

## **Jute in Foreign Trade of Nepal (Agro-industry Potentials in Terai Region of Nepal)**

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### **Abstract**

*Though an old export industry, Nepalese jute industry has had a chequered history, years of prosperity alternating with years of depression. The export of jute till the beginning of the seventies used to share eight in every ten dollars worth of foreign exchange earnings. But a down ward trend in its transaction had not only been discouraging, but also outstripped by the new manufacturing items, like the woolen carpets and ready made garments. Since the nineties the product has even failed to secure a place in the list of major exportable items to the overseas nations. Recent exports of jute and jute products have been mostly to India. Hard hit by a sluggish international demand, the Nepalese jute sector has virtually lost its glory in the national economy it enjoyed before. Surviving in a fragile state, the once booming business has given a nosedive.*

### **Introduction**

The importance of jute in global trade lies in the fact that production of raw jute and jute products are concentrated largely on India, Bangladesh, China, Thailand and Nepal. India produces 46.2 per cent of total world production of raw jute, kenaf and allied fibers, followed by Bangladesh 26.7 per cent, china 19.4 per cent, Thailand 4.6 per cent, and Nepal around 1 per cent. No doubt India remains the largest producer of jute goods with the largest area (12.5 lakh ha) under jute cultivation in the world. Bangladesh and China Occupy 90% of the global jute export market. While India a major producer of jute, consumes most of its entire production. Even though jute goods export for 1989-90 were of the order of Rs.300 crore and in quantity terms 2.65 lakh mt. Jute and jute goods account for Bangladesh some 41 per cent of total foreign exchange receipts. In Thailand, a rapid expansion in production brought Kenaf in to the position of the third largest export earner accounting for about 12 per cent of export earning. Over the past decade in India, jute export accounted for nearly 20 per cent of foreign earnings and about 28 per cent of the value of exports to sterling and dollar areas. Jute, the most important cash crop of Nepal has brought the biggest foreign exchange to the country.

Jute is not only a fiber crop but also an important cash crop second only to oilseed. Once it ranked the leading foreign exchange earner: 35-45 per cent of exchangeable foreign currency earned from its exports (IJO/UNDP/FAO, 1989). However, its share in foreign

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exchange earning has gone down yet its importance cannot be ignored. Though and old export industry, Nepalese jute industry has had a chequered history, years of prosperity alternating with years of depression. Since 1960's the contribution of jute and jute products occupied nearly 80 per cent of the total export. The contribution of jute and jute products in 1979 was nearly 50 per cent in convertible foreign exchange earning. In those days jute and jute products had the second largest source of convertible foreign exchange earning after tourism. During the FY 1976/77 Nepal earned convertible foreign currency worth Rs.1, 095.5 millions from various sources. In this year the convertible foreign currency earned by tourist industry was Rs.2, 44,141 thousand (22.29 per cent of the total receipts of convertible foreign currency) where as, in the same fiscal year convertible foreign currency earned by exporting raw jute and jute goods was Rs.1, 75,602 thousand (16.03 per cent of the total receipts of convertible foreign currency earned by Nepal). There fore, export of raw jute and jute goods secures second top position in the total receipts of convertible foreign currency earning by Nepal.

No doubt, the export of jute till the beginning of the seventies used to share eight in every ten dollars worth of foreign exchange earning. But a downward trend in its transaction had not only been discouraging, but also outstripped by the new manufacturing items, like the woolen carpets and readymade garments. The fall in its exports to the overseas nations is shattering. A continuous fall in its export has slashed the figure from 1000mt in 1989/90 to just 200 mt in 1990/91. In terms of values, it fell from Rs.11 million to Rs.2.5 million, a dive of 78 per cent. And the trend seems to dive further. In a nutshell, since the nineties the product has even failed to secure place in the list of major exportable items to the overseas nations.

### **Jute Trade of Nepal - Export Orientation**

Industrialization and export in Nepal actually began with jute ventures, in which the country enjoyed relative gains from economics both in the production and trade. For a couple of decades, and until the late seventies, the jute business was internally very lucrative and externally as an export, it was a renowned celebrity item. It was the only industry, which poured in a sizable amount of hard currency on the economy of Nepal. The noted business has, since the past two decades, been not only ailing, but has virtually collapsed. The jute export has not only plunged, but also failed to take a place in exportable list any more.

The stockiest in Nepal is either its exporters or, sell the goods to export license holders or do both the jobs. The then Ministry of Industry and Trade formerly issued export license on the basis of certain criteria. Bonus Voucher System was introduced in 1964, with a view to boosting up the exportable commodities to the overseas market. The percentage that the exporters could use to import goods being revised from time to time according to the global market situation and trend in the export of the commodities.

The percentage composition of raw jute, jute goods and other commodities in the overseas exports of Nepal shows that in 1971/72 shares of jute and jute products accounted 88 per

cent of the total export to overseas countries. In succeeding years the percentage goes on declining. It has declined to nil in 1983/84 and 1984/85. There were no exports to overseas countries between these periods. In 1985/86, the percentage composition slightly rose up to 1.6 per cent but it has been declining there after. The figure again slowed down to nil in 1991/92 and 1992/93. But the situation reversed from 1993/94. The figures increased due to partial product diversification and quality control. General onlookers find it distracting to accept the growing weight occupied by jute in export merchandise. In 1996/97, the percentage composition rose up to 8.8 per cent but in 2006/07, it again slowed down to 2.3 per cent (table 1).

