

CHAPTER ONE

INTRODUCTION

1.1 Background

Nepal, one of the least developed countries of the world is categorized as an underdeveloped agricultural country. She is recognized as one of the five landlocked countries of the Asia. The country lies in the lap of the Himalayan between the two giant neighbor, china and India. Geographically, Nepal lies between $26^{\circ} 22'$ north to $30^{\circ} 27'$ north latitude and $80^{\circ} 4'$ east to $88^{\circ} 12'$ east longitude and covers the total areas of 1, 47,181 sq. km. having 264 million population on average, it is 885 km long (East to West) and 193 km wide (North to South)

Ecologically, the country is divided into three regions: mountain, hill and Terai (plains). And administratively Nepal is further divided into five development regions, 14 zones, 75 districts. Districts are further divided into VDC's (3915) and municipalities (58).

Being a least developed country foreign trade plays a crucial role in the economic development. No country, small or big, is self-sufficient (dependent). Each country has to depend on other countries for import and export of raw materials, manufacturing goods, technology. Thus the foreign trade is therefore called an "engine of growth". In this context Nepal has been moving towards promoting and establishing the foreign trade and trade relations with the world from the past.

Nepal is one of the members of United Nations. Now, diplomatic and trade transaction relation has established with 120 and 158 countries of the world respectively. Major export commodities are carpets (hand knitted woolen), hides and skins, vegetables ghee, zinc sheet, jute goods, textiles, toothpaste, pasmina, jute, ready made garments and handicrafts.

At present Nepalese economic growth rate is 2.5% in 2007. The country depends heavily on agriculture as major sources of income which still absorbs 65.6% of total labour of the country. The contribution of agriculture sector to GDP is 32.1%. With a 264 million population, the average population growth is about 2.24% per annum. The country's one third of the population (31.81%) still lies below poverty line and the Ginni coefficient, which indicates inequality between poor and rich, is 41.4. With this if significant progress is not achieved in agriculture sector, the economic development of our country is impossible.

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 mainly with 94 countries associated with bilateral and multilateral agreements guides Nepalese foreign trade strategy. For developed and underdeveloped countries, foreign trade is considered as the engine of growth.

World has been transforming into “global village” and becoming more integrated. In this context Nepal has been pursuing it’s trade and foreign exchange policies in tandem with the global liberalization process and striving it’s best to integrated with the changing world economic order. Globalization gives opportunities for nations to increase their productive efficiency and conquer their comparative advantage. In this light on 1st June 2006, Nepal entered into an agreement of SAFTA. Similarly, on 23 April 2004, Nepal become the 147th member of world trade organization (WTO). In less developed country (LDC) like Nepal, foreign trade plays vital role and very much important to sustainable economic growth. Nepal’s economic growth is dependent on foreign aids, foreign direct investment (FDI) and foreign trade volume too.

In the present emerging concept of globalization and open liberal market economy, international trade is the backbone of national economy. Nepal has followed a liberal and open policy in all sectors in the trade sector all trading partners is given equal chance to sell their products in Nepal and Nepal has also increased it's integration in to the world 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.

1.2 Statement of the Problem

Despite more than 50 years of developmental effort, Nepalese economy has not become dynamic and vibrant. Still Nepalese economy is basically subsistence economy and economic activities are also very slow and low. More than 80 percent of population depends on agricultural but it's contribution is only 32.1 percent of total GDP. Agricultural product is basically primarily product and they have constant demand in the market of Nepal's exporting partners. On the other hand industrials productions are unable to meet even the domestic demand. It indicates our foreign trade product volume is low and industrialization is still in its infancy and just creeping onwards.

When import trade exceeds exports trade, trade deficit occurs. For a long period of time Nepalese balance of trade has been in deficit and this gap is increasing in an increasing rate. Event though Nepal has adopted many policies in course of development process in order to take the foreign trade on her favour, but all most all efforts have become

futile. The trade deficit continued to grow and it is increasingly posing a serious challenge to the various economic structures of Nepal. Nepal's foreign trade sector has not been able to create trade diversification in terms of country and commodity as well. External imbalance of Nepal is mainly manifestation of the disparity between the growth of her primary exports and that of her imports of industrial goods. Nepal's foreign trade is mainly concentrated with India and only a limited trade is taking place with overseas countries including Tibet, China due to adverse geographical situation. Commodity wise only three products (readymade garment, pasmina and woolen carpet) occupies 80% of Nepal's export and destination wise it is expanded to north and Central America, Western Europe, ESCAP regions, SAARC regions, china and Japan, out of this 90% of it's total export go to only three destination (India, Germany, America). In import fronts markets are relatively more diversified more than ten countries supply 90% of Nepal's imports.

Nepal's main trading partner is India, as almost 60% of trade is confined to India only. The trade with India has decreased form (52.48) percentage to (50.92) percent in the year 1984/85 to 1992/93 and significantly increased after years (quarterly economic bulletin, 2007). However the total volume of foreign trade has always been dominated by imports when the import trade exceeds the export trade, there is no question of surplus. A developing country like Nepal depends on foreign trade for the achievements of national target and economic growth in order to finance fast growing imports needs.

Nepal's trade deficit with India alone is as higher 60% while with the rest of the other 119 countries trade deficits estimated to be 40%. Trade treaties between two countries signed at different years, have govern Nepal's trade with India Nepal faces the problem of widening

trade deficit with India. Although Nepalese products are theoretically allowed unhindered entry into the India markets, if they beat the certificate of origin issued by FNCCI.

But being a landlocked country India foreign trade policies have been hurdling Nepal's economic development process India has been restricting certain items by fixing quota, debarring entry on quality inspection ground, and also India has been hurdling Nepal's foreign trade as Nepal has to use Indian port and road for imports export. And also there are some trade problems like low quality, product, high cost of production, lack of export promotion credit, weakness in the selection and estimation of market of Nepalese product, no backward and forward linkage effect of Nepalese product, traditional and poor situation of agriculture sector which is the base of Nepalese foreign trade. Out of above mentioned trends problems the major is trade diversification. So the behaviour trends and structure of foreign trade should be analyzed. New trade policies based on liberal economy was formulated in 1992 with the restoration of democracy in 1990. So we have especially taken up (1990-2007) time due to the availability of data, limited resources and limited time frame.

1.3 Objectives

The main objectives of the study is to analyze the trend of Nepalese foreign trade, however the specific objective of this study are as follows:

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

1.4 Significance of the Study

Trade occupies an important place in economic development as it plays a crucial role in uplifting the economic status of a country. Historical trend shows that many countries in the world could reach the peak of economic development through foreign trade. As we have seen that massive export of wool and textile brought industrial revolution in Britain in the nineteenth century. Substantial increase in the export of silk proved propulsive factor in Japan's economic development. Hence, foreign trade is treated as one of the engines of economic growth".

The role of foreign trade is more important to the third world countries like Nepal, where foreign exchange gap constraints, capital formation and investment through the import of capital goods from abroad. But the country's economic development is only possible through favorable foreign trade. This study is descriptive that it concentrates the period of 1990-2007. To analyze export and import composition and to investigate their effect on economy is the main concern of this study. The study has generated information on structure, pattern and trend of Nepalese foreign trade after the trade sector has been liberalized. Various studies have been done on the field of foreign trade. Even though this effort is not a new one but it has updated the foreign trade situation of Nepal and has tried to review trade policies adopted in Nepal and has analyzed its impacts.

Hence this study will be useful to the researchers, planners and people who are related and interested in foreign trade.

1.5 Limitations

Every study has its own limitations and constraints. This study also has such type of limitations, which are given below:

-) The study period has covered the data of only 1990 to 2007.
-) The study has entirely based on secondary data of imports and exports goods only.
-) Only simple statistical method have been used and analyzed accordingly.
-) The study has covered Nepal's trade with India and overseas categories. It has not dealt individual country data.

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 determinates 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 study and analysis of foreign trade itself in economic development is not new in economics. Thus, the literature on foreign trade can be found even in the era of mercantilism, which emerged by the end of Middle Ages and prevailed till the appearance of the "wealth of nations" but the literatures on Nepalese foreign trade are very few and insufficient. However, we try to review some of the literature relating to the Nepalese foreign trade and international trade, which are found in the form of books, research papers, articles and theses. The whole study is divided into two parts.

International Context

Ricardo. (1817). *The Principle of Political Economy and Taxation*. According to him "If there comparative differences in production costs between two countries, international trade will inevitably take place between them." The reason is that these comparative differences in production cost will benefits both the countries. He also emphasis that under all conditions it is the comparative cost advantage which lies at the root of specialization and trade.

Modigliani and Neisser (1956). *National Income and International Trade*. The book is quite relevant to this study. It has considered the sum of two-variable (changes in export value plus charges in domestic industrial output) to be a determinant of import volume.

Kindleberger. (1956). *Foreign Trade and the National Economy*. In his book he has tried to answer two questions regarding international trade. They are: (a) what determines the nature and amount of goods

country buys and sells in international trade? (b) What is the impact of foreign trade on national economic life of developed as well as developing countries?

His answer in first question says, foreign trade flow and other movements across national boundaries are affected by many factors like, technological changes, social changes, economic changes, economic advantages, political revolutions and resources endowments of nation. The extent of participation of nation into international trade depends partly upon it's sources, partly upon it's stages of development and partly upon the barrier it places in the way of trade. His answer in second question says, the international trade helps to "balance" the economies of under developed countries by providing output for goods produced in surplus and sources of equipment and material needed. Further it helps to fill the gap between consumption and production of an economy, economic growth, technology transformation and finally remove regional discrimination.

Limao and Anthony. (2001). Infrastructure, Geographical Disadvantage, Transport Costs and Trade. In their article they have used several sources of evidence to explain transport costs and trade flows in terms of geography and the infrastructure of the trading countries, and countries through which their trade passes. They adds the real costs of trade, the transport and other costs of doing business internationally are the important determinants of a country's ability to participate fully in the world economy. They have used different data sets to investigate the dependence of transport costs on geography and infrastructure especially in case of land lock countries as like Nepal. For example, in 1995 landlocked countries on average had an import share in GDP of 11% as compared with 18% for coastal economics.

They have also analyzed the bilateral data that confirms the importance of infrastructure and gives an estimate of the elasticity of trade flows with respect to trade cost factor of around 3. A deterioration of infrastructure from the median to the 57th percent raises transport costs by 12% and reduces trade volumes by 28%. Analysis of African trade flows has indicated that their relatively low level was largely due to poor infrastructure. However, landlocked countries are able to overcome a substantial proportion of this disadvantage through improvement in their own and their transit country's infrastructure.

Nepalese Context

Poudyal. (1988). *Foreign Trade, Aid and Development in nepal*. In his book he has shown the analysis on saving function, foreign trade, foreign aid and to meet the investment gap for development in Nepal. He analyzed and found that the impact of foreign aid on domestic saving is negative.

In the process of analysis, he has analyzed the structure of foreign trade excessive concentration of exports of primary products and imports on manufactured products. The growth of export in the recent past has not only been erratic but also very poor. He examines that export diversification policies are not efficiently designed and implemented. Apart from some achievements in geographic diversification of export away from India to third countries there was hardly any impact on the overall growth and products diversification of exports.

He analyzed Nepal's export to India and overseas. He has also revealed that domestic supply factors are the most crucial variable in determining exports to these countries. While export to India appears to be highly elastic with respect to Nepal's agricultural GDP and the relative

prices between the Indian market and home market, exports to overseas are largely determined by non-agricultural GDP and export promotion measures. Lastly, he found out that the major determinants of imports are income and foreign aids.

Shakya. (1992). *Foreign Trade and Export Management with Nepalese Perspective*. In his book she has discussed about the export management or export marketing methods in international trade. He has also discussed about different types of terms of trade and found that Nepalese foreign trade remained unfavorable over the period. Further he has examined about the trade treaty of Nepal with SAARC countries and has suggests for improvements. He also analyzed the export and import trade policies, commercial policies of Nepal and suggested various measures to diversity, increment in volume and quality improvement in the Nepalese export products. Finally, he has cited four major bottlenecks to export ,such as, supply side constrains, lack of trade support service, demand constraints, policies constraints, and suggests that these are need to be improved or removed.

Dahal. (1992). *Foreign Trade and Economic Development of Nepal*. An unpublished Ph. D. thesis, he has analyzed that there is a significant contribution of foreign trade to the total revenue of the government. In his research study he has used rate, ratio, percentage, simple regression analysis and log variance to compute instability index. According to him there is continuous deterioration in terms of trade of Nepal and he has also examined the contribution of foreign trade and the relationship between foreign trade and gross domestic product of Nepal.

