CHAPTER I

INTRODUCTION

1.1 General Background

Situated in the lap of the Himalayas, Nepal is located between the latitude 26*22' to 30*27' North and longitude 80*4' E to 88*12' East, and elevation ranges from 90 to 8848 meters. The average length is 885 km east to west and the average breadth is 193 km from north to south. The country is bordering between the two most populous countries in the world, India in the East, South, and West, and China in the North. Nepal is a landlocked country and home place of natural beauty with traces of artifacts. The Northern range (Himalayas) is covered with snow over the year where the highest peak of the world, the Mount Everest stands. The middle range (Hill) is captured by gorgeous mountains, high peaks, hills, valleys and lakes. Southern range (Terai) is the gigantic plain of alluvial soil and consists of dense forest area, national parks, wildlife reserves and conservation areas. The temperature and rainfall differ from place to place.

Nepal is a member of the United Nations and diplomatic relation has established with 119 countries of the world. Major export commodities are Carpets (Hand knitted woolen), hides and skins, vegetable ghee, Zinc Sheet, jute goods, textiles, toothpaste, pasmina, juce, ready-made garments and handicrafts. Nepalese economic growth rate in fiscal year 2005/06 was 2.5 percent. Agriculture sector is the mainstay of Nepalese economy that still absorbs 65.6 % of total labour of the country. The contribution of the agriculture sector to GDP is 36 %. With a population of about 25 million, the average population growth is about 2.24 % per annum. (Economic Survey 2006/07)

World has been transforming into "global village" and becoming more integrated. Globalization gives opportunity for nations to increase their productive efficiency and conquer their comparative advantage. This remuneration has been attractive to many nations and can be seen by the ever-increasing membership in the World Trading Organization, and advances in the technology and communication. In this regard, on 23 April 2004, Nepal becomes the 147th member with this organization. In less developed country (LDC) like Nepal, Foreign Trade plays vital role and very much important to attain sustainable economic growth. Nepal is dependent on foreign aids, foreign direct investment (FDI) and foreign trade volume too.

Despite the limited trade to Tibet and India in Malla period since the time of immemorial, which was based on barter exchange, trade system, now Nepal has trade relation with nearly 100 countries associated with bilaterally and multilaterally. Trade policy as well as various bilateral and multilateral agreements guides Nepalese foreign trade strategy. For developed and underdeveloped countries, foreign trade is considered as the engine of growth. In the present emerging concept of globalization and open liberal market economy, international trade is the backbone of national economy. Increase in foreign trade can help to increase the living standard of people which in turn helps to increase national income. No country can achieve rapid economic growth without promotion of foreign trade. Nepal's industrial future heavily depends upon the nature, structure and trends of foreign trade. This shows foreign trade plays a vital role for any country and more essential factor for developing country like Nepal.

This study is entirely deliberate to examine Nepal's both export and import trade structure, trends with problems and prospects. The study is limited within the period 1990 - 2005.The study covers trade with India and with other countries.

1.2 Statement of the Problem

When import trade exceeds export trade, trade deficit occurs. Trends of Nepalese foreign trade seem not so satisfactory that the gap of balance of trade is becoming larger and larger. Nepalese trade position has been facing trade deficit that continue to grow .To cope with this Nepal has to diversify the foreign trade.

With the restoration of the democracy in 1990, Nepal has been accepting open market liberalized economy and entering into regional trade agreement that SAPTA and SAFTA as well as multinational trade agreement that WTO. That's why foreign trade occurs under the observation. Most of the policies are export oriented when import is treated as source of revenue. Nepal is very much dependent on foreign aid and foreign investments and import component of foreign trade stands significant. In the development process of a less developing country like Nepal, foreign trade plays a vital role in order to bring in sustainable long-term economic growth. In Nepal, agriculture is the backbone of the economy due to the fact that more than 65% of economically active populations are still dependent on agriculture. Agriculture 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 still not mature. Nepal's foreign trade sector has not been able to create trade diversification. So the behaviour, trends and structure of foreign trade should b e analyzed. Trade policies based on liberal economy was formulated in 1992. Democracy has restored in 1990. Trade and transit treaties with India have been implementing with regular modification during this period. So we have especially taken up 1990 - 2005 due to the availability of data, limited resources and limited time frame.

1.3 Objectives

The study concerns the following objectives.

- to identify structure, trend and pattern of foreign trade of Nepal,
- to estimate the determinants of exports and imports,
- to examine Nepalese foreign trade policies and reform measures.

1.4 Significance of the Study

This study is descriptive that it concentrates the period 1990-2005. To analyze export and import composition and to investigate their effects on economy is the major concern of this study. Trends of foreign trade occur under the consideration of the study. These are the main importance of the study. To update the foreign trade data is another significance of this study. The study has identified the major determinants of export and import trade. Along with these the study has generated information on structure, trend and pattern of foreign trade of Nepal after trade sector has been liberalized.

1.5 Limitations

This study used to explore trade relation between Nepal and rest of the world. In view of the time frame and emerging issues on trade, this study has focused the trade activities within 1990 to 2005.Simple Statistical method have been used and analyzed accordingly. This study is based on the secondary sources of data. No attempt has been made to collect primary data and information by carrying out survey.

1.6 Statistical Tools

Based on the secondary sources of data, the study has made an attempt to derive a conclusion with regard to the established objectives of this study. Price index, net barter terms of trade, ratio, percentage and graphs are used to analyze the trend and structure of trade between Nepal and rest of the world. Regression equations are used to estimate the determinants of Nepalese export and import. Data and information with regard to trade patterns between Nepal and rest of the world have been used from the published and unpublished research papers, books, periodicals, journals, Internet websites and official sources.

CHAPTER II

REVIEW OF LITERATURE

The mercantilist advocated the principle of balance of trade. Classical economist assumed "laissez faire" doctrine who believed in economic liberalism that on free trade. Father of economics Adam Smith pointed out the benefit of unrestricted trade. According to him free trade guarantees division of labour which inturn increases labour productivity ultimately resulting in increase aggregate wealth of country.

Shrestha (1994) in a research report on "*Direction of Nepal's Foreign Trade*" tries to study the patterns of Nepalese trade and balance of payment situation. This study emphasizes Nepal's terms of trade and gain from trade. He tries to identify the major challenges faced by the country and suggests the most viable solutions to the problems of Nepal's foreign trade. He tries to separate study of geographical pattern of trade viewing the trade with India, Tibet, overseas and SAARC member countries. He calculated the terms of trade period 1982 - 1992 assuming the base year 1973/74 =100

Major findings of this study include:

- Nepal's foreign trade in between 1982- 1992 i.e. in ten years of time span export value increased by 12 fold.
- While during the same time period import value increased by 5 fold. Also trade deficit accounted to 19011.9 million rupees which is about the 1.4 times the export value at that time period.
- The trade deficit is becoming more widened with India due to the policy and behaviour of GoN is India - oriented.
- Imports from overseas may continue to increase by big percentage in the years to come.

- Tibet has successfully enjoyed the benefits from the trade arrangements while Nepal remained the sufferer.
- The movement of our export has taken a right direction since 1990/91 only. However, the term of trade was below 100 during the whole period.
- Study shows that Nepal is still far away from the gains of international trade, though the terms of trade shows a satisfactory trend in the economy.
- The major bottleneck of our country is geography.
- Continuous trade deficit is hampering Nepalese economy.
- The government policy and policy makers are challenging scene to improve term of trade.

Based on the major findings of the study, the author has recommended the following points.

- GON should take attention on balance of payment situation and Nepal's terms of trade and gains from trade.
- GoN must immediately take certain concrete steps to expand its export trade and improve the country's foreign trade situation in the years to come.
- Government should focus on appropriate protection of domestic industries
- Government should focus on empowerment and environment friendly policies for private sector
- Developing of joint venture business is essential.
- Clear-cut policies should be implemented.
- Nepal should learn a lesson to march forward for self -sufficiency at a faster pace.

Poudyal (1988) in his book "*Foreign Trade Aid and Development in Nepal*" has overviewed the Nepalese economy as well as development plans upto 1982/83. He tries to analyze the behaviour and determinant of macro-economic variables such as investment, saving, export and import. Chapter four deals with the structure of foreign trade, direction of foreign trade, determinants of trade patterns, commodity and geographic concentration of exports and imports, instability in export earnings and terms of trade. Chapter five devoted to analysis the achievements and shortcomings of export diversification schemes introduced in the 60's and 70's for the purpose of diversifying Nepal's trade in terms of goods and geographical patterns. This chapter also tries to deal export promotion too. Chapter six is about the determinants of exports destination. The import functions are discussed on chapter seven.

He has estimated linear, log linear, without lags and with lags, cyclical and secular income elasticity of demand for imports, the partial adjustment scheme, the multiple lag scheme (5 lags) both at constant and current prices. His analysis is limited aggregation and has used proxy variable for unit import and export price of India.

Major findings of this study include:

- Nepal's export to India and overseas shows that domestic supply factor is the most crucial variable in determining export of these countries.
- While export to India appears to be highly elastic with respect to Nepal's agricultural GDP and relative price between the Indian and Nepal's market.
- Empirically, income and foreign aid are the major determinants of imports.
- Export diversification policies are not so well designed and implementation side is so poor.

Based on above findings of the study, the author has recommended the following points.

- Policy should be directed towards the programmed oriented import substitution and diversification of export.
- Implementation of policy should sound and effective.

Shah (1999) "*The Study of Nepal's Foreign Trade: 1965-97*" M. A unpublished dissertation seems quite different study in the field of foreign trade. She took three objectives; to study Nepal's foreign trade, to analyze exports and to examine imports. There are five chapters in her dissertation. The information of foreign trade is taken by SITC. She used mathematical tools, foreign trade multiplier, linear equation and regression analysis.