**Table 1 Percentage Composition of Raw Jute, Jute Goods and Other Commodities in the Overseas Exports of Nepal (Value in Rs in Million)**

Fiscal Year	Jute & Jute Goods Export to Overseas Countries	Percentage of Jute & Jute Goods	Total Export to Overseas Countries	Percentage of Other Commodities	Total
1971/72	162.8	88.0	185.0	12.0	100
1972/73	82.7	61.2	135.1	38.8	100
1973/74	92.2	53.5	172.4	46.5	100
1974/75	80.2	48.1	166.7	51.9	100
1975/76	120.6	45.4	265.8	54.6	100
1976/77	158.8	43.7	363.4	56.3	100
1977/78	233.1	38.8	600.8	61.2	100
1978/79	283.4	33.4	848.5	66.6	100
1979/80	234.6	30.0	782.0	70.0	100
1980/81	123.3	20.4	604.5	79.6	100
1981/82	64.1	13.9	461.5	86.1	100
1982/83	13.6	04.7	290.6	95.3	100
1983/84#	1.2	02.2	543.2*	97.8	100
1984/85#	3.0	02.6	1138.9*	97.4	100
1985/86	28.8	01.6	1804.8	98.4	100
1986/87	21.6	01.3	1665.1	98.7	100
1987/88	30.6	01.2	2556.1	98.8	100
1988/89	8.7	00.3	2906.0	99.7	100
1989/90	11.3	00.3	5661.0	99.8	100
1990/91	2.4	04.2	5671.0	95.8	100
1991/92	-	-	12256.5	100.0	100
1992/93	-	-	15494.0	100.0	100
1993/94	0.1	06.0	16494.7	94.0	100
1994/95	0.3	02.0	14288.3	98.0	100
1995/96	0.3	01.9	1552.6	98.1	100
1996/97	1.5	08.8	17011.1	91.2	100
1997/98	0.1	05.3	18719.1	94.7	100

(Contd...)

1998/99	1.9	08.2	23145.6	91.8	100
1999/00	3.7	01.2	28602.0	98.8	100
2000/01	8.5	02.8	29623.0	97.2	100
2001/02	3.5	01.8	18988.6	98.2	100
2002/03	6.0	02.5	23500.6	97.5	100
2003/04	-	-	23133.6	100.0	100
2004/05	-	-	19788.8	100.0	100
2005/06	0.2	01.0	19519.4	99.0	100
2006/07	0.4	02.3	1798.2	97.7	100

Note: - indicates nil or negligible.

\* includes major commodity groups.

# indicates as there were no exports to overseas countries, these figures denote only the exports to the Tibetan Autonomous Region of the Peoples Republic of China.

Source: *Nepal Overseas Trade Statistics* from 1970/71 to 2006/07, Trade and Export Promotion Center (former Trade Promotion Center), Kathmandu, Nepal.

*Economic Survey 2007/08*, Ministry of Finance, Government of Nepal, July 2008. *Quarterly Economic Bulletin*, Mid-April 2008, Volume 42, Number 3, Nepal Rasta Bank.

## Export- Import Position

### Export position

Bangladesh, India, China, Thailand and Nepal are the main jute producing and exporting countries. Bangladesh the largest jute exporter, alone exports 66 per cent (80.8 per cent raw jute and 51.5 per cent jute products) of the total demand of the jute and jute goods of the world. India is the second largest sharing 12 per cent of world jute and jute products (2.5 per cent raw jute and 21.6 per cent jute products) where as china has the third position among the jute exporters sharing 7.2 per cent (9.0 per cent raw jute and 5.5 per cent jute products). Thailand shares 4.5 per cent (1.6 per cent raw jute and 7.4 per cent jute products ranking fourth and Nepal shares only 1.1 per cent of which 1.0 per cent raw jute and 1.2 per cent jute products (FAO, 1994). India's low export reveals the fact that India consumes most of the production, where as Bangladesh the largest exporter has given more emphasis on export of jute than on domestic consumption.

Among ranking of jute exporting countries Bangladesh is the largest exporter of jute and jute products of jute, kenaf and allied fibers in the world jute exports sharing 64.4 per cent while India occupies second position accounting 15.2 per cent (table 2). No doubt India's share in global market in relation to Bangladesh is definitely very low which indeed reveals the fact that India consumes most of its production. Average domestic demand for jute goods is 1138 thousand tones per annum (JMDC, 1993). Exports of raw jute, kenaf and allied fibres in India are quite negligible in the world jute market. Nepal's share of raw jute export in the global market is also negligible. Both raw jute and products of jute hardly occupy 1 per cent of the world jute exports. Nepal ranks the lowest in order among jute exporting countries.

