

Growth of GDP and Foreign Trade of Nepal: Trend analysis

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Abstract

It is clear that the total size of the economy and the total volume of trade have been increasing in Nepal. Both export trade and import trade contribute to economic growth, but the trade deficit increased rapidly over two decades. This paper investigates the trend analysis of foreign trade and GDP growth of Nepal during the last two decades. This paper has used annual statistical data from fiscal year 2001/02 to 2022/ 23 to analyze the trend of GDP growth and foreign trade of Nepal. Obviously, export and import trade play a crucial role in the economic growth of Nepal, but considering the fact of serious trade deficit, policy implications should be concentrated on export-oriented economic growth rather than import-oriented economic growth.

Keywords: GDP growth, export trade, import trade, trade deficit, big economy

Introduction

Nepal is a small but very beautiful country situated in the mid heart of Asia. It remains as a buffer state between two big economy, India and China. India and china are not only emerging economy but fifth and second largest economy of the world as well. Nepal's recognition is not only related with geographically beautiful, culturally diverse and naturally rich. Another part of coins is that the country still remains as one of the poor country of the world. Annual average economic growth rate of Nepal during last two decade is less than three percent. Current per capita GDP of Nepal is only about 1400 US \$ which is almost bottom position in south Asia. Only Afghanistan has less Per Capita Income (PCI) than Nepal in South (Economic Survey of Nepal 2080/81).

Nepal's increased trade imbalance is likely to jeopardize the country's macroeconomic stability. In this context understanding systematic relationship between international trade and economic growth aspect of Nepal would guide policy makers to formulate appropriate policies (Baskota and Sapkota 2015).

The growing and continued mismatch between import and export has resulted in an alarming level of trade deficit in Nepal. Over the years, export has almost been stagnated import skyrocketed. Import trade is about 40% of GDP and export trade is

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only about 5% of GDP (Ghimire, 2016). In recent years total volume of foreign trade has increased rapidly in Nepal and foreign trade represents about 50% of GDP (World Bank Report 2022).

Increasing international trade is crucial to continuance of globalization. It is major source of economic revenue for any nation that is considered a world power. It represents significant share of Gross Domestic Product (GDP) (Parajuli, 2020).

Before 1951 AD Nepal's foreign trade was only with India and Tibet but after 1951 Nepal's trade relation expanded with many other country of the world like Japan, USA, Germany, Singapore, Thailand and France etc. Nepal's foreign trade is rapidly increasing but with high trade deficit (Kafle, 2017).

The story of Nepal's economic growth is one of the disappointment relative to potential: physically beautiful, geographically perched between the world's largest and fast growing economy, young democracy, competitive strength in generating clean hydro power energy in an era of climate change and the demographic dividend with almost 40% of the population accounted for by the youth (Poudel and Wagle, 2019).

Foreign trade is the major source of national economy of Nepal. Nepal initiated its economic liberalization program in 1990s and stimulated deregulation of the financial sector, trade liberalization, current account convertibility, abolition of major trade restriction, several privatization program and policies, revision of trade treaty with India, financial reform program and minimize the role of government. Based on the liberalization policy Nepal became the member of World Trade Organization (WTO) in 2004 and consequently the foreign trade pattern changed (Ministry of Finance, 2017).

Economic condition of Nepal is poor due to low rate of Economic growth. Economic growth depends on many factors and one of the important factors is foreign trade. Foreign trade is essential factor for economic growth and it is valid in the context of Nepal also (Ranamagar, 2021).

Currently total volume of foreign trade of Nepal is Rs. 1769 billion in which share of export and import trade are Rs. 157 billion and Rs. 1612 billion respectively (Department of Custom, 2022/23).

Sustained, wide and higher economic growth is necessary condition for economic development. But economic growth rate of Nepal is low. Out of many factors foreign

trade is one of the major factors for high economic growth. Our neighboring countries China and India are not only geographically giant but economically super power also. They are moving forward in the path of prosperity and able to play decisive role in international arena. Both countries are the largest consumer market also. Therefore, Nepal should take opportunity from both emerging economy by promoting our foreign trade. Considering this fact this short research paper has aimed to analyze the trend of overall growth of foreign trade of Nepal and it's relation with economic growth of Nepal.

