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Trade Liberalization Process and Its Impact on Agriculture Sector in Nepal

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Abstract

This study examines the process of Nepal's trade liberalization and its impact on Nepalese agriculture sector. It explains and analyzes the various economic policy reforms undertaken in Nepal including trade, fiscal, industrial, and financial reforms; and explains how these reforms supplemented one another to promote trade liberalization. It is descriptive and analytical study. Simple descriptive statistical tools were used to analyze the impact of trade liberalization on agriculture sector in Nepal. The study finds that trade liberalization has not caused any significant changes in the position of Nepalese agriculture sector. It means a condition of Nepalese agriculture has not been improved and it is being deteriorated. Similarly, export/import ratio has been further decreased continuously after trade liberalization implying that power of export of agro product to purchase import of agro product is continuously diminishing. Similarly, there is continuous trade deficit in food item and live animal after trade liberalization. Role of agriculture in the economy has been decreased. It has increased the dependency on foreign agricultural products.

Keywords: export, export import ratio, food and live animal, import, trade balance, trade liberalization, GDP

Introduction

One of the most prominent features of the world economy over the last three decades has been the liberalization of international trade and payments under the International Monetary Fund (IMF) and the World Bank (WB). Countries in both developed and developing world have been undertaking the policy of trade liberalization to promote their economic growth through dynamic and static benefits of trade. That is trade increase the flow of knowledge and investment and makes efficient allocation of resource by increasing competition in the domestic market. Exports and imports are highly affected by restrictive trade policy that discourages exporters and importers through high export tax and import tariff. However, pre-assumption of implementing trade liberalization is that it will make more of both export and import (Hassen, 2008). But there is controversy regarding obtained benefits of trade liberalization in developing countries like Nepal.

The Panchayat policy in order to cure the existing economic ills-macro economic instability caused due to low growth, growing fiscal deficit and declining international reserves-was forced to welcome the IMF sponsored stabilization program in 1985, WB guided Structural Adjustment Program (SAP) in 1987-1989 and the IMF financed Structural Adjustment Facility (SAF) for 1987-1990. The causes that led Nepal to adopt stabilization and adjustment program were downward growth rate of GDP; inability of the state-owned banks to recover significant portion of the loans and the persistence of negative real interest rates; widening poverty, inequality, unemployment and chronic underemployment, inefficiency of public sector enterprises despite heavy subsidies granted by the state and corrupt practices plaguing the core of the political economy of public institutions; and poor performance of industrial and agricultural sector, with low capacity utilization, low quality products, lack of competition, protectionist industrial policy, bureaucratic delay (Bholibad), and corruption (Dahal, 2005).

Some of the structural adjustment measures implemented since 1984/1985 are abolition of licensing requirements for industrial investment, opening of the infrastructure, education and health sectors to the private sector, liberalization of convertible currency transactions, trade and conditionality for Foreign Direct Investment (FDI), introduction of one window system for industrial investors as well as FDIs, progressive reduction in tariff rates etc. The Nepalese rupee has depreciated by two and half times against the US$ and other convertible currencies between 1984/85 and 1995/1996 and by more than three times by July 1998. The exchange rates are determined by Indian rupee rates in the Indian market, while exchange rate between Indian and Nepali rupees remains fixed. As the Indian rupee is freely convertible in Nepal, The Nepalese rupee is virtually pegged to the Indian currencies. The overall incidence of tariff rates has come down to 9.3 percent of total imports in 1996/1997 from 14 percent in 1990/91 (Acharya, 2005). In this way, trade liberalization policy was initiated in Nepal. These changes were, in turn, directly modeled after the dictates of an export promotion strategy. Exports came to be the vehicle of development. The government emphasis on export in this era is reflected in the establishment of the "Trade and Export Promotion Centre" under the Ministry of Industry, Commerce and Supplies. Export incentives were provided to a number of different industries, and several sectors were gradually opened to foreign investment. Consistent with the objective of introduction of foreign competition; reduction of import duties and tariffs were undertaken. Thus, the shift in trade policy orientation from Import Substitution (IS) to Export Promotion (EP) has influenced/is influencing different sectors of the economy like agriculture, industry, tourism and so on.

Research Methodology

This study is completely based upon the secondary sources of data and information. Nature of this study is descriptive and analytical. It has covered the sample period of 44 years that is from Fiscal Year (FR) 1974/75 to 2018/19 to examine the impact of trade liberalization on agriculture sector in Nepal. The sample period is chosen because of the major trade policy reforms undertaken in Nepal and availability of the data for this period. It has analyzed the trade policy reform undertaken in Nepal and available information is presented in descriptive as well as in analytical way. Simple mathematical and statistical tools like average, percentage, tabulation and presentation are used to study the impact of trade liberalization on the trend of export, import, and export/import ratio of agricultural product and so on.

Discussion

Trade Liberalization and Agriculture

Inspired by the success of the formation of WB and IMF for the international monetary cooperation, similar cooperation in international trade was also desired by many trading nations for expansion of world trade. It was thought that for healthy world trade, existing trade barriers must be relaxed. For this purpose, General Agreement on Trade and Tariff (GATT) was established in 1947 signing an agreement by twenty three major trading nations. But it excluded the agriculture sector. Agricultural trade was given "special treatment" and was effectively exempted from some important GATT rules i.e. quantitative restrictions for agricultural product and use of agricultural export subsidies for domestic price stabilization and expansion of agro product export respectively.

