect to (a) customs duties and charges of any kind imposed on or in connection with importation and exportation, and (b) import regulations including qualitative restrictions.
5. Automatic renewal of the treaty for the next five years upon the expiry of the treaty unless any of the party intends to terminate it.

6. Help promote the industrial development of Nepal by granting free of customs duty and quantitative restrictions for some industrial products manufactured in Nepal.
7. Harmoniously implement the recently signed treaty through mutual consultations.

1.1.9 Agreed Routes for Mutual Trade (Between India and Nepal)

India and Nepal have agreed to use 22 routes for mutual trade, which are as follows:

- | | |
|--------------------------------------|--------------------------------------|
| 1. Pashupatinagar/Sukhia Pokhari | 2. Kakarbhitta/Naxalbari |
| 3. Bhadrapur/galgalia | 4. Biratnagar/Jogmani |
| 5. Setobandha/Bhimnagar | 6. Rajbiraj/Kunauli |
| 7. Siraha, Janakpur/Jayanagar | 8. Jaleswar/Bhitamore (Sursand) |
| 9. Malangawa/Sonabarsa | 10. Gaur/Bairgania |
| 11. Birgunj/Raxaul | 12. Bhairahawa/Nautanwa |
| 13. Taulihawa/Khunwa | 14. Krishnanagar/Barhni |
| 15. Koilabas/Jarwa | 16. Nepalgunj/Nepalgunj Road |
| 17. Rajapur/Katerniyaghat | 18. Prithvipur/Sati(Kailali)/Tikonja |
| 19. Dhangadhi/Gauriphanta | 20. Mahendranagar/Banbasa |
| 21. Mahakali/Jhulaghat (Pithoragarh) | 22. Darchula/dharchula |

Nepalese manufactured Articles Allowed Entry into India free of Customs Duties on a fixed Quota Basis.

<i>S.N.</i>	<i>Nepalese Article</i>	<i>Quantity in MT (Per Year)</i>
1.	Vegetable fats (Vanaspati)	100000 (one hundred thousand)
2.	Acrylic Yarn	10000 (ten thousand)
3.	Copper products under Chapter 74 & heading 85.44 Of the H.S. code	7500 (seven thousand five hundred)
4.	Zinc Oxide	2500 (two thousand five hundred)

The newly trade and payment agreement with China has signed in 1974. China and Nepal mutually agreed to use the following three trading points:

- (A) Kodari/nyalam
- (B) Rasuwa/Kyerong
- (C) Yari (humla)/Purang

1.1.10 Role of Regional Cooperation in Foreign Trade

A regional market, is created when a number of individual country agree to take positive steps to reduce or eliminate trade barriers among the participating countries. Some of the examples of such market include SAARC, ASEAN,EU, EEC, LAFTA, NAFTA, CACM, BIMESTC etc. In this study I would describe only that cooperation which is related to Nepal such as SAARC and BIMESTIC.

The South Asian Association for Regional Cooperation (SAARC) is a regional organization established in December 1985 with a view to accelerate the

process of economic and social development in member states through joint action in agreed area of cooperation. The Member of SAARC is Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri-Lanka. The actual process of establishing SAARC was initiated in 1980 when the late president Ziaur Rahman of Bangladesh called for a summit meeting that year to put forward the offer made by late King Birendra which was the main achievement to facilitate the foreign trade before Democracy. But it doesn't meet its objective properly.¹⁷

It was only during the sixth SAARC summit in 1991 that Sri Lankan government, with the view to expand intra-regional trade, proposed for the first time to established SAPTA by 1997. Now the improvement version of SAPTA was converted into the SAFTA. The SAFTA agreement was signed at the 12th SAARC summit in January 2004. It is to come into force on January 1, 2006. The SAPTA aims at:

- i. Enhancing mutual trade and economic cooperation.
- ii. Eliminating trade barrier.
- iii. Promoting conditions of fair competition.
- iv. Building effective mechanism for implementation and resolution of disputes.
- v. Furthering regional cooperation.

During the fifth meeting of experts in October 2004, it was agreed in principle to evolved common route for the SAFTA.

After restoration of democracy in Nepal, Nepal entered into different regional trade related organization, which is the main achievement of elected government. Before the democracy, Nepal had not adopted liberalization policy.

¹⁷ *Economic Review*, 2005, NRB, PP 94-95.

Nepal only traded with traditional partners India and Tibet before the democracy. Trade had not been diversifying to overseas at that period.

With reference to regional and multilateral agreement, the country should undertake a two-pronged strategy according priority to multilateral trade organizations under the WTO as well as to strive for effective and meaningful regional trading arrangement such as the SAFTA and BIMST-EC FTA which it is currently pursuing.

Association of South East Asian Nations consists of Ten member states of South East Asia, including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. It was established with a view to accelerate economic progress and to increase the stability of the South East Asian Region.

The other regional cooperation is BIMST-EC. Nepal became a member to the Bay of Bengal Initiative of Multi-Sector Technical and Economic cooperation (BIMST-EC) in February 2004. The other members of this regional trading group are Bangladesh, Bhutan, India, Myanmar, Sri Lanka and Thailand. BIMST-EC's six core areas of cooperation are agriculture, energy, fisheries, tourism, trade and transportation.

The draft agreement consists of 27 articles and encompasses areas such as rules of origin for BIMST-EC FTA, the trade liberalization program, custom and trading procedures, sensitive list, global safeguard and BIMST-EC's transitional safeguard, among others. The members are to develop a modality for dispute settlement arrangement, anti- dumping measures subsidy and countervailing measures and non-tariff measures to foster trade in the region.¹⁸

¹⁸ . *ibid.*

1.1.11 WTO and Its Membership to Nepal

After the expiry of the validity of treaty of transit 1983, some misunderstandings were created between the government of Nepal and India. At that time, India blocked all the economic activities to the Nepal. Actually this difficult situation compelled the government of Nepal to think and rethink for obtaining membership of GATT, now it is WTO. As a result, in 1989 Nepal applied for GATT membership. For that purpose a working committee was also formed.

In 1993 Nepal got the observe status in GATT and Nepal participated as an observer from the time at the concluding sessions of the GATT's Uruguay Round in Maracas, Morocco. And the government of Nepal announced full convertibility of exchange that year. As a part of liberalization policy, government brought and passed privatization Act 1994. Till date 15 public enterprises has been privatized and the next 25 public enterprises are listed for privatization.¹⁹

The fifth ministerial conference of the WTO formally approved Nepal's membership, fulfilling the country's 14 years long dream to become part of the multilateral trading body the conference also accept Nepal 148th member of WTO as the least development country.

The Nepal is the first least developed member of WTO from the full-fledged from 23 April 2004 or 2061 Baisak 11. The two countries made history by becoming the first two least developed countries (LDC) to obtain WTO member by virtue of accession.

After the 2046 BS, the main achievement of elected government got the membership of WTO. And the opportunities from membership of WTO are as given below.

¹⁹ . Op- cit.10, P 202.

The fifth ministerial conference held in Cancun has provided the membership to Nepal. The main opportunity is to enter the global market without any discrimination because Nepal can not isolate from the global trade regime in the future.

1. Nepal is the land-locked country. Therefore, it will get the facilities of technical assistance.
2. Customer can get more choice of goods and services.
3. Foreign direct investment (FDI) may be increased.
4. Nepal can expand its market in global network.
5. Quality of goods and services are available.
6. The trading dispute can be handling peacefully and constructively.
7. Nepal can improve its competition capacity.
8. Nepal can establish its trade and transit rights.
9. Nepal can participate in the on- going issues with WTO.

It has not only benefited the Nepal but it has also threat and challenges in entering the WTO. Nepal should fulfil its commitment within specific period of time. Otherwise, Nepal will lose its special provision of multilateral trading system. Nepal should increase exportable qualitative product for exporting. Otherwise, Nepal could not export in competitive global market and imports would be increased.

1.2 STATEMENT OF THE PROBLEMS

Nepal is a developing country. In the development process of less developed country, foreign trade plays vital role for long-term sustainable economic growth. More than 80 percent of population depends on agriculture but the contribution of agriculture remains only 40 percent of total GDP. Agricultural product is basically primary product and they have a constant demand in the market of Nepal's exporting partners. On the other hand, industrial products are unable to meet even

the domestic demand, causes our industrialization is still infant and just creeping onwards.

Nepal is suffering from huge trade deficit for a long time. The volume of trade comparing export imports goods and services are more qualitative as quantitative. So, Nepal is unable to manage balance of trade. Nepal can export only low quality and agricultural raw-based items rather than expensive and sophisticated items are being imported.

It has only 17 countries to where been bilateral agreement for foreign trade of Nepal. Nepal followed very late liberal economic policy i.e. export/import policy of Nepal after restoration of democracy. And Nepal entered into WTO membership only before one year. So Nepal's foreign trade, policies and facilities are still in infant age.

The trade sector remains one of the least attended sectors of the economic various measures like Export Exchange Entitle Scheme, Dual Exchange Rate, direct cash subsidy and frequently change in other procedural aspects such as the licensing system and tariff structure were made amid much fanfare but with little impact. Importers always dominate the nature of trade, export. A developing country, like Nepal depends on foreign trade for the achievements of national target and economic growth in order to afford fast growing import needs.

Since the export trends of Nepal has not perfectly gone as planner's target. The lack of exportable or qualitative goods, Nepal has not able to export in the sufficient quantity in the overseas. The trade of Nepal is only centered to India rather than other countries. The share of exportable main items of Nepal's like pashmina, garments, handicrafts, woolen or carpets and goatskins are declining now.

However, the performance of the foreign trade so far shows that the trade has not been able to play the critical role and it has not been able to fulfill the

nation expectation. The weak performance of the foreign trade is mainly attributed to the nation is surrounded by its own problem.

1. What are the major's recent issues of Nepal foreign trade?
2. Can Nepal reduce trade deficit effectively?
3. What are the major opportunities and threats of foreign trade after entering WTO and regional groups?
4. Can Nepal increase her GDP in trade sectors?
5. Can Nepal expand to export her garment products without quotas system?
6. What are the major reasons for Hugh trade deficit of Nepal?
7. Can Nepal diversify her trade out of India?
8. Did Nepal fulfill the requirement of WTO and other's regional groups?

1.3 OBJECTIVES OF THE STUDY

The major objectives of this study are to find on the comparative study of the foreign trade of Nepal. So these, objectives, the following objectives have been fixed.

1. To identify the present real situation of Nepalese foreign trade,
2. To find out the major issues of Nepalese foreign trade,
3. To analyze the factor affecting of foreign trade of Nepal,
4. To analyze the situation of balance of trade of Nepal and
5. To provide valuable suggestions to concerned sectors for improving the foreign trade of Nepal.

1.4 FOCUS OF THE STUDY

This research study is the analytical as well as descriptive study about "A Comparative Study on the Foreign Trade of Nepal". This thesis will be more beneficial to the foreign traders, policies-makers, industrialist, businessmen, and general public or private sectors as well as public sectors. This thesis is also significant to the management students and important material for library.

This thesis will provide in brief knowledge about foreign trade, trade direction of Nepal in recent year, policies related to the foreign trade, brief relation with WTO, SAFTA, UNCTAD, BIMST-EC, SAARC, ASEAN, problem facing by Nepal in foreign trade deficit and foreign trade policies which are made by Nepal Government.

Foreign trade plays a significant role in economic development of developing and other countries. Foreign trade provides around 13 percent GDP of overall national income and also provides directly or indirectly employment to the numbers of population.

Government, non- government sectors like policy maker, industrial enterprises, lecturers, traders, businessmen, foreign investors and so on.

This thesis mainly concentrates on export/import trade situation of Nepal for the years i.e. 1996/97 to 2005/06.

This thesis will provide in brief knowledge about export/import trade, policy related export trade, problems facing by Nepal in trade deficit and foreign trade policies are made by Nepal Government.

1.5 LIMITATIONS OF THE STUDY

All research study is done to solve a particular research problem. It requires various kinds of data, and other relevant information, which may not be sufficient to the researcher. This study cannot escape from the frame of limitations.

The study mainly based on secondary data particularly export/import data provided by concerned department that is not sufficient for the good research study. This study is mainly based on secondary data. So, the limitations of secondary data may exist. It can't cover all data of trade and policies of foreign trade of Nepal. Simple tools and techniques may be used to analyze the foreign trade. Being a student cost and resources are constraints.

Due to the short time it could not cover all functions of foreign trade of Nepal. This study was undertaken for the partial fulfillment of master's degree Programme. Although, efforts has been made to focus on the activities and trade policy of foreign trade of Nepal. Hence it may not cover all export and import trade and its related information but the data would be collected and analyzed secondary data of sampling method of macro basis from FY 1996/97 to 2005/6.