Shah. (1999). *The study of Nepal's foreign trade*. An Unpublished M.A. Dissertation she has used secondary data and show increased export

to India in 1992/93. The export multiplier is 10.72 and categorized primary and manufactured goods accounted 22.31 and 8.87, respectively. The multiple regression analysis result shows that total imports are categorized by income and foreign aid. The multiple propensities to import and saving on average are 0.3143 and 0.1413. The import multiplier is 2.19.

Khalel. (2005). *A study on Nepalese Foreign Trade: problems and prospects*. An unpublished master's thesis he has tried to analyze the Nepalese foreign trade and economic relationship with India and overseas countries. He has analyzed the actual situation of trade sector i.e. poor performance of export, primary nature of exportable goods, unfavorable trade balance, unfavorable terms of trade and existence of infant industries. The study provides a clear view regarding the volume, composition and direction of Nepalese foreign trade. He has also analyzed that the volume of Nepalese foreign trade is increasing steadily but the contributing of export in total volume of trade is vary low as compared to the import trade. Due to various trade problems Nepalese foreign trade especially export trade has been deterioration rather than improving. Finally he has recommended some suggestions for improving Nepalese foreign trade especially diversification of the export to country wise as well as product wise. He says, by imposing import tax and cutting export tax, protecting and developing cottage and small industries, increasing the volume of exportable goods, increasing trading activities in SAARC countries and finally developing and investing more in agriculture sector, foreign trade problems can be removed.

Khanal. (2006). *Foreign Trade of Nepal: Trend and Structure*. An unpublished master's theses he has tried to analyze about the foreign trade and structure of Nepal. The study provides a clear view regarding the

history, plan wise trends, policy review and review of reform programmes, trade with India and overseas, trade composition and terms of trade of Nepalese foreign trade. He also analyses the export and import trade of Nepal between 1990-2004 and concludes that the total volume of export value is increased by 7 times, but total volume of imports was increased by 5 times only. So yet imports value is 1.4 times of that export value. The total trade deficit of Nepal in 1990 was 15839 million rupees but the trade deficit was gone up to 73950.0 million rupees in 2004. Although the trend of Nepal's foreign trade during the past few years is encouraging but volumes of trade deficit is discouraging.

He further says that, to give proper direction to our export trade, government has introduced several policies and efforts have done. Nevertheless, the outcome has not achieved properly. The share of trade on GDP is about 10% but especially export trade has been deteriorating than improving. Finally, he concludes that, Nepalese foreign trade trends and structure seems not so satisfactory. And he suggest that improvement in Nepalese foreign trade can be done by improving the quality of product, introducing new commodities, reducing cost of production, generating export surplus, investing in Agro-sector, encouraging research and development, making sound trade policies and rethinking about the trade and transit treaties with India etc.

NRB (Nepal Rastra Bank). (2006). *A Glimpse of Nepals: Macroeconomic Situation 2006*. On the NRB report, says during the last five year Nepal's trade sector has been displaying a mixed performance on an annual basis, both exports and imports have shown positive growth rate except in FY 2001/02 when they declined by 19.0% and 10.9% respectively. The report also says that the pattern of trade depicts that trade is becoming more concentrated towards India reflected by an

increasing trend of both exports and imports towards that country. The share of export of two principle commodities, ready made garment and woolen carpets in total exports have fallen to 30.9% and 29.0% in FY 2000/01. While the abolition of the multifibre arrangement (MFA) adversely affected the exports of ready made garments, static global demand and stiff competition from machine made carpets have also lead to the decline in the export of woolen carpet in recent years. Because of the higher rate of growth of imports in comparison to exports, trade deficit has also been taking an upward trend.

Finally the reports concludes or suggests that Nepal needs to diversify it's exports both country wise and commodity wise Nepal must look also at the non-traditional markets. This will require new knowledge, new networks, new contracts and new approaches towards dealing with unfamiliar laws, rules and regulation. The country must come out with a new trade policy as the trade policy of 1992 is outdated in this present context of the globalization.

Ghimeere. (2007). The Direction of International Trade of Nepal. In this article he has discussed about trade sector liberalization object set by tenth plans as well as other trade policies set by other plans. He adds, several efforts have been made in the past by means of trade policies as well as other economic policies, commitments and other reforms measures in order to diversify international trade country wise- product wise. However, in reality Nepalese export trade is increasingly concentrated in a few items and destinations. He further examines, due to a few numbers of exportable items to India and overseas the trade deficit is increasing. If we look at the total trade balance situation from FY 1990/91 to FY 2004/05, the percentage of trade deficit has decreased for

51.73% to 43.6% when ever the volume of trade deficit has increased more than six times during the same period.

He has also analyzed about trade problems that export trade of Nepal is concentrated a few countries and products. Similarly the continuous increment in import has created the widening of annual trade deficit. So, to attain higher export growth in order to minimize the impact of import and trade diversification in order to increase the share of trade with other countries have become a challenging task. Finally he suggests that the trade deficit, trade diversification and other trade sector problems can be improved or removed through increasing competitiveness of products, improving the quality of export items entering in to the new market like China and Bangladesh, making liberal trade policies, using alternative transit route, and investing more in basic infrastructure and agricultural sector.

Sharma. (1999). Nepal's foreign trade: trends and issue. In his article he attempts to assess the current trends and major issues facing Nepalese foreign trade sector. The discussion on trade policy reform with reference to export and trade with south Asian association for regional corporation countries and also attempts to discuss issue relating to Nepal's entrance to the world trade organization. The author has found out that the trade deficit of Nepal has been increasing over the period though export has also increased but less as compared to import. The author also points out that Nepal has been actively participating in many multilateral economic cooperation programmes. 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. However one vital missing factor in the domestic front for Nepal is to benefit maximally from the WTO is a consistent set of strategies and

policies instrument to boost up quality production insufficient amount for low bulk high value selective commodities. Lastly, he has highlighted on some recommendations, which are: adjustment on exchange rate regime, to curtail domestic consumption in order to reduce Import from India. He has also focused on export expansion through supply of selective items as well as on necessity of reasonable tariff protection.

Pant. (2005). Nepal's trade sector: review, repercussions and recommendations. In his article he has discussed about the importance of trade sector in the economy. It plays a highly instrumental role in attaining high and sustainable economic growth is indisputable. He adds, however, Nepal's policy regime has not been very much effective in improving trade competitiveness. Although policy measures have been announced both to identify new exportable products and encourage diversification of export markets, these have hardly been executed. Weak infrastructure, poor human resources, absence of quality standardization of exports, dearth of a strong legal framework and frequent policy reversals among others have restricted the country in improving it's international competitiveness.

He has observed the foreign trade situation of the country during the period of 1990 to 2004 and concluded that the nation still relies on a relatively small basket of export and a few destination market a large proportion of it's export's encounter dwindling world demand, the trade deficit of the country is widening. And there is still some difficulties relating to lack of competitive ability, supply side limitation, high export concentration.

Finally, he has suggested that Integration of Nepal into the global economy is an insufficient but necessary per-condition for long-term

sustainability of economic growth and poverty eradication. This can only be attained through an integrated approach, inducing trade and macro economic policy, private sector development and participation, finance, infrastructure, education and other supply side measures. Regional integration, compatible with multilateral trade rules, can be a paramount stepping stone for Nepal to integrate itself into the world economy and can add in making liberalization work by enhancing the creditability and transparency of policy reforms.

Kafle. (2006). Effectiveness of Trade Policy in Nepal. In her article she has tried to summarize Nepal's international trade, trade policies adopted in different plans. She says that, realizing the fact that foreign trade is an appropriate means for rapid economic development, Nepal is giving importance to the sustainable development of the external sector adopting trade promotion policies in different times. Although implementation of number of policies and procedural reforms to promote trade sector, the problems related to trade sector are still in existence.

She has also discussed about the various trade promotion efforts taken by government in different developmental plans, these are: The First Five Year Plan, emphasized on the establishment of industries producing basic necessities and exportable goods. In Second Plan, placed heavy emphasis and diversification of trade and reducing the consumption goods to increase foreign exchange earnings. The Third Plan, stressed on the increase in production of potential exportable goods, expansion of trade towards overseas countries, export promotion to earn foreign exchange etc. The Fourth Plan, stressed on to give an incentive to promote the export of manufacturers and other goods. And quality improvements, extension of credit facilities were given most priority. The Fifth Plan, included such trade policy, which emphasized to increase and

diversify the international trade. And also prohibition and discouragement of the import of luxaurious goods by increasing custom tariff policies were taken. In Six Plan, the policies were set forth, such as, to increase the export of low weight and high value products, to develop the "export and import plan" and to protect national industry by strengthening "border administration". The Seventh Plan, gave emphasis to export promotion. To fulfill export sector through the increase in domestic production and through standardization of the produced goods, to expand the role of private sector were adopted. In Eight Plan, the policies such as, to adopt the liberal and dynamic trade policies, to define the role of government as facilitator, to put emphasis on quality goods and services, to diversify the product, were taken. In Ninth Plan, the policy to diversification and strengthening of export trade were taken. And also, product development programme, market development and expansion programme, quality improvement of export product, special export promotion and import management programmes were taken. In Tenth Plan, expanding foreign trade, making trade sector liberal and market oriented policies were set.

Despite the implementation of number of polices and procedural reforms to promote trade sector several problems such as diversification of production, dependence on the import for raw materials, weak forward and back ward linkages, widening trade deficit, lack of development of infrastructure, low quality product, child labor issues are still in existence. Therefore policies adopted till now are not sufficient. Finally she suggests that for improvement Nepalese foreign trade, Nepal should use fully the transit route via Kakarbitta-Fulbari-Banglaband to expand foreign trade, should increase in competitiveness of product and provide incentive to private sector which plays an active, sensitive and capable role in trade

sector. Also should develop infrastructure, establish local resource and agriculture product based industries, take policies for expansion of market in China and South Asia. And finally should use all the dry port's of Nepal for the reducing of transportation costs and storage related hurdles.

Singh, (2008, May 27). Nepal's trade gap needs adjustment. In his newspaper article he has discussed the real situation and problems of Nepalese foreign trade and has given some recommendation with regarding foreign trade. He says that trade has proved to be an effective and efficient engine of growth in most of LDC's like Nepal. But with regard to Nepal's trade situation, the past decade has marked by worsening terms of trade and an increased trade deficit. Nepal is obviously very dependent on imports for its developmental efforts. Its imports are a proportion of consumer goods, all capital goods and the bulk of all construction goods. He further says Nepal is facing a huge trade gap to tune of Rs 138 billion, with Nepal's exports Rs 59.07 billion and imports Rs 197.67 billion on fiscal year 2006/07. The trade deficit a decade back was Rs. 61.49 billion whereas Nepal's export was Rs 27.40 billion and import Rs 88.89 billion. Overall Nepal's export sector has been on the continuous down ward trend, which is a matter of serious concern. Even though Nepal is a signatory to the regional and other trade agreements like SAFTA and BIMSTEC and is a member of the WTO. The country's export sector is yet to generate and show concrete outcome that could be tangible.

He questions, why has there been such sluggish growth in export in the recent past? Are new policies capable to boosting export? What are measures that government should take to improve export? Here, he points out the external and internal trade problems, such as down ward trend in the world trade, increased competition, formations of the regional blocks

for the slow growth of export. But infrastructural inadequacies, bureaucratic hassles, negative and lethargic attitude of Nepalese diplomatic missions abroad, sharp deterioration in net invisible earnings, reduction on concessional borrowings are the internal export related problems. Finally he has recommended for the upliftment of Nepal's foreign trade and the rapid growth in export would be include: focusing more in labour intensive manufacture, diversify the wide range of product such as new exportable goods and services like information technology and hydroelectricity generation, elimination procedural bottlenecks, facilitating trade, elimination of export duties and taxes , providing incentive to exportable production, providing adequate investment on infrastructure supporting to exportable industry. And the most important improvement should be done in the developing, strengthening and accelerating agricultural production and trade.

CHAPTER III

METHODOLOGY

3.1 Conceptual Framework

This study concerns the merchandise trade data which are used for published by national and international organizations. The information of foreign trade is classified by SITC groups not by specific commodity and by country. This study follow 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 Sources of Data and Data Collection

In this study the necessary data and materials are complied form books, research papers, various journals, various magazines, articles etc. the source of statistical data can be broadly categorized into two i.e. national and international.