Uruguay round trade negotiations under the framework of the GATT led to the creation of the WTO, with GATT remaining the integral part of the WTO agreements. The objectives of it with regard to agriculture were to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under effective GATT rules and disciplines. An important element of the declaration was its explicit recognition of the effects that domestic agricultural policies have on international trade. The round would concentrate not only on the issue of border controls and export subsidies, but also on a broad range of domestic agricultural policy issues. Policies that subsidized producers would be subject to close scrutiny and negotiation.

After the establishment of the WTO in 1995, WTO members continue to conduct negotiations to reform agricultural trade. These talks began in early 2000 under the original mandate of the agriculture agreement and became part of the Doha Round at the 2001 Doha Ministerial Conference. At the 2013 Bali Ministerial Conference, ministers adopted important decisions on agriculture. More recently, at the 2015 Nairobi Ministerial Conference, WTO members agreed on a historic decision to eliminate agricultural export subsidies, the most important reform of international trade rules in agriculture since the WTO was established.

Nepal's Commitment on WTO Accession

As part of its accession commitments, the un-weighted average bound rate of Nepal's agriculture customs duty has been declined from 51% on the date of accession to a bound rate of 42% after three years of accession. For non-agriculture products, the binding rate will decline from 39% on the date of accession to the final bound rate of 23% after the transition period. None of the agriculture products are bound at a rate below the current applied rate. Nepal has agreed to bind 400 tariff lines at the applied rate, 50 tariff lines bound at below the current applied rate have a transitional implementation period extending up to ten years. Similarly, Nepal has committed to opening 11 service sectors [70 service subsectors] for foreign investment. Foreign investment will be permitted in service sub-sectors such as accounting, auditing, engineering, construction, computer, publishing, courier, telecommunication, franchising, education, hospital, tourism, and entertainment with a maximum foreign equity condition ranging from 51% to 80%. The total foreign shareholding in any institution providing financial services is limited to 67% of the issued share capital. Branches of foreign institutions have been allowed for insurance services and wholesale banking by 1 January 2010, only licensed commercial banks may accept deposits, which are repayable upon demand. However, foreign investment in other services sectors such as advertising, wholesale and retailing has been restricted.

Nepal India Trade Treaty

Article IV of the current trade treaty with India has covered the trade of primary products such as rice, pulses, flour, atta, bran and husk, timber, jaggery (gur and shakar), livestock, poultry bird and fish, bees, bees-wax and honey, raw wool, goat hair, bristles and bones are used in the manufacture of bone-meal, milk, homemade products of milk and eggs, herbs, ayurvedic and herbal medicines, including essential oils and its extracts. Articles produced by village artisans as are mainly used in villages, stone aggregate, boulder, sand and gravel etc.

The protocol with reference to Article IV the contracting parties i.e. India and Nepal, mutually agreed on a reciprocal basis to exempt basic custom duty as well as quantitative restrictions on export and import of primary products. Similarly, both countries should treat the movement of imported items as domestic products in the territory of the nation that imports primary product from contracting parties. This provision may not be applied to third parties.

Overview of Trade Policy Reforms before Trade Liberalization

Neutral trade policy orientation changed in 1956 towards a closed, protectionist regime. The protectionist regime controlled and regulated industrial investment by adopting different measures. Domestic industries had been protected from foreign competition with the help of high tariffs and quantitative restrictions. Import licensing was also implemented in case of import of intermediate goods. Restrictions in the use of foreign exchange was put in place and, as in so many other import substituting countries, the exchange rate became overvalued over time. In the second three year plan (1962-65), the government had given more priority on increasing industrial production, creation of employment opportunity and diversification of trade. Similarly, government adopted the policy of providing permission for the establishment of the industries which had the potentiality for export like jute, lumber etc. More emphasis was given to reduce import of consumption goods, increase foreign exchange earnings and promote exports to improve the balance of payment. The importance of generating surplus in the country had been well recognized at that time. Under the given background, following policies were implemented in Nepal.

Exporter's Exchange Entitlement (EEE) Scheme (1963)

It is also used to be known as bonus system. This scheme was initiated under the Foreign Exchange Regulation Act of 1962 which allowed exporters to countries other than India a bonus in convertible foreign exchange which could be used to import a wide range of goods other than those restricted. It is implemented in 1963.

This scheme made foreign exchange available to exporters on varying percent of their earnings to import raw materials and other components for export promotion.

Similarly, the exporters who were capable of exporting the countries other than India and earning convertible currencies used to be provided bonus certificate, which was to be used for the purpose of importing goods from those countries.

The Dual Exchange Rate (DER) System

Realizing the adverse impact; the EEE scheme was replaced by Dual Exchange Rate system in 1978. In this system, there were two rates: basic rate (lower) that was fixed at US$ 1= RS12 and second rate (higher) that was fixed at US$ 1= RS 16. All the earnings of foreign currencies through exports were to be exchanged at second rate. Import from third countries were categorized under two headings; a specified list of goods which could be imported under basic exchange rates and rest of the other goods which had to be paid at second exchange rate. Different 14 development and construction goods such as petroleum products, chemical fertilizers, certain raw materials and machineries required for the agricultural and industrial development were included under specified list of import items.

The first rate was left untouched, second rate was brought down from Rs. 16 to 14 in 1980. This had been done due to the fact that the depreciated exchange rate incentive was no more producing the desired results. The quick profit-earning practices of traders continued at the cost of losing government resources (Pant, 2010).