CHAPTER- TWO

REVIEW OF LITERATURE

2.0 INTRODUCTION

Review of Literature means reviewing the research study or others relevant report in the related area of the study. Scientific research must be based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. The library is a rich storage base for all kinds of published materials including thesis, dissertations, and business report and government publication.¹

For this research study the related literature survey is done by consulting various journals, articles, newspapers, thesis, reports and others more relevant books to foreign trade, concept of foreign trade, trade policies about Nepal and rest of the world have been collected compiled and reviewed.

Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, other information managing bureaus, and internet and concern commercial banks. This chapter helps to take adequate feed back to broaden the information base and inputs to my study. Conceptual framework given by different authors, research scholars, etc. in this chapter is reviewed from the books research papers, annual reports, and articles etc.

This chapter mostly consists of two types of review i.e. conceptual review and review of previous research work. Conceptual review provides the concept of foreign trade and its policies with the theoretical proposition of foreign trade of

¹ Howard K. Wolf and Prem R. Pant, *Social Science Research and Thesis Writing*, Second Edition, Kathmandu, 1999, P. 30.

Nepal. Review of previous research work includes those thesis and reports, dissertation and articles of government and non-government sectors as well as domestic and international organization or institutions, which are related to foreign trade and policies of world and especially of Nepal. Due to the various constraints only important and relevant literatures are reviewed which are categorized as conceptual and review of previous related studies i.e. trade policy, books, papers, articles and thesis papers.

2.1 CONCEPTUAL REVIEW

2.1.1 Old Trade Policy of Nepal (1982)

Trade policy of 1982 was based on an integrated form for the first time covering export, import and internal supply arrangement the major guidelines of the export trade policy 1982 can be consider for future reference. Main objective of the trade policy (1982) was:

-) To regulate the supply of necessities;
-) To improve economic position of the people and
-) To provide balanced approach to trade activities to arrive at development needs of the country.²

Main features of export policy under the trade policy of 1982 were:

- 1.** The provision of developing annual export plans with specific export targets for major exportable products.
- 2.** The importance of private sector and strengthening of export promotion, public sector organization.
- 3.** Streamlining export licensing and other procedures.

² . Suman Kumar Regmi, Unpublished Ph. D. thesis, *Management of Export Trade in Nepal*,, 1993, TU, PP.101-102.

4. Arrangement of framework for foreign exchange rates, taxation and credit policies and other monetary measures keeping in view the objectives of promoting investment in the export sector, increasing production of exportable items and expansion of export trade emphasizing on processed and semi-processed goods.
5. Consideration of increasing productivity and improvement of product quality to compete in export markets.
6. Strengthening of the existing export infrastructure for creation of new support systems.
7. Product and country wise export trade diversification.
8. Emphasis on the production of high value/low weight products to increase the production of exportable agricultural and industrial products in processed and semi-processed form.
9. And formulation of an integrated product development programmes for selected exportable products from production to marketing.

The seventh plan (1985/86 to 1989/90) included the export policy taking as one of the national level policies by stressing on the export trade development. The export policy of the seventh plan had expanded activities taking steps in the export standardization and more quantity production through reward schemes, transport cost minimization and foreign exchange rate adjustment.

Due to political disturbance in the country, the plan was not implemented in the years 1990/91 and 1991/92. The eighth plan (1992/93 to 1996/97) provides priority to export promotion and diversification. During the plan period, trade deficit and expansion of traditional and non-traditional products and market will be considered for export growth taking into account the quality maintenance by introducing clear cut export policies based on “Product equated to market”

strategy. It seems that periodic policy and programme formulation has targeted on export sector of the national economy with the private sector involvement.

Policy for Encouraging Export Trade

The industrial enterprises Act (1992) has the provision of refunding the customs duties, if any an excise duty levied upon raw material used by any industry in connection with its products for export. Industries producing intermediate goods that are utilized in the production of exportable goods are entitling to reimbursement of duties and tax levied on raw materials. Export for a few banned items, all goods fall in the free export product category Nepal. Nepal has considered the treaties of transit and trade as well as agreement of cooperation with India to control on authorized trade signed in 1991 (as amended) to provide goods basis for the development and diversification of trade.

Export Entitlement Scheme (EES)

Nepal's foreign trade policies are basically opened from the very beginning; prior to 1960 Nepal had virtually no trade with countries other than India, except a small scale of trade with Tibet. Nepalese planners ever first place emphasis in export promotion policy introducing the Export Entitlement Scheme (EES) to exporters. The EES, which was popularly known as "Bonus System", operated for a period of eighteen years (1961-1978) covering from second plan to the second year of fifth plan. This scheme made foreign exchange available to exporters on varying percent of their earnings to import raw materials and other components for export promotion.

Although some trade diversification in terms of countries was achieved, no substantial progress was made in export trade from the above system. Available evidence suggests that the scheme did not really succeed in increasing a viable, strong, and dynamic export sector capable of supporting the economy on a basis.

The reason behind this the instability to identify new exportable items and the lack of positive measures towards increasing the production of already being export, with the continued increase in imports as compared to exports. There also appeared some distortion in the system itself (NPC, 8th Plan). This scheme could not contribute much to the foreign trade of Nepal.³

Dual Exchange Rate System

Realizing the adverse impact the EES was replaced by dual exchange rate system in 1978. Under this system two rate were fixed for convertible currency. One was the basis (official) rate fixed at US\$ 1= RS12 and second rate fixed at US\$ 1= RS 16. The dual exchange rate system provided 33 percent incentives minus 19 to 20 percent transit cost and thus 13 percent effective profit to exporters. Import from third countries were categorized under two headings; a specified list of goods which could be imported under basic exchange rates and rest of the other goods which had to be paid at second exchange rate. Except for some specified items whose imports were banned and also for some items were under quantitative restriction, all other imports were made open. The first rate was left untouched, second rate was brought down from RS 16 to 14.

This system also could not serve the basic objective of the country because exporters did not pay any attention to the question of creating basic and favorable infrastructure for the expansion of the country export trade. They confined their attention merely to expand their profit margin through the system. The government abolished the dual exchange rate system, and introduced the multiple exchange system with a view to adjust foreign rate according to the demand for and supply of foreign exchange and essential commodities in the country.

³ *ibid.* P.108.

Exchange Convertibility System

From the early 1980s the global economic and political situation has been changed. Nepal has not been exception to this development. Nepal adopted stabilization programme in December 1985, supported by 18 months stand-by arrangement-with International Monetary Fund (IMF). Impact of this stabilization programme was encouraging specially in adjusting the internal and external imbalances of the economy. Following this improvement Nepal entered into a Structural Adjustment Programme (SAP) in FY 1987/88 supported by the IMF and World Bank. Main objectives of the programme were to maintain GDP growth range of 4-5 percent per annum, to reduce inflation to an annual rate of 9 percent and to strengthening the balance of payment.

Nepal adopted the liberalization openness policy in external sector, foreign exchange have been greatly eased. Nepalese currency was made convertible partially with convertible currencies in current account effective from March 4, 1992. Under this system, Nepal Rastra Bank on the basket system of currencies determined the official rate and market rate was determined by the demand and supply factors. Of the total foreign earned from exports of goods and services including remittance, 65 percent had to sale at market exchange rate and remaining 35 percent had to be surrounded to NRB at official rate. In July 122, 1992 the ratio of 65:35 was changed to 75:25 and effective from February 12, 1993 the full convertibility of Nepalese currencies in the current account was achieved.

2.1.2 Review of Newspaper and other Papers

K.D.Koirala presented at the seminar paper on export of above topic. Development has shown that the role of export trade in Nepal considers the natural and manmade resources, development strategy and geo-political situation of the country. The size of market decides the choice between outward looking export led strategy or inward looking growth strategy. The paper has stated that since 1970,

Nepal has been the user of a dual strategy of export promotion and import substitution.

The paper has also pointed out the hurdles in the areas of transit, transportation, and warehousing, insurance and concrete plane programme. The writer is in the favour of implementing and formulating an integrated national export marketing strategy for boosting exports creating suitable environment in all related export sectors. Considering export logistics, export promotion in target markets, credit and financing, export banking, institutional support, export market selection, product development and quality control, export production and export product selection are the essential factors for export trade.

The paper has observed that there is heavy concentration of primary exports and commodity diversification. The paper also has stated that the direction and country diversification of Nepalese export have led to overseas countries.

The writer in the paper has also calculated the proxy export price indices for the twenty years' study duration to calculate the real export value increment during the study period. The situation of other related policies in relating to export policy has been shown in the paper. It has been stated that the contribution of export revenue to the total customs revenue is small in Nepal. The writer has pointed out that one of the reasons why the export sector has not been emphasized in the past is because of continuous inflow of foreign aid. The paper also has summarized the export policies laid down in various periodic planes in Nepal.⁶

⁷The *Himalayan Times*, Kathmandu July 27,2005

Five leading organizations of export- oriented industries have criticized government's failure to address problems related to the export sector through the recently- launched budget for fiscal year 2005-06.

⁶ Dr K.D Koirala, a paper on *Environment Overview of Export Trade of Nepal,1970*.

Issuing a joint press statement, the Garment Association of Nepal (GAN), Handicraft Association of Nepal (HAN), Central Carpet Industry Association (CCIA), Nepal Pashmina Industry Association (NPIA) and Nepal freight forwarders' Association (NEFFA) stated that the government has just paid lip service for the promotion of the ailing export industry.

“The new budget document has completely ignored the fact that export industries are contributing greatly in terms of employment generation as well as earning a hefty sum of foreign exchange for the conflict-tattered economy of Nepal,” says the release. Though the budget talked about some initiatives for the sector's promotion, but they are mere ‘hollow promises’, as they do not have proper programmes and budgetary allocation, it added.

Despite repeated requests to formulate a long-term export policy, the budget has not mentioned a single point shows the government's total indifference towards the export sector.

“Thought we had requested simplification of income tax on export earnings, the budget has not spelled out any tax reforms. Instead, the government has given more adhoc authority to tax officers, who will create havoc,” says the statement. Scrapping of 1.5- percent special tax and imposing an additional tax of 1.5 percent on taxable income is a tricky business that will increase tax burden.

The new provision of removing Woollen carpet and Pashmina industry from the list of cottage industries is ‘totally impractical’ and against the spirit of industrialization in Nepal. The government's new move is unfortunate for leading exports like carpet and pashmina, in the name of just widening the tax net.

“It's completely ironical. The government wants to attract foreign investment in areas where we already have competition and comparative advantages. When there is not even environment for domestic investors, how can

foreigners come to Nepal,” questioned A G Sherpa, president of CCIA. The budget has proposed to set up a rehabilitation fund to rescue sick industries. But it has only stated to rehabilitate tourism related industries, ignoring other sick units, such as export-oriented industries. “It means a complete ignorance about the export sector,” said Kiran prakash Sakha, president of GAN.

The budget has failed to take initiatives regarding banking facilities for export industries in terms of reducing spread rate, special loan provision and simplification in bank guarantee. “At a time when overall export sector is dwindling, the budget should have given directives to banks and financial institution to float loans at concessional rates, increase repayment period and reschedule old loans for the export sector.”

Despite Nepal having been touted to be developed as a transit point to facilitate trade between China and India, the budget has failed to incorporate steps to develop Nepal as an international air cargo hub, said Namgyal lama.⁷

Even after liberalization of export trade for over 12 years, Nepal is yet to boost its market vis-à-vis other countries in the context of increased globalization and privatization of major economic sectors.

The business of air cargo being carried out by freight forwarders is gradually losing its charm, due to increased competition, high security charge, increased surcharge and fuel surcharge. These charges are made excluding airfreight bill.

Freight forwarders have disclosed that Nepal’s total export air cargo business stands today at about 635000 kg per month which is a fall by over 100000

⁷The Himalayan Times, Kathmandu July 27, 2005.

kg compared to previous years. Monthly cash transaction in air cargo business comes to be about RS132 million, revealed cargo sector sources.

In this connection, freight forwarders recently went to Udaypur in India to participate at a conference held by the Federation of Asia Pacific Cargo Agents Association (FAPAA) to join hands with FAPAA to bring Nepali freight forwarders at par with global players.⁹

With the liberalization policy of World trade organization (WTO), BIMSTEC, SAFTA and Nepal becoming a member organization of these august bodies, goods from Nepal have been able to compete in the international arena.

But we still have not been able to tap the potential such association offer. For this, Nepal needs to diversify its market focus as well as diversify its product range.

The government is working to simplify policies and ease rules for increasing exports.

To simplify technical barriers, special economic zones and export port processing houses are in the offing.

Nepal's Entry into the WTO and BIMST-EC:

Nepal officially became the 147th member of the WTO on April 23, 2004. By joining the WTO, Nepal can fully enjoy the rights that all members have under the WTO agreements, such as non-discrimination by other WTO members and the ability to use the WTO's dispute settlement procedure. Board commitments were made in 11 services sectors and 70 sub-sectors out of a total of 170 classified by the WTO. Nepal accepted an average tariff binding of 42 percent in agricultural products and around 24 percent in industrial goods.¹⁰

⁹ *ibid.*, June 16, 2005.