The objectives of this research article are:

1. To analyze the trend GDP growth of Nepal during last two decade.
2. To analyze the trend of export trade and import trade during last two decade.
3. To analyze the relationship of trend between the growth of foreign trade and GDP.
4. To provide suggestion to promote foreign trade for higher economic growth

Research Methodology

This study is based on secondary data and descriptive in nature. However, simple statistical tools are used to analyze the data. The secondary data from 2001/02 to 2022/23 are taken to analyze the trend of growth of GDP and foreign trade of Nepal. For this purpose various publications of the Ministry of Finance (MoF) and other relevant publications have been collected. It is based on quantitative data.

Table 1: Foreign Trade to GDP Ratio (2001-2022)

Year	Trade (% GDP)	Annual change (%)
2001	55.80	0.9
2002	46.23	-9.57
2003	44.25	-1.98
2004	46.15	1.90
2005	44.06	-2.08
2006	44.76	0.70
2007	44.58	-0.18
2008	46.04	1.06
2009	47.08	1.04
2010	45.98	-1.09
2011	36.30	-9.69
2012	37.92	1.63
2013	41.86	3.94

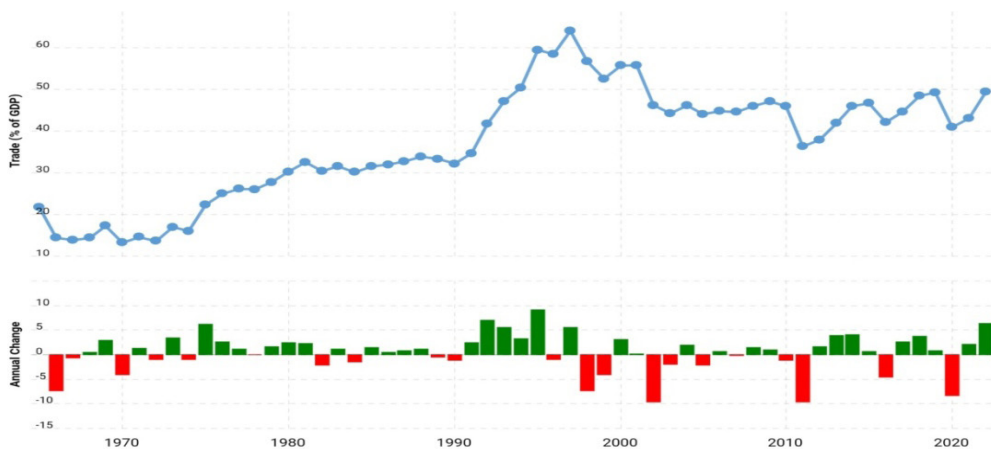
2014	49.98	4.12
2015	46.68	0.68
2016	42.12	-4.55
2017	44.60	2.53
2018	48.45	3.81
2019	49.25	0.83
2020	40.92	-8.32
2021	43.05	2.13
2022	49.40	6.35

Source: World Bank, World Trade Statistics (2022)

The trend of the ratio of total foreign trade of Nepal to the ratio of GDP is presented in given table. The data reveals that there is fluctuations in the total volume of foreign trade to GDP ratio. The table clearly shows the positive relationship between the growth of GDP and foreign trade.

In 2001 Nepal's trade to GDP ratio was maximum or 55.80% and after two decade or in 2022 Nepal's trade to GDP ratio is 49.40% which is increased by 6.35% than the data of 2021. The overall trend of Nepal's foreign trade to GDP ratio is also presented in following graph and diagram.

Figure 1: Nepal's Foreign Trade to GDP Ratio



Source: World Bank, 2022

Trend of GDP Growth of Nepal

Total volume of GDP, growth rate and per capita income of Nepal during past two decade is presented in following table 2.