Major findings of this study include:

- Nepal's foreign trade is non-uniform with trade in GDP.
- export multiplier and import multiplier finding are 10.72 and 2.19 respectively
- Marginal propensity to import and saving on average are 0.3143 and 0.1413 respectively.
- Annual exponential growth rate of the specified macro economic variables that are varied from 10 percent to 21 percent. Growth rate of GDP at constant price (1974/75 = 100) is only 3 %.

Based on above findings of the study, the author has recommended the following points.

- The detection of non-stationary time series data, and accordingly choosing the functional form.

- Specification of the variables to analyze the structural changes caused by various economic measures can be done with the help of dummy variable analysis.
- The estimates should be used with precaution because of quality of data and presence of auto correlation.

Singh and Singh (1999) in their Article "*Nepal's Foreign Trade: the changing scenario of commodity composition and Direction*" states that the role of foreign trade in the economic development of a developing country like Nepal They focused on important issue Nepalese foreign trade, which is the pattern of commodity composition, classified as import commodity composition and export composition. Another dealing of their study is the direction of Nepalese foreign trade; cause of a study of direction of trade indicates country international relations, facilities for trade and linking of Nepal. They examined Nepalese trade direction in terms of destinationwise exports and imports.

Major findings of this study include:

- Nepal is a primary product producing country; her terms of trade remain unfavorable.
- Under these circumstances, production, productivity and efficiency are to be generated which is possible by foreign trade in the short run.
- Import commodity composition of Nepal is more diversified than the export commodity composition.

Based on above findings of the study, the authors have recommended the following points.

- Under economic reforms at global level i.e. liberalization and globalization; Nepalese economy is to be made compatible with these changes.
- Cost of production should be reduced.

- Efficiency and competitiveness have to be generated.
- To improve BOP, Nepal should increase export and decrease import.
- Export can be encouraged by improving the quality of products, reducing cost of production, generating export surpluses, encouraging research and development,
- Import substitutes should be encouraged by adopting improved indigenous technology curving non-essential and Luxury imports, controlling growth of population and diversifying its exports and imports markets.

Roy (1977) in his article "*A Note on Nepal's foreign Trade*" tries to analyze the impact of duel exchange rate system imposed by GON. Nepal has abolished the incentive bonus scheme and introduced a dual exchange rate system for all convertible foreign currencies. Dual exchange rate system will be paid for the amounts they are entitled to receive in convertible foreign currencies in accordance with the second rate of exchange of the U.S. dollar, fixed at 16 Nepalese rupees to a dollar. The second rate of exchange will be applicable to all imports except "development goods and materials". The basic exchange of all convertible foreign currencies will be based on the official exchange rate of U.S. dollar of twelve Nepalese rupees to a dollar. It will be valid for overseas payments, for invisible exports, services, capital transfers and for foreign exchange to provide for services and travel. It will also be valid for development goods like petroleum, fertilizer, certain raw material and machinery.

Major findings of this study include:

- The increasing trade deficit is a serious concern for Nepal
- The incentive bonus scheme allowed for many exchange rates depending upon the commodity exported overseas.

- Often alleged over invoicing of export that is associated with the incentive bonus scheme.
- The dual exchange rate system is expected to provide some relief to export.
- Hence, it appears that nibbling with exchange rate alone to take care of the payment position is hardly adequate since by all indications trade deficit is tending to become woven inextricably into the very fabric of the Nepalese economy.

Based on above findings of the study, the author has recommended the following points.

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

Sharma (1999) in his article, "*Nepal's Foreign trade: Trends and Issue*" attempts to assess the current trends and major issues facing the Nepalese foreign trade sector. The discussion focus on trade policy reforms with reference to export and trade with South Asian Association for Regional cooperation (SAARC) countries. He attempts to discuss issues relating to Nepal's entrance to the world trade organization (WTO). He explains that the government holds the view that these multilateral cooperation arrangements cannot be fully exploited without joining the WTO. Nepal intends to integrate into the multilateral trading system to increase the supply of tradable items, both goods and services, to attract foreign investment and to gain better market.

Nepal has recently submitted a memorandum on foreign trade regime to the WTO office.

Major findings of this study include:

- The trade deficit of Nepal has been increasing over the period of 1991/92 – 1996/97.
- Though export has increased at the average rate 11 percent per annum and import has increased at the average rate of 24.7 percent during the period.
- The ratio of trade deficit to GDP ratio increased from 12.6 percent in 1991/92 to 27.3 percent in 1996/97.
- Export – GDP ratio during the period was 9 percent in average while the import GDP average ratio was more than 29 percent.
- Huge gap of export – GDP ratio with import – GDP ratio which is not a favorable indication for the Nepalese economy.
- Nepal has been actively participating in many multilateral economic cooperation programs.
- One of the major challenges for Nepal to achieve higher economic growth is systematically unfavorable foreign trade balance characterized by low level of export trade and increasing volume of imports of both consumption goods and investment items.
- One vital missing factor in the domestic front for Nepal is to benefit maximally from the WTO is a consistent set of strategies and policy instruments to boost-up quality production in sufficient amount for low bulk high value selective commodities.

Based on above findings of the study, the author has recommended the following points.

- Domestic consumption should curtail in order to reduce import from India.

- Export should expand through supply management of selective items.
- The necessity of reasonable tariff protection.
- Adjustments in exchange rate regime.

Subedi (2003) in his unpublished M.A. dissertation "*Nepal's Foreign Trade: The Changing Scenario of Size, Composition and Direction*" intends to look over the composition of overseas trade. His study is limited to 10 years time span of 1991-2001. He simply used secondary source of data and presented the data on tables and compare the data from different angle.

He reviewed the implementation of different trade policies implemented by GON and point out the significance of reforms measures taken by the government. He touches in brief on different policies of the Government such as Structural Adjustment Programme, Trade policy 1992, Industrial Enterprises Act 1992, Exporters' Exchange Entitlement Scheme (EEE), Dual Exchange Rate System, and Exchange Convertibility System. He also tries to show the composition of Nepalese import and export by standard international trade classification (SITC) and direction of trade.

Major findings of this study include:

- Performance in each and every plan has remained quite low and less effective in speeding up the total volume of trade.
- The percentage share of export decreased from fourth plan i.e. 36.04% to sixth plan 22.48% and then slightly increased in seventh plan with 39.49% share on export.
- Dual exchange system 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's export trade.

Based on above findings of the study, the author has recommended the following points.

- GON should make appropriate export plan.
- Domestic markets should expand.
- Initiatives should be given to private sectors.
- Nepalese trade should be diversified.
- Improvement of trade and transit treaties and searching the alternative routes of trade and progressive tax system should be of immediate concern for nation's prosperity

Shakya (2001) has cited four major bottlenecks to export viz:

a. Supply Side Constraints: supply sources are characterized by the narrow export base, non-competitive technology, high production-cost and inadequate quality and packing for export.

b. Lack of Trade Support Services: inadequate logistic and transport services, international price and market information, export marketing services and export financing support.

c. Demand Constraints: quality, non competitive prices, design and unreliable delivery, not easy acceptance of Nepalese products

d. Policies Constraints: Excessive administrative producers, imposition of tariffs and ineffective incentives are some of the government policy flaws that cause difficulty to exporters.

Thapa (2005) an article entitled "*Make Trade Fair*" states that today; two opposing schools of thought exist in the debate about world trade. The

'Globaphiles' insist that globalization is working for the poor and their view inherently suggests that opening up markets is a panacea for the reduction and eventual elimination of world poverty. On the flip side, 'Globaphobes' argue that trade is bad for the poor. One perspective represents chronic pessimism whiles the other, fundamentalist optimism. Such imbalanced views do not provide solutions. Rather, they become a means to inflame further disagreements and division within the global community.

A balanced, middle way approach to the issues of trade and its economic implications is a more pragmatic step towards a representative outcome. In the Nepalese context, we cannot afford to align our trade policies to such extreme diatribe. In a globalize world, trade is inevitable and irreversible but responsible communities and institutions must oversee that the trade is also fair.

CHAPTER III

METHODOLOGY

3.1 Conceptual Framework

This study concerns the mercantile trade data which are used from published by National and international organizations. The information on foreign trade is classified by SITC groups not by specific commodity and by country. This study follows S .R Poudel's classifications. According to his classification, the primary products are summed of (0+1+2+4) and manufacturing goods are summed of (3+5+6+8+9). Similarly, SITC 7 is given separately. This study starts with the description of the development of foreign trade with its historical prospective.

The study concentrates on structure and trends of Nepalese trade. Exploratory and analytical research design has been followed up.

3.2 Source of Data and Data Collection

The following are the sources of statistical data under the study.

- NRB Annual Reports, Quarterly Bulletins
- GON, Ministry of Finance (MOF); Economic Survey
- National Planning Commission (NPC) Secretariat; Central Bureau of Statistics.
- Related Internet Web-sites

3.3 Statistical Tools and Variable

Simple statistical tools and have been used to analyze the data. The variables used are as follows.

(i) Price index: in order to calculate price index the following stastical formula has been used.

$$I = \frac{p_i}{p_o} \times 100$$

Where, I = Price Index

P_i = Export Price or Import price of the current year.

P_o = Export Price of Import price of the base year

(ii) Net barter terms of trade (ToT):

In order to calculate net barter terms of trade the following formula has been used:

$$N = \frac{p_x}{p_m} \times 100$$

N = Net barter terms of trade

P_x = price index of exports

P_m = price index of imports

Analysis of terms of trade:

If N < 100, export performance is weak compared to import

If N > 100, export performance is better than import

If N = 100, both exports and imports are taking the same direction

(iii) GDP: Refers to the market price of the total flow of goods and services produced by Nepal over a specified time period, nominally a year. It is obtained by valuing outputs of goods and services at market prices. It should be noted that all intermediate goods are excluded, and only goods used for final consumption or investment are included.