National sources are:

-) NRB annual reports, quarterly bulletins.
-) Nepal and world ; FNCCI
-) Ministry of finance (MOF); economic survey
-) Nepal overseas trade statistics; trade and export promotion center

-) Nation planning commission (NPC) secretariat; central bureau of statistics.
-) Statistical pocket book, Nepal, central bureau of statistics.
-) Related internet web-sites

International Sources are:

-) International monetary fund (IMF); international financial statistical year book.
-) United Nations (UN); statistical papers, commodity trade statistics.
-) Asian economic outlook, statistical year book.

3.3 Statistical tools and Variables

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 statistical formula has been used.

$$I = \frac{P_i}{P_0} | 100$$

Where, I= price Index

P_i = Export Price or import price of the current year

P_0 = Export Price or 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:

$$N = \frac{P_x}{P_m} | 100$$

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 final goods and services produced by country (Nepal) over a specified time period, normally 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 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 Liner Regression Model

Regression analysis is as statistical method for determining the nature of relationship that exists among two or more variables and making estimates or prediction from that relationship. 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:

$$Y = a_0 + a_1X$$

Y = dependent variable

X = independent variable

a_0, a_1 = regression parameters

Multiple Regression Analysis

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

$$Y = f(X_1, X_2, \dots, X_n)$$

$$\text{Or, } Y = a_0 + a_1X_1 + a_2X_2 + a_3X_3 + \dots + a_nX_n.$$

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

Coefficient of Determination R^2

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

$$R^2 = \frac{\text{Explained variation}}{\text{total variation}}$$

$$0 < R^2 < 1$$

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:

$$\begin{aligned} \overline{R^2} &= 1 - \frac{EES / \{n - Z(k - Z1)\}}{(TSS / (n - Z1))} \\ &= 1 - \frac{\text{error sum square}}{\text{total sum square}} \\ &= 1 - (1 - R^2) \frac{(n - Z1)}{(n - Zk - Z1)} \end{aligned}$$

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

$$t = \frac{\text{estimated regression coefficient}}{\text{respective standard error}}$$

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

If t lies in the critical region (i.e. $t > t_{\alpha}$) 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

$$F = \frac{\text{variance Explained by regression}}{\text{Unexplained variance}}$$

If F is greater than the tabulated value of F at α 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 α level of significance.

CHAPTER IV

TRENDS OF NEPALESE FOREIGN TRADE

4.1 History of Nepalese Foreign Trade

Nepalese trade is as ancient as its history. Geographical constraints of the country have become a barrier to expand her trade with countries other than India and Tibet. Trade activities between India and Nepal pass through different routes. Butwal and Tistung were the main route linking India-Nepal trade (Bajracharya, 2030)

Kautilya'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 the Malla period as they focused on activities such as arts, metal casting, wood and bronze carving, sculpture etc., to be exported to Tibet and India. Araniko helped to swell cultural developments across the east and south-east Asia. King of Kathmandu Pratap Malla and the king of Gorkha, Ram Shah tried to broaden their influence 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.

Trade relations between Nepal and Tibet have also been going since time immemorial. A treaty signed by Nepal and Tibet in 1775, made to close the eastern route way and used Kuti and Kerung including a number of other small routes. Significant growth in Nepal-Tibet trade is attributed to the commercial policy of Malla rulers who played an important role in boosting up the trade. War between Nepal and Tibet had occurred due to various causes but were harmoniously settled. The landlocked geography isolated Nepal from the central 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 to stationing of a Nepalese Bhardar or Vakil (envoy) in Lhasa while Nepalese trade agencies were established at Kuti (Nyalan 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 nations. Landlocked situation, peace and friendship and trade and commerce treaties with India (1950) , open door policy for Nepalese workers and vital trade links the outside world through India strongly influence Nepal's development policies and strategies. 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.

Realizing the fact that foreign trade is an appropriate means of rapid economic development, the country has been giving importance to sustainable development of external sector with the beginning development plans 1956. 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 income comes from

export of commodities. Trade promotion policy was adopted different times but still, reducing the costs of transit and quality production are the major challenge for Nepal to become competitive in the world economy and realize the goal economic and diplomatic diversification. The New economic policy of finance and services has weakened the base of traditional manufacturing that was the base of it's industrial development.

Nepal's trade with overseas countries does not go back into history due to relative backwardness of the economy as well as the political and physical isolation. Before 1951, the foreign trade of Nepal was limited within UK, USA and France. Before the second world war Nepal used to import goods from the countries such as England Japan, Singapore and export her agricultural products like jute.

4.2 Direction of Foreign Trade by Plan Period

Till 1950, Nepal was kept in a state virtually isolation from outside world due to Rana Regime. Following the dawn of democracy in 1950, the country opened door for out side 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 trade 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. Realizing the fact that foreign trade is an appropriate means of rapid economic development, the country has been giving importance to the sustainable development of external sector adopting trade promotion policies in different times. Consequently the volume of trade has been increasing gradually. The country has been completed nine five year plan and on three year plan

over five decades. Now, eleventh three year interim plan is under operation.

The following table shows the direction of trade in terms of market destination which depicts the wide variance in market destination 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 eight plan. It is interesting to note that eight 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 tenth plan which is recorded 63.02%. During sixth plan (1984/85), the share of India in Nepalese export was 64.4%, which went down to 16.2% during eighth plan (1992-97) while the imports from India had gone down from 64.5% to 31% during the same period.

Infact, 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 10th plan period.

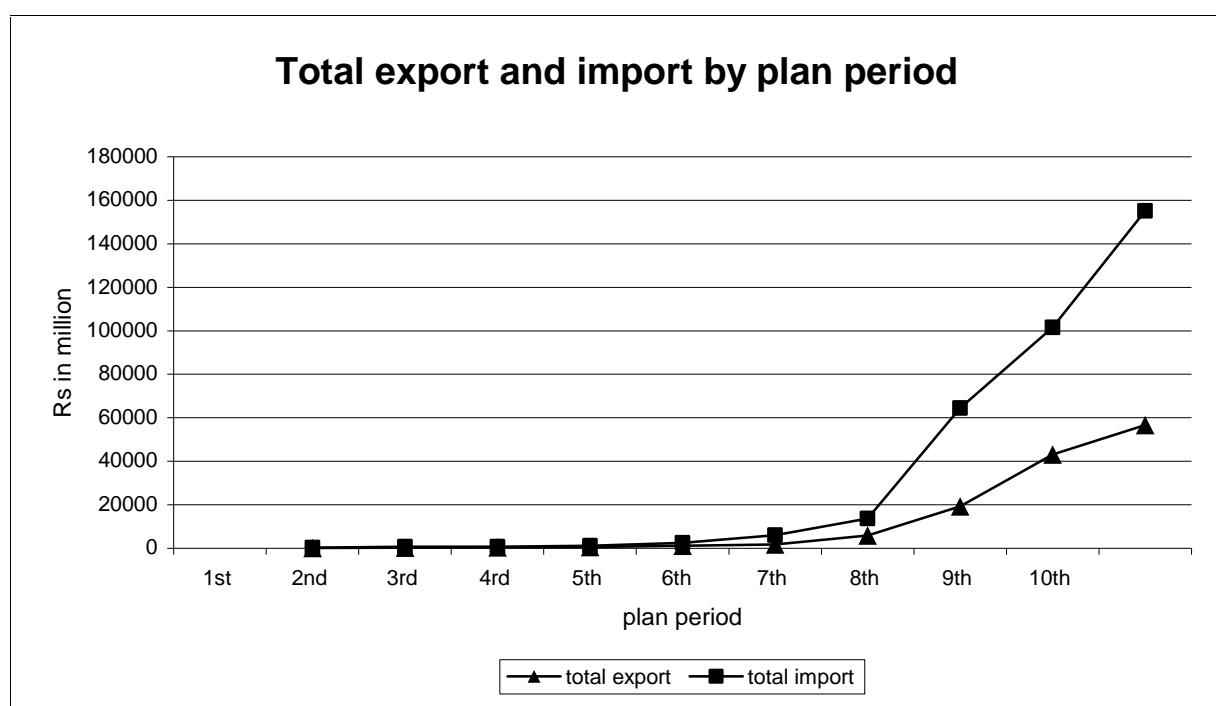
The graphs indicate that export and import is increasing gradually, but since seventh plan volume of import is moving double than volume of export. This is indicating that Nepalese trade deficit is growing up.

Table 4.1

Direction of trade with India and Overseas by Plan Period

plan period	average export (Rs in million)					Average Import (Rs in million)				
	India	%	Others	%	Total	India	%	Other	%	Total
1 st plan (1956-61)	124.2	98.4	1.4	1.6	125.6	235.7	95.6	53.0	4.3	247.4
2 nd plan (1962-65)	334.5	98.5	5.3	1.5	339.8	567.0	98.7	8.9	1.3	675.8
3 rd plan (1965-70)	430.9	95.6	20.2	4.4	471.3	630.7	94.2	39.1	5.8	670.6
4 th plan (1970-75)	483.7	76.7	141.7	23.3	625.4	950.0	86.6	159.8	13.4	1109.8
5 th plan (1975-80)	668.5	57.1	488.3	42.9	1156.8	1494.6	59.4	1070.3	40.6	2564.8
6 th plan (1980-85)	1119.9	64.4	658.9	35.6	1778.7	2782.7	64.5	3203.1	53.5	5985.9
7 th plan (1985-90)	1149.8	25.5	4757.3	74.5	5907.1	4348.3	33.3	9392.5	66.7	13740.8
8 th plan (1992-97)	3212.7	16.2	16130.6	83.8	19343.3	19689.1	31.	44809.7	69.0	64492.8
9 th plan (1997-2002)	19306.4	43.2	23815.8	56.8	43122.3	42086.8	40.8	59533.9	59.2	101620.7
10 th plan (2002-07)	35742.7	63.02	20972	36.98	56715.24	92644.54	59.73	62473.84	40.27	155118.38

Source: Compiled by author from various economic survey and Nepal Rastra Bank,. quarterly economic bulletin



4.3 Trends of Foreign Trade

Nepal initiated steps to institutionalize its trade statistics in the fiscal year 1956/57 with the commencement of its development plan. In 1956/57 Nepal's exports were Rs 95.47 million. It increased to Rs. 53910.7 million in 2003/2004 consequently increased Rs 60.795.8 million in Fy 2006/07. Within a period of half century its total export increased 636 fold. Within the same period the value of imports increased from Rs. 169.89 million to Rs. 191,708 million, Similarly in the same period imports increased 1128 fold.

Within 17 years, table 4.2 shows that our exports value increased by 8 times, at the same time period, import value also increased by 8 times. However, imports value is 3.15 times the exports value. The total trade deficit of Nepal in 1990/91 was Rs. 15839 million. During 17 years period trade deficit increased to Rs. 130913.0 million which is about 2.15 times of export value. The table depicts that there was 32.48 percent, the highest share of export in 2000/01 with the volume of 55654.1 million, whereas the lowest contribution of export is recorded in 1996/97, which was only 19.48 percent. The trend of Nepal's foreign trade during the past few years shows that the encouraging nature. Although the country has been giving more importance to foreign trade (external sector) by adopting various trade reforms/ promotions policies in different times, the value of our trade deficit is yet discouraging.

The factors, which cause deficit trade balance, are:- narrow based of exportable production, high transit and transportation cost, land locked situation, lack of competitive product, unfavourable environment for industrial development due to internal insurgency, lack of sound and effective strategically policies for foreign trade etc.

But the coming up into peace process of Maoist rebel and establishment of Maoist led government shows there will some hope of improvement in Nepalese foreign trade deficit in future.

Table 4.2
Foreign trade of Nepal (1990/91 – 2006/07)

(in million rupees)

Fiscal year	Total export	Total import	Trade balance
1990/91	7387.5(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)	39205.6(69.42)	-32277.4
1993/94	19293.4(27.23)	51570.8(72.77)	-46040.3
1994/95	17639.2(21.69)	63,679.5(78.31)	-54573.4
1995/96	19,881.1(21.08)	74454.5(78.92)	-70916.9
1996/97	22,636.5(19.48)	93553.4(80.52)	-61488.5
1997/98	27513.5(23.61)	89,002.0(76.39)	-51849
1998/99	35676.3(28.96)	87525.3(71.04)	-58682.2
1999/2000	49822.7(31.47)	108504.9(68.53)	-60033.1
2000/01	55654.1(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)	136277.1(71.66)	-73950.6
2004/05	58705.7(28.19)	149473.6(71.81)	-90767.9
2005/06	60234.1(25.74)	1731780.3(74.26)	-113,546.2
2006/07	60795.8(24.08)	191708(75.92)	-130913.0

Source: Economic Survey 2007/08 and Nepal Rastra Bank, Quarterly Economic Bulletin, Mid-January 2008.