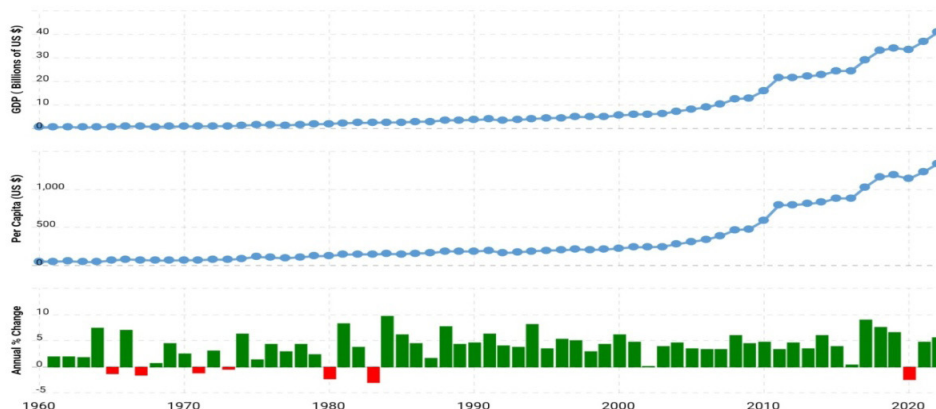
Table 2: GDP Growth of Nepal (2001-2022)

Year	GDP(In billion dollars)	Per Capita (In US dollar)	Growth (in %)
2001	6.01	241	4.80
2005	8.13	390	3.48
2010	16	589	4.82
2016	24.52	880	0.43
2020	33.48	1139	-2.37
2021	36.928	1229	4.84
2022	40.83	1337	5.61

Source: World Development Report, 2022

Given table 2 has revealed the trend of GDP growth from 2001 to 2022. In 2001 the volume of GDP was only 6.01 billion \$, per capita income was 241 US\$ and GDP growth rate was 4.80%. There is sufficient increment in total volume of GDP and per capita income of Nepal during two decade of period of time but it is not desired level of growth. Still per capita income of Nepal is less than 1400 US \$ which is very low in comparison to other SAARC countries except Afghanistan (Economic survey of Nepal 2080/81). Not only that average economic growth rate during past two decade period of time is only about 3% and there was negative growth rate in Fiscal Year 2020.

Figure 2: Trend of GDP Growth of Nepal



Source: World Bank, 2022

Export trade and Import Trade in Nepal

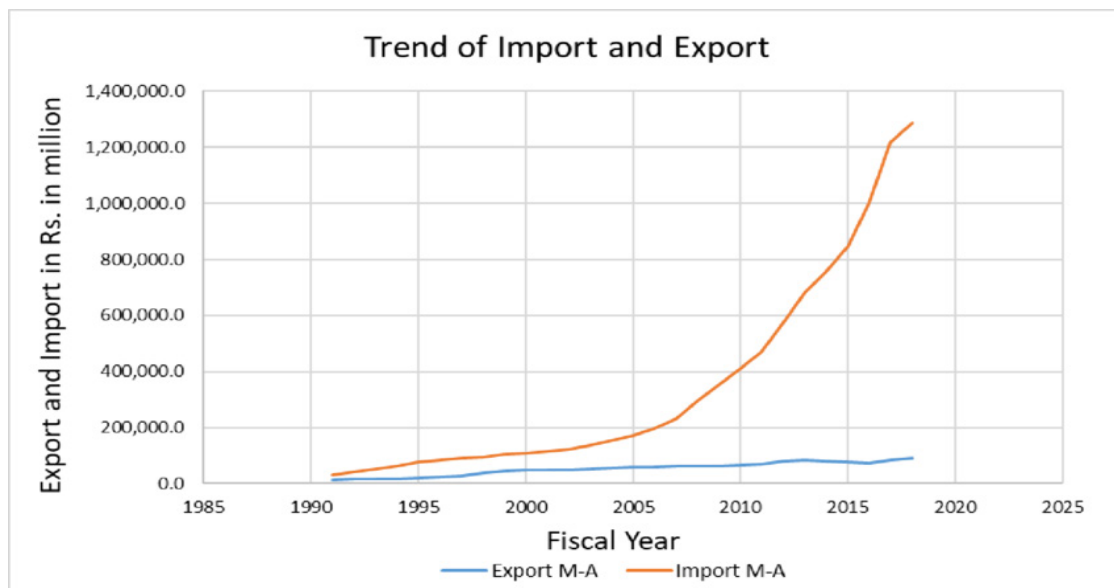
The trend of import trade and export trade of Nepal is presented in table 3 and figure 3.