3.4 Data Processing and Analysis

The relevant statistical information from the selected sources was processed with the help of a computer especially by SPSS programmes. The study consists of describing the role and systematic presentation of patterns, composition and direction of Nepalese foreign trade. The study arranged systematically, simple arithmetic analysis like ratio, percentage and graphs were computed to make them comparable and explanatory by using the method of descriptive analysis. GDP is measured at current and constant price.

Data Analysis

Simple Linear Regression Model

The simple linear regression analysis includes the regression equation with only one independent variable. If two variables say x and y are linearly related and y is a linear function of x, then the regression of y on x be formulated as:

$Y = a_o + a_1X$

Y= dependent variable

X = independent variable

a_o, a_1, = regression parameter

Multiple Regression Analysis

The regression equation with more than one independent variable is called multiple regressions. Therefore general form of multiple regression equation is

$Y = f(x_1, x_2, \ldots..x_n)$

Or $Y= a_o + a_1x_1 + a_2x_2+ a_3x_3 + \ldots\ldots a_nx_n$.

It should be noted that the relation between the dependent variable and independent variables is a linear one.

Coefficient of Determination R²

It shows the percentage of the total variation of the regressed variable that can be explained by the regressor variable.

$$R^2 \text{ X } \frac{\textit{Explained Variation}}{\textit{Total Variation}}$$

o < R^2 < 1

The higher the value of R^2 the better the fit.

Adjusted coefficient of multiple determination $(\overline{R^2})$

The use of additional explanatory variables in the function leads to the rise in the value of coefficient. To take account of this $(\overline{R^2})$ the adjusted coefficient of multiple determinations is used. The expression will be given as:

$$(\overline{R^2}) = 1 - \frac{ESS \ /\{n \text{ Z} (k \text{ Z} 1)\}}{(TSS \ /(n \text{ Z} 1)}$$

$$\text{X} 1 - \frac{\textit{Error Sum Square}}{\textit{Total Sum Square}}$$

$$= 1 - (1 - R^2) \frac{(n \text{ Z} 1)}{(n \text{ Z} k \text{ Z} 1)}$$

Here, $(\overline{R^2})$ means the adjusted R^2.

Where, n = number of observations

K = the number of independent variables

T - Test

The t- ratio is the significant test of the regression coefficients. It indicates whether, the hypothesis should be accepted or rejected. The t-test is used when the number of parameters is less than 30 (n<30). It is computed as

$$t \text{ X} \frac{Estimated\ Regression\ Coefficient}{Respective\ Standard\ Error}$$

$$\text{X} \frac{a_i}{\sqrt{var\ a_i}}$$

If t lies in the critical region (i.e. t > t ~) for the chosen level of significance for (n - k - 1) degree of freedom, we accept the alternative hypothesis. This concludes b_i is statically significant.

F- Test

To test the significance of the regression equation, F- test is done. It is calculated by

$$F \text{ X} \frac{Variance\ Explained\ by\ Regression}{Unexplained\ Variance}$$

If F is greater than the tabulated value of F at ~ level of significance with K, (n-k-1) degree of freedom, we reject the null hypothesis and it is concluded that the regression equation is significant at ~ level of significance.

CHAPTER IV

TRENDS OF NEPALESE FOREIGN TRADE

4.1 History of Nepalese Foreign Trade

Kautilay's Arthashastra says throughout the rule of Kirats, people of Nepal used to sell wool, herbs and handicrafts to several Indian markets. This trade was prolonged during Malla period as they focused in activities such as arts, metal casting, wood and bronze carving, sculpture etc and exported to Tibet and India. Arniko help to swell cultural developments across the East and Southeast Asia. King of Kathmandu Pratap Malla and the King of Gorkha Ram Shah, tried to broaden their pressure in Tibet. In 1625-30, Ram Shah twice tried to expand influence in Tibet. His second effort was successful and reached to Kukurghat. He controlled Kerung for a short time.

A treaty signed by Nepal and Tibet in 1775, made to close eastern route way and used Kuti and Kerung including a number of other small routes. War between Tibet and Nepal had occurred due to various causes but were harmoniously settled. The land-locked geography isolated Nepal from the center of world flows of goods, people and ideas and increased costs for trade and commerce.

"The Alaichi Kothi in Patna, India, was established. Prime Minister Jung Bahadur Rana was instrumental in getting a bilateral agreement popularly known as the Treaty of Thapathali signed between Nepal and Tibet in 1856. The agreement, envisaged the stationing of a Nepalese Bhardar or Vakil (envoy) in Lhasa while Nepalese trade agencies were established at Kuti (Nyalam), Kyerong, Shigatse and Gyanze. In the latter part, a trade treaty was signed with British India on December 1923 that allowed unrestricted import of

British goods to Nepal. The Rana regime had established Development Board to promote economic activities. Trans-Himalayan trade routes continued for the people of northern border while Terai was modernizing itself due to the spillover effects of economic development taking place in India. In 1950, Nepal joined the democratic community of nations. During 1960-1990 Nepal adopted state-led industrialization and import substitution oriented economic policies. Nepal had a small entrepreneurs, poor transportation and education, communication was undeveloped and traditional social structure of caste dominated attitude towards rational social change.

Despite nearly sixty years of planned development, Nepal is predominantly an agricultural country and agriculture sustains the livelihoods of majority of population. Industrialization is at incipient stage and bulk of the income comes from the export of commodities.. Landlocked situation, Peace and Friendship and Trade and Commerce Treaties with India (1950), open door policy for Nepalese workers and vital trade links to the outside world through India strongly influence Nepal's development policies and strategies. Still, reducing the costs of transit is a major policy challenge for Nepal to become competitive in the world economy and realize the goal of economic and diplomatic diversifications. The new economic policy of finance and service has weakened the base of traditional manufacturing that was the base of its industrial development.

Before 1951, the foreign trade of Nepal was limited namely USA and France. Before the Second World War Nepal used to import from the countries such as England, Japan, Singapore and export her agricultural products like jute.

4.2 Direction of Foreign Trade by Plan - Periods

Following the dawn of democracy in 1950, the country opened the door for outside world and diplomatic relation were established with many countries. Till the beginning of five-year plan almost 98% of Nepal's trade was confined to India and only a small proportion of was with the third countries especially with Tibet. When Nepal adopted planned economic development with the launching of first five-year plan in 1956/57, various development projects were initiated in order to fulfill the targets. Due to this reason import of various types of development goods increased from India.

The direction of trade in terms of market destination shows a wide variance during various plan periods. During the first plan to third plan, the share of export to India was confined more than 95 percent. The fourth plan seems quite diversification to overseas with the reduction of dependency to India that remains unchanged till the eighth plan. It is interesting to note that in eighth plan there is much diversification of Nepalese trade where percent share of India is accounted to 16.2 % only. Then again, share of export to India took a increasing pace in ninth plan which is recorded 43.2 %. During sixth plan (1980-85), the share of India in Nepalese exports was 64.4%, which went down to 16.2% during eighth plan (1992-97) while imports from India have gone down from 64.5% to 31% during the same period. In fact, the trend in Nepal's trade with India is seen only in relative terms as the value of trade with India in both ways has been rising in absolute term during the sixth to ninth plan period.

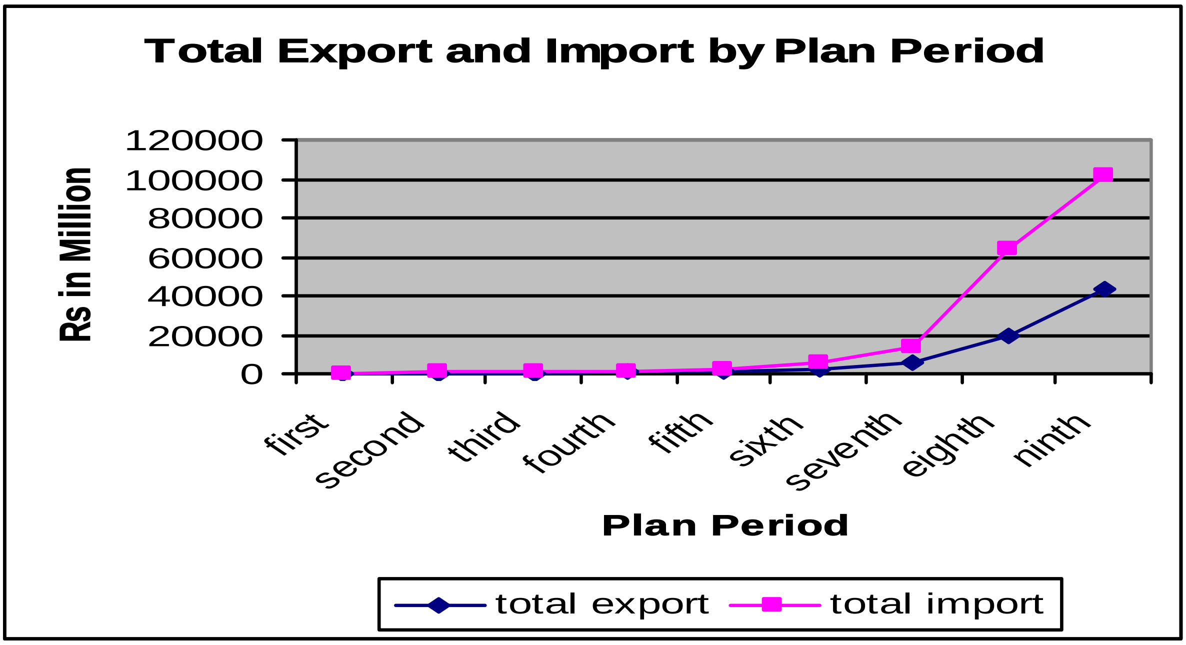
The graphs indicate that since seventh plan volume of import is moving double than volume of export. This is indicating that Nepalese trade deficit is growing up.