¹⁰ . Economic Review, Occasional Paper, NRB, 2005, P.97.

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Among the commitments on legislation with respect to the trade regime, Nepal agreed to amend or enact 38 various acts and regulations to become compatible with WTO provision. For instance, the countries are required to implement fully the provisions of the Agreement on Sanitary and Phytosanitary Measures and Agreement of Technical Barriers to Trade (TBT) by January 1, 2007. With respect to the Agreement on Trade –Related Intellectual Property Right (TRIPs), as a LDC, Nepal need to develop a new Industrial Property Act, which will include all the substantive provisions of the TRIPs agreement. It would encompass all categories of industrial property and would incorporate the basis for an adequate enforcement and be promulgated no later than January 1, 2006. The country has to introduce legislation on anti-dumping, countervailing duties and safeguard measures within one year from the date of accession, in order to safeguard its local industries against unfair trading practices by the exporting countries.

Thus, there are various challenges that Nepal will face. The country needs to seek alternative revenue avenues to finance developments gradually, changing laws and regulations to make laws compatible with WTO commitments and obligations, developing transparent mechanisms and creating institutions and financing the cost of negotiations coupled with resource to legal measures and implementation.

Nepal became a member to the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMST-EC) in February 2004. The other members of this regional trading group are Bangladesh, Bhutan, India, Myanmar, Sri Lanka and Thailand. BIMST-EC's six core areas of cooperation, *inter alia*, are agriculture, energy, fisheries, tourism, trade and transportation.

The Framework Agreement on BIMST-EC FTA was signed on February 8, 2004 at Bangkok during the 5th BIMST-EC Economic Ministers' Meeting. The FTA agreement would first start on trade in goods from 2006, while the FTA on trade in services and investment would begin from 2007.

BIMST-EC FTA is a step to free trade among countries in two of the fastest growing sub-regions of Asia, South –East Asia and South Asia. This FTA could act as a link between the AFTA (ASEAN Free Trade Area) and the SAFTA.

Nepal can be the Transit Point for India and China:

Nepal is land-locked country, which is situated between two-great countries India and China. In an opportunity the experts focused that Nepal can be the transit point for India and China whom views as given below.¹¹

Experts and businessmen have underlined the need to have a transit service agreement with China in order to develop Nepal as a transit point for Sino-Indian trade. They also suggested that Nepal could be one of the best transit points to link the world's two largest and fastest growing economies. However, they emphasized

¹¹ *The Himalayan Times*, Wednesday, May 25, 2005.

the need for comprehensive homework and preparations before entering into a tripartite agreement to open the transit facilities.

Necessary infrastructure like road, airports, terminals and dry ports should be constructed, since they are basic facilities to become a transit point. We should also look into developing air transit points, said Shrestha. Once the volume of trade and transportation movement increases, Nepal should also consider opening new routes. Kimathanka and Raswagadhi points are most probable transit points, where construction of necessary infrastructure should be started, he said.

Purushottam Ojha, acting secretary at the Ministry of Labor and Transport Management said that Nepal would have multifaceted benefits, if the transit point concept were properly developed. There is a high-level political commitment for developing Nepal as a transit point for India and China, even king Gyanendra mentioned it following his return from Afro-Asia and Boa Conference last month, he said.

Ojha also pointed out the need to address several issues regarding customs, simplification of documentation, legal implication as well as physical infrastructure before entering into a transit hub. Developing a transit transport network is crucial to boost trade and other activities, he said.

Although Nepal is a land-locked country, geographically she holds strategic significance for India and China. The transit point potentials should be explored cautiously keeping this fact in mind, said Dr. Rajeshwar Acharya, former ambassador of Nepal of China. A proactive planing is must to reap optimum

benefits by providing transit facility. Our planing and policies need to be harmonized accordingly with the ongoing regional developments, Dr Acharya said. Nepal should look beyond Tibet and India, once transit point comes into operation. Since Tibet is not so big a province and politically sensitive, Nepal should try to expand its trade link to Central Asian countries and the Mainland China, he said.

2.1.3 Review of Previous Thesis

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

Nepal and India: The first commercial treaty to be signed between the two countries dates as far back as 1792 when India was under the British rule. In accordance with this treaty, a British resident was stationed at Kathmandu in order to promote trade and commerce between the two countries. But the resident was called back two years later as a result of war between Nepal and British India. With the treaty of Sughauli, the state of hostilities ended and a British envoy was allowed to be stationed at Kathmandu.

Nepal and China: There was a series of wars between Nepal and Tibet and finally the war came to an end after the treaty of 1850. According to this treaty, Tibet had to pay an annual tribute of Rs.10000 to Nepal and Tibet had to give up her extra-territorial right and concessions to Nepal. But with the signing of 1956 treaty with the People's Republic of China, Nepal's relation with Tibet entered a new phase.¹²

Suman Kumar Regmi has categorized product wise export by taking 20 years trade data of export side only from 1971 to 1990. He has also included the trade policies i.e. 1982 and 1992 and other related policies about industries and trade. It

¹² Bhaikaji Shrestha, Unpublished Case Study, *Export Trade of Nepal*, TU, 2025, PP. 24-27.

has 231 pages thesis of Degree of Doctor of Philosophy in management, T.U, 1993. The main objectives of this thesis are:

1. To measure the export performance of Nepal between 1971-1990,
 2. To examine Nepal's export policy management in the different plan period,
 3. To evaluate the role played by export related institutions in the country in the field of export management,
 4. To assess the export supply management in Nepal and to evaluate Nepal's export markets and their management and
1. To suggest export management model for Nepal.¹³

This thesis has been studied in depth about the foreign trade of export side and also included all trade and industry policies, which will be fruitful for this type of research and thesis study

Thesis on "A Study on Nepalese Foreign Trade and its Changing Scenario, 2001", it has I to VI chapters and has been taken 10 years export/import data from 1990/91 to 1998/99 only country wise like India and Overseas. It has no any footnote. **Santosh Dahal** did not show any charts and diagrams and it has only 69 pages. The main objectives of this study are: to analyze the trends of Nepalese foreign trade, to show the structure of the composition of trade between Nepalese and rest of world (India and Overseas) and to recommend suggestion for follow-up section.¹⁴

¹³ Suman Kumar Regmi, Thesis of Doctor of Philosophy, *Management of Export Trade in Nepal, 1993, T.U,* P.13

¹⁴ Santosh Dahal, Unpublished Degree Thesis, *A study on Nepalese Foreign Trade and it's Changing Scenario,* T.U,2001, P.6

For this thesis, the above thesis would provide the valuable information about the analyzing and presentation data, summary, conclusion and recommendation. The data were gathered in this thesis by using country wise data such as India and Overseas, which is also fruitful, the guideline for preparing this type of thesis.

Ganesh Prasad Neupane has written another thesis about Nepal foreign trade: the Changing Scenario of Size, Composition and Direction for the partial fulfillment of Degree of Master's of Art, TU.¹⁵

He also did not mention footnote. It has V and I to VII chapters in this thesis but chapters IV, he categorized its sub-topic according to extra style. He has also pointed the trade trends as plan-wise from first plan to eight plans for the imports/exports, total trade and balance of trade. He has also provided information about history of Nepalese foreign from the time of beginning Malla and Lichchhavi regime which is the most beneficial for conducting this thesis. The valuable information about the trade and trade trends has been included for making of this thesis more subjective.

M.P. Shing and V.S Sing in their article "Nepal's Foreign Trade: The Changing Scenario of commodity Composition and Direction" stresses the role of foreign trade in economic development of developing country which provided indispensable raw materials for development, technical know-how, foreign capital and competition conducive to economic development.

According to them Nepal is primary product producing country and her term of trade remains unfavorable. Under these circumstances production productivity and

¹⁵ Ganesh Prasad Subedi, Unpublished Degree Thesis, *Nepal Foreign Trade: The Changing Scenario of Size, Composition and Direction*, Kathmandu, 2003, T.U, PP.25, 55-59.

efficiency are to be generated which possible by foreign trade in the short run. They also suggest that under the economic reform at global level i.e. liberalization and globalization, Nepalese economy is to be made compatible with these changes, hence cost of production is to be reduced, efficiency and competitiveness are to be generated.

The main objective of their study is to examine the commodity composition and direction of Nepal's foreign trade and make some constructive suggestions under changing world conditions.

They focused another important issue of foreign trade, which is the pattern of commodity composition where import commodity composition is more diversify than export commodity composition.

They dealt briefly the direction of Nepalese foreign trade, because a study of direction of trade indicates country's international relations, facilities for trade and linking of Nepal. They examined Nepalese trade direction in terms of destination-wise export and import. They found that region-wise export indicate that Nepal is confined to limited markets, such as North and center America and Western Europe while export of SAARC and other regions are limited. On the other hand, Nepal has also been concentrated on ESCAP region for import.

Finally, they concluded by providing suggestion to improve Nepalese foreign trade. They suggest that to improve BOP, Nepal should increase export and reduce import. Export can be encouraged by improving the quality of products, reducing cost of production, generating export surpluses, encouraging research and

development while to reduce import substitutes should be encouraged by adopting improved indigenous technology curving non-essential and luxury imports, controlling growth of population and diversify its export and import market. At last they recommended a suggestion in order to expand and diversify Nepalese foreign trade. It is inevitable to have control over smuggling practices across the borders especially with India.¹⁶

¹⁶ . M.P Sing and V.S Singh, *Nepal Foreign Trade, the Changing Scenario of Commodity Composition and dorection*, the economic journal of Nepal, vol.22, no.2, TU Kirtipur.

CHAPTER –THREE

RESEARCH METHODOLOGY

3.0 RESEARCH METHODOLOGY

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

3.1 RESEARCH DESIGN

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy and procedure.¹

This studies mainly focus on the "A comparative Study on the Foreign Trade of Nepal". For this purpose, the research design of the study is used for analytical as well as descriptive method of data collection. Comparative data of various years about foreign trade composition and strength and weakness in Nepal, are presented in such a way, so as to make the research informative to the readers. Before conducting research, research design makes easy to identify the problem to report writing with the help of collection, tabulation, analysis and interpretation of data.

¹ Claire Selltitz and Others, *Research Method of Social Science*, (New York: Rinehart and Winston, 1962), P. 50.

3.2 SOURCES OF DATA

Data may be primary or secondary for any research. In this research I have collected only secondary data through books articles, bulletins, reports, thesis reports, manual from government and non-government sources and national as well as international organizations or institutions. In other words, data would be collected through NRB reports, TPC reports, MOICS reports, MOF reports and others government and non-government reports etc.

3.3 METHODS OF DATA COLLECTION

In this study, data has been collected through secondary sources. The data would be related with foreign trade of Nepal critically collected through the sampling method of data collection.

In other word, data will be collected through NRB, TPC, MOICS, FNCCI, NCC, IMF, WTO, SAFTA etc. reports or bulletins. In this study, data has also been collected through primary data collection method if needed. The data is related about Nepalese trade in the sense of export/import. There are so many data about related studies but only required data has been collected, tabulated, categorized, and interpreted according to the sampling method of data collection.

3.4 DATA COLLECTION TECHNIQUE

Data has been collected through sampling method of secondary sources. The secondary source has been export/import trade data as country wise and commodity wise. The data has been taken for ten years i.e. from 1996/97 to 2005/06, which would be collected from NRB, TPC, MOICS, MOF and other public as well as private sectors.

CHAPTER-FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

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

4.2 METHOD OF ANALYSIS

Data has been analyzed through quantitative as well as qualitative techniques. For analysis of the data various statistical and mathematical techniques would be used. The collective data has been categorized, edited, coded, classified, tabulated, processed and analyzed by using different methods. The financial, accounting and others necessary tool have been used.

4.3 PRESENTATION OF DATA

Various information and collected data through secondary and primary sources have been tabulated. In the course of this research, various statistical and mathematical tools have been used to present, interpret and analyze the data to search conclusions.

Different diagrams and graphic tools have been used for the presentation and analyzing information that is one, two, three dimensional diagrams and histogram, frequency polygon/curve, pie-chart etc. of graphic presentation has been used in

required place. The presentation and analysis of data, both topics have been presented under in one edge. It provides valuable information and has helped to recommend about research the collected data. The collected data has been tabulated, categorized, coded, analyzed in simple statistical and mathematical tools such as percentage, average, ratio, etc.

4.4 COMPARATIVE DATA ANALYSIS

The related data has been collected and analyzed as volume wise, commodity wise and country wise. Data has been analyzed as comparatively with pre & post 2046 BS and data has been taken each and every five years export trade data.

