

Growth, Composition and Direction of Nepalese Foreign Trade

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Abstract

This article explores the growth, composition, and direction of foreign trade in Nepal, a landlocked country heavily reliant on international trade for its economic development. The study analyzes a ten-year period from 2012/13 to 2021/22 using secondary data from the Ministry of Finance and Nepal Rastra Bank. The findings reveal a significant increase in Nepal's trade volume, exports, and imports during this period; however, the growth rate of imports surpasses that of exports, leading to a persistent trade deficit. The composition of foreign trade is examined, highlighting the major commodity groups and export items. To achieve the objective of the research, a Qualitative Research Methodology and a Descriptive Approach has been employed. The analysis showcases the changing dynamics and fluctuations in export patterns across various sectors. Furthermore, the study investigates the direction of Nepal's foreign trade, emphasizing the growing reliance on imports from India. The article underscores the need to enhance export-oriented industries and promote import substitution to address the trade imbalance. Overall, the research contributes valuable insights for policymakers, businesses, and stakeholders to formulate effective strategies and enhance Nepal's trade competitiveness.

Key words: International trade, foreign trade, trade liberalization, trade deficit, export, trade imbalance

1. Introduction:

1.1 Background of the Study

International trade, also known as foreign trade, involves the movement of capital, services, and products between nations or across borders. It usually involves buying products and services from one country's residents by the residents of another country. This trade contributes substantially to the gross domestic product (GDP) of nations and involves transactions between individuals of different countries (Allias, et al., 2025)

Nepal's economy heavily relies on foreign trade, which serves as a significant contributor

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to its national economy. In the 1990s, Nepal implemented an economic liberalization program that involved various measures such as deregulating the financial sector, promoting trade liberalization, allowing current account convertibility, eliminating major trade restrictions, privatizing several programs, revising the trade treaty with India, implementing financial reform programs, and reducing the government's role. As a result of these liberalization efforts, Nepal joined the World Trade Organization (WTO) in 2004, leading to a transformation in its foreign trade patterns (Magar, 2021).

Nepal has Bilateral Trade Agreements with Bangladesh, India, Pakistan, and Sri Lanka, prioritizing merchandise trade. SAARC member countries show a stronger preference for bilateral free trade agreements (FTAs) as a means to facilitate trade with neighboring nations. Due to the absence of a shared consensus for implementing multilateral trade agreements, bilateral trade agreements are gaining popularity among SAARC member countries. (Prasai, 2014)

It is rare for a country to be entirely self-sufficient and usually it relies on the other nations for goods that are either scarce or unavailable. Similarly, it can export any excess goods that are in high demand outside its borders. When countries engage in trade, they use different currencies, and the rules and regulations of each country govern international trade, making it more complex.

A nation buys items from other countries that it cannot produce domestically and sells items it has in excess supply to other countries. International trade has played a significant role in the economic growth of nations. Countries cannot be self-sufficient in meeting all their demands by producing everything they need. The advancements in transportation and communication technologies have made it easier to transport goods and services across different regions. As a result, people can purchase goods from faraway nations at reasonable prices. In international trade different currencies are used and it is subject to the laws and regulations of the countries involved.

Despite the critical role international trade plays in economic development, Nepal continues to face significant challenges in its foreign trade due to its landlocked geography, limited production capacity, and dependency on external markets. This paper seeks to explore growth, composition and direction of Nepal's foreign trade in the context of these constraints and the evolving global trade environment.

1.2 Objectives of the Study

While delving to the major objective of this article is to analyze the foreign trade and its direction in Nepal. Along with the major objective other specific objectives are discussed below:

- To analyze the growth trend of Nepalese foreign trade
- To assess the composition of Nepalese foreign trade and
- To identify the current direction of Nepalese foreign trade

1.3 Rationale of the Study

Foreign trade can serve as a significant catalyst for overall economic growth when favorable conditions for profitable exchange emerge (Todaro & Smith, 2015). The study on growth, composition and direction of Nepalese foreign trade is significant for several reasons. Nepal's foreign trade plays a crucial role in its economic development and overall growth prospects. Examining the growth of Nepalese foreign trade provides insights into the overall performance of the country's trade sector. It helps to identify periods of expansion or contraction, enabling policymakers to assess the effectiveness of trade policies and identify factors that contribute to trade growth or hinder its progress. Moreover, analyzing growth patterns can help predict future trends, allowing businesses to anticipate market opportunities and challenges.