Table - 4.1

Direction of India and Overseas Trade by Plan Period

Plan Period	Export in million rupees					Import in million rupees				
	India	%	Others	%	Total	India	%	Others	%	Total
1st plan	124.2	98.4	1.4	1.6	125.6	235.7	95.6	53.0	4.3	247.4
2nd plan	334.5	98.5	5.3	1.5	339.8	567.0	98.7	8.9	1.3	675.8
3rd plan	430.9	95.6	20.2	4.4	471.3	630.7	94.2	39.1	5.8	670.6
4th plan	483.7	76.7	141.7	23.3	625.4	950.0	86.6	159.8	13.4	1109.8
5th plan	668.5	57.1	488.3	42.9	1156.8	1494.6	59.4	1070.3	40.6	2564.8
6th plan	1119.9	64.4	658.9	35.6	1778.7	2782.7	64.5	3203.1	53.5	5985.9
7th plan	1149.8	25.5	4757.3	74.5	5907.1	4348.3	33.3	9392.5	66.7	13740.8
8th plan	3212.7	16.2	16130.6	83.8	19343.3	19689.1	31.0	44803.7	69.0	64492.8
9th plan	19306.4	43.2	23815.8	56.8	43122.3	42086.8	40.8	59533.9	59.2	101620.7

Source: compiled by author from various Economic Survey



4.3 Trends of Foreign Trade

In 1956/57 Nepal's exports was Rs. 95.47 million. It increased to Rs. 53910.7 in 2003/04 consequently increased Rs. 58705.7 in FY 2004/05. Within a period of half century its total export increased 564 fold. Within the same period the value of imports increased from Rs. 169.89 million to Rs. 149473.6 million. Within the same period imports increased 880 fold.

Within 15 years, table 4.2 shows that our export value increased by 7 times, while import value increased by 5 Times only. However, imports value is 1.4 Times the export value. The total trade deficit of Nepal in 1990/91 was Rs. 15839 Million. During 15 years period trade deficit increased to Rs. 90767.9 Million, which is about 1.5 times the export value. There was 32.48 percent, highest share of export in 2000/01with the volume of Rs. 55654.1 million whereas the lowest contribution of export is recorded in 1996/97.Although the trend of Nepal's foreign trade during the past few years is encouraging, the value of our trade deficit is yet discouraging.

The factors, which cause deficit trade balance, are: narrow base of exportable production, high transit and transportation cost, land-locked situation, unfavorable environment for industrial development, lack of sound and effective strategical policies for foreign trade etc.

Table 4.2

Foreign Trade of Nepal (1990/91 – 2004/05)

(In million rupees)

Fiscal year	Total export	Total import	Trade balance
1990/91	7,387.5 (24.13)	23,226.5 (75.87)	-15839.0
1991/92	13,706.5 (30.03)	31,940.0 (69.97)	-18233.5
1992/93	17,266.5 (30.58)	39,205.6 (69.42)	-32277.4
1993/94	19,293.4 (27.23)	51,570.8 (72.77)	-46040.3
1994/95	17,639.2 (21.69)	63,679.5 (78.31)	-54573.4
1995/96	19,881.1 (21.08)	74,454.5 (78.92)	-70916.9
1996/97	22,636.5 (19.48)	93,553.4 (80.52)	-61488.5
1997/98	27,513.5 (23.61)	89,002.0 (76.39)	-51849
1998/99	35,676.3 (28.96)	87,525.3 (71.04)	-58682.2
1999/00	49,822.7 (31.47)	108,504.9 (68.53)	-60033.1
2000/01	55,654.1 (32.48)	115,687.2 (67.52)	-60444.1
2001/02	46,944.8 (28.64)	107338.9 (67.50)	-60394.1
2002/03	49930.6 (28.64)	124,352.1 (71.36)	-82366.4
2003/04	53910.7 (28.34)	136,277.1 (71.66)	-73950.6
2004/05	58705.7 (28.19)	149473.6 (71.81)	-90767.9

Source: Economic Survey 2005/06 and Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-July 2006.

Note: figures in parenthesis are percent share on total volume of trade.

4.4 Exporters' Exchange Entitlement (EEE) Scheme

GON introduced the EEE scheme in 1961, to promote and diversify export to India and overseas countries. Under this scheme, overseas exporters were provided a bonus in the form of convertible foreign exchange which could be used to import wide range of semi-luxury and luxury goods from overseas countries except some restricted items. The main aim was to compensate possible loss that exporters may suffer while diverting export from India to overseas countries. This scheme was very profitable for export to overseas due to the incentive provided under the scheme. Due to the provision of bonus system under the EEE scheme, there was significant increment in the export from India to overseas countries. During this period, Nepalese trade grew substantially in terms of volume and directions. As a result, India's share in the total trade started to decline. Though the EEE scheme was successful in diversify's Nepal's foreign trade from India to overseas countries and augmenting foreign exchange though not successful in creating strong trade sector capable of supporting the economy on sustainable basis. In fact, whatever being exported to India got diverted to the overseas countries because of the attractive incentive provided by the government for overseas exporter. During this period, country could not expand the export base.

- Over invoicing of exports and under invoicing of imports.
- Influx of non-essential and luxury goods.
- Lack of product diversification.
- Gradual emergence of unscrupulous trade practices.
- Dependence on India was reduced.

Due to abuse of the facilities provided by the government to overseas export, exporters indulged in fake trade practices in Nepal. The EEE scheme neither helped in expanding the export base nor contributed to reduce the dependency on India. Consequently, in 1977 Dual Exchange Rate System replaced the EEE scheme.

4.5 Dual Exchange Rate System (DER)

In March 1977, Nepal Government introduced Dual Exchange Rate System. The main purpose of DER system was to diversify trade to overseas countries, to control the import of luxurious goods and to improve deteriorating terms of trade. Two exchange rates were fixed rate is specified as one for buying and one for selling of foreign currencies. One of the official rate and other as the depreciated rate. The basic (official) rate of exchange was fixed at US $ 1 = RS 12 and the depreciated second rate was fixed at US $ 1 = RS. 16. The basic (official) rate was applicable for importation of certain development goods and essential commodities with view to increase the production of exportable items. The depreciated second rate was only applied for importation of luxurious commodities. All the earning from overseas exports was converted at the second rate to encourage the exports. Under this scheme, incentives were granted to encourage export to the overseas countries and to expand the production base. The purpose of the DER system was the same as EEE system only difference is that DER system was implemented to control importation of luxurious goods. DER system was successful in the dilinking of import from export. Under DER system, unnecessary and unavoidable imports were discouraged. Due to attractive incentive provided by government to overseas exports under DER system, market diversification only changed the direction of export from India to overseas without expanding the production base. Despite several advantage of this scheme, the DER system also carried of the similar defects of the EEE scheme. This system also raised a number of anomalies and trade destructive practice such as:

- Over invoicing of exports and under invoicing of imports.
- Emergence of unscrupulous trade practices
- Shortage of Indian currency
- Dependency on India was not decreased

4.6 Trade Policy 1992

The new trade policy was introduced in 1992. In order to materialize following basic policies have been formulated:

- The role of public sector will be minimized and used as a catalyst to expand the role of private sector in trade.
- Improve balance of payments position by promoting exports to increase foreign exchange earnings as well as by fulfilling internal demand of economic and quality products.
- Production of quality goods and services for internal consumption as well as for exports through effective and appropriate utilization of economic resources.
- Institutional development and information network as well as on monitoring system and quality improvement for the promotion of foreign trade.

Export Policy

The export policy underlines the following fundamental provisions:

- Production and quality of exportable products to make them competitive in the international market
- Increase service-oriented activities to promote foreign exchange earnings.
- Export of hydro-electricity on a profitable basis.
- Export promotion will be provided on an institutionalized basis

Export Strategies

The export strategy includes:

- Not required licenses for the export of products other than banned or quantitatively restricted items.
- Transparent, smooth and efficient administrative procedures
- Exports will be free from all charges except the service charge other than specified conditions
- Export Promotion Zone (EPZ) will be established.
- Gearing up towards export promotion activities, and trade missions will be opened and institutionalized on the basis of feasibility.
- Export promotion on the basis of an institutionalized basis.

Import Strategies

- Linking import with export
- Reducing transit cost
- Procedural simplification
- De-licensing of imports except for banned or under qualitative restriction items or in the auction system

4.7 Indo- Nepal Treaty of Trade and Transit

Indo-Nepal Treaty of Trade

Refined 1996 trade treaty can be seen more often as the turning point in the history of Nepal- India trade relations leading to several policy changes. Some of the provisions can be viewed as follows:

- Government of India provided access to the Indian market free of customs duties and quantitative restrictions for all products manufactured in Nepal on the basis of the certificate of origin.
- Export of Nepalese consignments with the certificate of origin would not be delayed at the Indian customs border/check-post.
- The governments of the two countries agreed to have open sky policy.

- The government of India opened the transit route to Bangladesh through Phulbari.
- Nepal Government amended its foreign investment policy, company law and transfer of technology act.
- Nepal decided to open Nepali Stock Exchange to overseas investors.
- India and Nepal signed the power trade agreement and allowed private investment in hydropower project.

Again, the treaty has revised on 2002 with the modification of some provisions. The salient features of this Treaty can be viewed as:

- detailed Rules of Origin incorporated to encourage genuine industrialization in Nepal and to provide greater clarity and transparency
- Certain sensitive items will be allowed continued entry into India free of customs duty on the basis of a special and liberal quota.