The situation of export trade is not satisfactory in Nepal. In Fiscal Year 2022 the ratio of export trade with GDP is only around 5 per cent but ratio of import trade with GDP is around 44 per cent. There is positive relationship between export trade and GDP and import trade and GDP during last two decades but export trade has been declined in 2014/15 and 2015/16 in comparison to 2013/14. Major exported items from Nepal in 2022 are: refined palm oil, synthetic yarn, woollen carpet, refined soya bin oil, large cardamom, readymade garments, iron sheet, juice, felt fabrics and jute fabrics. Similarly, major imported items of Nepal are: diesel, petrol, LP gas, gold, pure iron, crude soya bin oil, mobile phone, polythene granules and crude palm oil.

Table 3: Structure of Foreign Trade of Nepal (Rs. In Crore)

Fiscal Year	Export	Import	Volume of trade	Trade balance
200/01	5565.41	11568.72	17134.13	-6003.31
2012/13	7691.70	55674.00	63365.70	-47982.30
2013/14	9191.10	71436.60	80632.70	-62237.50
2014/15	8531.91	77468.40	86000.00	-68936.50
2015/16	7011.7	77359.9	84371.6	-70348.2
2016/17	7304.9	99011.3	103616.2	-91706.4
2017/18	8163.3	124282.7	132446.0	-116119.4
2018/19	9711.0	141853.5	151564.0	-132142.6
2019/20	9770.9	119679.9	129450.8	-109909.0
2020/21	14112.4	153988.7	168096.1	-139871.3
2021/22	15712.5	1612983.7	1628696.2	-1597271.2

Source: Economic Survey of Nepal 2000/01, 2002/03, 2020/21, 2021/22

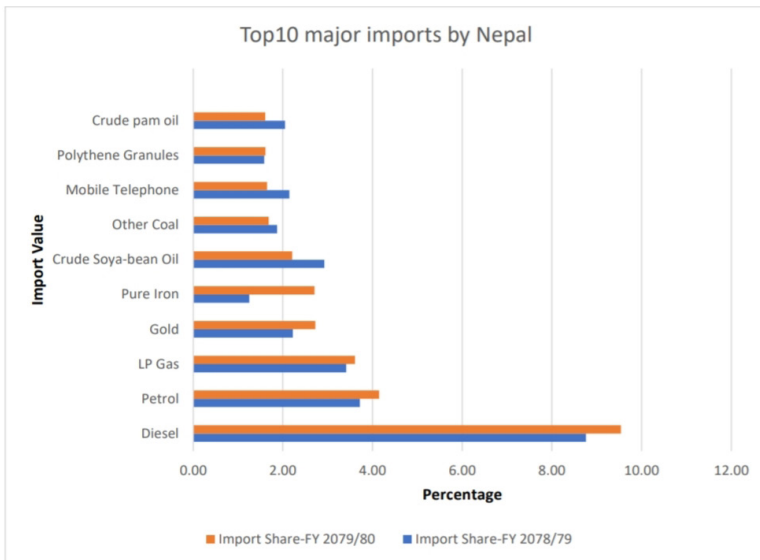
Figure 3:

Source: Annual Report of Nepal Rastra Bank 2019/20

Table 3 and figure 3 clearly shows the overall trend of export and import trade of Nepal. In 2000/01 total volume of foreign trade of Nepal was 4564.65 crore in which volume of export trade was 1370 crore and volume of import trade was 3194.44 crores. In 2000/01 the gap between export trade and import trade was not wide. During two decade there is sufficient increment in foreign trade of Nepal. Both export trade and import trade have increased but import trade has increased very rapidly and export trade has increased very slowly. In 2021/22 total volume export trade is only 15712 million but volume of import trade is 1612983 and total volume of trade is 1628696 crore. In this way volume of import trade is many times higher than the volume of export trade with high trade deficit 1597271 crore.