Studying the composition of Nepalese foreign trade involves analyzing the types of goods and services that Nepal exports and imports. This analysis can shed light on the country's comparative advantage, highlighting sectors where Nepal has a competitive edge and those where it may face challenges. Understanding the composition of trade can aid in developing policies that promote sectors with export potential and reducing reliance on imports.

By analyzing the current direction and trends of Nepalese foreign trade, the study aims to provide a comprehensive understanding of the country's trade landscape. This paper helps to identify Nepal's major trading partners and regions, providing insights into trade diversification opportunities and potential risks associated with overreliance on a few markets. It also allows policymakers to assess the effectiveness of trade agreements and initiatives aimed at expanding market access.

Overall, this paper aims to contribute to the existing body of knowledge on Nepalese foreign trade and it is essential to identify growth opportunities, and mitigate risks in Nepal's trade sector. It can also provide valuable insights for policymakers, businesses, researchers, and stakeholders to make informed decisions, identify potential opportunities, and formulate effective strategies to enhance Nepal's trade competitiveness.

2. Review of the Literature

Several research studies were conducted to examine the direction and issues of Nepal's international trade, some of which include the following:

Nepal has a historically weak external sector, characterized by a persistent trade deficit that continues to grow. While exports have been increasing in recent years, imports have remained unpredictable. Although the growth rate of exports has surpassed that of imports, the trade deficit has expanded primarily due to the larger volume of imports. To address this imbalance, the country could benefit from developing import substitution industries and promoting export-oriented industries. Remittance inflows have been a significant source of financing for the trade deficit, so the current account's volume and direction largely depend on the amounts of imports and remittances received from abroad (Acharya, 2013).

Factors such as the growth of exports, the accumulation of capital, the size of the labor force, the average tendency to save, the relative price index, and the ratio of government development spending to Gross Domestic Product (GDP) can all have an influence on international trade (Sharma & Bhandari, 2005).

Foreign trade has been of utmost importance in driving the economic advancement of nations. The absence of foreign trade would render it unfeasible for underdeveloped countries to undergo the process of modernization (IMF, 2018). Foreign trade refers to the transfer of money, commodities, and services between different nations or regions worldwide. The growth and maintenance of globalization heavily depend on the expansion of international trade. It plays a vital role in generating substantial economic income for countries that hold influential global status. Furthermore, it contributes significantly to the overall Gross Domestic Product (GDP) of a nation (Parajuli, 2021).

Trade liberalization aims to foster economic growth by enhancing the efficient distribution of resources, encouraging competition, facilitating knowledge and investment flow, and promoting faster capital accumulation and technological advancement. Trade barriers and anti-export bias hinder export growth, while import controls can reduce efficiency but protect the balance of payments. The expectation is that trade liberalization will boost both export and import growth, but its impact on the trade balance and balance of payments is uncertain and contingent on factors such as the differential effects of liberalization on exports and imports and the price dynamics of traded goods (Paulino & Thirlwall, 2004).

According to the theory of comparative advantage, Nepal is currently facing an expanding trade deficit, characterized by a significant rise in imports and a decline in exports. Several factors contribute to this trade deficit, including inadequate investment, insufficient technological infrastructure, barriers to movement, strained industrial relations, energy supply uncertainties, and a slow decision-making process within the government. These factors have hindered the promotion of exports. Nepal heavily relies on India for both imports and exports, limiting its ability to fully benefit from economic liberalization policies and integration with neighboring sub-regional,

regional, and global economies (Ghimire, 2010)

3. Methods and Materials

This study is primarily focused on utilizing secondary data and takes a descriptive approach. It aims to identify the direction and problems in Nepalese foreign trade by gathering data post of the liberalization of international trade in Nepal. The study encompasses a period of ten fiscal years, specifically from 2012/13 to 2021/22. Since the study relies on secondary sources, information has been obtained from various publications of the Ministry of Finance and Nepal Rastra Bank. Additionally, relevant works of other scholars pertaining to the research topic were consulted both through physical library resources and the Internet. To address the study's objectives and concerns, a combination of quantitative and qualitative data was collected. The quantitative data predominantly portrays the situation of Nepalese foreign trade and trade performance, which were analyzed using simple statistical tools such as percentages and averages. Thematic analysis was employed to interpret the qualitative data.

4. Results and Discussion

In this section, the data concerning the primary concerns of the study have been presented and analyzed in a systematic manner. Specifically, the subheadings that follow delve into the growth and direction of Nepalese foreign trade.