Treaty of Transit

The 1999 renewed Treaty contains liberalized procedures of the transit of the Nepalese goods. The Government of India accepted Nepalese request for “automatic renewal” of the Treaty for further seven-year periods. The Nepalese request for an additional transit route to Bangladesh via Phulbari was accepted in June 1997. Operating modalities for the transit were accordingly worked out. In addition, the route was operationalised from 1 September 1997. Nepalese request to keep the route there are 22 land border points specified as agreed routes for mutual trade between India and Nepal under the terms of the Indo-Nepal Treaty of Trade. Under the Treaty of Transit and the Protocol to the Treaty of Transit, the Calcutta-Haldia port complex has been specified as port of entry for Nepal’s third-country trade by sea. However, 15 land-border points have been specified for the passage of Nepal’s third- country trade. The transit facilities provided by India to Nepal under the Treaty of Trade and Treaty of Transit include the following:

- India allows freedom of transit for Nepalese third-country trade across its territories through routes mutually agreed upon,
- Permission for the movement of Nepalese trucks to and from the nearest railway stations to pick up the export and transit cargo to Nepal,
- Traffic in transit is exempted from customs duty and from all transit duties or other charges, except charges for transportation and service charges,
- Facilities are provided for warehousing and for storage of goods in transit awaiting customs clearances before inward transportation to Nepal, through Indian Territory.

4.8 Trade Policy in the Tenth Plan

Objectives

(1) Import will be integrated to industrial development and export will be promoted to increase the overall contribution of the trade sector to the GDP.

(II) People will be enable at all levels to utilize the gains of domestic and foreign trade through maximum participation of the private sector under the liberal, competitive and market - oriented economic environment.

In pursuance of the above objectives, the following policies and strategies will be under taken.

- Continuation of policy level change.
- Making arrangements to obtain WTO membership.
- Integration of import trade with industrial base.
- Emphasis on export promotion.
- Emphasis on promotional progress and institutional capacity enhancement.

CHAPTER V

STRUCTURE OF NEPALESE FOREIGN TRADE

5.1 Trade with India

Table 5.1 shows that though the value of export is increasing trend, the trade deficit with India is quite discouraging which is about 5 times increment during the study period. There is tremendous increment on value of import too. During the 15 year study period; there is 25-fold increment on total value of trade with India. The share of export to total trade with India seems decreasing trends form the starting of study period ie in 1990/91 to 1995/96. However, the share of export took positive direction from 1996/97 and continuous increment till 2000/01. In 2001/02, the India's share of export on total trade hyper jumped approached to 73.8 % share on total trade. Which again declined on succeeding period but the in our study's final year the share to India has occupied about 66 percent

Consequent time period, the total value of import with India increased about 12-fold. Total value of import with India was Rs. 7323.1 million in 1990/91.It approached to Rs. 88675.5 million in 2004/05. The share of import with India seems not much fluctuating from the study period 1990/91 till 2000/01 on an average of 33%. However, in 2001/02, the percent share of import has enormously increased approached to 72 percent. Then it started to decline with two succeeding fiscal years. But the share is not less than 50 percent. In 2004/05 share of import with India is accounted 59.32 percent.

Table 5.1

Nepal's Trade with India (1990/91 – 2004/05)

FY	Export (Rs in million)	Import (Rs in million)	Trade balance (Rs in million)	% share on total export	% share on total import	Export as a %of import
1990/91	1,552.2	7,323.1	-5770.9	21	31.5	21.2
1991/92	1,450.0	11,245.5	-9795.5	10.6	35.2	12.9
1992/93	1,621.7	12,542.1	-10920.4	9.4	32	12.9
1993/94	2,408.9	17,035.4	-14626.5	12.5	33	14.1
1994/95	3,124.3	19,,615.9	-16491.6	17.7	30.8	15.9
1995/96	3,682.6	24,398.6	-20716	18.5	32.8	15
1996/97	5,226.2	24,853.3	-19627.1	23.1	26.6	21
1997/98	8,794.4	27,331.0	-18536.6	32	30.7	32.2
1998/99	12,530.7	32,119.7	-19589	35.1	36.7	39
1999/00	21,220.7	39,660.1	-18439.4	42.6	36.5	53.5
2000/01	26,030.2	45,211.0	-19180.8	46.8	39.1	57.6
2001/02	27,956.2	56,622.1	-28665.9	73.8	72	49.4
2002/03	26,430.0	70,924.2	-44494.2	52.9	57	37.3
2003/04	30,777.1	78,739.5	-47962.4	57.1	57.8	39.1
2004/05	38916.9	88675.5	-49758.6	66.29	59.32	43.9

Source: Nepal Rastra Bank, Quarterly economic Bulletin, Mid- July 2006/07
Economic Survey 2005/06
Note: % share in total export and % share in total import are calculated value from table 4.2.

5.2 Trade With Overseas

Table 5.2 shows that during the study period 1990-2005, there is 3.4-fold increment in total value of export. On the import side total value is increased 3.8-fold. There is balanced increment on both export and import value of overseas trade. Trade deficit in 2004/05 has increased about 3- times more than the starting period of study i. e. 1990/91. In addition, trade deficit with overseas countries had been increasing trend from 1992/93 approached to climax on

1996/97. Then it started to decline for succeeding periods till 2002/03, and then it started slightly increased from 2003/04 and approached to Rs. 41009.3million in 2004/05.

The percentage share of overseas trade to total export is accounted highest 90.6 percent in 1992/93 and the lowest contribution is recorded 26.2 percent in 2001/02. It has been occurring very much fluctuate tendencies. From 1992/93 till 2001/02, the percent share of export became peak to bottom with gradual decreasing trend. Though the last two years share is quite increasing, it could not exceed about 50 percent share on total export. This indicates that the Nepalese trade diversification policies are not in favor of overseas countries.

On the import side there is not much fluctuation since 1990/91 till 2000/01. It was around 65 percent contribution of overseas import to total trade. But there was drastic decline of its share in 2001/02 which is accounted 28 percent. Then again it took positive direction in the two succeeding fiscal years. In the final year of study period there is 40.7 percent share of overseas import.

Table 5.2

Nepal's Trade with Overseas Countries (1990/91 – 2004/05)

FY	Export (Rs in million)	Import (Rs in million)	Trade balance (Rs in million)	% share on total export	% share on total import	Export as a %of import
1990/91	5,835.3	15,903.4	-10068.1	79	68.5	36.7
1991/92	12,256.5	20,694.5	-8438	89.4	64.8	59.2
1992/93	15,644.8	26,663.5	-11018.7	90.6	68	58.7
1993/94	16,884.5	34,535.4	-17650.9	87.5	67	48.9
1994/95	14,514.9	44,063.6	-29548.7	82.3	69.2	32.9
1995/96	16,198.5	50,055.9	-33857.4	81.5	67.2	32.4
1996/97	17,410.3	68,700.1	-51289.8	76.9	73.4	25.3
1997/98	18,719.1	61,671.0	-42951.9	68	69.3	30.3
1998/99	23,145.6	55,405.6	-32260	64.9	63.3	41.8
1999/00	28,602.0	68,844.8	-40242.8	57.4	63.5	41.5
2000/01	29,623.9	70,476.2	-40852.3	53.2	60.9	42
2001/02	18,988.6	50,766.9	-31778.3	26.2	28	37.4
2002/03	23,500.6	53,427.9	-29927.3	47.1	43	44
2003/04	23,133.6	57,537.6	-34404	42.9	42.2	40.2
2004/05	19788.8	60798.1	-41009.3	33.7	40.7	32.5

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid- July 2006/ Economic Survey 2005/06.

Note: % share in total export and % share in total import are calculated value from table - 4.2.

5.3 Composition of Nepalese Foreign Trade

The composition of foreign trade shows the level of the development of the country. Nepalese export commodity composition has little diversified than import commodity composition. Here goes the composition of Nepalese foreign trade analysis on the basis of standard international trade classification (SITC) as well as brief account of dominant commodities on particular.

5.3.1 Composition of Nepalese Export

According to S.R. Poudyal's SITC classification, the following Table 5.3 and 5.4 shows the composition of Nepalese export accordingly manufacture goods and primary commodities. Though there is SITC 7, we are neglecting here to analyze the export trade composition due to this item is consider separate one.

Major SITC Commodity Groups

0	=	*Food and Live Animal*
1	=	*Tobacco and Beverages*
2	=	*Crude Materials, inedibles except fuels*
3	=	*Mineral, Fuels and Lubricants*
4	=	*Animal and vegetable oil and fats*
5	=	*Chemical and Drugs*
6	=	*Manufactured Goods classified mainly by materials*
7	=	*Machinery and Transport Equipment*
8	=	*Miscellaneous Manufactured Articles*
9	=	*Commodity and Transaction not classified according to kind.*

Table 5.3 shows that during the study period 1990- 2005, manufactured goods (SITC 3, 5, 6, 8, 9) ie five items has been playing dominant role in Nepalese export which has been constant tendency during the study period on an average at around more than 81% share in total export. . The share of manufactured goods classified mainly by materials (SITC 6) has relatively greater magnitude and it has been increasing. SITC 8 also another leading item. In1993/94 the share of primary products covered highest more than 90 percent.

Table 5.3

Composition of Nepal's Export classified by Major SITC Manufacture Goods Groups (1990/91 – 2004/05)

(Rs in million)

FY	Export SITC Manufacture Goods Group						
	3	5	6	8	9	Total	% share on total export
1990/91	0.0	17.7	4312.3	1545.7	0.0	5875.7	79.5
1991/92	0.0	19.6	7557.2	3576.4	0.0	11153.2	81.4
1992/93	0.3	28.7	10298	4352.3	1.4	14680.7	85.0
1993/94	0.0	212.1	10913	6415.1	0.2	17540.4	90.9
1994/95	0.0	302.3	9260.3	5765.8	0.1	15328.5	86.9
1995/96	1.3	640.4	10456	5772.2	0.0	16869.9	84.8
1996/97	1.4	1353.4	11029	6540.3	0.5	18924.6	83.6
1997/98	20.9	1968.5	11637	8059.6	0.0	21686.0	78.8
1998/99	0.5	2804	13540	11392.8	0.0	27737.3	77.4
1999/00	2.2	3933.2	15839	21509.2	0.0	41283.6	82.9
2000/01	1.3	4041.7	18909	22650.9	0.0	45602.9	81.9
2001/02	1.6	3308.3	17395	12589.3	0.0	33294.2	70.9
2002/03	5.5	3279	17795	17281.5	43.3	38404.3	76.9
2003/04	14.5	3865.9	23602	15380.1	6.9	42869.4	79.5
2004/05	4.2	3677.6	28590.6	13239.6	9.1	45521.1	77.5
Average							81.2

Source: Economic Survey 2005/06

On the primary goods side, table 5.4 shows that during the same time frame on an average at around 18.4% share has occupied by primary goods export. Food and crude materials (SITC – 0 and 4) appeared to be the main commodity group and it showed a continuous increasing tendency in the preceding years. (SITC 1) have lowest contribution not more than 1percent share on export .The share of primary goods (SITC 0,1,2 , 4) was Rs. 1510.9 million (20.45 percent) in 1990/91 and it reached to Rs. 12977.0 million (22.1 percent) in 2004/05 .