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

CHAPTER V

TRADE POLICIES AND REFORMS

5.1 Nepalese Foreign Trade Policies and Reforms

Nepal has been trading with India and Tibet(the autonomous region of China), since the time immemorial. Nepal started to liberalize and diversify it's trade since 1960's and adopted import substitution industrialization (ISI) policy. During this period, trade was more or less free with India and controlled with the rest of the world. Imports particularly from overseas countries were restricted through tariff walls and quantitative restriction. The main objectives of ISI policy was to protect domestic industries from imports, facilitate import of raw materials and intermediate goods required for domestic production by local and export oriented industries, converse adequate level of convertible currency reserves and discourage the deflection of goods to India.

In 1985 Nepal entered into an 18 month standby arrangement with international monetary fund (IMF). The government launched an economic stabilization programme. The Nepali currency was devalued by 14.7% against US Dollar in November 30, 1985.

An import license auction system replaced the system of administrative quotas for imports in July 1986. Initially auctioning for import licenses took place for 88 groups of commodities. Following the successful conclusion of the stand by arrangements, structural adjustment programme (SAP) with the financial support of the IMF and structural adjustment loan (SAL) with World Bank, were implemented in 1987. Under the both programs more commodities were put under the open

general license (OGL). With effect from fully 1993, except for few contraband items, merchandise imports were put under general license system. Elimination of quantitative restriction has been one of the major reforms. The structure of tariffs was rationalized by a general reduction of rate and a reduction in the number of rate slabs. Quantitative restrictions on imports were completely eliminated in a number of steps implemented between February 1992 and July 1993. The number of rate slabs was reduced from more than hundreds in the eighties to five in 1997-98 with the majority of imports being subject to customs tariff rate ranging between 10 percent and 20 percent.

The new trade policy was introduced in 1992 in order to make policy consistent with overall economic reforms. The new trade policy has made trade more or less free. The hydro power sector was opened to private sector and in 1992 trade policy envisages export of hydroelectricity to neighboring countries. The foreign investment and technology transfer act (1992) was enacted by the parliament precisely to attract foreign private capital. This act opens up foreign investment in all areas except for some industries such as defense, cigarettes, bidis and alcohol.

Similarly governments of Nepal and India formally announced the renewal of bilateral trade treaty with effect from March 6, 2007. In the same way October 8, 2007, Bangladesh agreed to allow Nepal to use Rohalpur as new transit route to facilitates bilateral and third country trade. And a comprehensive agreement was also reached with European union in 1999 with the view to promote export of readymade garment and which is extended in 2007 for two years. And also Nepal become the 147th members of WTO on 23rd April 2004. These all are the policies reforms and treaty has make major commitment for economic

liberalization with a view to adopting with view global trends. Similarly the full convertibility, privatization, deregulation, delicensing, export-import liberalization are some of the measure taken in to this direction.

5.2 Policies for encouraging export

The industrial enterprises act (1992) has the provision of refunding the custom duties, if any an excise duty levied upon raw material used by any industry in connection with it's products for export. Industries producing intermediate goods that are utilized in the production of exportable goods are entitled to reimbursement of duties and tax levied on raw materials. Except 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 unauthorized trade signed in 1991 (as amended) to provide good basis for the development and diversification of trade.

5.2.1 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 scoffer while diversifying export from India to overseas countries. This scheme was very profitable for export to overseas due to the provision of bonus system under this scheme, there was significant increment in the export form 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 diversifying Nepal's foreign trade from India to overseas countries and augmenting foreign exchange through 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 exports, 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.

5.2.2 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 form 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.

5.3. Exchange Convertibility System

From the early 80's the global economic and political situation has been changed. Nepal has not been exception to this development. Nepal

adopted stabilization programme in December 1985, especially to adjusting the internal and external imbalance of the economy.

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

5.4 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 provision:

- 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.
- Export 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.

5.5 Indo-Nepal treaty of trade and transit

Indo-Nepal Treaty of Trade 1996

With the expiry of trade treaty 1991, refined 1996 trade treaty was signed and it 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 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 government of two countries agreed to have open sky policy.
- The government of India opened the transit route to Bangladesh through Phulbari.
- Nepal government amended it's 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.

This treaty had made some contribution in commodity diversification. Prior to this treaty, a few traditional items such as raw jute, jute goods, pulses, ginger, oil cakes etc. were exported to India. Now a few new items were added to Nepalese export basket to India, they are:- Vanaspati Ghee, yarn, copperware, tooth paste, soap, noodles, handicraft goods etc.

Treaty of trade 2007

With the expiry of trade treaty 1996 and renewal treaty 2002, government of Nepal and India formally announced the renewal of bilateral trade treaty with effect from March 6, 2007 for another five years.

The salient features of this treaty can be written as:-

- With the renewal, Nepalese manufactured goods, except three items in the negative list and four items with quantitative restrictions, would continue to enjoy unlimited duty-free market access in India without Nepal needing to reciprocate the facility.
- The agriculture exports would also enjoy duty-free market access in India albeit with a provision of reciprocity. This means that Indian agricultural products would also continue to enjoy duty free market access in Nepal.

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 operationalized from 1 September 1997. Nepalese request to keep the route there are 22 land border point 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 calculate-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 includes the following

- India allows freedom of transit for Nepalese third-country trade across it's 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.
- Tariff in transit is exempted from customs duty and from all transit duties or other charges, except charges for transit portation 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.

5.6 Trade Policy in the Interim Plan in Interim Plan (2007/08-2009/10)

Interim plan have the long term vision by increasing the trade of goods and services with deep forward and backward linkages

Objectives

- To help alleviate poverty by ensuring that the benefits from trade reaches the people through the maximum use of local physical and human resource.
- To mobilize trade to achieve the goal of economic development through the development and promotion of goods with competitive advantages and identifying areas of comparative advantages with the private sector involvement.
- To reform and develop commercial, physical and institutional infrastructure in order to take the maximum advantage arising out of the change in the bilateral, regional and multilateral trade and transit system.

Strategies

- To make the supply side strong by increasing production and productivity.
- To adopt the measure for increasing market access and export promotion.
- To carry out trade facilitation services.
- To develop competent human resources in the trade sector in additional to institutional reforms.

Since the implementation of different policies measure, the expected result has not been achieved so far. Unless and until there is adequate development in infrastructure utilization of locally available natural resources, attaining of comparative advantage on the production and expansion of trade in not possible.

CHAPTER VI

STRUCTURE OF NEPALESE FOREIGN TRADE

6.1 Direction of Nepalese Foreign Trade

The study of direction of trade is important because it indicates a country's international relation, facilities for trade and linking of nations. In the context of Nepal, direction of trade is important to show whether its trade is diversified or limited to a few regions.

The following table and graph shows the Nepalese trend of trade with India and overseas countries. The table shows the Nepalese total foreign trade of volume has been increasing form period of 1990 to 2007 excepting in 2001/2002. The volume of trade was 30614 million in 1990/91 which has increased by 8 fold and approached to 252503.8 million in 2006/07.

The trade volume with India was Rs 8875.3 million in 1990/91 which has increased and approached to Rs. 159615.2 million in 2006/07. The trade volume with India is increasing and increasing within the study period and it is in increasing trend. But the Nepalese trade volume with overseas countries was Rs 21738.7 million in 1990/91 and increased, approached to Rs. 100100.2 million in 2000/2001. And it started to declined till 2004/05 and again started to increase thereby.

By the observation of table the 6.1 trade volume with India has increased by 18 fold but with overseas countries, it has only increased by 5 fold. From 1991/91 to 2000/01 the share of total trade volume with overseas countries was higher than India, but from 2000/01 to 2006/07 the stare of trade volume with India has been increasing and higher than overseas countries. It shows that Nepalese trade did not has able to

diversified because the significant volume of trade was seems only with India. Therefore we need to diversify our foreign trade with overseas and other country for our economic advancement.

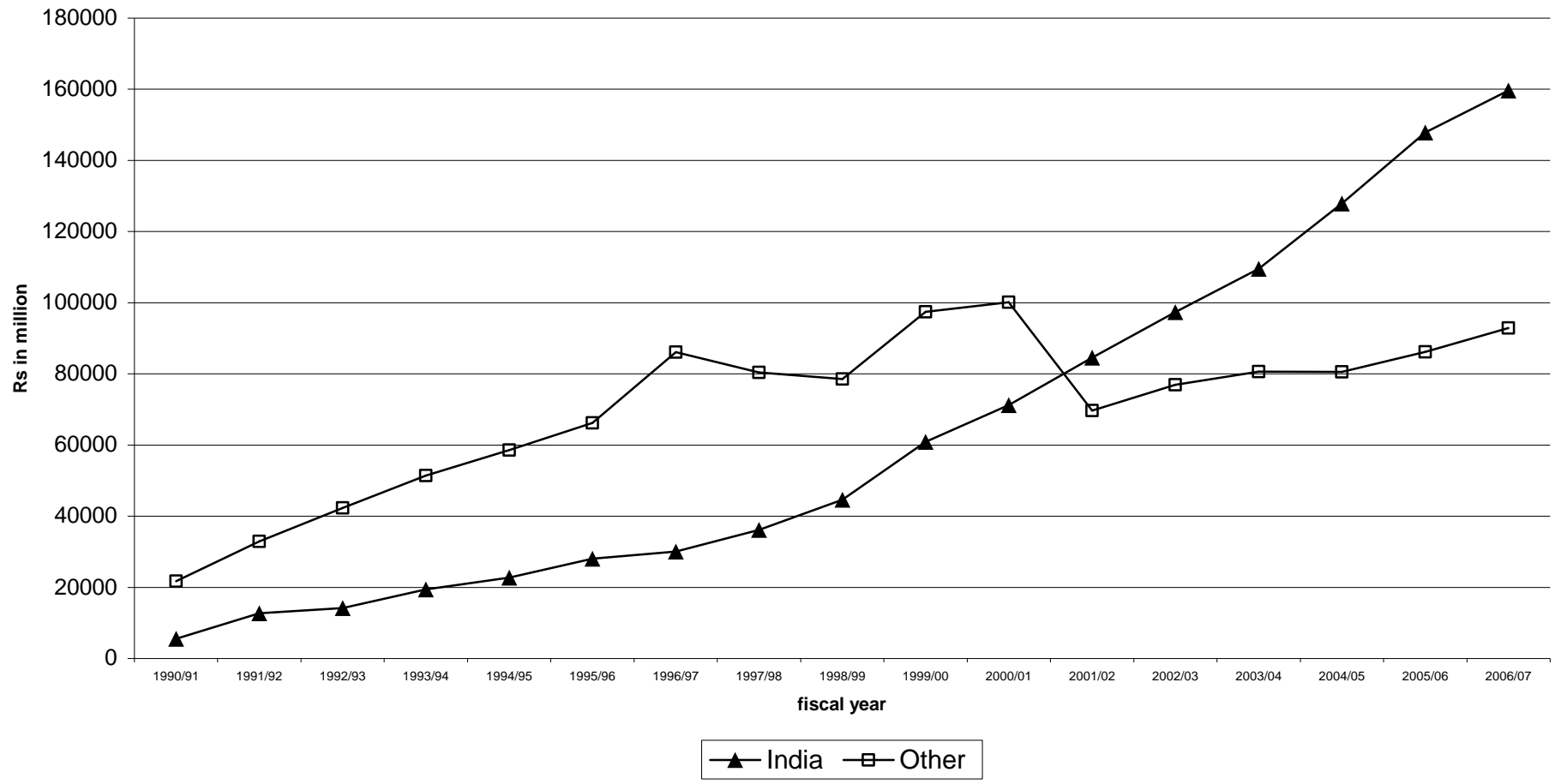
Table 6.1
Direction of Foreign Trade

Rs in Million

Year	India	Other	Total
1990/91	5587.3	21738.7	30614
1991/92	12695.5	32951	45646.5
1992/93	14163.8	42308.3	56472.1
1993/94	19444.3	51419.9	70864.2
1994/95	22740.2	58578.5	81318.7
1995/96	28081.2	66254.4	94335.6
1996/97	30079.5	86110.4	116189.9
1997/98	36125.4	80390.1	116515.5
1998/99	44650.4	78551.2	123201.6
1999/00	60880.8	97446.8	158327.6
2000/01	71241.2	100100.2	1713441.3
2001/02	84578.3	69705.4	154283.7
2002/03	97354.2	76928.5	174282.7
2003/04	109516.6	80671.2	190187.8
2004/05	127892.4	80586.9	208179.3
2005/06	147857.8	86156.6	234014.4
2006/07	159615.2	92915.6	252503.8

Source: Nepal Rastra Bank, Quarterly economic bulletin mid- January 2008.