New Trade Policy 1982

Trade policy of 1982 was based on an integrated form for the first time covering export, import and internal supply arrangement the major guidelines of the export trade policy 1982 can be considered for future reference (Poudel, 2010). This policy was enacted under the slogan “Exports for Development”. It had promised to provide incentives to private entrepreneurs to invest in the growth and expansion of the export sector. The new policy sought to “open a wide international market” for indigenous products instead of confining them “within the narrow bounds” of the domestic market.

This trade policy had set the following objectives and policies:

(i) Expansion of the scope of foreign trade and increment of the level of foreign exchange earning to satisfy the growing import needs and to service external debts;

(ii) Generation of employment opportunities through the promotion of production, productivity and qualitative standards of exportable goods; and

(iii) Finding wide international market for indigenous products instead of confining them to domestic market.

To fulfil the above objectives, some of the major policies were as follows:

(i) Formulation of liberal policy towards the imports of capital goods, construction materials, industrial raw materials, production of inputs and articles of daily consumption;

(ii) Protection to agricultural and industrial commodities from foreign competition, which could be produced within the country;

(iii) Exemption of local taxes and no restriction on the entry of import goods into the country; and

(iv) Simplification of all administrative procedure.

A Nine Point Export Program

In consonance with the objectives of new trade policy, the government brought nine point export promotion program in November l, 1983. The salient features of the program were:

- ♦ Formation of a Exports Goods Development and Export Promotion Council;
- ♦ Provision of 10 percent rebate on f.o.b. border customs value for exports to third countries;
- ♦ Provision of foreign exchange facility for industrial establishments equivalent 15 percent of their convertible currency export earning;
- ♦ Reduction of customs duties on all exports to third countries to 1 percent ad-valorem;
- ♦ Refund to export duties and sales tax levied on imported inputs directly used in the production of exports;
- ♦ Permission to exporters to borrow a pre export loan up to Rs. 2.5 million against letters of credit opened by importers;
- ♦ Concession on interest on export credit;
- ♦ 10 percent investment by NIDC to export oriented industries; and
- ♦ Provision of separate commercial bank units in major export centers - Kathmandu, Biratnagar, Birgunj and Bhairahawa.

However, both the trade policy 1982 and the nine-point program did not bring about satisfactory results as trade data disclose particularly because of administrative inefficiency and lack of implementation of the various policies.

Adoption of Currency Basket System

For the enhancement of export competitiveness in international market, a country's exchange rate should have a reasonable value. Such reasonable value could be obtained through the flexible exchange rate regime. Considering this, Nepal shifted towards flexible exchange rate regime partially, adopting Currency Basket System in 1983. In this system, exchange rate of Nepalese rupees used to be adjusted with the change in the value of major trading currencies except Indian Currency (IC). After the adoption of this policy, exports increased significantly. When the basket system was adopted, exchange rate of US dollar was Rs. 14.20 and when the system was removed formally in 1992, it had moved upto Rs. 43.10. Out of total increase of Rs. 28.90, about two- third depreciation was through the self-adjustment (40 Years of Nepal Rastra Bank). However, in the context of fixed exchange rate with IC, such system would create broken cross rates between Nepalese and other convertible currencies. In order to correct such discrepancies, the Nepalese rupee was devalued in three occasions by the government (Kafle, 2006).

Nepal in Economic Reform Mode: A Compendium of Policy Changes

In the decade of 1980s, Nepalese economy had experienced quite unfavorable situation. The GDP growth rate has skidded into near stagnation, increasing fiscal deficit due to low internal mobilization, fast growing public expenditure and swelling debt burden. As a result, economic policy was radically changed. The major policy reforms are discussed in more detail below:

Reform in Financial Sector

Until the 1980s, the entire financial system was owned and controlled by the government with little or no role for the private sector for financial intermediation. The primary objective was confined to allocating funds to priority sectors in the economy thereby putting less emphasis on loan recovery that provides the basis for judging a quality financial intermediation. The state owned banks were unable to recover significant portion of their loan and persist the negative real interest rate. In this context, financial sector reform opened up free entry of private banks and financial institutions as well as foreign banks, where only limited state owned banks and financial institutions were in money and capital market. Similarly, Nepal Rastra Bank (NRB) deregulated the rate of interest partially in 1984. In 1989, it fully deregulated the rate of interest, according to which commercial banks and other financial institutions are allowed to fix their deposit and lending rates as well as maturity period of fixed deposits after maintaining the floor rate as prescribed by the NRB.

Reform in Industrial Sector

The industrial policy, 1992 aimed at providing the private sector a leading role in industrialization, a role so far assumed by the public sector. This policy has tried to address the structural constraints to accelerate the industrial development and to promote the export as assumed by the trade policy, 1992. This policy to supplement trade policy, 1992 gives top priority on export oriented industries. It provides safeguard and incentives provisions including the refundable provisions of custom duty, excise duty, and Value Added Tax (VAT) levied on raw materials and auxiliary raw materials, facility of bonded warehouse on the basis of quantity within 60 days to the exporters if products are sold in the foreign currency. In addition, policy desires the inflow of FDI on export trade and investment promotion. The foreign investment and technology transfer act, 1992 was subsequently enacted to attract foreign investment in various sectors including hydropower.