Table – 5.4

Composition of Nepal's Export Classified by Major SITC Primary Commodity Groups (1990/91 – 2004/05)

(**Rs in million**)

FY	Export SITC primary Commodity Group					
	o	1	2	4	total	% share on total export
1990/91	986.5	11.2	312.1	201.1	1510.9	20.5
1991/92	1941.6	13.7	437.4	160.3	2553.0	18.6
1992/93	1862.9	13.2	531.8	176.4	2584.3	15.0
1993/94	1163.4	12.8	432.4	138.4	1747.0	9.0
1994/95	1562.7	11.3	485.5	214.1	2273.6	12.9
1995/96	1946.6	9.7	768.7	251.3	2976.3	15.0
1996/97	2661.7	14.9	663.5	312.6	3652.7	16.1
1997/98	3123.2	22.8	487.1	2136.3	5769.4	21.0
1998/99	3724.5	50.0	469.9	3597.2	7841.6	22.0
1999/00	4240.4	117.2	561.3	3229.7	8148.6	16.4
2000/01	4776.6	75.6	751.1	4104.0	9707.3	17.4
2001/02	5094.2	145.7	624.5	7421.4	13285.8	28.3
2002/03	6100.9	138.7	800.1	4278.7	11318.4	22.7
2003/04	6276.9	55.2	714.3	3375.7	10422.1	19.3
2004/05	6993.5	31.6	881.6	5070.3	12977.0	22.1
Average						18.4

Source: as per as table 5.3

On the export composition of Nepalese foreign trade, the share of primary goods, according to table, in nominal value, is increasing continuously but its share in total export has noticed almost unchanged during the study period. The share of manufactured goods in total export increased significantly but the worth considering fact is that Nepalese exports are limited to few items.

5.3.2 Composition of Nepalese Import

The pattern of commodities composition considers an important issue of Nepalese trade structure. The following table 5.5 and 5.6 shows the share of manufacturing goods and primary goods according to SITC classification.

During the 15-year study period, Table 5.5 shows that Nepalese import on the basis of SITC manufacture goods has occupied on an average more than 61 percent share. In 1996/97, there was more than 70 percent share of these manufacture goods. Though there is fluctuation of percent share of these items, there is not less than 50 percent share. Though SITC 9 has lowest contribution on import, SITC (5, 6 and 8) seems dominant goods than the other items. However, since the last three years of study period, SITC (3 and 6) has been playing dominant one. Import of minerals, fuel and lubricants (SITC 3) remained continuous increasing items on all the succeeding periods which was Rs 2278.3 million in 1990/91. It approached double in four years period ie Rs. 4837.0 million in 1993/94. Except in 1994/95, there was gradual increment of this item (SITC 3). It covered Rs. 29927.3 million in 2004/05. Similarly SITC 5 has also gradual incremental value which was Rs. 3051.1 million in 1990/91which approached to Rs. 19179.7 million in 2004/05. The volume of Manufacture goods classified by materials (SITC 6) approached to peak on 1996/97 with Rs. 44741.9 million. However, its share started to decline with ups and down on succeeding years.

Table 5.5

Composition of Nepalese Import Classified by Major SITC Manufacture Goods Groups (1990/91 – 2004/05)

(Rs in million)

FY	Import SITC Manufacture Goods Group						
	3	5	6	8	9	Total	% share on total Import
1990/91	2278.3	3051.1	5950.8	1120.7	2.2	12403.1	53.4
1991/92	3644.7	4615.3	8599.9	1547.6	186.7	18594.2	58.2
1992/93	3834.1	5265.0	11633.1	2185.9	29.7	22947.8	58.5
1993/94	4837.0	5541.4	19147.5	2884.5	91.2	32501.6	63.1
1994/95	4717.1	7193.0	25300.6	3057.2	15.0	40282.9	63.2
1995/96	5549.3	8686.8	28129.7	3794.6	1.8	46162.2	62.1
1996/97	7160.3	8504.2	44741.9	4016.4	1529.8	65952.6	70.5
1997/98	9537.3	11077.3	32601.6	3974.0	346.6	57536.8	61.6
1998/99	8737.5	12476.4	25638.0	4302.4	266.0	51420.3	58.7
1999/00	9097.9	14474.2	34420.0	6682.8	78.2	64753.1	59.7
2000/01	11269.2	12941.9	41188.0	7210.2	0.8	72610.1	62.8
2001/02	15200.8	12380.9	32889.1	5670.3	62.1	66203.2	61.6
2002/03	19944.1	14319.5	34888.2	6582.7	1523.0	77257.5	62.1
2003/04	21904.1	16544.9	36510.5	5103.8	1753.8	81817.1	60.0
2004/05	29927.3	19179.7	37047.4	7551.8	1445.7	95151.9	63.7
Average							61.3

Source: As per as table 5.3

On the primary goods side, table 5.6 shows that during the 15-year study period, on an average the share of primary products (SITC 0, 1, 2, 4) occupies 19 percent. This was Rs. 4832.6 million in 1990/91 and approached to Rs. 28059.6 million in 2004/05. SITC (0 and 2) have greater magnitude than the remaining two items where the harmful item tobacco and beverage (SITC 1) have lowest share on primary goods import side. Food and live animal (SITC

0) in 1999/00 climbed at peak with maximum volume Rs. 10839 million. Animal and vegetable oil and facts (SITC 4) have an increasing tendency on succeeding years except in 1996/97 to 1997/98.

Table 5.6

Composition of Nepalese Import Classified by Major SITC Primary Commodity Groups (1990/91 – 2004/05)

(Rs in million)

FY	Import SITC primary Commodity Group					
	o	1	2	4	total	% share on total import
1990/91	1820.5	257.0	2013.4	741.7	4832.6	20.8
1991/92	2947.5	288.3	3415.7	801.8	7453.3	23.3
1992/93	3024.7	469.3	3977.0	1085.1	8556.1	21.8
1993/94	4084.8	367.6	3122.3	1457.2	9031.9	17.5
1994/95	4464.0	500.9	3347.9	2056.0	10368.8	16.3
1995/96	4785.8	508.6	4865.9	2830.9	12991.2	17.4
1996/97	5400.5	590.7	5487.1	2327.6	13805.9	14.8
1997/98	4929.0	799.5	6976.2	2025.8	14730.5	16.8
1998/99	7619.5	846.1	6246.7	3329.0	18041.3	20.6
1999/00	10839.0	906.5	7012.4	4446.0	23203.9	21.4
2000/01	5994.4	906.1	7559.6	5589.2	20049.3	17.3
2001/02	6333.2	717.1	6734.1	7887.5	21671.9	20.2
2002/03	9370.5	792.2	8479.3	7750.5	26392.5	21.2
2003/04	8554.0	1026.8	10550.6	8634.4	28765.8	21.1
2004/05	9820.7	1015.6	11207.0	6016.3	28059.6	18.8
Average						19.3

Source: As per as table 5.3

5.4 Movements of Terms of Trade in Nepal

Terms of trade is the ratio of the index of export prices to the index of import prices. The general concepts is that an improvement in the terms of trade when there is a relative increase in export price or a relative fall in import prices. Adverse situation takes place when there is a relative rise in import price or a fall in export prices.

The general principal for terms of trade (ToT) is:

ToT > 100 implies that the performance of the nations export is favourable compared to its import

ToT < 100 implies that the performance of the nation’s export is unfavourable compared to its import.

ToT = 100 implies that both export and import are moving in the same direction.

The effect of changes in the terms of trade should be appraised in the light of other relevant effects like changes in productivity, demand, total exports and imports, employment etc. The terms of trade has been calculated for 1990-2005 taking 1974/75 as a base year i.e. assuming that the total export and import value of 1974/75 is 100. Here the question may arise as to why it has 1973/74 been selected as a base year. The basic ground for selecting 1974/75 as the base year is that the actual effort for Nepalese trade diversification was made since 1971 and its effect in Nepal was seen after 1974/75 and data are available since 1974/75 only. Where the value of export of base year = Rs. 889.6 million and the value of import of base year = Rs. 1814.6 million.

Table 5.7

Nepal's Terms of Trade (1990/91 – 2004/05)

(Base year: 1974/75 = 100)

Fiscal year	Price index of export (p_x)	Price index of import (p_m)	Terms of trade (ToT)
1990/91	830.4	1279.9	64.9
1991/92	1540.7	1760.2	87.5
1992/93	1940.9	2160.6	89.8
1993/94	2168.8	2841.9	76.3
1994/95	1982.8	3509.3	56.5
1995/96	2234.8	4103.1	54.5
1996/97	2544.6	5155.6	49.3
1997/98	3092.8	4906.8	63.1
1998/99	4010.4	4823.4	83.1
1999/00	5600.6	5979.5	93.7
2000/01	6256.1	6375.4	98.1
2001/02	5277.0	5918.0	89.1
2002/03	5612.7	6852.8	81.9
2003/04	6060.1	7510.0	80.6
2004/05	6599.1	8237.3	80.1
average			76.6

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid July2006 and Economic Survey 2005/06

Table 5.7 shows that the terms of trade of Nepal is not favourable. During the study period 1990- 2005, the term of trade of Nepal is found on an average 76.6 i.e below 100. Starting two fiscal years show that the terms of trade is improving. While during 1993/94 to 1996/97 the terms of trade was in negative direction. Within these years, there was a fluctuation in terms of trade. This is because a smooth growth of import price than export price. After that period, the terms of trade shows improvement during 1997/98 to 1999/00. In 2000/01, ToT has seen much interesting near to 100 i.e 98.1 but it could not touch 100.