**Table 2 Exports of Raw Jute, Kenaf and Allied Fibers and Their Products (in 000 MT)**

Country Ranking	1987/88-1992/93 Average			1993/94		
	Raw Jute	Jute Products	Total of raw jute & jute products	Raw jute	Jute products	Total of raw jute & jute products
World	387.3	979.7	1367.0	303.3	827.8	1131.1
B'desh	292.1	483.0	775.0	262.2	466.8	729.0
India	7.8	211.0	218.8	-	172.4	172.4
China	45.3	60.8	106.1	25.0	33.3	58.3
Thailand	6.4	92.4	98.8	4.9	54.8	59.7
Nepal	8.7	11.4	20.1	-	10.0	10.0

Note: (-) indicates negligible.

Source: FAO REPORT No. CCP: JU/ST/94/2, December 1994 P.20.

### Import Position

Until the late seventies India was the biggest importer of raw jute. Because of the partition of India and Pakistan in 1948, the jute producing area of East Bengal was separated from India and the jute manufacturing industries were located in West Bengal of India. Thus in order to remove the unbalance between jute producing area and jute industrial area, the importation of jute in India became a necessary phenomenon. The second largest importer of jute was Belgium which indeed, still maintains its ranking. Pakistan after partition with Bangladesh has become one of the greater importers of raw jute in the world (table 3).

**Table 3 Imports of Raw Jute, Kenaf and Allied Fibers and Their Products (in 000 MT)**

Country Ranking	1987/88-1991/92 Average			1993/94		
	Raw Jute	Jute Products	Total	Raw Jute	Jute Products	Total
World	394.0	955.2	1349.2	323.1	344.3	667.4
Pakistan	103.4	12.1	115.5	90.0	8.0	98.0
United States	9.9	92.4	102.3	7.3	73.3	80.5
Belgium-Lux	6.8	97.3	104.1	4.2	120.3	124.5
United Kingdom	18.9	41.4	60.3	10.3	73.2	51.7
Japan	5.4	52.7	58.1	4.7	49.9	54.6
Australia	6.5	45.4	51.9	5.0	36.2	41.2
Iran	10.8	34.1	44.9	9.0	40.2	49.2
Germany	6.1	54.5	60.6	2.7	20.0	22.7
Egypt	16.1	14.0	30.1	18.0	15.9	33.9
Netherlands	1.1	29.5	30.6	0.5	32.4	32.9
Indonesia	20.2	8.3	28.6	25.0	22.6	47.6

Source: FAO, Report No. CCP: JU/ST/94/2, December 1994, P.21.

During 1993 Belgium-Lux is the largest importer of jute and product of jute, kenaf and allied fibres. The second largest importer is Pakistan, followed by United States, Japan, United Kingdom, Iran, Indonesia, Australia, Egypt and Netherlands.

### Number of Countries in Jute Trading with Nepal

However Nepal's share in the global jute market is negligible (about 2 per cent) nevertheless, it is one of the major potential sources of foreign currency earning for the country. Nepalese jute sector has got years of prosperity alternating with years of depression. After diversification policy philliping the export of jute to overseas countries Nepalese jute and jute products have occupied leading major items in export merchandise. Nepal exported raw jute and jute products to more than twenty-five countries of the world of which 10 countries were in Euope, 7 in Africa, 6 in Asia and 2 in North America. There were 17 countries in 1999/01 which had relation with Nepal but the figure confined to only 2 in 2006/07.

The number of countries making raw jute trade has increased considerably from 9 in 1972/73 to 21 in 1978/79 and since then it has been declining. It has declined to 2 in 2006/07. In these periods, the situation reversed slight and countries having jute trade of jute products is also more or less same besides the exceptional years from 1998/99 to 2001/02. It has declined from 9 in 1972/73 to nil in 2006/07. Between the FY1982/83 and 1986/87 jute products trade relation to overseas countries was nil and the same repeated in between 1990/91 and 1992/93. It was raised slight between 1993/94 and 1997/98 and again slumped down to nil since 2003/04 (table 4). After analyzing the trends it is found that the relation of raw jute trade to overseas countries is slightly widening than of jute products. It has more or less mixed trend in relation with jute products.

Japan, Germany, France, Canada, UK, USA, Singapore, Switzerland, Australia, Denmark, Spain, South Africa, Netherlands, Austria, Italy etc. are the regular and major importers of Nepalese jute and jute products. Japan, Singapore, Germany, UK, USA, Israel, France, Canada etc., are importing countries of jute goods where as Japan, USA, Canada, South Korea etc, are the importing countries of raw jute. The table 6 shows trade links and export earnings from raw jute. High earning from raw jute is consistent with high export volume. But from the year 1991/92 to 2003/04 trade relation with overseas nations of raw jute export has quite been nil. In the fiscal year 1999/00 once the plummeted figure of jute products trade links to nil surged to 17 and it has continued to decrease thereafter reached nil since 2003/04.

The disappointing performance of export trade links of raw jute and jute products to overseas countries is due to the sluggish international demand but in part; the downward trend has been accentuated by the poor quality and standardization. Nepalese jute, if its quality is improved will have a great demand in the global market. But being low grade and quality, the quantity demanded for jute goods in the overseas market is very small. After injecting cheap synthetic goods by developed countries estimated volume could not be exported. Due to increase in the composition and volume of export merchandise, volume of

jute export appeared to be small. Since jute is price sensitive, price fluctuation should not be by passed. If prices are low, constraint forces acting upon it puts it into a state of vicious circle of poverty (Dahal, 1979/80). The equal responsible factor in this regard is also market to unusual happenings of closure of some jute mills in Europe had led to the fall in export of jute.