Privatization of Public Enterprises

In the decade of 1990s, the wave of globalization and liberalization spread all over the world. In this context, a privatization act was enacted in 1993 in Nepal. Then government of Nepal initiated the process of privatization, liquidation and termination of Public Enterprises (PEs) in 1993 with the objectives of raising the private sector's productivity through their skills enhancement, ease the government's financial and administrative burden, increase the private sector participation and ensure effective and efficient delivery of goods and services. Since then and between the fiscal year 2009/10, the government has divested 30 PEs through adoption of various modalities including the sale of business assets, partial disinvestments of shares, sales of current assets, leasing of buildings and land, management contract, liquidation and termination (MOF, 2010).

Fiscal Policy Changes

The fiscal policy changes aimed at an improved mobilization of budgetary resources by widening the coverage of taxes and by raising the efficiency in the collection of taxes. For this purpose, VAT was introduced in FY 1999/2000 in full-fledged form. Fiscal policy changes in post 1990 period basically included activities intending to reduce fiscal deficits either by raising the government revenue or by trimming down government expenditure.

Import Policy Changes

Nepal had followed quantitative restriction policy in order to protect the domestic industries from the foreign industries, facilitate import of raw materials and intermediate inputs required for domestic production by local and export-oriented industries, and conserve the foreign exchange. But this quantitative restriction policy was not favored by WB and IMF. So, when Nepal approached for their help in order to overcome the BOP crisis in mid 1980s, they pressurized to give up quantitative restriction policy for liberal trade policy. An import Auction License System (IALS) replaced the administrative quota system in July 1986.

In March 1989, the government introduced the open general license as a step to support the structural adjustment program. Before the implementation of this policy, government used to control all imports, especially from overseas, through quantitative restriction. Under OGL, essential goods for instance petroleum products, coal, medicine, raw materials required for export-promoting industries such as raw wool, cotton yarn and cotton fabric, news print, transport equipment and house gadgets etc. could be imported freely. But, with the completion of 18 months long stand-by arrangement program; Structural Adjustment Loan (SAL) and Structural Adjustment Program (SAP) entire import goods except some contraband items were put under the OGL umbrella in July 1993. With this; the government completely did away with quantitative restrictions on import.

With the replacement of quota system by auction system and later on by OGL system, Nepal had only one tariff measure left in her hand in order to curb the import in the trade regime. Nepal had imposed high custom tariffs in order to preserve the competitive capacity of the domestic industries on the one hand and on the other to, a. raise revenue, b. curtail luxury consumption, and c. preserve foreign reserves and thereby maintain BOP equilibrium at satisfactory level. But advocates of free trade opine that these objectives are better realized through income tax and subsidy for domestic production than through custom tax. Nepal also got facilities under the Enhanced Structural Adjustment Facility (ESAF) since 1987 as other low income countries of the world. Under the system tariff rates have been substantially reduced. In this context, both tariff rates and slabs have been slashed down. Prior to this reform, Nepal imposed high tariff rate which was as high as 300 percent.

Changes in Export Policy

In the past, Nepal has followed export promotion strategy such as export subsidy, dual exchange rate, bonus system etc. Though these measures are little bit effective to diversify Nepalese trade, they are discriminatory and proved beneficial to business house rather than common mass.

Government of Nepal took the decision of devaluation in November 1985 as one of the parts of Economic Stabilization Program (ESP) supported by the IMF. Even before this devaluation decision some liberalization efforts for export promotion had already been exercised. In August, 1985 to facilitate exports to overseas and attract deposits in foreign currencies NRB instructed the commercial banks to accept deposits in US dollars and pound sterling. The commercial banks were free to fix the interest rates on such deposits. However, all such measures could not be effective to curb the adverse trade and payments position. These all compelled the government to devalue the currency as advised by the IMF. After the completion of Economic Stabilization Program, Nepal launched the three year SAP supported by the IMF and WB in 1986. The SAP was also expected to attract Foreign Direct Investment (FDI) and increase the production of exportable. But FDI for industrial development could not be attracted other than from India which mostly went to trade and service oriented sectors rather than to strengthen industrial production of exportable. One of the objectives of introducing ESP or SAP had been to improve the competitiveness of the Nepalese export sector. It has been maintained that both ESP and SAP failed to fulfil this objectives (Pant, 2010).

The Seventh Plan (1985-90) had also given emphasis to export promotion to make balance of payment situation more favorable gradually through expansion, diversification and development of export sector. Export promotion had been linked with employment generation and increase in national production. It had forwarded the new policy i.e. to prioritize the high value-low weight products for export and arrangement to establish the Export Processing Zones (EPZs).

Some other promotional measures like export duty drawback system (1987), bonded warehouse scheme (1988) etc. were also adopted. Similarly, exports are tax exempted except 0.5%. Sales tax is replaced by VAT in FY 1999/2000 and zero VAT on exportable. Different new trade policies were introduced and implemented. However, these measures could not be much effective in changing the structure of export sector in the country.

Changes in Foreign Exchange Policy

Trade reforms were started in the early 1990s by introducing partial convertibility in the current account on March 1992. This policy reform was carried out to facilitate trade and thereby to promote the export. This replaced the system of administrative control over import by the market mechanism. The system tried to provide a built-in device to bring about a favorable impact on the current account and the BOP position. It also assisted in loosening the grip of bureaucracy on economic activities and promoting open competition in the market. In order to achieve the full benefits of integrating the Nepalese economy with the world economic system, the government announced the full convertibility of current account transaction on February 1993. The foreign exchange market is converted to floating system but it is still pegged with Indian currency. Similarly, commercial banks are allowed to keep their balance abroad.