This tendency of terms of trade indicates that the Nepalese export performance is weak compared to import. So, Nepal is still far away from the gain of international trade, though the terms of trade show satisfactory trend in the economy.

5.4. 1 Nepal's Terms of Trade with India

Table 5.8 shows that during the 15-year study period, Nepal’s terms of trade with India on an average is found 61.4 which is moved discouragingly from 1990- 1996. This is because the import price increased more rapidly than export price. Then after two succeeding period, ToT took ups and crossed 100 in 1999/00 i.e. approached to 105.7. The positive direction remained in 2000/01 with ToT 113.8 Then after ToT came back below 100. This situation clearly indicates that Nepal’s export performance with India is better than the import. Nepal has been losing its economy perspective from foreign trade with India. These unfavourable happenings suggest that immediate action should be taken by government with strategically. Import should be controlled in terms of both commodity and value.

Table 5.8

Terms of Trade with India (1990/91 – 2004/05)

(Base year: 1974/75 = 100)

Fiscal year	Price index of export (p_x)	Price index of import(p_m)	Terms of trade
1990/91	207.9	496.2	41.9
1991/92	194.2	762.0	25.5
1992/93	217.2	849.9	25.6
1993/94	322.6	1154.4	27.9
1994/95	418.4	1329.3	31.5
1995/96	493.2	1653.4	29.8
1996/97	699.9	1684.2	41.6
1997/98	1177.8	1852.0	63.6
1998/99	1678.1	2176.6	77.1
1999/00	2841.9	2687.5	105.7
2000/01	3486.0	3063.7	113.8
2001/02	3743.9	3837	97.6
2002/03	3539.6	4806.1	73.6
2003/04	4121.7	5335.7	77.2
2004/05	5211.8	5873.5	88.7
average			61.4

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-July 2006 and Economic Survey 2005/06

5.4. 2 Nepal's Terms of Trade with Overseas Countries

Table 5.9 shows that the terms of trade with overseas countries have a fluctuation movement, some ups and downs within the study period 1990-2005. However, on an average ToT seems so satisfactory which is near to 100 i.e.95.5 In 1990/91, the terms of trade with overseas countries was below 100. But three succeeding years till 1993/94, ToT with overseas countries was more than 100. It clearly throws the light that export to overseas countries is increasing more rapidly than import. In other words Nepalese export performance is better than import and gained something from overseas countries. From 1994-1997, ToT with overseas countries was quite discouraging having the value below 100 owing to import from overseas countries increased more than the export. While during the 1998- 2000 it was improved as compared to pervious years but could not exceed 100. Once again, In 2002/03 ToT crossed the value of 100 i.e. approached to 104.3. Again started to decline in succeeding year having below 100. This situation suggests that Nepal has to diversify its exports to overseas countries in terms of both commodity and value.

Table 5.9

Terms of Trade with Overseas Countries (1990/91 – 2004/05)

(Base year: 1974/75 = 100)

Fiscal year	Price index of export	Price index of import	Terms of trade
1990/91	4083.5	4692.6	87.0
1991/92	8576.9	6106.4	140.4
1992/93	10948.1	7867.7	139.1
1993/94	11815.6	10190.4	115.9
1994/95	10157.4	13001.9	78.1
1995/96	11335.5	14770.1	76.7
1996/97	12183.6	20271.5	60.1
1997/98	13099.4	18197.4	71.9
1998/99	16197.1	16348.6	99.0
1999/00	20015.4	20314.2	98.5
2000/01	20730.5	20795.6	99.7
2001/02	13288.0	14979.9	88.7
2002/03	16445.5	15765.1	104.3
2003/04	16188.7	16977.8	95.4
2004/05	13848.0	17939.8	77.2
average			95.5

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-July 2006 and Economic Survey 2005/06

5.5 Exports Trade Contribution to GDP

GDP accounts the overall output of the nation throughout the year. It indicates the nation's economic capability. Export trade is considered an important aspect to raise GDP. In developing economics like Nepal, export trade no doubt plays vital role. Export enhances capability to develop an industrial base and it is one of the major sources of generating foreign exchange required to import goods, raw materials and technology.

Table 5.10 shows that share of export to GDP is fluctuating ups and down with minimum about 6 percent to maximum about 14 percent. Export - GDP ratio with India on an average is 3.7 percent which was lowest share on 1990-1998. After onwards, the share of export to India improved and remained around 6 percent till 2003/04. In 2004/05 it approached to 7.6 percent which is the highest share during the entire period. On the other side export to GDP with overseas countries seems more, which is on an average during the study period, is observed 6.6%. It occupies double the share of export- GDP than India. However, in the previous period of study, there was high share of Export - GDP with overseas than the India. Nevertheless, in the last 3 years, overseas export contribution on GDP is slowing down which is less than the India's share on export- GDP. Table 5.10 shows that Nepal have minimum share of export on GDP. On and average the share of export to GDP is 10 percent.

Table 5.10

Share of Export on Gross Domestic Product (1990/91 – 2004/05)

(In Million rupees)

FY	GDP	Export	Export/GDP	E_i /GDP	E_0 /GDP
1990/91	116127	7387.5	6.36	1.3	5.0
1991/92	144933	13706.5	9.46	1.0	8.5
1992/93	165350	17266.5	10.44	0.9	9.5
1993/94	191595	19293.4	10.00	1.3	8.8
1994/95	209974	17639.2	8.40	1.5	6.9
1995/96	239388	19881.1	8.30	1.5	6.8
1996/97	269570	22636.5	9.39	1.9	6.5
1997/98	289798	27513.5	9.49	3.0	6.5
1998/99	330018	35676.3	10.81	3.8	7.0
1999/00	366284	49822.7	13.60	5.8	7.8
2000/01	393473	55654.1	14.14	6.6	7.5
2001/02	406138	37862.8	9.31	6.9	4.7
2002/03	437546	49930.6	11.41	6.0	5.4
2003/04	474919	53910.7	11.35	6.5	4.9
2004/05	508651	58705.7	11.54	7.6	3.9
Average			10.26	3.7	6.6

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-July 2006

Note: Export/ GDP is calculated value from table 4.2 .E_i /GDP and E_o /GDP are the calculated value from table5.1 and 5.2 respectively.

E_i /GDP = Export to India/ GDP ratio.

E_o /GDP= Export to Overseas / GDP ratio

5.6 Determinants of Nepalese Trade

We have estimated the linear equations to determine the contribution of exports. Total volume of export in different time periods is considered as dependent variable whereas gross domestic product, agriculture GDP and Non-agriculture GDP, one period lag export is considered as independent one. The regression is carried out within 1990/91 -2004/05 (appendix 1). The fitted equations are based on constant data. No attempt has been made to correct the problem of serial correlation. In all statistical analysis, figures in parentheses below the coefficients for independent variables indicate respective t- values. All the statistical values are computed from computer via SPSS programmers. All of Variable name, labels are as following.

Variable Name & Variable Label

Variable	Level
T	Time
GDP	Nominal Gross Domestic Product
GDPAG	Nominal Agriculture Gross Domestic Product
GDPNAG	Nominal Non Agriculture Gross Domestic Product
Xt	Total Value of Exports
Mt	Total Value of Imports
Xt-1	One Period Lag Exports
Eqn	Equation
Dep	Dependent Variable
ao	constant
a1	coefficient of first independent variable
a2	coefficient of second independent variable

Simple linear models for exports in matrix form

Eq^n	Dep .var.	Cons	Independent variables				R^2	$Ad.R^2$	F
			GDP	GDPAG	GDPNAG	Xt-1			
1	Xt	- 8471.802	0.968 (13.883)				0.937	0.932	192.742
2	Xt	-9268.302		0.464 (0.391)	0.504 (0.425)		0.937	0.926	89.031
3	Xt	-7110.564	0.586 (2.247)			0.393 (1.509)	0.940	0.929	85.630

Eqn 1 : Xt = ao + a1GDP

Eqn 2 : Xt = ao + a1GDPAG + a2GDPNAG

Eqn 3: Xt = ao + a1GDP + a2Xt-1

First equation shows that there is significant positive relationship between total foreign export (Xt) and GDP. The fitted equation is a good fit with R^2 = 0.93 which indicates that 93% of variation in foreign export (x) are explained by independent variable GDP. The F value is also significant at the level of 5 percent and indicating that there is strong association of variables in question. On an average Nepalese economy one million of export is capable of generating additional income worth Rs. 0.968 million.

Equation 2 shows that there exist positive relationship between volume of export with agricultural GDP and non- agricultural GDP. The coefficient of independent variables is not significant at 5% level of significance, as indicated by its lower t-value ie. Less than t0.05 = 2.145. However the equation itself is a best fit with adj R^2 = 92.6 percent of the variation in dependent variables being explained by the independent variable respectively. However, larger F-value is indicating that there is strong association of variable in question.

In equation 3 there is again direct relationship between export with GDP and one period lag export volume. Although it is the best fit wit adj R^2 = 0.929 i.e. 92.9 percent of the total variation is explained by independent variable, the independent variable one period lag export having its lower t-values indicating that there is no significant relationship between dependent and independent variable. It indicates that one period lag has no effects to influence GDP.The greater F- value is depicting that there is strong association between variable in question.