**Table 4 Number of Countries Trading of Jute in Nepal (Value in Rs in Thousand)**

Year	Number of Countries Trading in Jute		Export of Jute and Jute Products	
	Raw Jute	Jute Product	Raw Jute	Jute Product
1	2	3	4	5
1972/73	9	9	34922	47782
1973/74	7	9	43321	48958
1974/75	8	7	45895	34323
1975/76	13	9	64515	56169
1976/77	14	8	100255	58564
1977/78	18	8	169960	63155
1978/79	21	7	158589	124814
1979/80	17	7	119594	115008
1980/81	18	7	94675	28652
1981/82	15	1	62625	1529
1982/83	5	-	13658	-
1983/84	-	-	-	-
1984/85	-	-	-	-
1985/86	2	-	28878	-
1986/87	2	-	21647	-
1987/88	3	1	30308	366
1988/89	2	1	4249	4465
1989/90	1	1	11322	4129
1990/91	1	-	2488	-
1991/92	-	-	-	-
1992/93	-	-	-	-
1993/94	-	1	-	187
1994/95	-	1	-	328
1995/96	-	5	-	321
1996/97	-	6	-	1574
1997/98	-	3	-	156
1998/99	-	11	-	1936
1999/00	-	17	-	3780
2000/01	-	15	-	8554

(Contd...)

2001/02	-	11	-	3576
2002/03	-	2	-	6077
2003/04	-	-	-	-
2004/05	1	-	2	-
2005/06	2	-	281	-
2006/07	2	-	418	-

Note : Raw jute includes jute cutting, thread waste and caddies also.  
- indicates nil.

Source: *Foreign Trade Statistics*, Custom Department, MOF, Kathmandu, Nepal.  
*Nepal Overseas Trade Statistics* from 1971/72 to 2006/07, Trade and Export Promotion Center, Nepal.

### Export of Jute & Jute Products

Nepal, one of the least developed countries of the world is a dire need of convertible foreign exchange for augmenting the tempo of development. For this export has to be boosted up. Potential export items in global market have to be exposed and developed. One of such item comes to be jute. Neighboring countries India and B'desh export huge quantity of jute and jute products. However Nepal fails to compete these countries qualitatively and quantitatively, nevertheless, one of the potential sources of export comes to be raw jute and jute products. Though the share of Nepal in the world jute market is not so remarkable nevertheless it had been one of the major sources of convertible foreign currency earning for the country. The export of jute till the beginning of the seventies used to share eight in every ten dollars worth of foreign exchange earnings. But hard hit by a sluggish international demand, the Nepalese jute sector has virtually lost its glory in the national economy it enjoyed before. Surviving in a fragile state, the once booming business has given a nosedive. Since the nineties the product has even failed to secure place in the list of major exportable items to the overseas nation. The export to the overseas countries has plummeted to nil in figures.

The table 5 shows item wise export value in different years. Since the 1982/83 the export of raw jute and jute products to India has been fluctuating. The export records show high export earning from raw jute. High earning from raw jute is consistent with high export volume. Interlace in tricacies and hindrances have compelled to export raw jute in large quantity. Twine stands second in the export value followed by hessian and sacking. In 1982/83 raw jute exports constitute 33.5 per cent of the total export value, which further rose to 92.3 per cent in 1989/90. Rather it declined in succeeding years. It has declined to 0.3 per cent in 1991/92 and 5.8 per cent in 2006/07. The export value after 1994/95 slowed down and it has continued there after besides the exceptional years 2000/01 and 2005/06.

Export of twine has sufficient variation. In 1982/83, it constituted 4.7 per cent of the total jute export, which further constituted to 22.6 per cent in 1986/87. In the 1989/90 it constituted to 3.4 per cent only which later on rose up to 27 per cent in 1990/91 and 46.7 per cent in 1991/92. It slowed down again in 1992/93 constituting 44.5 per cent and since



then the export value of twine has been increasing. It increased to 74.1 per cent in 1996/97 and since slowed down there after.

Among the jute items exported, hessian in 1982/83 occupied 29.3 per cent of the total jute export value. The product has quite been rapid during 1982/83 to 1986/87. It has increased to 51 per cent in 1986/ 87 and constituted to 1.5 per cent only in 1989/90. With some increasing tendency up to 1991/92, the situation reversed onwards. It has declined to 13.6 per cent in 2006/07.

Export of sacking in 1982/83 constituted 32.5 per cent of the total jute export. It rose up to 36 per cent in 1983/84 the highest figure of sacking between the period 1982/83 and 1996/97 and since then it has declining trend. In 1994/95, it has declined to 0.1 per cent .The situation reversed from 1995/96 constituting 5.8 per cent and in 2006/07 it constituted 51.0 per cent.