Table No: 1

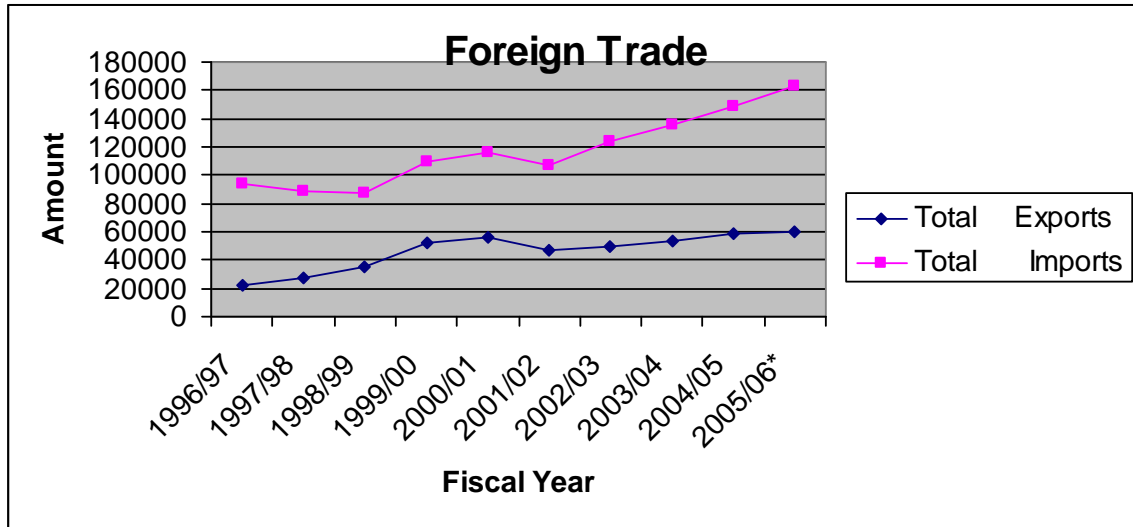
Total Foreign Trade Balance of Nepal

F.Y 1996/97 to F.Y 2005/06

(Value in million Rs.)

FY	Total Exports	Total Imports	Grand Total	Trade Deficits
1996/97	22636.5	93553.4	116189.9	-70896.9
1997/98	27513.5	89002.0	116515.5	-61488.5
1998/99	35676.3	87525.3	123201.6	-51849.0
1999/00	51623.0	109772.9	161395.9	-58149.9
2000/01	55654.1	115687.2	171341.3	-60033.1
2001/02	46944.8	107389.0	154333.8	-60444.2
2002/03	49930.6	124352.1	174282.7	-74421.5
2003/04	53910.7	136277.1	190187.8	-82366.4
2004/05	58443.8	148294.2	266738.0	-89850.4
2005/06*	60074.8	162840.7	222915.5	-102765.8

Source: NRB (2004a)



Above Table No. 1 shows the trade deficit through out the study period. The tendency of trade deficit increased in 1996/97 FY and decreased in last remaining three years and again increased. The minimum trade deficit is 51849.0 million rupees in fiscal year 1998/99 and maximum trade deficit is 102765.8 million rupees in the year 2005/06.

Above the graph is about total export and import from the year 1996/97 to 2005/06. The share of export, comparing import is less than half. The share of import shows always greater than share of export. Therefore, Nepal's always suffering form trade deficits during study period. But the total volume of both export and import are increasing except the fiscal year 2001/02.

Table No: 2
Total Foreign Trade Balance of Nepal
India and overseas
F.Y 1996/97 TO F.Y 2005/06

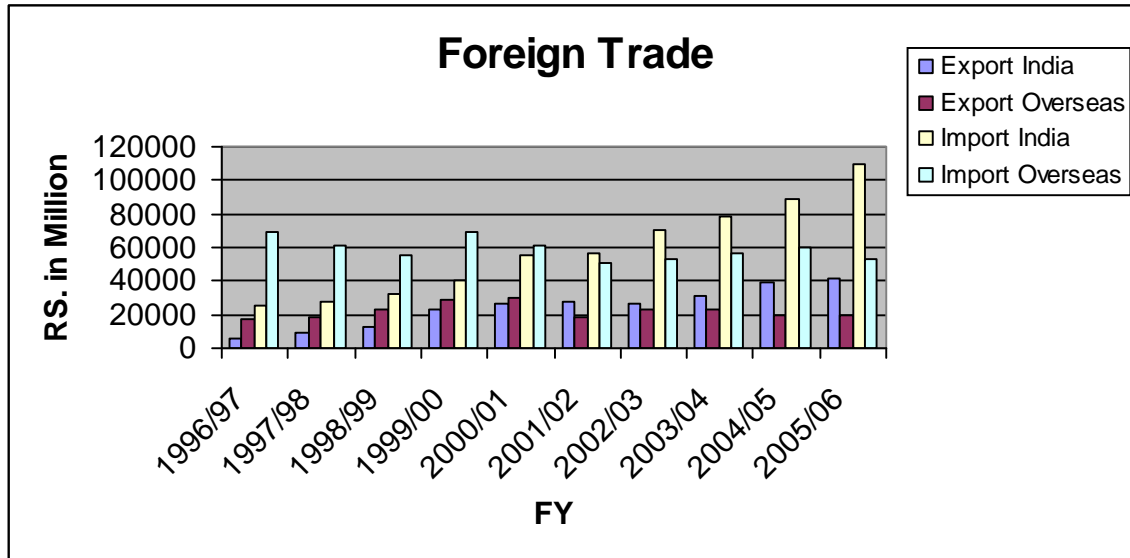
(Value in million Rs.)

FY	Export		Total	Import		Total
	India	Overseas		India	Overseas	
1996/97	5226.2	17410.3	22636.5	24853.3	68700.1	93553.4
1997/98	8794.4	18719.1	27513.5	27331.0	61671.0	89002.0
1998/99	12530.7	23145.6	35676.3	32119.7	55405.6	87525.3
1999/00	22618.7	29004.3	51623.0	40928.1	68844.8	109772.9
2000/01	26030.2	29623.9	55654.1	55025.4	60661.8	115687.2
2001/02	27956.2	18988.6	46944.8	56622.1	50766.9	107389.0
2002/03	26430.0	23500.6	49930.6	70924.2	53427.9	124352.1
2003/04	30777.1	23172.3	53949.4	78739.5	57100.8	135840.3
2004/05	38916.9	19526.9	58438.8	88675.5	59618.7	148294.2
2005/06	41012.6	19062.1	60074.7	109305.9	53534.8	162840.7

Sources; NRB,TPC

Through above Table No.2, comparing exports and import yearly figure, the share of India's export is increasing steadily except 2002/03 and overseas data are fluctuating (up and down). After 2000/01, the share of export to overseas is decreasing and before 2000/01 the share overseas was reverse tendency. However, the total foreign trade is increasing steadily through out the study period.

The total export in FY 1996/97 was 22636.5 million and in the same FY the total import of both sectors was 93553.4 million but at the end of the study period i.e. FY 2005/06, total export and total import were 60074.7 and 162840.7 respectively.



Above Figure clearly shows export to India and overseas from the year 1996/97 to 2005/06. The export to India is increasing continuously and export to overseas also is the same result but at the beginning, the overseas share of total export was more than India. Remaining three years, India has been increased more than overseas. Under figure no. 3 shows the total import from India and Overseas from FY 1996/97 to 2005/06. Comparing India and Overseas, India is lower in beginning study periods and is greater recently year. But import is greater than export of both India and Overseas.

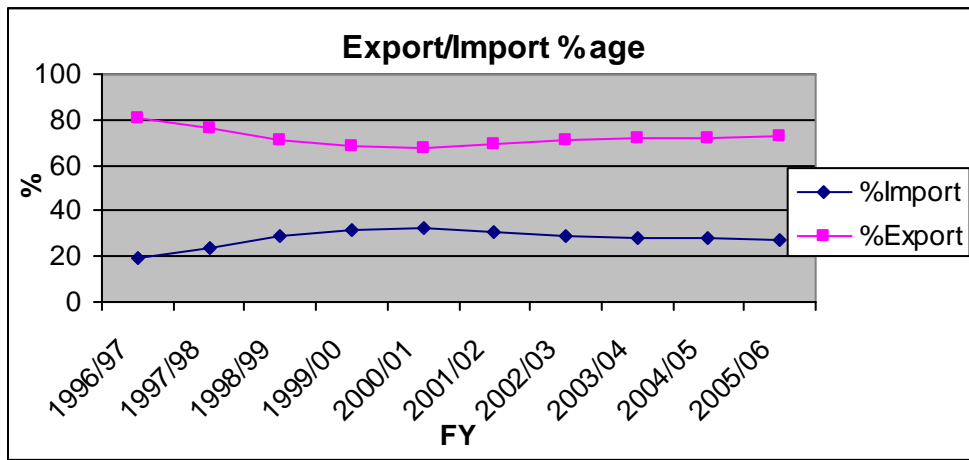
Table No: 3

**Total Foreign Trade Balance of Nepal
F.Y 1996/97 To F.Y 2005/06**

**(In percentage)
(Value in million Rs)**

FY	Exports	%age	Imports	%age	Total Trade
1996/97	22636.5	19.5	93553.4	80.5	116189.9
1997/98	27513.5	23.6	89002.0	76.4	116515.5
1998/99	35676.3	29.0	87525.3	71.0	123201.6
1999/00	51623.0	32.0	109772.9	68.0	161395.9
2000/01	55654.1	32.5	115687.2	67.5	171341.3
2001/02	46944.8	30.4	107389.0	69.6	154333.8
2002/03	49930.6	28.6	124352.1	71.4	174282.7
2003/04	53910.7	28.3	136277.1	71.7	190187.8
2004/05	58438.8	28.27	148294.2	71.73	206733.0
2005/06	60074.7	26.95	162840.7	73.05	222915.4

Source: - Trade Promotion Center & Nepal Raster Bank)



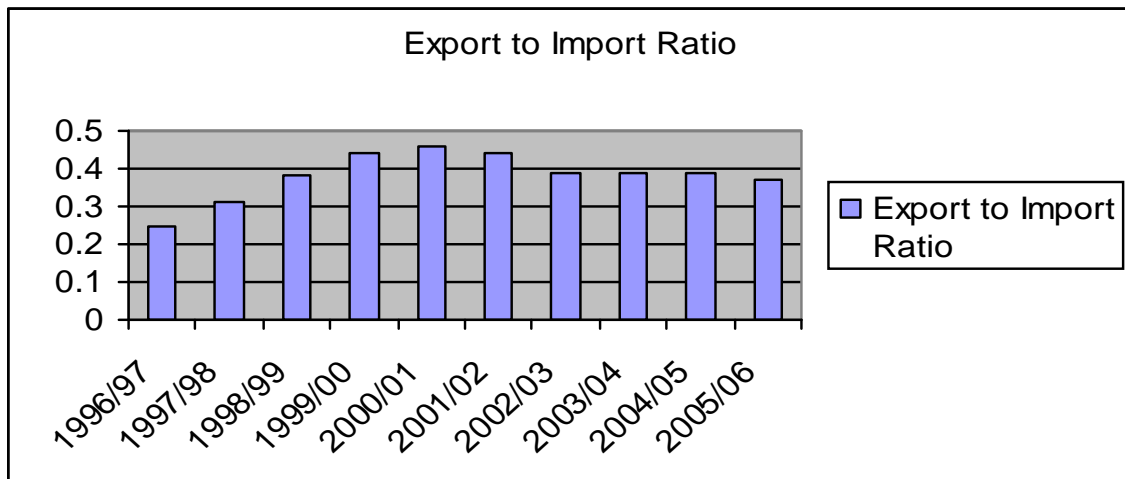
Above Table No. 3 has been shown total import and export in both value and percentage. The export is increasing steadily except FY2001/02 and 2002/03 but in the side of import, the volume is increasing throughout the study period. The maximum value of export was 55654.1 million Rupees in FY200/01. But import is greater than export in both value and percentage. In the average, the import share is not less than three times throughout the study period. The maximum percentage of export was 32.5 in FY 2000/01 and maximum percentage of import was 80.5 in FY 1996/97. So, above Table No.3 clearly shows Nepal has too trade deficits from foreign trade.

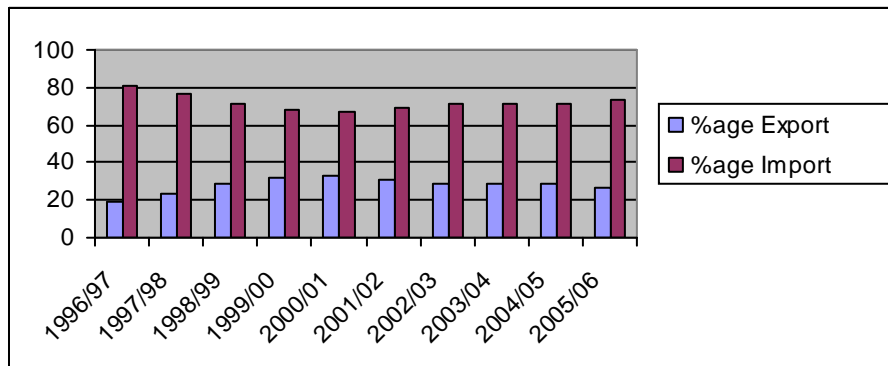
Above Figure shows the total foreign trade at the side of import. The date has been taken from FY 1996/97 to 2005/06. Trade volume of overseas is greater than India till FY2000/01 and then the import volume of overseas is less than India. But the total volume is increasing steadily throughout study period.