Nepalese rupee was made fully convertible for the current account transactions in February 12, 1993. Along with the sharp cut in tariff rates to make rates compatible with the global tariff rates, foreign investors were granted facilities similar to local investors. Similarly, effective from 1991, Nepalese working in international agencies based in Nepal can keep their account in convertible currencies if they receive salary in such currency and Nepalese working abroad also can keep their account in convertible currency in local bank. In this way, the process of gradual liberalization of capital account has, to some extent, already begun. The Foreign Investment and Technology Transfer Act, 1992 was also enacted and amended in 1996. Through the enactment of this act, almost all sectors of the economy have been opened for foreigners except defense, cigarette, bidi and alcohol. This has permitted the foreign investment in the form of joint ventures operation with the Nepalese investor or 100% foreign owned enterprises. It guarantees full repatriation of the amount received from the sale of equity, profits or dividend, principle and interest in the convertible currency. There is no discrimination between citizens and foreigner to receive tax and other facilities provided by the government. Exporters are permitted to borrow in foreign currency from local commercial banks. Moreover, the existing limit of exchange facility has been raised upward from US$ 1,500 to US$ 2,500 to individuals and institutions by commercial banks for settling petty international transactions for various purposes.

Trade Policy 1992

Following the wave of economic liberalization and structural adjustment program as well as restoration of multiparty democracy, Government of Nepal introduced and enacted its first liberal and dynamic trade policy in 1992. This policy has removed most of the trade barriers. This policy had given priority to new product identification and development through promotion of backward linkage, trade diversification, gradual reduction in trade imbalances and coordination with other sectors of the economy by expanding employment oriented trade. Similarly, it also had focused on promoting sustainable trade to enhance the national economy by undertaking by open and liberal trade policies, and by allowing wider participation of the private sector. These objectives highlighted the outward orientation with particular stress on competitive and sustainable export development. The role of private sector was also clearly recognized.

The export policy considered the need for an effective formulation and implementation of macro-economic policies. Some of the export strategies adopted by this policy are: a) introduction of container services and expansion of existing bonded warehouses; b) establishment of Export Promotion Zones (EPZs); c) making the Nepalese currency partially convertible ultimately leading to its full convertibility; d) delicensing of exports except those banned or under Quantitative Restriction (QR); e) implementation of duty drawback system by devising suitable mechanisms; d) setting up of the EPZ; e) exemption from all charges and income tax on exports except service charge etc.

To sum up, these strategies have tried to strengthen the export capability through proper development of infrastructure, backward and forward linkages, and institutional and manpower development, and improvement in product marketing and promotion activities.

In a remarkable shift in import policy, the new trade policy declared that easy access to the international market of goods, that cannot be manufactured within the country or that involve a relatively high production cost, will be provided. The policy also stated that except certain goods related to internal security and public health; the import sector would be subject to less regulation by gradually phasing out quantitative restrictions, simplifying the licensing regime, reducing import tariffs and narrowing the dispersion in tariff rates associated with imports. These changes in import policies, especially the reduction in import customs duty and tariffs, were brought about to encourage import of goods that are advantageous to the domestic producers and consumers in terms of both price and quality. Similarly, the foreign exchange policy regime also underwent several changes that sought to liberalize trade, i.e. reduce the systematic discrimination between the import and export sectors prevalent under the erstwhile protectionist regime. The currency was devalued several times; the foreign exchange market was liberalized for current account transactions in 1993 and efforts to make the exchange rate sensitive to the market were undertaken.

Import strategy of this trade policy can be summarized in terms of the following points: a) linking imports with exports; b) delicensing of imports, except for those on the quantitatively restricted list or in the auction system; c) reducing transit costs; and d) simplification of procedures.

Trade Policy 2009

Trade policy, 1992 was implemented with the mission of export led economic development. But, it largely remained unable to address issues of international trade dynamism, affiliation with regional and multilateral trading system, expansion of bilateral free trade area, simplification of trade procedures and development of new transit system. Enforcement of Sanitary and Phyto-Sanitary (SPS) measures and Technical Barrier to Trade (TBT) seem important for sustaining export trade. In the backdrop of the need of harnessing benefits stemming from the expansion in the market access opportunity, a comprehensive review of the trade policy was needed. In this context, trade policy, 2009 has been enacted in 2009 by government of Nepal.

This policy had embraced all the norms of World Trade Organization (WTO) as well as the norms and practices of other regional arrangements on trade. Special priority had been given to the important constituent factors of WTO- Service, trade and intellectual property policy. The policy has given emphasis to tourism, education, health and the four modes of WTO under the service trade. In order to encourage mode four at national and international levels, this policy had been included. It had also mentioned about the formation of trade promotion council to promote service trade. For the first time in history, the policy had envisioned the provision of initiating legal arrangements for the protection Nepali goods under Intellectual Property Rights Act. Similarly, it had made necessary legal arrangements regarding the Patent Rights, Trade Mark, Geographical Indication and Copy Rights including industrial properties protection act. So far as the goods for trade is concerned, readymade garments, carpets, pashmina wool and handicrafts had been given priority as before. Likewise, special priority was given to tea, leather goods, vegetable seeds, cardamoms, lentils/pulses and floriculture, ginger, medicinal herbs etc. The policy had envisaged a 23-member board of trade and commerce promotion, which has also mentioned that trade promotion council will be formed by integrating the present export promotion centre for the growth and promotion of Nepali goods. High priority had been given to special economic zone (Economic survey, 2008/09).