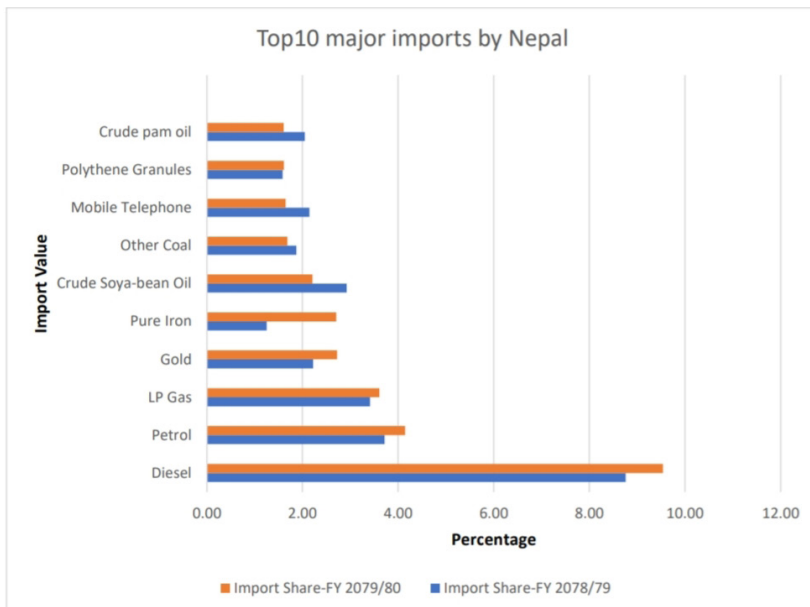
The interesting, challenging and noticeable fact is that the volume of import trade was only 2.08 times higher than export trade and the share of export trade in total trade of Nepal is more than 30% in 2001. But during the period of last two decade there is unbelievable and dramatic change in the statistics of foreign trade of Nepal. In 2022 total volume of import trade of Nepal is 102.66 times higher than export trade and the ratio of export trade in total trade of Nepal is only 0.97 per cent.

Figure 4: Performance of major export commodities of Nepal:



Source: Department of Custom, 2022-23

Figure 5: Nepal’s major imported commodities are:



Source: Department of Custom, 2022-23

Direction of Nepal's Foreign Trade:

Nepal's foreign trade is basically concentrated with India and China. More than 80 per cent foreign trade of Nepal is covered by two neighboring countries India and China (Department of Custom). India is the largest trading partner of Nepal both in terms of export and import. 64.14 per cent trade of Nepal is covered by India in 2079/80 where share of export trade is 63.77 per cent and share is import trade is 67.89 per cent. China is the 2nd largest trading partner of Nepal which covers 13.09 per cent of Nepal's total foreign trade. Including Hongkong and Taiwan, China covers 14.22 per cent of import trade and 1.49 per cent of export trade in fiscal year 2079/80. United States is the 2nd largest export destination of Nepal according to the data of 2079/80.

Table 4: Nepal's total foreign trade by major trading partners:

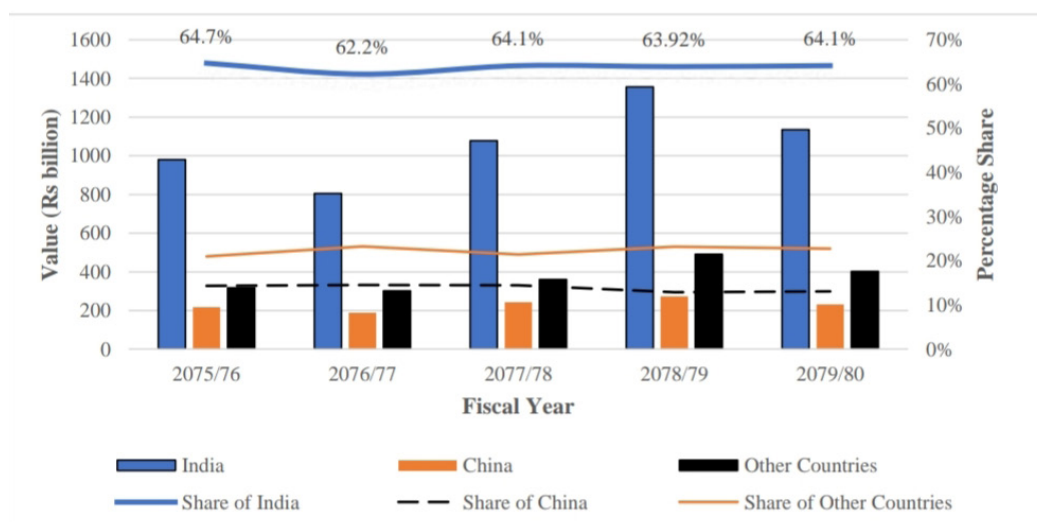
Value in NPR billion

Partner Country	Value of Total Foreign Trade			% Change 2079/80
	FY 2077/78	FY 2078/79	FY 2079/80	
India	1078.0	1355.4	1134.5	-16.3
China	242.6	273.5	231.5	-15.4
Indonesia	17.4	53.4	42.1	-21.1
United States	33.3	68.0	39.0	-42.7
United Arab Emirates	37.5	48.4	33.3	-31.2
Argentina	41.9	39.7	24.9	-37.3
Malaysia	9.7	17.1	22.7	32.6
Australia	17.5	25.7	20.2	-21.2
Ukraine	17.2	21.2	18.4	-13.1
Qatar	0.4	3.4	13.4	300.0
Thailand	9.7	12.0	11.4	-5.5
Subtotal	1505.2	1917.8	1591.5	-17.0
Total Trade	1681.0	2120.5	1768.9	-16.6
Share of Subtotal	89.5	90.4	90.0	

Source: Nepal's foreign trade statistics 2079/80, Department of Custom

Nepal's Trade Statistics 2079/80 has revealed that the major trading partners of Nepal in 2079/80 are India, China, United States, Indonesia, United Arab Emirates, Argentina, Malaysia, Australia, Ukraine, Quarter and Thailand. These countries have covered about 90 percent of Nepal's foreign trade which is equivalent to NPR 1519.5 billion. Another significant point is that there is not any noticeable change in direction of Nepal's foreign trade during last five years period of time.

Figure 6: Five years trend of Nepal's foreign trade by partner countries:



Source: Nepal's foreign trade statistics 2079/80, department of custom

Major Findings and Policy Implications

During two decade (From 2001 to 2022) total size of economy and volume of foreign trade has increased but GDP has not been increasing noticeably due to slow economic growth. The per capita income of Nepal is very low and almost bottom position in south Asia due to low economic growth.

Overall foreign trade of Nepal is heavily concern traded with India and China. Only two neighboring country India and China has covers more than 80 per cent share of Nepal's foreign trade. The research paper clearly shows that the trade diversification policy of government of Nepal has not been succeeded completely. Therefore government should adopt appropriate policy to diversify its foreign trade in terms of both country and commodity.

There is positive relationship between the growth of GDP and foreign trade but very high growth of import trade and very slow growth of export trade is not positive symptom.

The volume of foreign trade increases rapidly in Nepal during 20 years period of time but volume of import trade is many times higher than the volume of export trade and we are facing very serious problem of high trade deficit.

Foreign trade plays crucial role in economic growth. Progress and prosperity of nation is not possible without rule based systematic and diversified foreign trade. In our context only import led economic growth is harmful for economy. Wide trade imbalance may create so many problems and it is not favorable for sustainable economic development. Therefore should be minimized the wide gap between export trade and import trade and the policy implication should be focused on export trade promotion for economic growth. It means export oriented economic growth is essential rather than import oriented economic growth. Diversification of trade in respect to both commodity and country and focusing to export trade with comparative advantage of commodities are essential factors to reduce high trade deficit.

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