The total export value of jute and jute products since the fiscal year 1982/83 to 1996/97 has been fluctuating. In 1982/83 the total export value of jute & jute products was Rs270400 thousand while it increased to Rs568300 thousand in 1996/97. In comparison to the FY1982/ 83, in 1996/97 the total value of jute & jute products export to India increased by 110.17 per cent. Since 1992/92 total exports value has been increasing due to highly decrease in the overseas export of jute and jute products. The percentage increased in the total export value in one year over the previous year till 1985/86 and there after the percentage continued to increase to the period 1987/88. It declined during the period 1989/90 and again increased in 1990/91, which further slowed down in 1991/92 and since then the total export value of jute, and jute products have been increasing.

**Table 5 Export of Jute and Jute Products to India (Value in Rs in Million)**

FY	Raw Jute		Jute Products						Total Export of Raw Jute and Jute Products	
			Hessian/a		Sacking/b		Twine/c			
	Value	%	Value	%	Value	%	Value	%	Value	%
1	2	3	4	5	6	7	8	9	10	11
1982/83	90.7	33.5	79.1	29.3	88.0	32.5	12.6	4.7	270.4	100
1983/84	37.7	16.0	91.7	36.0	89.9	36.0	30.5	12.0	249.8	100
1984/85	43.9	14.4	117.1	38.5	85.6	28.2	57.3	18.9	303.9	100
1985/86	2.3	01.3	78.2	46.1	57.9	34.1	31.3	18.5	169.7	100
1986/87	15.0	08.4	91.0	51.0	40.6	18.0	32.4	22.6	179.0	100
1987/88	52.7	21.8	84.9	35.2	68.4	28.3	35.4	14.7	241.4	100
1988/89	47.0	26.0	58.5	32.3	46.6	25.7	28.9	16.0	181.0	100
1989/90	133.7	92.3	2.2	01.5	4.0	02.8	5.0	03.4	144.9	100
1990/91	57.0	17.3	105.2	32.0	78.0	23.7	89.1	27.0	329.3	100
1991/92	0.5	00.3	72.2	37.6	29.5	15.4	89.7	46.7	191.9	100

(Contd...)

1992/93	44.7	20.2	67.8	306	11.2	05.7	97.4	44.5	221.1	100
1993/94	40.5	14.3	72.0	25.5	24.1	08.5	145.9	51.7	282.5	100
1994/95	86.1	27.1	15.3	04.8	0.2	00.1	215.6	70.0	317.2	100
1995/96	35.8	07.3	76.1	15.5	28.4	05.8	348.7	71.3	489.0	100
1996/97	3.4	0.6	69.2	12.2	74.7	13.1	421.0	74.1	568.3	100
1997/98	6.4	8.8	155.5	21.4	267.3	36.7	297.4	40.9	726.6	100
1998/99	0.1	1.1	153.2	17.5	298.4	34.2	420.1	48.1	871.8	100
1999/00	0.1	9.0	103.9	9.4	403.2	36.5	596.8	54.0	1104.0	100
2000/01	114.7	8.1	50.5	3.5	540.4	38.3	703.3	50.0	1408.9	100
2001/02	8.3	5.0	44.7	2.7	609.2	37.1	976.2	59.5	1638.4	100
2002/03	0.0	0.0	44.2	2.3	855.9	45.0	998.9	52.6	1899.0	100
2003/04	0.9	4.7	143.5	7.6	1056.5	56.1	682.6	36.2	1883.5	100
2004/05	1.3	4.8	186.1	6.9	1456.2	54.0	1051.2	39.0	2694.8	100
2005/06	48.7	1.8	464.5	17.2	1265.4	47.1	906.9	33.7	2685.5	100
2006/07	1.6	5.8	375.1	13.6	1408.6	51.0	973.1	35.2	2758.4	100

Note: Raw jute comprises jute cutting also.

/a is used for packing and wrapping industrial products and also the thicker position is used for carpet backing. Size of hessian cloth 40"x26.5"

/b is used for packing food grains, sugar, cement etc. Size of sacking bags A' Twill Bags 44"x26.5", B' Twill Bags 44"x26.5" and Heavy Sack Bags 43"x29"

/c is used for binding and stitching. Size up to 4 ply

Source: *Economic Report* from 1991/92 to 1996/97, Nepal Rastra Bank.

*Nepal and the World, A Statistical Profile*, 1992, FNCCI, Kathmandu.

*Economic Survey 2007/08*, Ministry of Finance, Government of Nepal, July 2008.

*Nepal Overseas Trade Statistics* from 1981/82 to 2006/07, Trade and Export Promotion Center, Nepal.

It is found that there is a decreasing trend of total raw jute export to overseas countries. Between 1972/73 and 1982/83, total export of raw jute dropped from 14951 tons (of value Rs.34922 thousand) to 4011 tons (of value Rs.13658 thousand). The total raw jute export was quite nil in 1983/84 and 1984/85. Again it rose to 4322 tons (of value Rs.28878 thousand) in 1985/86 further slowed down to 200 tons (of value Rs. 2488 thousand) in 1990/91. The figure from 1991/92 to 2003/04 was nil. There was negligible figure of value in the fiscal year 2004/05. Total export value of jute was Rs. 281 thousand in 2005/06, which rose to Rs. 418 thousand in 2006/07 (MOF, 2008).