Table No: 4
Export/ Import Ratios
F.Y 1996/97 to F.Y 2005/06

FY	%age Export	%age Import	Export to Import Ratio
1996/97	19.5	80.5	0.25
1997/98	23.6	76.4	0.31
1998/99	29.0	71.0	0.38
1999/00	32.0	68.0	0.44
2000/01	32.5	67.5	0.46
2001/02	30.4	69.6	0.44
2002/03	28.6	71.4	0.39
2003/04	28.3	71.7	0.39
2004/05	28.27	71.73	0.39
2005/06	26.95	73.05	0.37

Source: Mention as per Table No.1





Above Table No. 4 shows the total export and total import through out study period (FY 1996/97 to 2005/6) in percentage. In FY 1996/97 the share of export was 19.5 and import share was 80.5 percent. Comparing above table the maximum export share was 32.5 percent in FY2000/01. And minimum percentage of export share was 19.5 in FY 1996/97. On the other hand, the table shows the ratio of export to import. The ratio was always below than 1 or not more than 0.5. The maximum share of ratio was 0.46 in FY 2000/01 and minimum share of ratio was 0.25 in FY1996/97. The ratio table also gives us export trade is not satisfactory through out study period.

Figure shows about the relation of export and import percentage from FY 1996/97 to2005/06. Through out ten years figure, the import covers around 70 to 80 percent and export covers hardly 20 to 30 percent through out the study period.

Figure gives us export to import ratio from FY1996/97 to 2005/06. For the balance of payment, there should be minimum 1:1 ratio among export and import but the

ratio is always below than 0.5 (import to export ratio). In the Figure of No.6, the ratio of study period later years is better than former years. So, foreign trade is going to improving direction but not satisfactory. We have to export more for improving our trade balance and for earning more foreign currency.

Table No: 5
India - Overseas Exports/ Imports Ratios
F.Y 1996/97 to F.Y 2005/06
(In Percentage & Ratio)

FY	India			Overseas		
	% Export	% Import.	Ratios	% Export	% Import.	Ratios
1996/97	23.1	26.6	0.87	76.9	73.4	1.05
1997/98	32.0	30.7	1.04	68.0	69.3	0.98
1998/99	35.1	36.7	0.95	64.9	63.3	1.02
1999/00	43.8	37.3	1.17	56.2	62.7	0.90
2000/01	46.8	47.6	0.98	53.2	52.4	1.01
2001/02	59.6	52.7	1.30	40.4	47.3	0.85
2002/03	52.9	57.0	0.93	47.1	43.0	1.09
2003/04	57.1	57.8	0.99	42.9	42.2	1.02
2004/05	66.6	59.8	1.11	33.4	40.2	0.83
2005/06	68.3	67.1	1.02	31.7	32.9	0.96

Source: NRB and Computation.

4.4.1 Plan wise Foreign Trade Composition:

Till 1995, Nepal was kept in a state of virtually isolation from outside world. Nepal's development efforts have been guided by long-term development plan since 1956. It was only after 1956 that the country launched its first five-year plan

and got into process of development. The country has been completed nine five year plan and one three –year plan over five decades. Now, tenth five-year plan is running from 2002/03. Various policies and strategies were changing in various plans. But the foreign trade balance is not much favorable. The following table shows the plan wise scenario of the foreign trade.

The foreign trade shows a steady growth. In first five-year plan total trade has been RS. 1865.3 million Where the share of export and import has 33.7and 66.3 percent respectively. The average annual export and import has been RS. 125.6 And 247.4 million respectively. It shows huge trade deficits being Rs.609.1 million. Over the plan period Nepalese foreign trade has subsequently increased, along the growth of trade the deficit has been in an increasing trend. The total trade in the first plans more than three times in the third plan, export increased but import increased less than three times.

The total export has increased over the various plans ranking from RS. 628.1 million in first plan to RS. 217411.7 million in ninth plan. Total import has steady growth in the subsequent plan till ninth plan. Trade balance deficit has also increasing trend but annual trade deficit improved in third plan over second plan. The total trade variation in ninth plan over eighth plan was 82.30 percent.

The share of export and import in total trade are 33.7 percent and 66.3 percent respectively in first plan. The total share of export tends to decrease from fourth plan to eighth plan and slightly increase in ninth plan.

Table No: 6
Plan-wise Scenario of Foreign Trade
From First to Nine Plan

(Value in million Rs)

Plan	Export	Import	Total Trade	B/L of Trade
First Plan 1956/57-1960/61	628.1	1237.2	1865.3	-609.1
Plan Gap Year 1961/62	256.2	444.4	700.6	-188.2
Second Plan 1962/63-1964/65	1019.5	2027.4	3046.9	-1007.9
Third Plan 1965/66-1969/70	2256.1	3353.0	5609.1	-1096.9
Fourth Plan 1970/71-1974/75	3127.1	5549.0	8676.1	-2421.9
Fifth Plan 1975/76-1979/80	5844.0	12824.1	18668.1	-6980.1
Sixth Plan 1980/81-1984/85	8676.7	29928.9	38605.6	-21252.2
Seventh Plan 1985/86-1989/90	19535.5	68704.6	88240.1	-49169.1
Plan Gap Year 1990/91-1991/92	21094.0	55166.5	76260.5	-34072.5
Eighth Plan 1992/93-1996/97	96716.7	322463.8	419180.5	-225747.1
Ninth Plan 1997/98-2001/02	217411.7	509376.4	726788.1	-291964.7

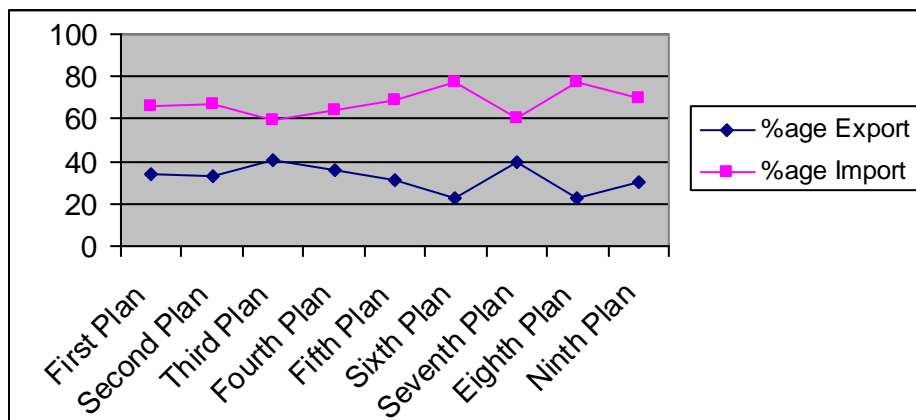
Source: Economic Survey, 2001, TPC

Table No: 7
Plane-wise Scenario of Foreign Trade
(In Percentage)

(Value in million Rs.)

Plan	Total Export	Total Import	Total Trade	%age Export	%age Import	Total
First Plan	628.1	1237.2	1865.3	33.67	66.33	100.00
Second Plan	1019.5	2027.4	3046.9	33.46	66.54	100.00
Third Plan	2256.1	3353.0	5609.1	40.22	59.78	100.00
Fourth Plan	3127.1	5549.0	8676.1	36.04	63.96	100.00
Fifth Plan	5844.0	12824.1	18668.1	31.30	68.70	100.00
Sixth Plan	8676.7	29928.9	38605.6	22.48	77.52	100.00
Seventh Plan	19535.5	68704.6	49464.4	39.49	60.51	100.00
Eighth Plan	96716.7	322463.8	419180.5	23.07	76.93	100.00
Ninth Plan	217411.7	509376.4	726788.1	29.91	70.09	100.00

Source: Economic Survey 2000/01, TPC.



Above Table No. 7 have shows plan wise scenario of total foreign trade from first plan to ninth plan. After completion ninth plan both the export and import figures have increased but comparatively import is more increased than export. The percentage of export only covered one third in the average through out the study period. The value of plan wise is growing steadily the study period both export and import.

Table No: 8
Trade Indicators (in percent with GDP)

FY	Export/ Import	Exports/ GDP	Import/ GDP	Trade Deficit/ GDP	Manufacture d Exports/ Total Export	Primary Exports/ Total Exports
1994/95	27.7	8.0	29.1	-21.0	87.1	12.9
1995/96	26.7	8.0	29.9	-21.9	85.0	15.0
1996/97	24.2	8.1	33.4	-25.3	83.9	16.1
1997/98	30.9	9.1	29.2	-20.4	79.0	21.1
1998/99	40.8	10.4	25.6	-15.2	78.0	22.0
1999/00	47.6	13.6	28.6	-15.0	83.6	16.4
2000/01	48.1	13.5	28.1	-14.6	82.8	14.4
2001/02	43.7	11.1	25.4	-14.3	71.7	28.3
2002/03	40.2	10.9	27.3	-16.3	77.3	22.7
2003/04	39.6	10.9	27.5	-16.6	80.1	19.9

Source: NRB (2004q) and computation

Table No. 8 indicates that there have been some fluctuations in the contribution of exports to the GDP. While exports/GDP stood at 8.0 percent in FY 1994/95, it rose to 13.6 percent in FY 1999/2000 before going down to 10.9 percent in FY 2003/04. Similarly, the contribution of imports in GDP was 29.1 percent in FY 1994/95. It rose to 33.4 percent in FY 1996/97 before dropping to 27.5 percent in FY 2003/04. The share of manufactured goods exports in total exports has gone down from 87.1 percent in FY 1994/95 to 80.6 percent in FY 2003/04. Conversely, the share of primary goods exports has climbed up from 12.9 percent in FY 1994/95 to 19.4 percent in FY 2003/04.

4.4.2 Direction and Trends of Nepalese Foreign Trade:

A study of direction and trends of trade is significant because it indicates a country's international relations, facilities for the trade and linking of nations. In the context of Nepal a study of direction and trends of trade is important to show that whether its trade is diversified or limited to a few regions or countries, and to see whether the country trades with capitalist regions only or with socialist and mixed economies like India as well. The direction and trends of foreign trade shows the share of export and import destination wise of exportable and importable commodities. A change in direction with the strategy of trade diversification (country and commodity wise) helps to narrow down the trade deficits and build a sound footing for the economic development of a country. Region wise exports indicate that Nepal is confined to limited markets. Such as North and Central America, Western Europe and India while export to SAARC countries and other regions are limited.

Nepalese export trade with India shows a steady growth during the study period (1996/97 to 2005/06) except in the year 2002/03. In 1996/97 total export to India were 5226.2 million Rupees which went on increasing and reached to 41012.6 million Rupees, more than ninth times, in 2005/06. On the other side, total

export to overseas countries also shows an increasing tendency accounting 17410.3million Rupees in 1996/97 as compared to 19062.1 million Rupees in 2005/06.

Table No: 9
Nepal Trade Direction: Export and Import
FY1994/95 to 2003/04
(Value in million Rs.)