Pandey (2011) has argued that main focus of the previous trade policies were on the reduction of market distortions, deregulation and institutional development. On the other hand, this trade policy considers that export development is essential for higher, broad based and sustainable economic growth and poverty reduction in light of the small domestic markets and thus is heavily concentrated on the "supply side" and is oriented towards export "development" and not just "promotion". Though this policy tries to establish linkages of export sector with other sectors of the domestic economy, it does not intend to promote explicitly the import competing sectors.

Trade Policy 2015

The Government of Nepal has launched a new trade policy in 2015 considering the dynamism in the trade sector and addressing alarming trade deficit facing by Nepal. This policy includes different trade provisions aimed at promoting service trade, protecting intellectual property rights and implementing decisions taken during ninth world trade organization ministerial conference held in Bali, Indonesia, in December 2013. It has replaced the trade policy 2009. This new policy aims to promote domestic industries, manage growing imports and boosts exports, so that trade becomes an engine for economic development of the country and trade deficit will be reduced.

Trade Performance before Trade Liberalization

Total volume of trade has been continuously increased. Share of food item and live animal in total export has been continuously decreased except few fiscal years. This sector has a big contribution in total export in the beginning but this has been decreased at faster rate in the late 1980s. Growth rate of food item and live animal is highly fluctuated. Average growth rate of the export of food item and live animal during study period is 13.25%. Likewise, average share of export of food item and live animal in total export is 35.11%. Volume of import of food item and live animals has been continuously increased. Average growth rate of import of food item and live animal is 15.65. Average share of the import of food item and live animal in total import is 11.58%.

Though value of export/ import ratio of food item and live animal has been fluctuated to some extent, it has been continuously decreased implying that dependency on foreign agro product is increasing. Average export import ratio in agro product is 115.29% before trade liberalization. Similarly, Nepal is heavily dependent on imports to meet the demand for both investment and consumer goods. There is existence of both positive trade balance as well as negative trade balance in food item and live animals.

Trade deficit has become maximum i.e. Rs. 991.7 million in FY1990. Likewise, trade surplus becomes maximum in FY 1976 with the value of Rs. 512.9 million. Average trade balance during that period is Rs. 153.92 million. Proportion of agriculture in GDP has been continuously decreased. It has been 69% in FY 1976 and reached to 48% in FY in 1989. It implies that role and contribution of agriculture sector is diminishing and contribution of other sector is increasing. Average proportion of agriculture in GDP is 55.7%.

Trade Performance after Trade Liberalization

Total volume of trade has been continuously increased. Share of food item and live animal in total export has been fluctuated and remained less than 14% up to FY 2007. Then it has become more consistent and remained more than 20%. Similarly, share of live animal and food item in total trade has been fluctuated between 6% and 15% and it has been slightly increased after FY 2010. Growth rate of food item and live animal is highly fluctuated. Average growth rate of the export of food item and live animal during study period is 15%. Likewise, average share of export of food item and live animal in total export is 31.9%. It is found that import of food item and live animal has been continuously increased. But its share in total import is fluctuated to some extent and remained less than 10% up to FY 1999. Then after, it remains between 10% and 15%. Growth rate of import of food item and live animal is highly fluctuated. Average growth rate of the import of food item and live animal during study period is 20%. Likewise, average share of import of food item and live animal in total trade of agro product is 68.1%. But, it has been continuously increasing in successive FY.

Since the data were recorded, Nepal's import has been keeping a dominant share in total trade. Trade deficit has been increasing at faster rate in every FY. There is complete absence of trade surplus in agro product. Average growth rate of trade deficit in food item and live animal is 50.39% after trade liberalization. Similarly, average trade balance during that period is Rs. 32180.07 million. Though value of export/ import ratio of food item and live animal has been fluctuated to some extent, it is continuously decreasing implying that dependency on foreign agro product is increasing. Value of it remains below 20% continuously after FY 2015. Average export import ratio in food item and live animal is 50.09% after trade liberalization. Proportion of agriculture in GDP has been continuously decreased. It implies that role and contribution of agriculture sector is diminishing and contribution of other sector is increasing. But, trend of declining share of agriculture in GDP is faster after trade liberalization. Average proportion of agriculture in GDP is 35.7%.

Comparative Performance between Pre and Post Trade Liberalization

Major findings of the descriptive analysis in pre and post trade liberalization era have been presented in terms of following table 1.

Table 1: Average Agro product Trade Related Macroeconomic Indicator

Average agro product trade related macroeconomic indicator	Before trade liberalization (1975-1990)	After trade liberalization (1991-2018)
Export growth rate of food item and live animal	13.25%	15%
Import growth rate of food item and live animal	15.65%	20%
Export import ratio of food item and live animal	115.29	50.09
Average proportion of food item and live animal in GDP	55.7	35.7
Average trade balance in food item and live animal	Rs. -153.92 million	Rs. -32180. million
Share of food item and live animal in total export	35.11%	31.9%
Share of food item and live animal in total import	11.58%	68.1%

Sources: Own calculation on the basis of various issues of economic survey and quarterly economic bulletin (2019)

Conclusion

This process of trade liberalization and market oriented economic reforms were started in mid 1980s and intensified in 1990s in Nepal and made significant progress towards a more open and liberal trade regime by eliminating the tariff as well as non-tariff barriers. Numbers of policies and procedural reforms have been implemented to promote the trade sector of Nepal under the banner of the trade liberalization designed and sponsored by international financial institutions. It has not been able to achieve its goal. Import of agricultural output is increasing at faster rate than export. Similarly, export/import ratio has been further decreased continuously after trade liberalization implying that power of export to purchase import is continuously diminishing. Similarly, there is continuous trade deficit in food item and live animal after trade liberalization. Role of agriculture in the economy has been decreased. It has increased the dependency on foreign agricultural product.