Since 1977/78 India is the regular importer of Nepalese raw jute. Increasing use of synthetics, closure of some jute mills in Europe, economic recession in America and lack of organization and joint efforts among jute producing countries have altogether resulted in the low international demand for jute. Besides, changes in the consumption patterns, cutthroat competition among the jute producing countries, factors relating bumper production have also caused decrease in demand for jute in international market. Similarly, the competitive

price of Nepalese jute with the jute price of India and Bangladesh, high transportation cost from Nepal border to Calcutta port are some of the factors affecting overseas jute export. If we examine the value receipt of all corresponding years we find that the increase in the value receipt is caused not due to trade diversification but due to increase in the volume of export and the rising prices of jute. But in particular year's trade diversification also caused the greater sum of value receipts.

From the above discussions it is clear that downward trend in the Nepalese jute export has become very serious. The fall in its export to overseas nations is shattering. The declining trend has dived to nil due to sluggish demand for jute internationally, particularly for the packaging purposes. Invention of synthetic fibers and their fame and utilization in the packaging business all over the world could be blamed for what has happened to the Nepalese jute sector (The Rising Nepal, August 22, 1994). Since the production of Nepalese jute and jute goods is small in volume, which hardly could influence the need of jute, consuming countries also cause for low export in on hand and on the other irregularities in Nepalese jute delivery abroad is further helped to reduce export. Due to small size of market, Nepal has low domestic demand for jute and jute products. Generally, the trade policy of India and Bangladesh seriously affect the Nepalese production and export situation. So jute products and its market heavily depend upon these countries policy and international demand situation. Injection of synthetic products by developed countries and cutthroat competition among the jute producing countries are responsible for the low export.

To conclude the export of jute to India has increased while the export to overseas has been particularly low. The declining trend in the export of raw jute in terms of volume has been partly influenced by the rapid expansion in output and sales of synthetic substitutes in the overseas countries. Due to low grade and poor quality Nepalese jute products can not stand in competition with the jute products of India, Bangladesh and other countries in Asia. The reasons are as of:

- i) Jute being a very selective commodity needs a great deal of technical excellence in the processing. It starts from the farmer's field to the market.
- ii) The farmers do not have access to the clear water need to have good retting ponds to extract clean fiber.
- iii) Fiber extraction technique needs specialized skill and particular atmosphere which are lacking in Nepal.
- iv) Improved seeds, better retting and skill in extraction enable to improve the quality of fiber, however, all these are in the process of extinction in Nepal.

Thus to occupy better position in the international jute market, the existing production status of jute fiber and jute production must be improved both in quantity and quality. Though in recent years jute export business is not promising due to the stagnant world demand for these products and the tough competition from exporters, notably, Bangladesh. The noted business has not only plunged, but also failed to take a place in exportable list anymore. Recent exports of jute and jute products have been mostly to India. More dramatic developments have occurred in fiber and products exports. Until 1979/80 and 1981/82

exports of products and fiber were to destinations other than India. Since then, the Indian market has become progressively dominant. Many factors contributed to this shift in export destinations including general conditions of over supply in the world jute economy; importers switching to synthetics and to processed jute goods rather than fiber; fluctuating exchange rates and increasing transportation costs for fiber and products.

The quantum of jute product to overseas nations is of three types - hessian, sacking and twine. Hessian includes B twill cloth and hessian cuttings also whereas sacking comprises jute empty bags and small bags. Twine includes jute yarn and jute cut ropes also. Among the three jute products hessian is the most popular and is exported much more than sacking and twine.

Looking back at its export records from 1972/73 to 2006/07, it shows decreasing trend of jute products. Between these periods total export value of jute products dropped from Rs.47782 thousand to nil. The annual export value from finished jute products ranged from nil to 124814 thousand rupees. As it is evident from the table, the export quantity of hessian & sacking drastically reduced after 1980/81. In the FY 1972/73 total export value of jute products was 47782 thousand rupees (26079mt) of which 66 per cent was hessian (20905mt), 28.2 per cent was sacking (4176 thousand pcs) and 5.8 per cent was twine (998mt) while the export value of jute products was nil since 2003/04. However, the year 1978/79 was the out standing year for the export jute products. In this fiscal year the percentage change in value and volume of jute products export increased by 97.6 per cent and 48 per cent respectively as compared with previous year. This sort of increase in value receipt was mainly due to increase in the export of hessian and sacking following high price in international jute market. The increase in price further might be associated with the increase in petroleum price, increased price of synthetic products and the temporary closedown of some of the European jute industries.

The high demand for Nepalese jute products was because of the shortage of jute goods in Bangladesh due to power failure in that country. The total export value of jute products was a record high figure of 124814 thousand Rs (44292mt) of which 64.6 per cent was hessian (37644 thousand yards of which B twill cloth 950 thousand yds), 33.5 per cent was sacking (608 thousand Pcs) and 1.9 per cent was twines (567mt of which jute cut rope was 508mt). Since then the export volume of jute products and its value receipt declined sharply. The product which used to get a diversified world market now has been concentrated to India only except some occasional export to overseas countries. Especially from 1980/81 India is the only major and regular importer of jute products from Nepal.

Hessian accounts for major portion of export of jute products followed by sacking and twine. The average annual export value of hessian out of total export value of jute products during the 1970's constituted approximately 75 per cent followed by sacking 26 per cent and twine 2 per cent and since then the performance of noted items is not only disappointing but has virtually collapsed. Besides a few exceptional years, the export of jute and jute products has failed to take a place in exportable' list any more. Part of the reason is the sluggish global demand but in part the declining trend has been accentuated by the poor quality and standardization.