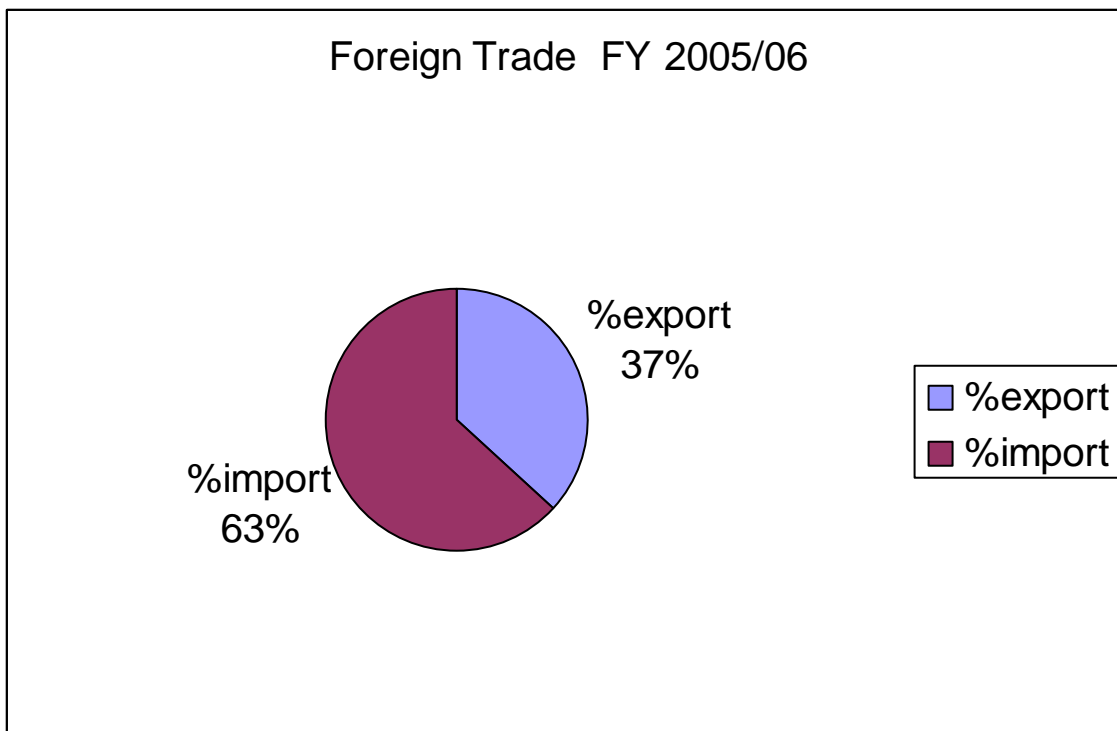
FY	Export		Total	Import		Total
	India	Overseas		India	Overseas	
1996/97	5226.2	17410.3	22636.5	24853.3	68700.1	93553.4
1997/98	8794.4	18719.1	27513.5	27331.0	61671.0	89002.0
1998/99	12530.7	23145.6	35676.3	32119.7	55405.6	87525.3
1999/00	22618.7	29004.3	51623.0	40928.1	68844.8	109772.9
2000/01	26030.2	29623.9	55654.1	55025.4	60661.8	115687.2
2001/02	27956.2	18988.6	46944.8	56622.1	50766.9	107389.0
2002/03	26430.0	23500.6	49930.6	70924.2	53427.9	124352.1
2003/04	30777.1	23172.3	53949.4	78739.5	57100.8	135840.3
2004/05	38916.9	19526.9	58438.8	88675.5	59618.7	148294.2
2005/06	41012.6	19062.1	60074.7	109305.9	53534.8	162840.7

Source: NRB

Total export to overseas shows a steadily growth during FY 1996/97 to 2000/01 and decreased remaining of rest years. Total export increased only 1.09 times in the FY 2005/06 comparing the year of 1996/97.

In the import side, India shows a steadily increasing tendency in the study period.

During the study period, import of the India increased to 4.40 times.



Total Share of Export and Import

Above Figure clearly shows about total foreign trade in the study period, the share of export of India and overseas are increasing steadily and import from India and overseas are decreasing steadily. But comparing export to import in volume from India is growing huge trade deficit through out the study period. From Figure No. 8, export share is only 37 percent but import share is 63 percent in FY 2005/06. Only showing the export and import of 2005/06 in Figure, it is cleared that the share of export covered very small area and import covered more than three times or near two-third of total foreign trade.

Table No: 10

**India - Overseas Exports/ Imports Ratios
F.Y 1994/95 to F.Y 2003/04**

(In percentage & ratio)

FY	India			Overseas		
	% Export	% Import.	Ratios	% Export	% Import.	Ratios
1996/97	23.1	26.6	0.87	76.9	73.4	1.05
1997/98	32.0	30.7	1.04	68.0	69.3	0.98
1998/99	35.1	36.7	0.95	64.9	63.3	1.02
1999/00	43.8	37.3	1.17	56.2	62.7	0.90
2000/01	46.8	47.6	0.98	53.2	52.4	1.01
2001/02	59.6	52.7	1.30	40.4	47.3	0.85
2002/03	52.9	57.0	0.93	47.1	43.0	1.09
2003/04	57.1	57.8	0.99	42.9	42.2	1.02
2004/05	66.6	59.8	1.11	33.4	41.2	0.81
2005/06	68.3	67.1	1.08	31.7	32.9	0.96

Source: NRB and Computation.

Table No: 11
Composition of Regions in the
Total Overseas Exports of Nepal
FY 2001/02 to 2005/2006
(Value in million Rs)

Regions	FY2001/ 2002	FY2002/ 2003	FY2003/2 004	FY2004/0 5	FY2005/0 6
Asia (Excluding India)	1352	1495	1899	1832	2217
Africa	11	10	478	43	108
America	9725	13100	10274	8151	7711
European Union	6790	6874	7541	6934	7329
Europe(Excluding European Union)	457	402	639	607	728
Oceania	74	100	111	123	183
Total export	18409	21981	20942	17692	18278

Source: TPC and NRB

Above Table No. 11 is about export trade of Nepal to Region-Wise like Asia (excluding India), Africa, America, European Union, Europe (excluding European Union), and Ocean Regions.

From both table and figure shows the maximum share of export trade, first in America and second position in European Union because America and European Union import only readymade garments and woolen carpet from Nepal respectively. The average share of study period, readymade garments and woolen carpets took more than 70 percent in total export. It is not beneficial for developing country like Nepal for depending two major products. America has not given one of two, the quota of readymade garments from the beginning of 2005.

In other words, the shares of total export remaining regions are not satisfactory throughout study period. Nepal has to increase its export shares to these regions.

Due to land-locked feature, Nepal has to expand its trade in neighboring countries by saving transport cost on both export and import. And Nepal also has to expand its foreign trade in Africa and South America as well.

Table No: 12
Composition of Regions in the
Total Overseas Imports of Nepal

FY2001/02 to 2005/2006

(Value in million Rs)

Regions	FY2001/2 002	FY2002/ 2003	FY2003/ 2004	2004/05	2005/06
Asia (Excluding India)	36162	38094	38385	39888	31455
Africa	181	131	353	247	286
America	3486	3395	3970	4240	5020
European Union	4051	8027	6559	6179	6317
Europe(Excluding European Union)	1305	1176	1413	1708	2467
Oceania	1599	2142	2555	2750	2442
Total	47584	52965	53235	55014	48087

Source: TPC and NRB

Above Table No. 13 is about Import trade of Nepal to Region-Wise like Asia (excluding India), Africa, America, European Union, Europe (excluding European Union), and Ocean Regions.

From table shows the maximum share of import trade, first in Asia (Excluding India) around Rs. 30000 to 40000 million and second position in European Union. In other words, the shares of total Import remaining regions are not satisfactory throughout study period. Nepal has to diversify its export and import shares to these regions.

Due to land-locked feature, Nepal has to expand its trade in neighboring countries by saving transport cost on both export and import. And Nepal also has to expand its foreign trade in Africa and South America as well.

Table No: 13
Composition of Development Regions
In the Total Overseas Exports of Nepal
FY 2001/02 to 2005/2006

(Value in million Rs)

Regions	FY2001/0 2	FY2002/0 3	FY2003/0 4	2004/05	2005/06
Eastern Dev. Reg.	5090	7416	6814	5418	4198
Central Dev. Reg.	13316	14556	14125	12263	14075
Western Dev. Reg.	-	8	2	8	-
Mid-Western Dev. Reg.	3	22	-	2	4
Far-Western Dev. Reg.	-	-	-	-	-
Total	18409	21981	20942	17692	18278

Source: TPC and NRB

Above Table No.13 is related total import from different Development Regions. Nepal has divided in five Development Regions. The data has been taken latest five years from 2001/02 to 2005/06 fiscal year. Nepal imported high share from Central Development Region through out the study period. The figure has in million so imports from different regions below than one million has not been included in Table No.13. Kathmandu International Airport and Birgunj customs are in this Central Development Region that it's taken the highest volume of total import.

Table No: 14
Composition of Development Regions
In the Total Overseas Imports of Nepal
FY 2001/02 to 2005/06

(Value in million Rs)

Regions	2001/200 2	2002/ 2003	2003/200 4	2004/05	2005/06
Eastern Dev. Reg.	11493	13468	11775	12328	11048
Central Dev. Reg.	35151	38519	40612	40868	35017
WesternDev. Reg.	688	725	587	1549	1760
Mid-Western Dev. Reg.	249	253	241	268	261
Far-Western Dev. Reg.	3	0.00	20	-	-
Total	47584	52965	53235	55014	48047

Source: TPC and NRB

Above Table No. 14 shows the export trade from different development region from FY 2001/02 to 2005/06. There are same trends as import Table No. 13. Central Development took the maximum share of total export through out the study period. The second share of export has Eastern Development Region. From the Table No. 16, the trends of export from different development regions are not differing but the contribution of share of other regions is not satisfactory.

Table No: 15

**Composition of Development Regions
In the Total Overseas Exports of Nepal
FY 2001/02 to 2005/2006
(In percentage)**

Regions	FY2001/0 2	FY2002/0 3	FY2003/0 4	2004/05	2005/0 6	Average %
Eastern Dev. Reg.	27.65	33.74	32.54	30.62	22.97	29.51
Central Dev. Reg.	72.33	66.22	67.45	69.31	77.01	70.46
Western Dev. Reg.	0.00	0.03	0.01	0.05	0.00	00.16
Mid-Western Dev.Reg.	0.02	0.01	0.00	0.01	0.02	00.01
Far-Western Dev. Reg.	0.00	0.00	0.00	0.00	0.00	00.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: TPC and NRB

Table No: 16

**Nepal's Exports to SAARC Member Countries
FY 2001/02 to 2005/06
(Value in Million Rs)**

Direction	FY 2001/02	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06
India	27956	26430	31244	38917	41013
Bangladesh	237	411	421	291	234
Bhutan	27	53	78	149	238
Maldives	1	-	-	-	-
Pakistan	61	74	278	229	186
Sri Lanka	-	-	-	6	2
Total	28283	26968	32021	39593	41674
Total Export	47387	50011	54417	58444	60074
%in Total Export	59.7	53.9	58.8	67.7	69.4

Source: TPC and NRB

Above Table No. 16 shows the export trade to SAARC member countries from FY 2001/02 to 2005/06. There is also given total export trade and percentage in total export trade of SAARC member countries. The share of SAARC member countries is growing from 53.9 percent in FY 2002/03 to 69.4 percent in 2005/06.

India covered more than 97 percent in export trade so Nepal unable to expand her trade diversification among the SAARC countries. The maximum share of total export to SAARC region was 69.4 percent in FY 2005/06. Among the SAARC countries the share of export to Maldives and Sri Lanka are almost nil. The second main export country has Bangladesh with very small volume although Fulbari port facility.

Table No: 17

**Nepal's Imports to SAARC Member Countries
FY 2001/02 to 2005/06
(Value in Million Rs.)**

Direction	FY 2001/02	FY 2002/03	FY 2003/04	FY2004/0 5	FY2005/0 6
India	56622	70924	81652	88675	109306
Bangladesh	643	335	671	206	105
Bhutan	85	36	22	32	127
Maldives	N	N	N	-	-
Pakistan	133	153	191	167	191
Sri Lanka	161	105	139	34	52
Total	57644	71554	82676	89114	109781
Total Import	108635	128228	138753	148294	162861
%in Total Import	53.1	55.8	59.6	60.1	67.4

Source: TPC and NRB

Note: N denotes below than one million.

Above Table No. 17 shows the share of total import from SAARC countries from 2001/02 to 2005/06 and total import from foreign and percentage in total import. Similarly export, India has taken more than 97 percent in SAARC. The percentage in total import is growing steadily the study period. In 2001/02 has 53.1 and in 2005/06 has 67.4 percent of total import. Comparing export to import, it has huge trade deficit from India.

Table No: 18
Nepal's Exports to SAARC Member Countries
FY 2001/02 to 2005/06 In percentage)

Direction	%in 2001/02	%in 2002/03	%in 2003/04	%in 2004/05	%in 2005/06
India	98.9	98.0	97.6	98.3	98.4
Bangladesh	0.8	1.5	1.3	0.7	0.6
Bhutan	0.1	0.2	0.2	0.4	0.6
Maldives	0.0	0.0	0.0	0.0	0.0
Pakistan	0.2	0.3	0.9	0.6	0.4
Sri Lanka	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100

Source: TPC and NRB

Table No: 19
Nepal's Import Trade with SAARC
FY 2001/02 to 2005/06 In percentage)

Direction	%in 2001/02	%in 2002/03	%in 2003/04	%in 2004/05	%in 2005/06
India	98.3	99.1	98.7	99.5	99.6
Bangladesh	1.1	0.5	0.8	0.2	0.1
Bhutan	0.1	0.1	0.0	0.0	0.1
Maldives	0.0	0.0	0.0	0.0	0.0
Pakistan	0.2	0.2	0.2	0.2	0.2
Sri Lanka	0.3	0.1	0.2	0.0	0.0
Total	100	100	100	100	100

Source: TPC and NRB

Above the both table no. 18 and 19 clearly show that both export and import percentage of Nepal from the SAARC country, the share of India has almost cent percent but the second position of both export and import percentage of Bangladesh has around one percent in beginning FY but at the ending FY its share has 0.1 percent. It means India has taken full role of foreign among in SAARC country.

4.4.3 Factors affecting Nepal's foreign trade:

Nepal is land-locked and least developed country. Although foreign trade gives average 13% GDP of national production, Nepal has been suffering huge trade deficits and trade and transit problems due to various reasons. Nepal has just entered into WTO membership, SAFTA and BIMST-EC as multilateral and bilateral agreement and cooperation. Nepal may be the transit point for the big developed two countries like India and China; it is the main issue point towards the recent year.