It is found that contribution of trade liberalization is not satisfactory in the promotion of agriculture sector of Nepal. Therefore, it becomes essential to increase the efficiency of Nepalese agriculture sector to compete with foreign agro product. For this purpose domestic private capital should be attracted and encouraged to invest in Nepalese agriculture and basic agro product should be protected from foreign competition. Government and private sector should identify and promote those products which have comparative cost advantage in international market for export promotion. It becomes very necessary to protect the basic agro product from foreign competition.

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Appendix

Appendix Table 1

Total volume of Trade and Export Performance **(Rs in million)**

Fiscal Year	Total Export	Export of Food and Live Animal	Share of export of food item and live animal in total export	Total trade	Total trade of food item and live animal	Share of food item and live animal in total trade	Growth rate of export of food item and live animal
1975	889.6	517.5	58.172	2,704.20	760.6	28.127	55.362
1976	1185.8	804	67.802	3,167.50	1095.1	34.573	-25.44
1977	1164.7	599.5	51.472	3,172.70	848.8	26.753	-32.39
1978	1046.2	405.3	38.74	3,515.80	728.3	20.715	20.602
1979	1296.8	488.8	37.693	4,181.50	780.8	18.673	-37.3
1980	1150.5	306.5	26.641	4,630.60	719.4	15.536	92.072
1981	1608.7	588.7	36.595	6,036.90	1189.9	19.71	25.004
1982	1491.5	735.9	49.34	6,421.80	1355.1	21.102	-55.47
1983	1132	327.7	28.949	7,446.00	1252.4	16.82	78.273
1984	1703.9	584.2	34.286	8,218.20	1312.6	15.972	69.822
1985	2740.6	992.1	36.2	10,482.70	1775	16.933	-15.77

Fiscal Year	Total Export	Export of Food and Live Animal	Share of export of food item and live animal in total export	Total trade	Total trade of food item and live animal	Share of food item and live animal in total trade	Growth rate of export of food item and live animal
1986	3078.1	835.6	27.147	12,419.30	1806.7	14.548	-15.79
1987	2991.4	703.7	23.524	13,896.60	1732.6	12.468	14.31
1988	4114.5	804.4	19.55	17,984.10	2328.1	12.945	-28.19
1989	4195.3	577.6	13.768	20,459.00	1910.2	9.3367	6.6482
1990	5156.2	616	11.947	23,481.10	2223.7	9.4702	60.15

Source: Quarterly Economic Bulletin (2019) and self calculation

Appendix Table 2

Import Performance **(Rs in million)**

Fiscal Year	Total Import	Import of Food and Live Animal	Total trade	Share of import of food items and live animal in total import	Total trade of food item and live animal	Share of import of food item and live animal in total trade of food item and live animal	Growth rate of import of food item and live animal
1975	1,814.60	243.1	2,704.20	13.397	760.6	31.962	19.745
1976	1981.7	291.1	3,167.50	14.689	1095.1	26.582	-14.36
1977	2008	249.3	3,172.70	12.415	848.8	29.371	29.563
1978	2469.6	323	3,515.80	13.079	728.3	44.35	-9.598
1979	2884.7	292	4,181.50	10.122	780.8	37.398	41.404
1980	3480.1	412.9	4,630.60	11.865	719.4	57.395	45.604
1981	4428.2	601.2	6,036.90	13.577	1189.9	50.525	2.994
1982	4930.3	619.2	6,421.80	12.559	1355.1	45.694	49.338
1983	6314	924.7	7,446.00	14.645	1252.4	73.834	-21.23
1984	6514.3	728.4	8,218.20	11.182	1312.6	55.493	7.4822
1985	7742.1	782.9	10,482.70	10.112	1775	44.107	24.039
1986	9341.2	971.1	12,419.30	10.396	1806.7	53.75	5.952

Fiscal Year	Total Import	Import of Food and Live Animal	Total trade	Share of import of food items and live animal in total import	Total trade of food item and live animal	Share of import of food item and live animal in total trade of food item and live animal	Growth rate of import of food item and live animal
1987	10905.2	1028.9	13,896.60	9.4349	1732.6	59.385	48.09
1988	13869.6	1523.7	17,984.10	10.986	2328.1	65.448	-12.54
1989	16263.7	1332.6	20,459.00	8.1937	1910.2	69.762	20.644
1990	18324.9	1607.7	23,481.10	8.7733	2223.7	72.298	13.236

Source: Quarterly Economic Bulletin (2019) and self-calculation

Appendix Table 3

Proportion of agriculture in GDP

FY	Share of agriculture in GDP
1975	69
1976	66
1977	60
1978	59
1979	60
1980	58
1981	57
1982	57
1983	57
1984	57
1985	49
1986	49
1987	48
1988	48
1989	48
1990	49

Source: Various issues of economic Survey

Appendix Table 4

Total volume of Trade and Export Performance (Rs. in million)