Since jute products are being replaced by synthetics on the global market, the export of raw jute and jute goods do not seem to offer a great potential for further development. Exogenous variables like functions and uneven practices in global jute market (temporary closure of jute mills in Europe), competition with injected cheap synthetic goods by developed countries, tough competition from other exporters, excessive price fluctuations, change in volume and compositions had led to the tremendous fall in jute export of Nepal. The cyclical pattern in demand for jute has little resemblance to that of the world trade due to the operation disrupting factors, which restricted the expansion of jute and jute goods trade. Jute market is practically a global market with Bangladesh, India, China, Thailand, UK, USA, Belgium, Canada, Nepal etc operating together as one single market, in the sense that events in any one of them at once communicate their affects to the other. This also caused of decline in jute export (Karna, 1992).

Nepalese jute and jute products do not meet the standards and requirements of the world jute market. The quality of jute goods is far from the quality of B'desh, India and other principal jute exporter countries. The export potential for jute and jute goods is not promising due to the stagnant world demand for these products and the tough competition from other exporter, notably Bangladesh (UNIDO, 1992). Though sluggish demand for jute internationally due to invention of synthetic fibres and their fame and utilization in the packaging businesses all over the world, did not only hit the Nepalese, but even the world's number one producer, B'desh, as well. Nevertheless, the product still secures prestigious placement in the B'desh economy. The magnitude of the effect from the new invention in the packaging to the Nepalese side could be greater in relative terms as it could not maintain the status of being one of the world's leading jute manufacturers and exporters today.

### **Jute Trade System to Third World**

Prior to 1965 almost all jute and jute goods were being exported to India and the volume of overseas export was insignificant. The shift in export from India to third countries was most marked after the devaluation of Indian currency in June 6, 1966. India imposed high rate of import duty on jute and jute products imported from Nepal to India. Nepal tried to boost up export with overseas countries under the Bonus Voucher System provided to the exporters to earn foreign currencies. Under the bonus voucher system the exporters of raw jute and jute goods were entitled to get the percentage of foreign exchange of earning to import the listed commodities approved by the Department of Commerce. Under the exchange entitlement, the bonus provided in July 1964 was 40 per cent of the earnings from raw jute and 50 per cent of export earnings from finished jute. In 1967, the rate was declined to 20 per cent and 40 per cent respectively. By the end of 1968 there were further changes. The exporters of hessian could obtain 55 per cent and sacking exporters could receive 65 per cent of the total foreign exchange earned. It reduced the entitlement of foreign currency by 10 to 30 percentage points with respect to the exported items.

During the period 1971, supply of jute and jute goods was very limited in the global market due to Bangladesh and Pakistan war in 1971. Consequently Nepalese jute had to face

less competition, and the exporter obtained higher prices. The Government observed rising prices and greater profitability to the exporters of raw jute and jute goods and thus revised the previous bonus percentage of foreign exchange earnings to import the listed commodities. The revised percentage as shown in the table was 20, 60, 60, 50, 60 and 60 for raw jute, jute cutting, jute bags, hessian, twine and jute caddies respectively. The bonus voucher system might be regarded as encouragement in the export of jute through the provision of a high percentage of foreign exchange as a bonus. There is provision, that if the exporter will import machinery and capital goods, he can have a still higher percentage as bonus. But in reality, the businessmen tried mainly to import cosmetic and luxurious goods out of bonus earning because of high rate of profit, from the imported materials. In fact, if the bonus earning is canalized to import capital and machinery goods, its impact and effect on the economy in the long run would have been more productive. The 'Bonus Voucher System' was welcomed by almost all business community of Nepal and third countries. But due to the decline of bonus percentage, the exporters were less encouraged to export. Naturally trade has declined and it has adverse effect on jute grower's. For the development of jute export, licenses were withdrawn from private exporters and were given to the National Trading Corporation (NTL) during the period of 1972/73. The NTL could not boost up export significantly during the period of nine months. Again licenses were given to the private exporters. When the Government formed Jute Development and Trading Corporation (JDTC) on 23rd September 1974, the business of jute came in hands of Government because those persons who wanted to export jute, had to take export license on recommendation by JDTC. However, JDTC had tried to boost up export and internal market for the welfare of jute growers. From the beginning of April 1978, Bonus Voucher Scheme has been replaced by the 'Dual Exchange Rate System' due to uncertainty created by bonus scheme on the earnings of exporters.