Transit is an unquestionable right of land-locked country like Nepal and which is essential for the flow of trade, is seriously constrained by the neighboring SAARC member country India. The factor affecting and major issues of Nepal's foreign trade can be discussed as below.

- 1) Nepal lacks genuine exportable items. There are only two or three major items for export- readymade garments and woolen carpets, the account more than 70 percent of the total overseas trade. So we should introduce more exportable items for improving foreign trade.
- 2) It seems to feel that the research and development activities regarding the development of exportable products in Nepal is quite lacking. There is only one

government agency undertaking such responsibility- Trade Promotion Centre – but it lacks such activities.

- 3) Information's, that are essential for better decision-making, are seriously lacking in Nepal. Most of the information on policy approach and fundamental decisions are not transparent in Nepal. They are stored in the dark basket by the responsible authorities, both government and private sectors.
- 4) Nepal's trade with SAARC member countries is not satisfactory; India alone accounts for more than 98 percent of the total SAARC trade.
- 5) India has recently imposed quota system against the major export items of Nepal to India like Vegetable ghee, Acrylic yarn, copper products and zinc oxide.
- 6) Nepal has huge trade deficits with both India and overseas countries. The value of Nepal's trade is more than the countries export value. Nepal has trade deficits even with Tibet, the Autonomous Region of China.
- 7) No Symptoms have yet seen that Nepal's trade situation will improve in the near future due to the country's internal political crisis and economic downward.
- 8) Nepal is China-locked in the north. However, Chinese ports are about 5,000 km from the Nepalese border. The snowy range of Himalayas stands as a transit barrier between these two giant countries. Tibet, which is one of the nearest neighbors of Nepal, is still in the earliest state of its economic development and lacks transportation and other physical facilities.
- 9) Nepal has trade and transit agreements with the People's Republic of Bangladesh, Bangladesh have agreed to provide its Chittagaon and China ports for Nepali cargo. The Bangladesh ports authorities in Chittagaon, Khulna and Chalna are ever ready to assist Nepal in handling the Nepal-bound cargo. Regarding the existing limited storage space in the port of Chittagaon, the Bangladesh River Transport Corporation is willing to haul Nepalese cargo

through their well-developed barge and lighting services. The Bangladesh Railways has been providing a rebate of 25 percent in its tariff for Nepalese cargo to compensate for the longer distance compared to the Calcutta route. However, the main obstacle in using the Bangladesh transit route lies in the Radhikapur/Biral crossing between India and Bangladesh, where Nepal has no liaison office. Besides this, Nepal traders have to hold valid passport and visa to launch trade with and Bangladesh. Again, Bangladesh transit route suffers from several basic logistic problems and during the transit in India, Indian police and officials give unnecessary tension.

10) Due to the uncomfortable geo-political position of Nepal, it has to accept Calcutta port as the only exit or entry point for Nepali cargo, for which Nepal is compelled to accept the India's hard conditions too. The freedom of transit, which was accorded by the Trade and Transit Agreement of 1960, has not brought yet into actual practice. Whenever, Nepal raises the question of such facility, the Indian government always tries to push unnecessary problems and pressure to Nepal, and try to take reciprocal advantage.

11) The Nepalese transit-traffic that is subject to the Indian Customs Act for Nepal bound cargo is not justifiable. The Nepalese do not have their separate customs zone. The security problem is out of Nepal's hand. The institutions created in Nepal for transit are not able to deal with such policy issues with the Calcutta authorities.

12) Operations at Calcutta port pose serious difficulties to Nepalese shippers due to lack of physical infrastructure, congestion in the berths, jetties and warehouses, frequent labour unrest, lack of adequate security, bureaucratic procedures, and delays in clearance, shortage of railway wagons and host of other problems.

13) Nepal may be the transit point of two giant countries like India and China but to do this role, Nepal has not sufficient infrastructure transit facilities, air cargo facilities and other related activities.

14) Nepal can derive benefits in the global market as the WTO's least developed country but this job has more challenges to obtain its arrangements.

15) To do the better performance of foreign trade, there should be quite political stability in the nation, lot of exportable goods, huge infrastructures, high productivity, sufficient transit, banking and insurance facilities, technological and industrialization nation, participating in foreign trade fair and exhibition regularly etc and so on. But we have not able to provide these kinds of activities for the trading sectors.

4.4.4 Analytical study of Nepalese foreign trade policies and reform:

After the restoration of democracy in Nepal, the elected government introduced new trade policy. The changing environments of liberalization trade in globalize Nepal had also established around six five-year plans. Before it, Nepal had already established Trade Promotion Centre (TPC) for promoting exportable items and trade diversification. Nepal has joined bilateral and multilateral cooperation like SAARC, SAPTA, SAFTA, BIMST-EC and UNCTAD and WTO for international trading performance. More than 17 countries to where Nepal has done bilateral trade agreement and Nepal can be traded in more than 80 countries. Although Nepal can diversify its foreign trade, Nepal is suffering huge trade deficits due to various reasons. The reason may be inadequate policies about the foreign trade.

After entering WTO, BIMST-EC, SAFTA etc Nepal has to reduce its tariff and non-tariff barriers according to international arrangement. Existing policies and commitment may be outdated for international trade in the beginning of 21st century. To address the rules, regulations, agreements and arrangements of WTO

and other cooperation's, Nepal should change its some policies, Acts and other strategies immediately.

Export Mechanism and Policies

Export is an essential function for international trade or business. Goods manufactured or produced in one country, destined for markets in another, most be moved across their borders to complete the process. Many controls and procedures arise in completing the process. Required documents, terms of payment, tariff systems and other barriers to the free flow of goods between independent sovereigns are requirement prior to export marketing that must be considered by the export marketer. These mechanics are essence of foreign marketing and their importance can not be minimized.

Thus export procedures, in one-hand government policies and intervention in pricing, distribution and promotion. On the other hand export plays a significant role in shaping the composition and direction of export. So this chapter analyzes the past and prevailing export procedures, policies and incentive narrating to marketing of Nepalese export trade.

Export Procedures

Export procedures may be seen as the channel activities taken in export marketing, because channel is defined as a pipeline for goods from manufacturers to consumer. The exporters have to fulfill different requirements from the time that an export order is obtained till the realization of export proceeds. Preparation of

various documents, banking requirement, costume procedures and transportation are the most complicated procedures of export marketing.

The exporters have to register their firm in the department of commerce or as branches as a trading firm. There are many exporters who have there own industry and many exporters work as marketing institution between the procedures and other channel members. Many small and medium class manufacturers do not export directly, the exporter used to buy their manufactured goods by them after inspection of quality and specification.

The industries must be registered within six month of operation in concerned department. But in present practice, the small manufacturers that supply to the established manufacturers and exporters have not registered their industries.

Next, the exporters should have a current account with a reputed commercial bank authorized to deal in foreign exchange. The bank then agrees to deal transaction between the exporters and buyers.

Exporters have to prepare various documents with the distribution pipeline to satisfy government regulations, international commercial and transit rules and payment transactions. At present the Nepalese exporters have to prepare the following documents while executing the export.

1. Export contract form,
2. Commercial invoice, packing and weight list,
3. Certificate of origin,
4. GSP Certificate of Origin,
5. Letter of Credit (L/C),
6. Foreign Exchange Earning Bank Certificate,

7. Customs Transit Declaration Certificate,
8. Bill of Lading or Shipment Bill,
9. Railway receipt/Airway Bill,
10. Customs Clearance Form and
11. Insurance Policy.

The Nepal Chamber of Commerce issues the certificate of origin. To enjoy preferential concession in the importing country, the GSP certificate was obtained from the export section of the trade promotion center. It consists of the information about the means of transport, route, name and address of the exporter and importer, number of items, number of packages, description of goods, place of manufacture, gross weight, quality and number, date of invoice and value, certification etc.

To obtain certificate facilities from bank, various document are needed such as CTD, Railway/Airway Bill, Bill of lading insurance policy, Certificate of Origin etc. the exporters today also export their consignments under advance payment receipt and 10 percent of the exporters use sign draft term while selling samples.

The Nepalese exporters should obtain the CDC certificate from the Nepal border customs authorities concerned to assure the Indian customs authorities that the goods are not of Indian origin and are meant for export from Nepal to third countries other than India and sell not be retained in India. Then the consignment is carried by a third agency to its destination. The third agency gives its official receipt (Bill of lading) for the goods shipped in its vessel to carry them to the port of destination.

If the goods are shipped from Nepal border or Indian border by rail, the railway authority issues a railway receipt and endorses it to the exporter. If the goods are not sent by rail, the Tribhuvan International Airport issues an Airway Bill. The

freight charge is paid by the exporter if the contract is on CIF or C&F and if it is on FOB (FCA) policy, the importer will pay the freight charge. More than 50 percent of Nepalese goods are exported under FOB term.

Before the consignment crossing the Nepal border the exporter should get the goods cleared by the customs. This procedure should be completed in the customs office of Nepal border or of Tribhuvan International Airport office or of Foreign Post Office Department; from there the goods are passed. At present there is no customs duty, no excise duty, no sale tax and no quantitative restriction in export of Nepalese goods like carpets, pashmina goods, herbal products, Nepalese paper product and handicraft etc and so on except readymade garments, vegetable ghee, acrylic yarn, zinc oxide and copper products in USA and India.

If the goods are transported through India, the exporter should clear the customs office at Indian border. As soon as the export consignment crosses the Nepal border, the exporter must get it issued by an authorized insurance company. But the insurance policy depends on the FOB, C&F or CIF terms.

Transportation

Transportation plays a role of facilitating agency in total distribution channel system. But one of the major bottlenecks in development of the export sector in Nepal is the country's geography. The difficult mountain terrain on one hand and the landlockness of the country on the other bring serious challenges for the development of the export logistic system in the country. The country has the limited modern transportation network and the major part of the country still depends on the human labor for transportation of goods. This is one of the main

causes that most of the Nepalese manufacturers and exporters are concentrated in Kathmandu valley.

The problem posed by the landlessness of the country is even more serves, as the country has to access to sea only through India. The problem of transit, transportation, warehousing, insurance etc had always been obstacles to Nepal's export trade. All the products exported from Nepal have to be carried by air or through India, from Calcutta Port.

There is lack of government incentive on transport. Land and sea export more than 50 percent of the total export. So, the exporters cannot meet the prompt delivery commitments. Procedures and physical facilities and services at Calcutta Port is another problem for the Nepalese exporters. Exporters also ship their products from Bangkok Port and Singapore Port carrying up to there by passenger flight.

Export Packing and Labeling

Nepalese exporting goods are packed to protect them against damage in transportation. Nepal uses conventional method of packaging. In the other word, the exported goods are packed its nature, sensitive weight shape and size etc. goods may be packed in paper box, wooden box, plastic wrapped, metal box etc and so on.

There should be labeled at exporting goods i.e. name of manufacturer, weight of packet, contain of packet, date of manufactured, use of goods, batch no., price of product if need.

Delivery

Delivery of the export consignment is usually made in 1 to 3 months from the confirmed order received. Sometimes for special conditions, delivery may take up to 6 months. The big exporters use to keep an adequate stock of export goods in usual designs and sizes to ensure prompt delivery. Such delivery could be made within the 7 days. But most of the exporters produce their products against the programmed order. The design, size, quality, color, quantity, price and delivery time is already fixed by the buyer and before the shipment the buyer selects and approves the products for shipment. The exporters give assurance of size, color and quantity of such products. If the shipment is delayed, the exporter gets penalty.

4.5 MAJOR FINDINGS

From this research writing, I have found the following major issues such as:

1. Nepal has primary exportable goods but manufactured, deluxe, luxury and other sophistic and valuable items are being imported from other countries.
1. Nepal is one of the least developed countries of the world, which is facing the problem of vicious circle of poverty and economic backwardness. Nepalese foreign trade sector especially export trade, which is considered to be the engine of growth, has been deteriorating rather than improving.
2. The value of import is increasing massively than the value of export in study periods. Although the government has introduced several policies to give a proper direction to the nations export trade. It is not moving in the right track and it is creeping under so many problems.

3. Because of the increased attraction on imported goods, productivity of the country has been deteriorating. The qualities of the products are also not satisfactory so they are unable to compete in the international market.
4. The role of export in relation to export led, export- import ratio, foreign aid and debt service ratio, BOP, foreign currency and employment generation has not been satisfactory. The share of agriculture production has dominated in GDP of Nepal.
5. Nepal's foreign trade policy is directed more towards import expansion rather than export promotion and import substitution. Experts and skilled manpower (for policymaking) in the concerned fields are kept in the dark so the illegal traders are getting advantage of import and export.
6. The agricultural sector, which is the backbone of Nepalese economy, has been extremely disappointing. Similarly industrial sector is still in infant stage. Industrial sector in Nepal is still looked at as a neglected sector because it requires heavy investment and whose output can be tasted only after a long period.
7. Nepal's geographical position is one of the biggest bottlenecks in its trade expansion. Although it is a natural and permanent type of problem for landlocked country like Nepal, it should be solved through the political/diplomatic efforts and commitment. Because such type of event, Nepal may isolate from external affairs at any time.
8. Nepal has a fundamental trade deficit problem with both India and overseas countries in both study periods that may have a long- term effect on the country's economy. Such deficit is usually covered by the increased foreign loans and grants, which may further deteriorate the country's economy.