Year	Total Exports	Export of food item and live animal	Share of export of food item and live animal in total export	Total trade	Total trade of food item and live animal	Share of food item and live animal in total trade	Growth rate of export of food item and live animal
1991	7387.5	986.5	13.4	30614	2807	9.2	96.8
1992	13706.5	1941.6	14.2	45646.5	4889.1	10.7	-4.1
1993	17266.5	1862.9	10.8	56472.1	4887.6	8.7	-37.5
1994	19293.4	1163.4	6.0	70864.2	5248.2	7.4	34.3
1995	17639.2	1562.7	8.9	81318.7	6026.7	7.4	24.6
1996	19881.1	1946.6	9.8	94335.6	6732.4	7.1	36.7
1997	22636.5	2661.7	11.8	116190	8062.2	6.9	17.3
1998	27513.5	3123.2	11.4	116516	8052.2	6.9	19.3
1999	35676.3	3724.5	10.4	123202	11344	9.2	13.9
2000	49822.7	4240.4	8.5	158328	15079.4	9.5	12.6
2001	55654.1	4776.6	8.6	171341	10770.6	6.3	6.6
2002	46944.8	5094.2	10.9	154334	11427.4	7.4	19.8
2003	49930.6	6100.9	12.2	174283	15471.4	8.9	2.9
2004	53910.7	6276.9	11.6	190188	14830.9	7.8	11.4

Year	Total Exports	Export of food item and live animal	Share of export of food item and live animal in total export	Total trade	Total trade of food item and live animal	Share of food item and live animal in total trade	Growth rate of export of food item and live animal
2005	58705.7	6993.5	11.9	208180	16814.2	8.1	2.8
2006	60234.1	7192	11.9	234014	20490.7	8.8	-1.9
2007	59383.1	7055.8	11.9	254078	19951.7	7.9	86.6
2008	59266.5	13164.9	22.2	281205	29003.2	10.3	45.4
2009	67697.5	19145	28.3	352168	39616	11.2	-31.3
2010	60824	13155	21.6	435159	36921	8.5	10.5
2011	64338.5	14532	22.6	460515	43795	9.5	9.6
2012	74261	15930	21.5	535929	56713	10.6	13.6
2013	76917.1	18089	23.5	633657	79208	12.5	19.8
2014	91991.4	21667	23.6	806357	111321	13.8	-6.7
2015	85319.1	20209	23.7	860003	119829	13.9	-18.7
2016	70117	16421	23.4	843716	126177	15.0	11
2017	73049	18306	25.1	1063162	148929	14.0	13.9
2018	81633	20857	25.5	1324460	171969	13.0	-

Source: Quarterly Economic Bulletin (2019) and self-calculation

Appendix Table 5

Import Performance **(Rs in million)**

Year	Total Import	Total trade	Import of food item and live animal	Share of import of food items and live animal in total import	Total trade of food item and live animal	Share of import of food item and live animal in total trade of food item and live animal	Growth rate of import of food item and live animal
1991	23226.5	30614	1820.5	7.8	2807	64.9	61.9
1992	31940	45646.5	2947.5	9.2	4889.1	60.3	2.6
1993	39205.6	56472.1	3024.7	7.7	4887.6	61.9	35.0
1994	51570.8	70864.2	4084.8	7.9	5248.2	77.8	9.3
1995	63679.5	81318.7	4464	7.0	6026.7	74.1	7.2
1996	74454.5	94335.6	4785.8	6.4	6732.4	71.1	12.8
1997	93553.4	116190	5400.5	5.8	8062.2	67.0	-8.7
1998	89002	116516	4929	5.5	8052.2	61.2	54.6
1999	87525.3	123202	7619.5	8.7	11344	67.2	42.3
2000	108505	158328	10839	10.0	15079.4	71.9	-44.7
2001	115687	171341	5994	5.2	10770.6	55.7	5.7
2002	107389	154334	6333.2	5.9	11427.4	55.4	48.0
2003	124352	174283	9370.5	7.5	15471.4	60.6	-8.7
2004	136277	190188	8554	6.3	14830.9	57.7	14.8

Year	Total Import	Total trade	Import of food item and live animal	Share of import of food items and live animal in total import	Total trade of food item and live animal	Share of import of food item and live animal in total trade of food item and live animal	Growth rate of import of food item and live animal
2005	149474	208180	9820.7	6.6	16814.2	58.4	35.4
2006	173780	234014	13298.7	7.7	20490.7	64.9	-3.0
2007	194695	254078	12895.9	6.6	19951.7	64.6	22.8
2008	221938	281205	15838.3	7.1	29003.2	54.6	29.2
2009	284470	352168	20471	7.2	39616	51.7	16.1
2010	374335	435159	23766	6.3	36921	64.4	23.1
2011	396176	460515	29263	7.4	43795	66.8	39.4
2012	461668	535929	40783	8.8	56713	71.9	49.9
2013	556740	633657	61119	11.0	79208	77.2	46.7
2014	714366	806357	89654	12.6	111321	80.5	11.1
2015	774684	860003	99620	12.9	119829	83.1	10.2
2016	773599	843716	109756	14.2	126177	87.0	19.0
2017	990113	1063162	130623	13.2	148929	87.7	15.7
2018	1242827	1324460	151112	12.2	171969	87.9	-

Source: Quarterly Economic Bulletin (2019) and self-calculation

Appendix 6

Proportion of agriculture in GDP

Year	Proportion of agriculture in GDP
1991	45
1992	43
1993	40
1994	40
1995	39
1996	39
1997	39
1998	37
1999	39
2000	38
2001	36
2002	37
2003	36
2004	36
2005	35
2006	33
2007	32
2008	31
2009	33
2010	35
2011	37
2012	35
2013	34
2014	32
2015	31
2016	31
2017	29
2018	28

Source: Various issues of Economic Surveys