Above fitted equations are depicting that in comparison to agricultural and non agricultural GDP, one period lag export has lower effectiveness in the economy. Whereas there is higher effects of non agricultural GDP to expand export in comparison to agricultural GDP.

Simple Regression models for determinant of imports:

By observing the relationship between total import and gross domestic product we have the following findings where the equation is

Eqn: 4 Mt = ao + a1GDP

R^2 = 0.965, adj R^2 = 0.963 , F= 361.024 , t= 19.001, constant = -5386.037,

a1= 0.982

In this equation, we can see that there is positive relation between import and GDP. According to adj R^2 , 96.3 % of the total variation of import is explained by GDP. There is significant relationship between GDP and import which is indicating by respective t- values with 19.001 > $t_{0.05}$ = 2.145. The greater F- values is depicting that there is strong association of variable in question. This equation shows that increase in total import is capable to generate GDP.

CHAPTER VI

SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 SUMMARY

The 15 years study provides a clear view regarding the history, plan wise trends, policy review, trade with India and overseas, trade composition and terms of trade of Nepalese foreign trade. The following information summarizes the picture of Nepalese trade situation and export diversification of Nepalese government in brief.

Observing over the various plan periods, the total export has approached Rs. 628.1 million in first plan about 328 times i.e Rs. 206529.4 million in ninth plans. Total import has steady growth in the subsequent plan.

During the study period, export value increased by 7 times, while import value increased by 5 Times only. However, imports value is 1.4 Times the export value. The total trade deficit of Nepal in 1990 was Rs. 15839 Million which increased to Rs. 90767.9 Million in 2004/05. Although the trend of Nepal's foreign trade during the past few years is encouraging, the value of our trade deficit is yet discouraging

Government of Nepal has adopted Exporters' Entitlement Scheme (EEE) in 1961 to promote and diversify export from India to the overseas countries. Under this scheme, overseas exporters were provided a bonus in the form of convertible foreign exchange. Due to abuse of the facilities provided by the government to overseas export, exporters indulged in fraudulent trade practices in Nepal. The EEE scheme neither helped in expanding the export base nor contributed to reduce the dependency on India. Consequently, in 1977 Dual

Exchange Rate System replaced the EEE scheme. The new trade policy has been implementing since 1992. The basic objective of trade policy 1992 is enhancing trade diversification, to promote private sector participation, production of qualitative and competitive good, and establishment of EPZ. Tenth five-year plan is under execution having the strategies of emphasis on export promotion as well as promotional progress and institutional capacity enhancement.

The Indo- Nepal trade treaty has seen more often as the turning point in the history of Nepal- India trade relations leading to several policy changes. The renewed treaty contains liberalized procedures of the transit of the Nepalese goods.

Within 15 year period; there is 25-fold increment on total value of trade with India. The share of export to total trade with India seems decreasing trends form the starting of study period till FY 1995/96.However, the share of export took positive direction approached to 73 percent in 2001/02 which again declined on succeeding period. But in the final year the share to India has occupied about 66 percent. At the same time period, the total value of import with India increased about 12-fold. The share of import with India seems not much fluctuating from the study period 1990/91 till 2000/01 on an average of 33 percent. However, in 2001/02, the share of import has tremendously increased approached to 72 percent. Following the succeeding years the share of import started to decline but not less than 50 percent.

According to SITC classification Nepalese export commodity composition is less diversified than the import commodity composition. The export composition of Nepal's foreign trade shows that the primary goods have increased in nominal value but their share in total export has noticed almost unchanged during the study period. manufactured goods classified mainly by materials (SITC 6) and miscellaneous manufactured articles (SITC 8) have a greater magnitude in total export. Both categories SITC 6-8 together constitute two third of the total export. The share of manufactured goods increased significantly in Nepalese export but the worth considering fact is that Nepalese exports are limited to few items. In import side, primary goods has maintained its growing tendency in nominal value and share as well. The high share of manufactured items compared to primary goods imports endorses the poor development of the economy. Therefore, it is necessary to build import substitution industries.

The share structure of exports and imports of India and overseas countries shows that there is a domination of overseas trade, in the total import and total export trade of Nepal. In the early stages, there was deep domination of trade with India. Now, Nepalese trade direction is diversified from India to overseas countries.

The terms of trade of Nepal is unfavourable during the study period i.e. less than 100. The main reason for terms of trade always unfavourable is rapidly increased to import price than export price. Destinationwise terms of trade with India was less than overseas countries during 1990 - 1998 .The terms of trade with overseas countries much more improved and favourable during 1991 - 1993 . During 1999 - 2001, terms of trade with India was more favorable than overseas countries.

During the study period, the share of export on GDP is found on an average about 10 percent. However, there is domination of share of overseas trade on GDP. The fitted equations are depicting that in comparison to agricultural and non agricultural GDP, one period lag export has lower effectiveness in the economy. There is a higher effect of non agricultural GDP to expand export in comparison to agricultural GDP. Similarly there is positive and significant relationship between import and GDP.

6.2 CONCLUSION

Nepalese foreign trade plays crucial role to make economic strength and prosperity of the nation. Nepal has been suffering vicious circle of poverty and economic backwardness. No doubt, to give proper direction to our export trade, the government has introduced several policies and efforts have done. Nevertheless, the outcome has not achieved properly. The share of trade on GDP is about 10%. but export trade has been worsening rather than improving. However, Nepalese trade has some opportunities too.

6.2.1 Opportunities of Nepalese trade:

- Political consistency is essential factor to do something on the area of export promotion. Decade long moist insurgency has been transforming into political mainstream
- Nepal is very much rich on natural resources such as hydropower, mines etc. and there is high potentialities of agro based industries too.
- Adequate work force with Low labour cost can easily available through out the country.
- There is great chance to attract various national and international agencies like NRN who are seeking to invest in Nepal, which will enhance trade sector too.
- Donor agencies are seeking to invest in Nepal so that there is high potential to bring FDI to strengenthen export trade oriented industries.

6.2.2 Challenges of Nepalese Foreign Trade:

- Nepal has been facing fundamental trade deficit. There is no favorable position of terms of trade with both destination India and overseas that may have long-term effect on the Nepalese economy. The main cause behind trade deficit is high import against small export.
- Free flow of goods between Nepal and India are serious problems for Nepalese products because of Open border.
- Because of narrow base of exportable production and Infant industrial shape there is low quality products which have been major challenging scene of Nepalese trade.
- Land-locked situation, mountainous and rugged geographical structure of the country is one of the biggest bottlenecks in Nepalese foreign trade expansion.
- Transit and transportation cost is too high and there is no effective rural-urban linkages practices.
- Due to the adoption of liberal economic policy, government levied international trade tax to generate revenue but it neglected the aspect of import substitution. So, the trade deficit of Nepal becomes more acute.
- Nepalese domestic industries are unable to produce enough goods for Nepalese growing population.
- Nepalese export commodity composition is less diversified than import commodity composition. It is also less diversified countrywise or destinationwise.
- Nepalese foreign trade policy is directed more towards import expansion and diversification rather than export promotion, import substitution and export diversification.

6.3 RECOMMENDATIONS

Gradually increment of trade deficit problem shows the fact that Nepalese trade is dominated by imports. It also indicates that there are various barriers on Nepalese trade. Although Nepalese government has introduced different policies and measures with regular modification, Nepalese trade cannot take positive direction towards the nation. However, there is future potential to expand export trade. Therefore, government should take immediate action. This study has some suggestions for the promotion and expansion of Nepal's foreign trade especially exports trade and consequent economic growth of the country. The following measures should be considered.

6.3.1 Policy prescription

- Emphasis should be given to export promotion and institutional capacity enhancement.
- Implementation of policies should be take care in an effective manner as well as monitoring and evaluation of policies is essential.
- Diplomatic efforts should be started and search appropriate trade and transit route with overseas trade.
- Government role should be defined as catalytic in practice not only on paper. Government should empower and attract the private sector involvement by making environment friendly policies.
- Foreign trade should be directed towards export promotion, import substitution and export diversification. Policies must not be influenced by foreigners. .
- Effective diplomatic efforts with strong political -will and commitment should be taken by the government.

6.3.2 Prescription for Export Promotion

- It is necessary to make export plan having the framework of enhancing strategies of export and discouraging the volume of import that can reduce trade deficit problems.
- Export should be increased by improving the quality of product, introducing new commodities, reducing cost of production, generating export surpluses, encouraging research and development.
- GON should focus to Increase the scope of Joint Venture industries.

6.3.3 Prescription for Controlling Import

- The government should provide different facilities and incentives for import substituting industries.
- Domestic industries should be encouraged to produce consumer goods which can be done by increasing tax on imported items. Tax system should be made more progressive and consider on welfare too.

In conclusion, it is recommended that to reduce gradual trade deficit government must immediately take action towards the direction of expanding export by reinventing its policies with strong implementation and monitoring mechanism.

APPENDIX:

Appendix 1

Basic Data

FY	Xt	Mt	GDPAG	GDPNAG	GDP
1990/91	7387.5	23226.5	55368	60759	116127
1991/92	13706.5	31940	65156	79777	144933
1992/93	17266.5	39205.6	70090	95260	165350
1993/94	19293.4	51570.8	80589	111007	191595
1994/95	17639.2	63679.5	85569	124407	209974
1995/96	19881.1	74454.5	96896	142492	239388
1996/97	22636.5	93553.4	108785	160785	269570
1997/98	27513.5	89002	112495	177303	289798
1998/99	35676.3	87525.3	132373	197645	330018
1999/00	49822.7	108504.9	145131	221120	366284
2000/01	55654.1	115687.2	151059	242993	393473
2001/02	46944.8	107389	160144	245994	406138
2002/03	49930.6	124352.1	171104	266442	437546
2003/04	53910.7	136277.1	183117	291802	474919
2004/05	58705.7	149473.6	194363	318288	508651

Source: compiled by the author from economic survey 2005/06

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