Considering the defects of 'Bonus Voucher System', a new policy of export incentives 'Dual Exchange Rate System', was introduced on February 1977 (18<sup>th</sup> Chaitra 034) dissolving the Bonus Voucher System. Under the dual system exporters were initiated for boosting up export through the introduction of stable and fixed second exchange rate. Nepal had in a position to export more than 55 thousand mt. of better quality of raw jute and jute products. According to the new system, there was only one foreign currency US dollar, which had a fixed rate with Nepalese currency and others had fluctuating rates according to the market condition determined by dollar as a unit of account. Moreover, later on, the rate was fixed at two points. For export transaction, the Government provided two rates in US dollar: main rate and second rate. The main rate was claimed to be NRs.12 and second rate NRs.16. The main rate of dynamic exchange rates of other foreign currency than US dollar was based upon the exchange rate current in International Money Market, and the second rate was based on the second exchange rate of US dollar. The buying and selling rate of US dollar was fixed in accordance to the main rate of NRs.12 and second rate NRs.16. According to this system, if the foreign currencies were earned by exporting the materials that were produced in Nepal the exchange for the foreign currency would be given at the second rate. As for example, the export earning from raw jute and jute goods, hide and skins, medical herbs, woolen goods, handicrafts etc will be exchanged at the second rate. But the foreign

currency needed for import of materials like petroleum and its by-products, fertilizers, machinery and certain necessary raw materials needed for development would be made available at the main rate. The exchange rates for foreign currencies earned through invisible exports, services, and capital investment, tours and travels etc would be given in the main rate.

Besides, the license for import and export of all materials would be freely distributed except for certain restricted goods according to the trader's stock holdings. However, in this system, the export incentives were given to 33 per cent only home make products. The traders of either raw jute and jute goods or the other commodities could get the same type of incentives. The main achievement of this system for the exporters was that they were free from the fear of risk and uncertainty of profit. The exchange rate was the fixed rate, where the value of foreign currencies was being fluctuated or not, that did not make any difference for the traders. The important changes in government policy in market for jute and jute goods are given in annex 1.

### **Concluding Remarks**

To conclude, the export pattern of raw jute and jute products is not quite different. Jute goods from Nepal are continuously being driven away from world jute market due to low grade and poor quality. External forces like the demand fluctuation, market situation, pricing problems, shipping and transport facilities, tariff and custom policy etc and domestic factors like production pattern, consumption of mills, exporters behaviors, incentives and subsidies provided by government of Nepal, export policies etc have all equally contributed to the unfavorable situation of Nepalese jute export. Nepal, being one of the potential jute manufacturing nations, needs to join hands with B'desh or India, which are the leading jute traders in the world, to revive its ailing sector if it is to harness the real gains to the economy both internally and externally. Also a joint endeavor of the leading jute exporting nations is needed to explore, exploit and invade the global markets especially for packaging purposes as well as greater product diversification there by leading to more economic benefits through the exports of the same. The tendency of being selective in the use of synthetic packaging in the industrialized nations for environmental reasons gives much hope for the jute sector which Nepal still enjoys comparative advantages. Negative attitude towards synthetic packaging-a rival to the jute materials-internationally could bring exaltation to the jute manufacturing countries, like Nepal, once again to be economically better off through their indigenous materials. For the diversification purpose, export to other countries rather than India should be comparatively increased. To have the balanced export of jute products as well as raw jute, export promotion to more countries becomes very essential. So knowing the taste, performances, choice of customers and favorable time for delivery would be helpful for export promotion to overseas countries. The prospective foreign market may contribute significantly in future diversification. Providing the incentives and encouragement to the traders, ideas and information about the market, their level of income, knowing their interests and preferences, improving the grades and quality etc become very helpful in promoting jute export.

## Annex 1 Government Intervention in the Market for Jute and Jute Goods

Date	Scheme
July 1964	Bonus voucher on jute goods
October 1972	Nationalisation, acquisition of all raw jute by HMG. A bonus voucher system applied to jute goods.
December 23, 1976	Bonus on jute and jute goods (45% of export earnings could be used for imports)
December 25, 1976	Denationalization
April 14, 1976	JDTC received 6% commission on exports, and 30% jute must accompany raw jute exports. Bonus on jute products and cuttings increased to 60% and on raw jute to 45%.
March 31, 1978	Bonus system abolished, dual exchange rate introduced for exports of goods and raw jute. NRs. 16 provided as against official exchange rate of NRs. 12 per \$1 US. 12% commission charged on raw jute export; 6% of commission to HMG and 6% to JDTC. Subsidy on jute goods exports introduced of NRs. 800 per t.
March 29, 1979	Subsidy abolished
April 22, 1980	Dual exchange rate altered to NRs. 14 per \$1 US. 12% commission discontinued. Export duty reduced 4% to 1%.
September 17, 1980	Subsidy on raw jute export of NRs. 347 per t. introduced. Minimum price and rate jute market operation in conjunction with private enterprise with objective of raising prices.
June 14, 1981	Subsidy on raw export discontinued.
September 9, 1981	Dual exchange rate abolished.
January 3, 1982	Export duty of 1% abolished
June 15, 1982	Minimum price and market operation of JDTC discontinued
October 1983	Subsidy on hessian export NRs. 700 per t. Subsidy on sacking, twine NRs. 500 per t.
From 1986/87 to 1988/89	Minimum support price of raw jute discontinued and jute price left to be fixed through open market competition
At present	Subsidy on hessian export 25% to 35% No subsidy or bonus voucher scheme. Like raw jute, from 18 per cent to 40 per cent import duty & other duty on auxiliary raw materials like J.B.O., TKP, Dyes, Chemical, packing materials including balling hoops, buckles and other store spares materials especially from India where as in Bangladesh the import duty is around 5 per cent.



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