Volume/direction of foreign trade with India and others



Structure of Nepalese Foreign Trade

6.2 Trade with India

Table 6.2 shows that though the value of export is in increasing trend, the trade deficit with India is quite discouraging which increment is about 5 times during the study period. There is tremendous increment on value of import too. During 17 year period, there is 18 fold increments on total value of trade with India. The share of export to total trade with India seems decreasing trends from the starting of study period i.e. in 1990/91 to 1996/96. 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 hyperjumped and approached to 73.8 percent share on total export trade. Which again declined on succeeding period but it again increased from 2003/04 to final year of study. Which have occupied about 69 percent in total export.

Consequent time period, the total value of import with India increased about 16 fold. Total value of import with India was Rs 7323.1 million in 1990/91. It approached to Rs 117740.74 million in 2006/07. 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 and approached to 72 percent. Then it started to decline with two succeeding fiscal years. But the share is not less than 50%. In 2006/07 share of import with India is accounted 61.42 %.

The graph also shows that the export and import with India both are in increasing trend. But the increment of share of import is much higher than export share during the study period. And it shows that the trade deficit with India is going wider and wider.

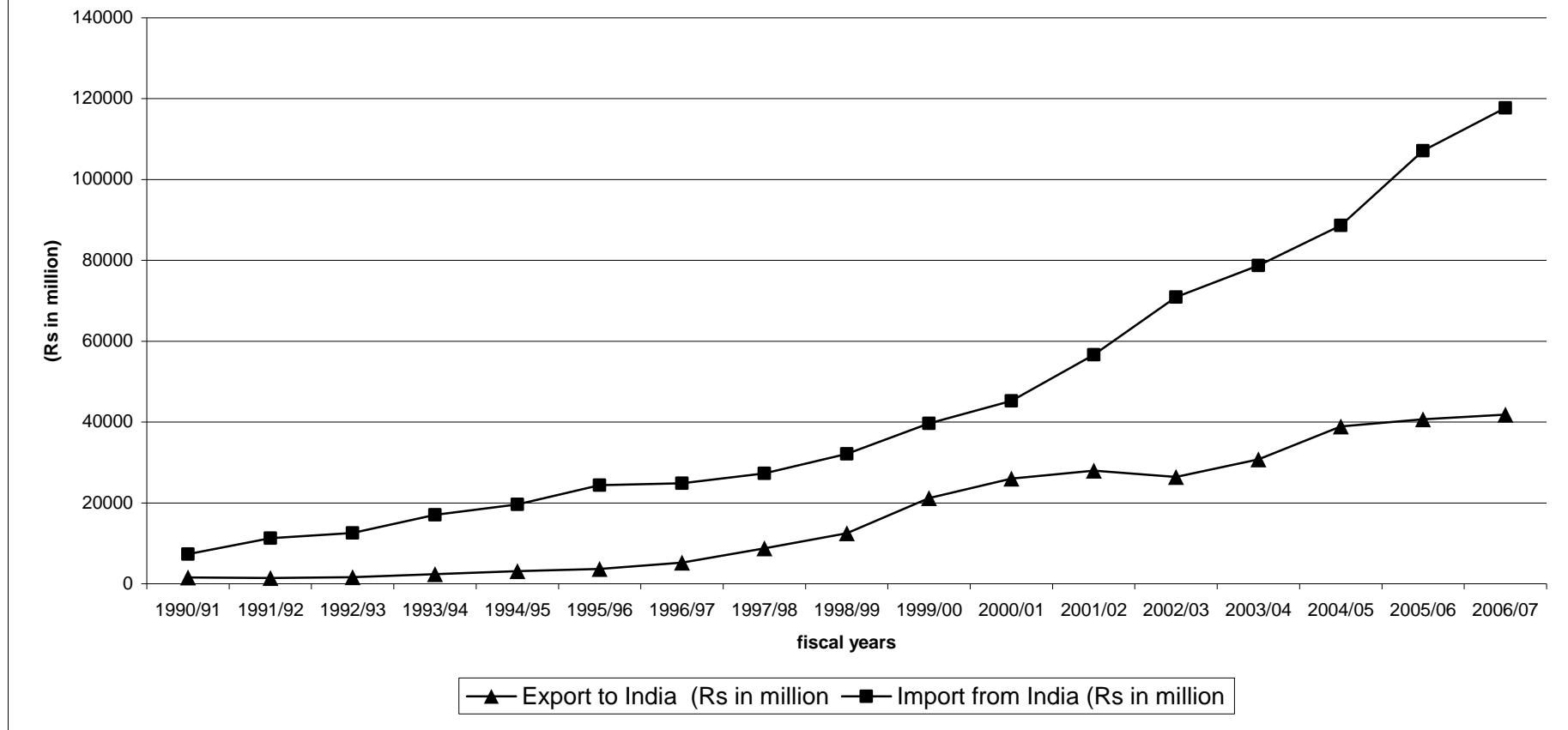
Table 6.2
Nepal's Trade with India (1990/91– 2006/07)

Fiscal year	Export (Rs in million)	Import (Rs in million)	Trade balance Rs in million	% share on total export	% share in total in import	Export as a % of import
1990/91	1552.2	7323.1	-5770.9	21.0	31.5	21.2
1991/92	1450.0	11245.5	-9795.5	10.6	35.2	12.9
1992/93	1621.7	12542.1	-10920.4	9.4	32.0	12.9
1993/94	2408.9	17035.4	-14626.5	12.5	33.0	14.1
1994/95	3124.3	19615.9	-16491.6	17.7	30.8	15.9
1995/96	3682.6	24398.6	-20716.0	18.5	32.8	15.0
1996/97	5226.2	24853.3	-19627.1	23.1	26.6	21.0
1997/98	8794.4	27331.0	-18536.6	32.0	30.7	32.2
1998/99	12530.7	32119.7	-19589.0	35.1	36.7	39.0
1999/00	21220.7	39660.1	-18439.4	42.6	36.5	53.5
2000/01	26030.2	45211.0	-19180.8	46.8	39.1	57.6
2001/02	27956.2	56622.1	-28665.9	73.8	72.0	49.4
2002/03	26430.0	70924.2	-44494.2	52.9	57.0	37.3
2003/04	30777.1	78739.5	-47962.4	57.1	57.8	39.1
2004/05	38916.9	88675.5	-49758.6	66.29	59.32	43.9
2005/06	40714.7	107143.1	-66428.4	67.6	61.65	38.0
2006/07	41874.8	117740.4	-75865.6	68.87	61.42	35.56

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid January, 2008, Economic Survey 2007/08

Note: Percentage share in total export and percentage share in total import are calculated value from table 4.2.

Nepalese trade direction: Export and import with India



6.3 Trade with Overseas

Table 6.3 shows that during the study period 1990-2007, there is 3.25 fold increment in total value of export. On the import side total value is increased 4.6 fold. There is almost balanced increment on both export and import value of overseas trade. Trade deficit in 2006/07 has increased about 5.4 times more than the starting period of study i.e. 1990/91. In addition, trade deficit with overseas countries has been increasing trend from 1992/93 and approached to climax in 1996/97. Then it started to decline for succeeding periods till 2002/03 and again started to increase slightly form 2003/04 and approached to Rs 55047.4 million in 2006.07.

The percentage share of overseas trade to total export is accounted highest 90.6 percent in 1992/93 and the lowest is recorded 26.2 percent in 2001/02. It has been occurring very much fluctuate tendencies. From 1992/93 till 2001/02. The percentage share of export became peak to bottom with gradual decreasing trend. Though the succeeding 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 favour of overseas countries.

On the import side there is not much fluctuation since 1990/91 till 2000/01. It was around 65% contribution of overseas import to total trade. But there was drastic decline of it's share in 2001/02 which is accounted 28 percent. Then again it took positive direction in three succeeding periods. In the final year of study period there was 38.58% share of overseas import.

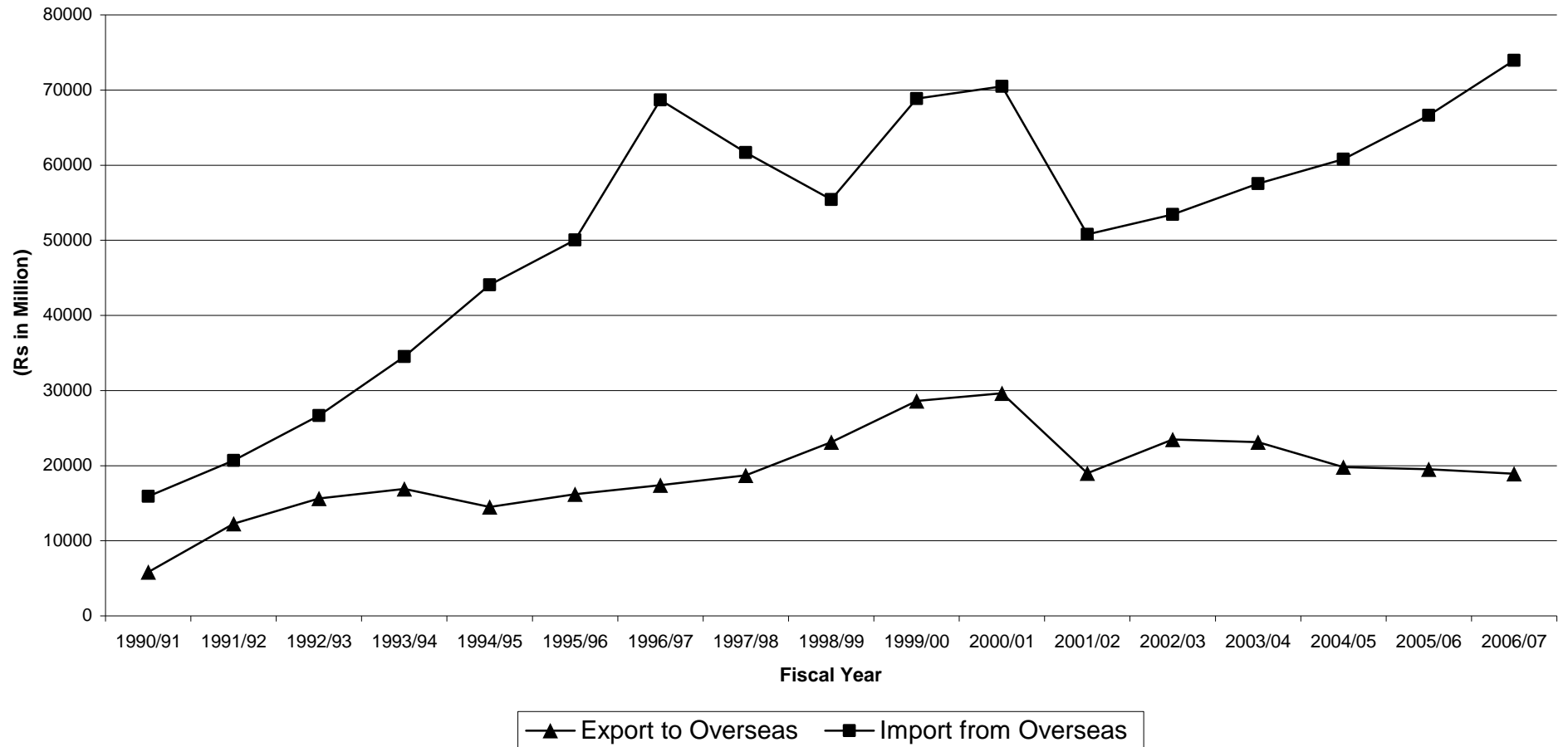
Table 6.3**Nepal's Trade with overseas countries (1990/91– 2006/07)**

Fiscal year	Export (Rs in million)	Import (Rs in million)	Trade balance (Rs in million)	% share on total export	% share in total import	Export as a % of import
1990/91	5835.3	15903.4	-10068.1	79	68.5	36.5
1991/92	12256.5	20694.5	-8438.0	89.4	54.8	59.2
1992/93	15644.8	26663.5	-11018.7	90.6	68.0	58.7
1993/94	16888.5	34535.4	-17650.9	87.5	67.0	48.9
1994/95	14514.9	44063.6	-29548.7	82.3	69.2	32.9
1995/96	16198.5	50055.9	-33857.4	81.5	67.2	32.4
1996/97	17400.3	68700.1	-51289.8	76.9	73.4	25.3
1997/98	18719.1	61671.0	-42951.9	68.0	69.3	30.3
1998/99	23145.6	55405.6	-32260.0	64.9	63.3	41.8
1999/00	28602.0	68844.8	-40242.8	57.4	63.5	41.5
2000/01	29623.9	70476.2	-40852.3	53.2	60.9	42.0
2001/02	18988.6	50776.9	-31778.3	26.2	28.0	37.4
2002/03	23500.6	53427.9	-29927.3	47.1	43.0	44.0
2003/04	23133.6	57537.6	-34404.0	42.9	42.2	40.2
2004/05	19788.8	60798.1	-41009.3	33.7	40.7	32.5
2005/06	19519.4	66637.2	-47117.8	32.4	38.35	29.3
2006/07	18921.0	73968.4	-55047.4	31.13	38.58	25.58

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid January, 2008, Economic Survey 2007/08.