9. Free flow of goods between Nepal and India is creating a serious problem for Nepalese products in both studying periods because Indian products are available cheaply in Nepal. And there is no discrimination between domestic and foreign goods in Nepalese market.
10. In Nepalese trade sector, tariff is levied just to enhance revenue not to provide protection to domestic industries. There exists absence of attention in the production of consumer goods to reduce import.
11. Nepalese domestic industries can not produce enough for Nepal's growing population.
12. Nepal utilizes only one transit to (trade route) trade with overseas countries other than India and China. Although Nepal can use other trade routes like Fulbari Banglaband through Bangladesh but no action is forwarded regarding this.
13. The export of agriculture production has been declining, as growth in agricultural production has hardly been able to keep pace with population expansion. The export GDP ratio in Nepal between 1974/75 to 1989/90 ranged between Table No:19, 1.9 to 5.4. The agricultural production has affected export- GDP ratios

CHAPER- FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

Nepal is land-locked country based on agrarian economy, low per capita income (USD340), high population growth, dependency on foreign trade and aid, continuous deficit in balance of payment are the features of the Nepalese economy which places her among the poorest country in the world. Decreasing agricultural productivity and growing population is facing a number of problems tapped with how to raise her economy and how to confront the decreasing balance of payment position. Having the poor industrial base, she has been depending on the foreign trade.

At ancient time or before 1970, Nepal had single foreign trade partner India which covered more than 95 percent trade of total trade and rest covered by Tibet so the share of oversea was almost nil. After TPC (1970), Nepal could diversify her trade from India to around the world gradually before WTO membership. The maximum share of foreign trade of overseas could be around 70 percent in 1990s but recent year the tendency of share of India is increasing and obviously overseas share is decreasing up to 37 percentages in FY2005/06 to total trade but in both sector the trade deficit of Nepal is increasing trends during the study period.

As the lack of technology and capital, Nepal usually imports capital equipment, daily consumable goods, technical know-how, chemicals, means of transport and communication etc. And, she exports the raw materials and labor intensive industrial products.

The major commodity exports from Nepal are woolen carpets, readymade garments, goatskins and hides, pulses, Niger seeds, handicrafts, leather goods and woolen goods. The export figures of raw goods are decreasing in comparison to manufactured goods. On the other hand, the labor-intensive industries gaining popularity in internal economy and external markets

This thesis has been divided into five chapters and other sub-chapters for making fruitful and effective. The main objective of the study is to analyze about trends and policies of Nepal's foreign trade.

To justify thesis writing and the collected review of literatures, there should be necessary to conduct research methodology. Therefore, in chapter three, the analytical and descriptive research methodology have been applied with taking secondary data by sampling method through concerned department like TPC, NRB, MOICS, MOF and others.

For analyzing and presenting the collected data simple statistical and mathematical tools have been used. For the descriptive analysis, foreign trade problems and issues and policies reform is critically analyzed.

Data has been taken from FY 1996/97 to 2005/06 as country wise, commodity wise, region wise, plan wise from TPC and NRB. The collected data has been presented in both tables and figures. The trade both export and import is growing steadily but comparing export to import, the volume of export is lesser than the import. Comparing India and overseas about export and import, the share of India

is growing steadily through out study period but overseas trade has not same direction.

Nepal's foreign trade to the SAARC countries, India has taken maximum share (not less than 98 percentages) in both export and import. The region wise trade direction gives us the view that export to USA has higher and excluding India has higher in the side of import.

After entering WTO membership, Nepal has been suffering both challenges and opportunities in foreign trade. Nepal has competitive advantages in agricultural and small and medium scale industries. The approach of private institution would play a vital role in the development of these sectors. Private organizations should give emphasis on the use of modern technologies quality management and hardcore professionalism.

There exists a geographical concentration in Nepal's exports, the top four trading partners in FY 2005/06 being India, USA, Germany, and United Kingdom. Analogously, the country's imports have been primary from India, Singapore, China, and Thailand.

In this thesis writing about the export trade in different time frame, Nepal has taken two distinct export policies like export trade policy 1982 and export trade policy 1992. After restoration of democracy system in Nepal, a new elected government formulated and announced a new trade policy and open market policy i.e. liberal economic policy. So in both periods, there is distinct difference between the trade policies.

Nepal just entered into WTO, SAFTA, and BIMESTIC for the expansion of her export trade and to take competitive advantages. Nepal can take advantage from

WTO as LDC country. New entrance to BIMESTIC of Nepal, she can expand her export trade in South and East Asian countries. But these jobs have more challenged for least developing countries like Nepal.

Nepal has to adjust her trade policies, to develop infrastructure, to reduce trade barriers, to produce exportable goods, to formulate political stability as per the requirement of WTO. Nepal has both challenges and opportunities to do WTO commitment as least developed country for comparative advantages.

Both the study periods Nepal not able to manage her trade balance to India, Overseas and Tibet. From chapter four clearly shows us the huge trade deficit is the major problems facing by the Nepal. The export trade in SAARC countries, India along hold accounts more than 98 percentages in both study periods.

The ready-made garments and Woolen carpets hold the maximum share of overseas export trade i.e. more than 65 percent. America and Germany is the top most partners of Woolen carpets and ready-made garments. In other words, these countries hold more than 80 percent of those products in overseas export trade.

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5.2 CONCLUSIONS

The major objective of the study is to provide a bird's view of various aspects of Nepalese trade with India, Tibet and Overseas. The volume of trade found to be increased steadily but the weight of export in total volume of trade is very low. The analysis of Nepal's foreign trade has shown that landlocked ness primary nature of export, poor export performance, unfavorable terms of trade, poor industrialization are some of the worsen realities in the foreign trade sector of Nepal. The share of export and import in the total volume of trade in 2005/06 was 33 and 67 percent respectively, which indicates a more dominance of import in Nepalese foreign trade.

Although trade is considered as an engine of growth in economic development of a country, in Nepal these prevails a big gap between the objectives and vision and the current state of affairs in the trade sector.

Though Nepal is already a member of the WTO, the institutional and legal structures to implement the WTO agreement have not been properly developed.

Market and product concentrations of export led to volatile export proceeds. Structural difficulties of trade related services and infrastructures have obstructed to materialize potential comparative advantages.

Analysis of Nepal's foreign trade has shown the share of export and import in the total volume of trade in 2003/04 are 28.35 and 71.65 percent respectively, which indicates a more dominance of export in Nepalese foreign trade.

The ratio of foreign trade export to import is always less than 1, which clearly shows import exceeding. It is not beneficial for the developing country like Nepal. The huge trade deficit affects our economic development.

Nepal can diversify its trade country wise as well as commodity wise after the restoration of democracy system in Nepal.

But Nepal is a primary product producing country. The export side, only readymade and carpet products have taken more than 65 percent share and America and Germany two foreign countries hold more share of overseas export.

Nepal has entered into WTO, SAFTA, and BIMSTEC. Now, it is growing to build transit point of India and China, which is more beneficial for developing and land-locked country.

The plan wise scenario also shows that the trade is increased but in the comparison of exports and imports, Nepal is unable to maintain balance in them i.e. there is deficit in exports.

The direction of foreign trade shows the share of exportable and importable commodities. A change in direction with the strategy of trade diversification helps to narrow down the trade deficit and build a sound and strong economic development of the country.

The average GDP of national development, foreign trade takes 13 percent out of national income.

The share of foreign trade is growing with India but it is not equally growing with third country after entering WTO and other transit barriers. India enjoys the maximum share of foreign trade in SAARC both export and import side (not below 98 percent of that sector). Now it is also issuing point about foreign trade.

Nepal Government policy has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been executed.

Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have restricted the country in improving its international competitiveness.

The trends of foreign trade of Nepal are not favorable during the study period, which clearly shows that Nepal is still far away from gains of international trade.

5.3 RECOMMENDATION

In the light of above observation about comparative study on the foreign trade of Nepal, the following points deserve special consideration.

1. It is necessary to make appropriate export plan with production plan of the country, which helps to increase productivity and exportable goods. Therefore, the comprehensive survey should be conducted for inquiring the whole wealth of nation.

2. Nepal Government should workout bilateral agreements with importing countries for fixing of quota of export and diversification of products, and for possible adjustments in GSP tariff application to compensate for transport cost differentials arising from Nepal's land-locked position.
3. Dry ports, transit facilities, infrastructure would be made soon for helping the foreign trade and sustains the existing facilities.
4. Participating in international fairs and sending trade delegates to potential markets as well as increased publicity for Nepalese products in international media will help to expand the market of Nepalese products.
5. Nepal Government should negotiate with Indian officials on the matters of reducing prevailing port charges, simplification of customs procedures, about the transit facilities for third countries.
6. Private sectors should be given reasonable facilities and incentives because it plays dominant role in the country's export trade. They often complain that the government has never been able to fulfill its commitments: such situation should not be developed in the country.
7. Nepal is land-locked, it must not be depended only Calcutta port for its foreign trade, it should developed and searched for alternative routes in other countries as well, including the northern neighboring country China. The best possible option is using the Fulbari Bangladesh. To expand the favorable foreign trade Nepal should improve its trade and transit treaty with India.

- 8.** Since Nepal has been suffering from fundamental deficit in its balance of trade. To improve it Nepal should increase exports and reduce imports, export can be encouraged by improving the quality of products, reducing cost of production, generating export surplus, encouraging research and development, re- obtaining quota system of garment with USA. On the other hand, to reduce import indigenous production of import substitution should be encouraged by adopting improved indigenous technology curtailing non-essential and luxurious imports and controlling population. It should also diversify its imports and exports markets and products via trade agreements and developing friendly relation to the other countries.
- 9.** Nepal has just entered into WTO membership. So Nepal should arrange its own Act, rules and regulations, different trade and industrial Acts and policies, tariff and non-tariff barriers, certificate of rules of origin of product, product standardization, product price according to the requirement of WTO objectives and policies. These procedures should be done for SAFTA, BIMSTEC and other bilateral agreement also.
- 10.** Nepal is the second richest country for hydro-electricity in the world. Nepal should sell its hydro-electricity to the neighboring countries for earning foreign currency so as to reduce trade deficit. Many foreign investors are interested to invest in joint effort in hydro-electricity projects. Therefore, Nepal Government should introduce a special policy for foreign investors.
- 12.** Nepal is trading green vegetable and fruits to the golf countries, Thailand, Singapore, and Malaysia. The salt trading corporation should establish a branch office in Doha, Qatar for promoting green vegetable and fruits. So,

Nepal Government should give full facilities and arrangement to exporters of these types of products.

- 13.** Nowadays the world is like a small village by global networking. Nepal can not be isolating from it. The e-commerce business is being popular due to it So, Nepal has to grab foreign market through running e-commerce business in the western countries.
- 14.** The garments and woolen carpets cover the maximum export shares in overseas trade of Nepal. Because of the issue of the child labour many countries have rejected its import. So, it failed to reduce trade deficit. Nepal Government should take serious actions for expanding other exportable products in the third countries.
- 15.** Nepal's foreign trade situation suggests that government immediately should take concrete steps to expand its trade and improve the country's foreign trade trends in the years to come with the help of private sector. The delay in decision making in this regard may well prove to be quite costly to nation. The policies related foreign trade would also change according to foreign trade demand.
- 16.** Nepal-policy regime has not been very effective in improving trade competitiveness. Although policy measures have been diversification of export markets, these have hardly been executed. Weak infrastructure, poor human resources, absent of quality standardization of export, dearth of a strong legal framework and frequent policy reversal among others, have

restricted the country in improving its international competitiveness. Therefore, Nepal has to more diversify her both country wise and commodity wise of exportable goods.

- 18.** Though, Nepal has mineral deposits, their exploitation has not been thought for export purpose. Magnesium, lead and zinc can be available for export. Cement can be exported only if supply exceeds the internal demand. Nepal's export position can be recovered through the export of hydropower. Export prospects of new items like silk, orchids and flower, herbs and other including handicrafts have been pointed out as bright prospect.
- 19.** Nepal's export market segmentation based on geographical location and the nature of economic region has been classified for export market management. The export market of Nepal with south Asia is traditional. The proposed SAPTA will gear up the export promotion of Nepal. A balanced approach to disperse the trade in the south Asia region needs to be followed. India will be the top most partners in foreign trade of Nepal. The south Asia markets have potentials for manufactured as well as primary exports.
- 20.** Nepal has just entered into WTO, SAFTA, and BIMST-EC. Nepal has both challenges and opportunities after entering WTO and other regions for global market.

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