Note: Percentage share in total export and percentage share in total import are calculated value from table 4.2.

Nepalese trade direcion: Export and import with oversees counries



6.4 Composition of foreign trade

Composition of foreign trade shows the level of development of country Nepalese export commodity composition has little diversified that import commodity composition. Here goes the composition of Nepalese foreign trade analysis on the basis of standard international trade classification (SITC), the system used to classify international visible trade. The main sections are denoted by single digits, more detailed classification are denoted by further digit, down to five digit level. Similarly a brief account of dominant commodities on particular.

6.4.1 Composition of Nepalese Export

According to S.R. Poudyal's SITC classification. The following table 6.4 and 6.5 shows the composition of Nepalese export accordingly manufacture goods and primary commodities. Through 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, indices except fuels
3	=	Mineral, fuels and lubricants
4	=	Animal and vegetable oil and facts
5	=	Chemical and Drugs
6	=	Manufacture Good Classified Manly by Materials
7	=	Machinery and Transport Equipment
8	=	Miscellaneous Manufactured Articles
9	=	Commodity and transaction not classified according to kind.

Table 6.4 shows that during the study period 1990-2007 manufactured goods (SITC 3,5,6,8,9) i.e. five items has been playing dominant role in Nepalese export which has been constant tendency during the study period on an average around more than 80% 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 has also another leading item. In 1993/94 the share of manufactured products covered highest i.e. more than 90% . .

Table 6.4
Composition of Nepal's export classified by major SITC
manufacture goods group (1990/91-2006/07)

Rs in Million

Fy	Export and SITC Manufacture Goods Group						
	3	5	6	8	9	Total	% share in 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	640.3	10456	5772.2	0.0	16866.9	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
2005/06	3.2	3686.9	28533.6	14081.6	2.5	46307.2	76.88
2006/07	0.0	4071.7	31062.1	10929.0	0.0	46062.8	75.76
Average							80.63

Source: Economy Survey, 2007/08

On the primary goods side, table 6.5 shows that during the same time frame on an average at around 18.79% share has occupied by primary goods export. Food and crude materials (SITS-0 and 4) appeared to be the main commodity group and it showed a continuous increasing tendency in the preceding year. (SITC-1) have lowest contribution not more than 1 percent share on export. The share of primary goods (SITC 0,1,2,4) was RS, 1510.9 million (20.50%) in 1990/91 and it reached to Rs 13492.1 million (22.19) in 2006/07.

Table 6.5
Composition of Nepalese export Classified by Major SITC Primary Goods Group (1990/91-2006/07)

Rs in million

Fy	Export and SITC Primary Commodity Goods Group					
	0	1	2	4	Total	% share in total explore
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	495.5	214.1	2273.6	12.9
1995/96	1964.6	9.7	768.7	251.3	2976.3	15.0
1996/97	2661.7	14.9	663.5	312.6	3552.7	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	2440.4	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	6776.9	55.2	714.3	3375.7	10422.2	19.3
2004/05	6993.5	31.6	881.6	507.3	12977.0	22.1
2005/06	7192.0	25.0	123.4	4284.6	12725	21.22
2006/07	7547.6	26.0	1376.2	4542.3	13492.1	22.19
Average						18.79

Source: as Per as Table 6.4

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.

6.4.2 Composition of Nepalese Import

The pattern of commodities compositions considers an important issue of Nepalese trade structure. The following table 6.6 and 6.7 shows the share of manufacturing goods and primary goods according to SITC classification.

During the 17 years study period, table 6.6 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 other items. However, since the last five years of study period, SITC (3 and 6) has been playing dominant one. Import of minerals, fuel and lubricants (SITC 3) remained continuously increasing items on all the succeeding periods which was Rs 2278.3 million in 1990/91, it approached double in four years period i.e. Rs 4837.0 million in 1993/94. Except in 1994/95 and 1998/99, there was gradual increment of this item (SITC 3). It covered Rs. 36346.5 million in 2006/07. Similarly SITC 5 has also gradual incremental value which was Rs. 3051.1 million in 1990/91, which approached to Rs 25956.5 million in 2006/07. The volume of manufacture goods classified by materials

(SITC 6) increased gradually till 1996/97 with Rs 44741.9 million. However, its share started to decline with ups and down on succeeding years. It covered Rs 47544.6 million in 2006/07.

Table 6.6
Composition of Nepalese Import Classified by Major SITC
manufacture Goods Group (1990/91-2006/07)

Rs In million

Fy	Import and SITC Manufacture Goods Group						
	3	5	6	8	9	Total	% share in total Import
1990/91	2278.3	3051.5	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	5539.3	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	57336.8	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	1553.8	81817.1	60.0
2004/05	29927.3	19179.7	37047.4	7551.8	1445.7	95151.9	63.7
2005/06	36447.0	24750.2	40600.5	10415.8	150.8	112366.3	64.6
2006/07	36346.5	25956.5	47544.6	11152.7	258.3	121258.6	63.2
Average							61.61

Source: as per as table 6.4

On the primary goods side, table 6.7 shows that during the 17 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 34861.6 million in 206/07. 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 1990/00 climbed at peak of 10 years with volume Rs 108639 million and it approached 13079 3 million in 2006/07. Animal and vegetable oil and fats (SITC 4) have an increasing tendency on succeeding years except in 1996/97 and 1997/98.

Table 6.7
Composition of Nepalese Import Classified by Major SITC Primary Goods Group (1990/91-2006/07)

Rs In million

Fy	Import and SITC Primary Commodity Goods Group					
	0	1	2	4	Total	% share in total export
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	439.3	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
2005/06	13298.7	1161.8	10562.3	10196.6	35219.4	20.3
2006/07	13079.3	1136.9	9707.8	10937.6	34861.6	18.2
Average						19.3

Source: as per as table 6.4

6.5 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 principle for terms of trade (TOT) is:

$TOT > 100$ implies that the performance of the nations export is favorable compared to it's import.

$TOT < 100$ implies that the performance of the nations exports is unfavorable compared to it's 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 1990-2007 taking 1974-75 as base year i.e. assuming that total export and import value of 1974/75 is 100. Here the question may arise as to why it has 1974/75 been selected as a base year. The basic ground for selecting 1974/75 as the base year is that the actual efforts for Nepalese trade diversification was made since 1971 and it's effects in Nepal was seen after 1974/75 and data are available since 1974/75 only. Where the value of export and import of base year was Rs. 889.6 million and Rs. 1814.6 million respectively.

Table 6.8
Nepal's Terms of Trade
(Base Year (1974/75=100))

Fiscal year	Price index of export (PX)	Price index of import (PM)	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	6357.4	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
2005/06	6770.92	9576.8	70.7
2006/07	6834.1	10564.8	64.6
Average			75.6

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid January, 2008, Economic Survey 2007/08.

Nepal's terms of trade

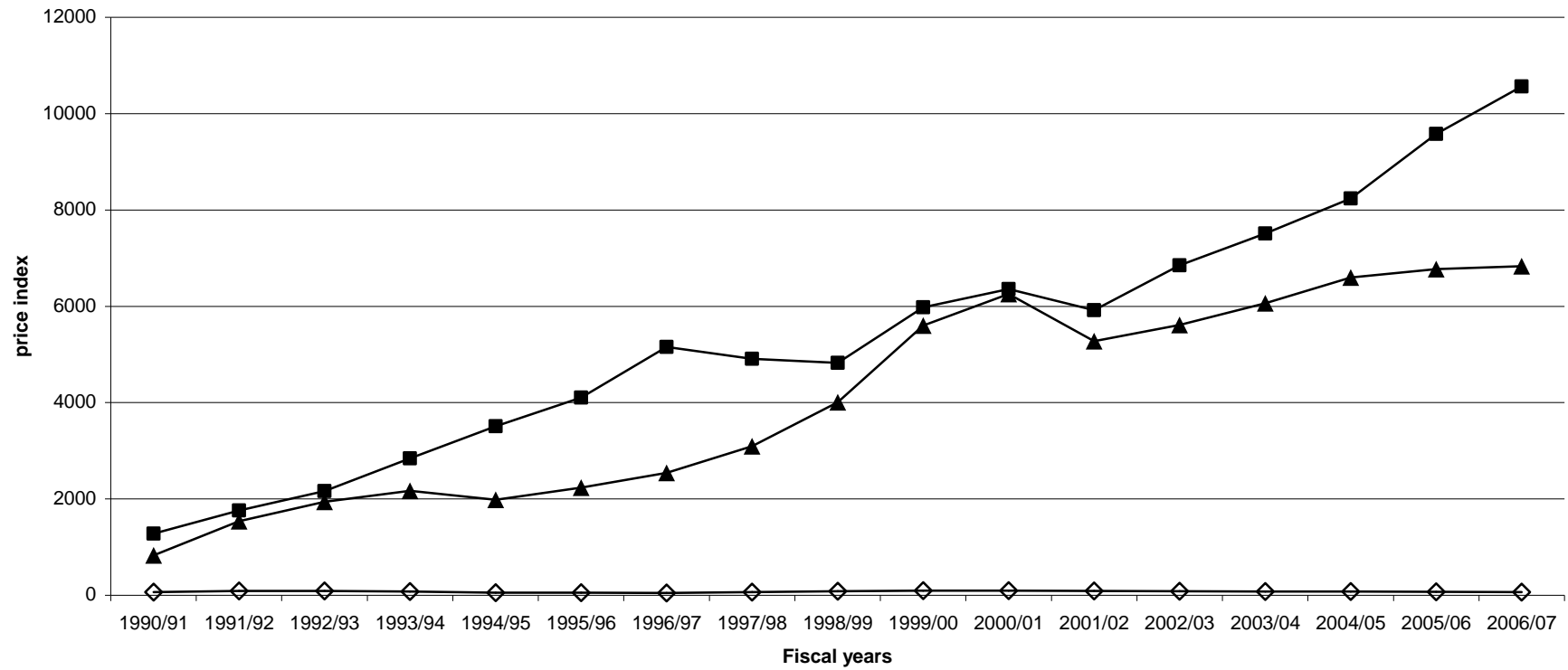


Table 6.8 and figure shows that the terms of trade of Nepal is not favourable. During the study period 1990-2007, the terms of trade of Nepal is found on an average 75.6 i.e. below 100. Starting two fiscal years show that the terms of trade is improving. While during 1993/94 to 1996/97 the terms of trade was in negative direction. Within these years, there was a fluctuation in terms of trade. This is because of a smooth growth of import price than export price. After that period, the terms of trade improved 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. And after that the trend of TOT is declining during the study period. 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 not satisfactory trend in the economy.

6.5.1 Nepal's terms of trade with India

Table 6.9 shows that during the 17-year study periods Nepal's terms of trade with India on an average is found 62.73, 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 come back below 100 upto 2007. This situation clearly indicates that Nepal's export performance with India is better than import in mid period. Nepal has been losing it's 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.

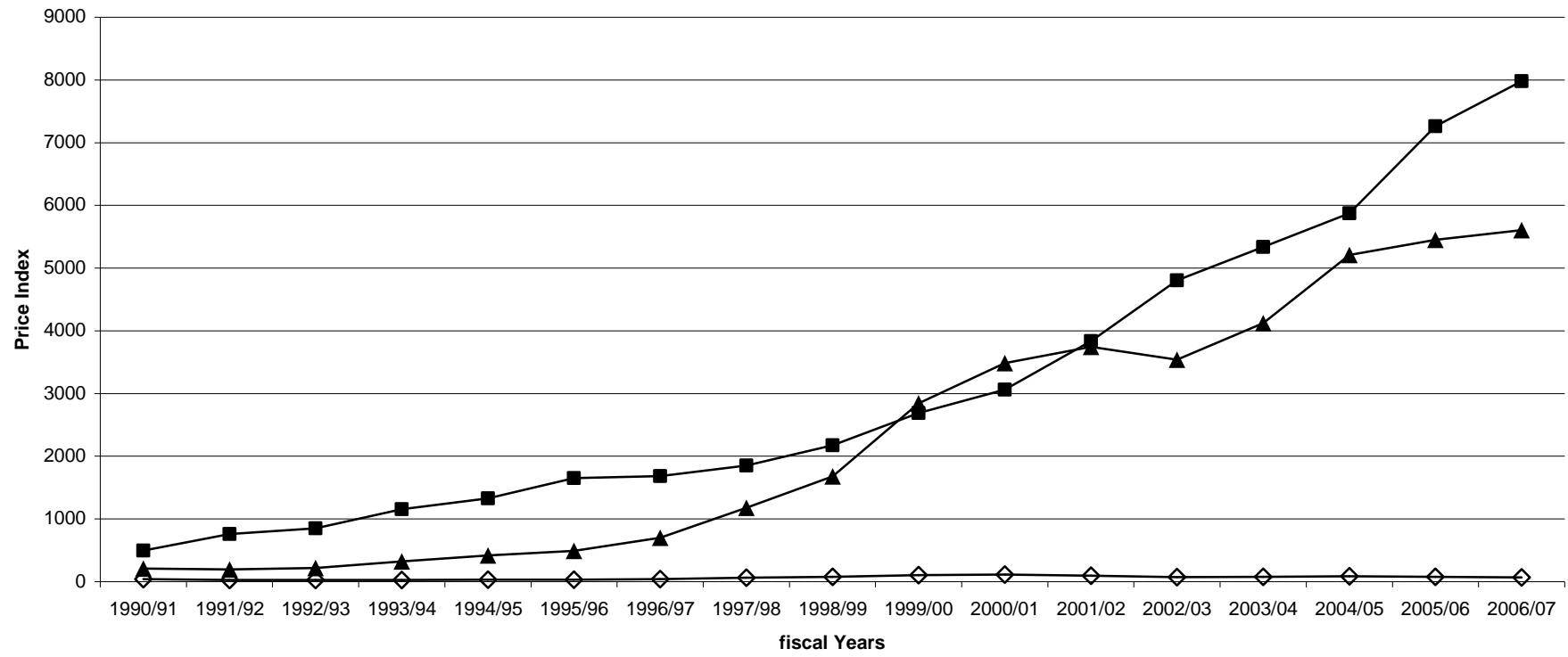
Table 6.9
Terms of trade with India (1990/91-2006/07)

(Base Year: 1974/75=100)

Fiscal year	Price Index of Export (Px)	Price Index of Import (Pm)	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	25.5
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
2005/06	5452.6	7260.5	75.1
2006/07	5607.9	7978.6	70.3
Average			62.73

Source: as per table 6.8

Terms fo trade with India



▲ Price index of export (PX) ■ Price index of import (PM) ◇ Terms of trade (TOT)

6.5.2 Nepal's terms of trade with overseas countries

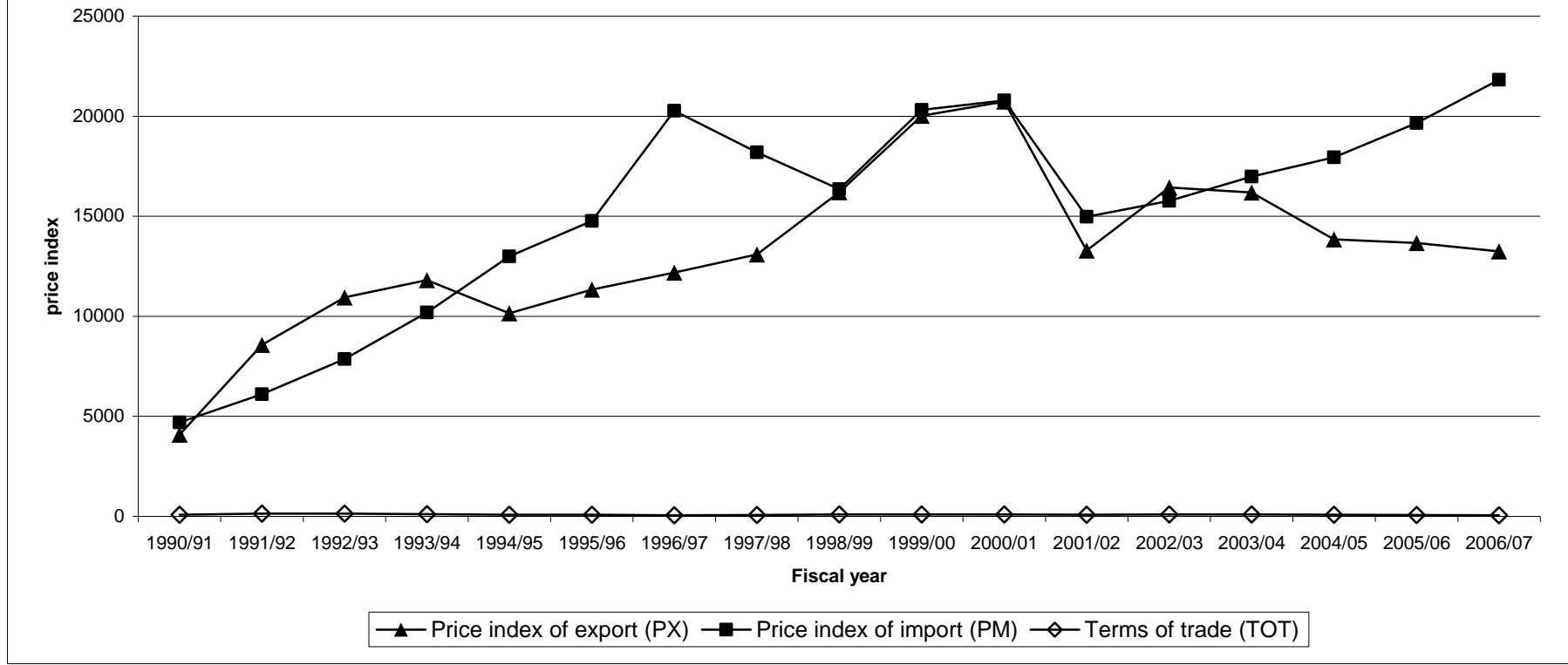
Table 6.10 shows that the terms of trade with overseas countries have a fluctuation movement, some ups and down within the study period 1990-2007. However, on an average TOT seems so satisfactory which is near to 100 i.e. 95.5 in 1990/91, the terms of trade with overseas countries was below 100. But three succeeding years till 1993/94, TOT with overseas countries 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 previous 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 6.10
Terms of Trade with Overseas Countries (1990/91-2006/07)
(Base Year: 1974/75 =100)

Fiscal year	Price Index of Export (Px)	Price Index of Import (Pm)	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	20272.5	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
2005/06	13659.5	19662.8	69.5
2006/07	13240.7	21826.0	60.7
Average			91.9

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid January, 2008, Economic Survey 2007/08.

terms of trade with overseas



6.6 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 6.11 shows that share of export to GDP is fluctuating ups and down with minimum 6 percent to maximum about 14 percent. Export/GDP ratio with India on an average is 3.9 percent which was lowest share on 1990-1997. After on wards, the share of export to India improved and remained around 6% till 2003/04. In 2004/05 it approached to 6.9% which was the highest share during the period. It again declined and approached to 6% in 2006/07. On the other side export/GDP ratio with overseas countries seems more, which is on an average during the study period, is observed 6.1%. It occupied about 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 4 years, overseas export contribution on GDP is slowing down which is less than the India's share on export/GDP. Table 6.11 shows that Nepal have minimum share of export on GDP. On an average the share of export to GDP is 10.1 percent.

Table 6.11
Share of Export on Gross Domestic Product (1990/91-2006/07)

(Rs in million)

Fiscal year	GDP	Export	Export/GDP	Ei/GDP	Eo/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	566578	58705.7	10.36	6.9	3.5
2005/06	630300	60243.1	9.55	6.2	3.1
2006/07	696989	60795.8	8.72	6.0	2.7
Average			10.1	3.9	6.1

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid January, 2008.

Note: Export/GDP is calculated value from table 4.2 Ei/GDP and Eo/GDP are the calculated value from table 6.2 and 6.3 respectively.

Ei=/GDP = export to India/ GDP ratio

Eo/GDP = export to overseas/GDP ratio.

6.7 Determinants of Nepalese Trade

We have estimated the linear equations to determine the contribution of exports. Total volume of export indifferent time period 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 – 2006/07 (appendix-1). The fitted equations are based on constant data. No attempt has been made to correct the problems of serial correlation. In all statistical analysis, figure is parentheses below the coefficient for independent variables indicted respective t-values. All the statistical values are computed from computer Via SPSS programmer. All of variables name, labels are as following.

Variable Name and Variable Label

Variable	Level
T	Time
GDP	Nominal gross domestic product
GDPAG	Nominal agriculture gross domestic product
GDPANAG	Nominal non-agriculture gross domestic product
X _t	total value of exports
M _t	total value of imports
X _{t-1}	one period lag exports
Eq ⁿ	Equation
Dep	dependent variable
a ₀	constant
a ₁	coefficient of first independent variable
a ₂	coefficient of second independent variable

Simple liner models for exports in matrix form

Eq ⁿ	Dep. Variable	Constants	Independent Variables				R ²	\bar{R}^2	F
			GDP	GDPAG	GDPNAG	Xt-1			
1	Xt	306.143	0.103 (10.448)				0.879	0.871	109.68
2	Xt	-12080.819		0.706 (2.00)	0.227 (1.174)		0.901	0.887	63.646
3	Xt	3861.350	0.024 (1.251)			0.732 (4.309)	0.948	0.941	127.796

$$\text{Eq}^n 1: X_t = a_0 + a_1 \text{GDP}$$

$$\text{Eq}^n 2: X_t = a_0 + a_1 \text{GDPAG} + a_2 \text{GDPNAG}$$

$$\text{Eq}^n 3: X_t = a_0 + a_1 \text{GDP} + a_2 x_{t-1}$$

First equation shows that there is significant relationship between total foreign export (xt) and GDP. The fitted equation is a good fit with $R^2 = 0.879$ which indicates that 87% of variation in foreign export (xt) are explained by independent variable GDP. The F value is also significant at the level of 5 percent as indicating that there is strong association ship of variables in question. On an average Nepalese economy's one million of GDP is capable of generating additional export income worth Rs. 0.103 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 are not significant at 5% level of significance, as indicted by it's lower t-value i.e. less than $t_{0.05} = 2.145$. However the equation it self a best fit, with adj $R^2 = 88.7\%$ of total variation in dependent variable (export) is being explained by the

independent variables (GDPAG and GDPANG) respectively. However, larger F value is indicating that there is strong association ship of variable in question.

Equation 3 shows that there is again direct relationship between export with GDP and one period lag export volume. Although it's the best fit with adj. $R^2 = 0.941$. That is 94.1% of total variation in dependent variables is explained by independent variables, the independent variable GDP having lower t-value indicating that there is no significant relationship between independent variable. It indicates that on GDP is lower affects on export than one period export. 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 higher effectiveness in the economy. Whereas, there is higher effects of agricultural GDP to expand export in comparison to non-agricultural GDP.

Simple Regression Models for Determinant of Imports

By observing the relationship between total import and gross domestic product. We have the following finding where the equation is

$$\text{Eq}^n \text{ 4: } M_t = a_0 + a_1 \text{ GDP}$$

$$R^2 = 0.024, \text{ adj. } R^2 = -0.41, F \text{ 0.372, } t_{a_1} = 0.712, \text{ constant} = 65401.658, a_1 = 0.145$$

In this equation, we can see that there is positive but very insignificant relation between import and GDP. According to R^2 , 2.4% of total variation of import is explained by GDP. The relationship between

import and GDP is insignificant as indicated by respective t-value with $0.712 < t_{0.05} = 2.145$. The lower f-values is depicting that there is very weak association of variable in question. And also $\text{adj. } R^2 = 0.41$ i.e. this shows that GDP is not capable to explain the import. Although the GDP growth in Nepal has been not much increasing since the past period but the import growth rate has been increasing so fast. This is due to increment in national income, which is composed of (GDP + net foreign income from abroad). This shows that the import is much affected by (remittance, pensions, foreign grants) not by GDP, specially in Nepalese case.

CHAPTER VII

SUMMARY, CONCLUSION AND RECOMMENDATION

7.1 SUMMARY

The 17 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 summaries the picture of Nepalese trade situation, export diversification and policy measured and outcomes of Nepalese government in brief.

Observing over the various plan periods, the total export has approached from Rs. 628.1 million in first plan to about 450 times i.e. Rs. 283575.5 million in tenth plans. Total import has steady growth in subsequent plan.

During the study period, export value increased by 8 times, while import value increased by 7.5 times only. However, imports value is 3.15 times the export value. The total trade deficit of Nepal in 1990 was Rs. 15839 million which increased to Rs. 130913 million in 2006/07. Although the trend of Nepalese foreign trade during the part few years is encouraging, the value of our trade deficit yet discouraging.

Government of Nepal has adopted exporters exchange 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 exchanged 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. The three year interim plan is under execution having the strategies of emphasis on increasing market access, export promotion and institutional capacity building.

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 liberalize procedures of the transit of the Nepalese goods. Within 17 year period, there is 18 fold increment on total value of trade with India. The share of export to total trade with India seems decreasing trends from the starting of study period till FY 1995/96. However the share of export took positive direction approach to 73 percent in 2001/02 which again declined on succeeding period. But in the final year the share to India has occupied about 68.6 percent. At the same time period the total value of import with India increased about 16 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%. However in 2001/02 the share of import has tremendously increased and 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 have maintained it's 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 stage there was deep domination of trade with India. Now, Nepalese trade direction is diversified from India to overseas countries except 2-3 years of the internal political conflict. 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 import price than export price. Destination wise terms of trade with India was less than overseas countries during 1990-1998. The terms of trade with overseas countries has much more improved and favourable during 1991-993. During 1999-2001, terms of trade with India was more favourable than overseas countries.

During the study period, the share of export on GDP is found on an average 10.1 percent. However, there is domination of share of overseas trade on GDP. The fitted equation are depicting that for the economy in comparison to agriculture and non agriculture GDP, the one period lag export has higher effectiveness. There is higher effect of agriculture GDP to expand export in comparison to non-agricultural

GDP. When we include one more variable i.e. one period lag export in equation with GDP. The effectiveness of GDP in export is lower than x_{t-1} (one period lag export). Similarly, there is positive but insignificant relationship between import and GDP.

7.2 CONCLUSION

Nepalese foreign trade plays crucial role to make economic strength and prosperity of nation. Nepal has been suffering from vicious circle of poverty, economic backwardness and low level equilibrium trap. 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 only about 13%. But the export trade has been worsening rather than improving. However, Nepalese trade has some opportunities too.

7.2.1 Opportunities of Nepalese Foreign Trade

Political consistency is essential factor to do something on the area of export promotion. Establishment of peace process, constituent assembly election and Maoists led government which will facilitate economic growth and will make favourable environment for internal and external investment.

- Nepal is very much rich in natural Resources such as hydropower, mines etc. and there is high potentialities of agro-base industries too.
- Adequate work force with low labour cost can easily available through out the country.

- Opening of adequate financial institutions like commercial banks in all over the nation will be able to provide enough financial support to promote country's export.
- 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 there is high potential to bring FDI to strengthen then export trade oriented industries.
- There is high possibility of obtaining big market (India-China) for Nepalese product.

7.2.2 Challenges of Nepalese Foreign Trade

- Nepal has been facing fundamental trade deficit. There is no favourable 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.
- Trade policies are formulated adhoc in character are changed frequently resulting benefit for unscrupulous sections or short term profit seekers only.
- Nepalese export commodity composition is less diversified than import commodity composition. It is also less diversified country wise or destination wise.

- Recently the starting of world wide economic depression and its effect may cut FDI and also Nepal may lose its export markets due to low external demand.
- Free flow of goods between Nepal and India are serious problems for Nepalese products because of open border.
- The quality of Nepalese products is low cost, so they are unable to compete in the international market.
- Land-locked situation, mountainous and rugged geographical structure of the country is one of the biggest bottlenecks in Nepalese foreign trade expansion.
- Still there is some fear about Maoist government for national and international investor community.
- 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 foreign trade policy is directed more towards import expansion and diversification rather than export promotion, import substitution and export diversification.

7.3 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 can not 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.

7.3.1 Policy Prescription

- Emphasis should be given to export promotion and institutional capacity enhancement.
- Implementation of policies should be taken care in an effective manner as well as monitoring and evaluation of policies is essential
- Moreover, with the recent political developments it is expected that an investment friendly climate will be created for attracting FDI. For this, the foreign investment and technology transfer act of 1992 needs to be raised taking into consideration the general trend of liberalization of FDI policy among other developing countries.
- Diplomatic efforts should be started and search appropriate trade and transit route with overseas trade.
- Although the exchange rate peg to the Indian rupee seems appropriate for the time being, the level of the peg should be kept under review, given Nepal's growing integration with the world economy.

- 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 toward 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.

7.3.2 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.
- Nepal needs to diversify it's exports, both country wise and commodity wise Nepal must look also at non-traditional markets. This will require new knowledge, new networks, new contacts and new approached towards dealing with unfamiliar laws, rules and regulations.
- Export should be increased by improving the quality of product, introducing new commodities, reducing cost of production, generating export-surplus, encouraging research and development.
- GON should focus on to increase the scope of joint venture and public private partnership industries.

7.3.3 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.
- Significant import of consumer goods like (motorbike, car, air-condition) and foods items against the expectation of more import of capital goods, industrial raw materials and subsequent industrialization.

In conclusion, it is recommended that to reduce gradual trade deficit, government must immediately take action towards the direction of expanding export by reinvesting it's policies. And similarly the private sector can make his distribution in trade through investments on the agriculture sectors, micro, small and medium agro-industries, promotion of labour intensive manufacture, massive investment in economic and social infrastructure that is designed on a strategy of export-led growth in Nepal.

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APPENDIX
Appendix -1
Basic Data

Year	xt	Xt-1	mt	GDPAG	GDPNAG	GDP
1990/91	7387.5	7387.5	23226.5	55368	60759	116127
1991/92	13706.5	13706.5	31940	65156	79777	144939
1992/93	17266.5	17266.5	39205.6	70090	95260	165350
1993/94	19293.4	19293.4	51570.8	80589	111007	191595
1994/95	17639.2	17639.2	63679.5	85569	124407	209974
1995/96	19881.1	19881.1	74454.5	96896	142492	239388
1996/97	22636.5	22636.5	93553.4	108785	160785	269570
1997/98	27513.5	27513.5	89002	112495	177303	289798
1998/99	35676.3	35676.3	87525.3	132373	197645	330018
1999/00	49822.7	49822.7	108504.9	145131	221120	366284
2000/01	55654.7	55654.7	115687.2	151059	242993	393473
2001/02	46944.8	46944.8	107389	100144	245994	406138
2002/03	49930.6	49930.6	124352.1	171104	266442	437546
2003/04	53910.7	53910.7	136277.1	183117	291802	474919
2004/05	58705.7	58705.7	149473.6	216700	349878	566578
2005/06	60234.1	60234.1	17378.3	240144	390156	630300
2006/07	60795.8		191708	252310	444679	696989

Source: Compiled by the author from economic survey 2007/08

APPENDIX-2
Composition of exports by SITC categories (1990-2007)

Rs in million

Fiscal Year	total	food and live animal	tobacco and beverages	crude materials, inedible except fuels	mineral, fuels and lubricants	animal and vegetable oil and fats	chemicals and drugs	manufacture goods classified mainly by materials
		0	1	2	3	4	5	6
1990/91	7387.5	896.5	11.2	312.1	0.0	201.1	17.7	4312.3
1991/92	13706.5	1941.6	13.7	437.4	0.0	160.3	19.6	7557.2
1992/93	17266.5	1862.9	13.2	531.8	0.3	176.4	28.7	10298.3
1993/94	19293.4	1163.4	12.8	432.4	0.0	138.4	212.1	10912.6
1994/95	17639.2	1562.7	11.3	485.5	0.0	214.1	302.3	9260.3
1995/96	19881.1	1946.6	9.7	768.7	1.3	251.3	640.4	10455.7
1996/97	22636.5	2661.7	14.9	663.5	1.4	312.6	1353.4	11028.6
1997/98	27513.5	3123.2	22.8	487.4	20.9	2136.3	1968.5	11637.1
1998/99	35676.3	3724.5	50.0	469.9	0.5	3597.2	2804.0	13539.6
1999/00	49822.7	4240.4	117.2	561.3	2.2	3229.7	3933.2	15838.7
2000/01	55654.1	4776.6	75.6	751.1	1.3	4104.0	4041.7	18909.3
2001/02	46944.8	5094.2	145.7	624.5	1.6	7421.4	3308.3	17394.9
2002/03	49930.6	6100.9	138.7	800.1	5.5	4278.7	3279.0	17794.7
2003/04	53910.7	6276.9	55.2	714.3	14.5	3375.7	3865.9	23601.7
2004/05	58705.7	6993.5	31.6	881.6	4.2	5070.3	3677.6	28590.6
2005/06	60234.1	7192.0	25.0	1223.4	3.2	4284.6	3686.9	28533.0
2006/07	60795.8	7547.6	26.0	1376.2	0.0	4542.3	4071.7	31062.1

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid January, 2008 and economic survey 2007/08

APPENDIX-3
Composition of imports by SITC categories (1990-2007)

Rs in million

Fiscal Year	total	food and live animal	tobacco and beverages	crude materials, inedible except fuels	mineral, fuels and lubricants	animal and vegetable oil and fats	chemicals and drugs	manufactured goods classified mainly by materials
		0	1	2	3	4	5	6
1990/91	23226.5	1820.5	257.0	2013.4	2278.3	741.7	3051.5	5950.8
1991/92	31940.0	2947.5	288.0	3415.7	3644.7	801.8	4615.3	8599.9
1992/93	39205.6	3024.7	469.3	3977.0	3834.1	1085.1	5265.0	11633.5
1993/94	51570.8	4084.8	367.6	3122.3	4837.0	1457.2	5541.4	19147.5
1994/95	63679.5	464.0	500.9	3347.9	4717.1	2056.0	7193.0	25300.6
1995/96	74454.5	4785.8	508.6	4865.9	5539.3	2830.9	8686.8	28129.7
1996/97	93553.4	5400.5	590.7	5487.1	7160.3	2327.6	8504.2	44741.9
1997/98	89002.0	4929.0	799.5	6976.2	9537.3	2025.8	11077.3	32601.6
1998/99	87525.3	7619.5	846.1	6246.7	8737.5	3329.0	12476.4	25638.0
1999/00	108504.9	10839.0	906.5	7012.4	9097.9	4446.0	14474.2	34420.0
2000/01	115687.2	5994.4	906.1	7559.6	11269.2	5589.2	12941.9	41188.0
2001/02	107388.9	6333.2	717.1	6734.1	15200.8	7887.5	12380.9	32889.1
2002/03	124352.1	9370.5	792.2	8479.3	19944.1	7750.5	14319.5	34888.2
2003/04	136277.1	8554.0	1026.8	10550.6	21904.1	8634.4	16544.9	36510.5
2004/05	149473.6	9820.7	1015.6	11207.0	29927.3	6016.3	19179.7	37047.4
2005/06	173780.3	13298.7	1161.8	10562.3	36447.0	10196.6	24750.2	40600.5
2006/07	191708.8	13079.3	1136.9	9707.8	36346.5	10937.6	25956.5	47544.6

Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Mid January, 2008 and economic survey 2007/08