4.1 Growth of Nepalese Foreign Trade

Before 1951 AD, Nepal's trade was limited to India and Tibet; however, after the decline of the Rana regime, Nepal's trade relations expanded to include many other countries. Presently, Nepal's foreign trade has experienced significant growth and has expanded to numerous countries worldwide, resulting in an increased volume of trade. In the fiscal year 1956/57, Nepal's total exports amounted to Rs. 95 million, imports totaled Rs. 170 million, and the overall trade volume reached Rs. 265 million. However, at present, the volume of trade has multiplied exponentially. Table 1 illustrates the growth trend of the Nepalese foreign trade.

Table 1

Growth of Nepalese Foreign Trade

Fiscal Year (AD)	Export	Import	Volume of trade	Trade Balance
2012/13	7691.71	55674.03	63365.74	-47982.32
2013/14	9199.14	71436.58	80635.72	-62237.44
2014/15	8531.91	77468.42	86000.33	-68936.51
2015/16	7011.71	77359.91	84371.62	-70348.2

2016/17	7304.91	99011.32	106316.23	-91706.41
2017/18	8135.98	124510.32	132646.3	-116374.34
2018/19	9710.95	141853.53	151564.48	-132142.57
2019/20	9770.9	119679.9	129450.8	-109909
2020/21	14112.41	153983.71	168096.12	-139871.3
2021/22	20003.1	192044.84	212047.94	-172041.74

Source: Ministry of Finance <https://data.mof.gov.np/data.aspx#>

Table 1 shows the growth trend of the Nepalese foreign trade from the fiscal year 2012/13 to 2021/22 . In the fiscal year 2012/13, Nepal's export was equivalent to Rs. 769171 million, the import was equivalent to Rs.5567403 million; the total volume of trade was Rs.6336574 million, and the trade deficit was Rs.-4798232 million. In the fiscal year 2021/22, the total export was equivalent to Rs.200031 million, the total import was equivalent to Rs.19204484 million; the volume of trade was Rs.21204794 million and the trade deficit was Rs.-17204174. The data indicates a significant rise in Nepal's exports, imports, trade volume, and trade deficit. However, the rate of import growth surpasses that of exports, leading to a substantial and escalating trade deficit. This persistent deficit in foreign trade can be attributed to the limited production of export-oriented goods and a higher influx of consumer goods through imports. To address this issue, it is crucial to enhance the production of competitive goods, as this would bolster exports and reduce imports, ultimately narrowing the trade deficit.

4.2 Composition of Nepalese Foreign Trade

Table 2 A

Total Exports Classified by Major Commodity Groups (In Million Rupees)

Fiscal Year Quarter/ Month	Total									Miscellaneous Manufactured Articles	Machinery and Transport Equip- ment	Manu- factured Goods Classified Mainly by Materials	and Transport Equip- ment	and Transaction not Classified According to Kind
	Food and Live Animal	Tobacco and Bever- ages	Crude Materi- als, Inedible Except Fuels	Miner- al, Fuels and Lubri- cants	Animal and Vegetable Oil and Fats	Chem i- cals and Drugs	Manu- factured Goods Classified Mainly by Materials	Machinery and Transport Equip- ment	Miscellaneous Manufactured Articles					
	0	1	2	3	4	5	6	7	8	9				
2012/13	18,089.1	214.3	3,278.7	7.9	156.4	3,852.2	39,857.6	519.3	10,938.2	3.5				
2013/14	21,666.5	1,990.7	4,992.1	6.4	243.1	4,691.3	43,772.7	681.3	13,942.8	4.4				
2014/15	20,209.0	2,346.7	3,274.2	0.1	111.2	4,872.6	41,078.4	386.2	13,040.5	0.0				
2015/16	16,421.3	478.3	2,218.3	1.0	106.9	4,618.1	32,666.0	399.7	13,204.9	2.7				
2016/17	18,305.9	250.2	2,993.3	0.0	158.8	4,421.4	34,453.0	205.1	12,261.3	0.1				
2017/18	20,590.1	247.8	3,158.3	14.1	406.4	4,527.9	37,203.5	1,451.7	13,591.4	168.7				
2018/19	19,950.4	253.6	4,516.8	1.0	12,948.6	4,355.8	40,469.5	824.2	13,783.4	6.1				
2019/20	16,878.8	184.8	3,459.6	0.0	31,196.9	4,018.7	31,025.9	937.2	10,007.3	0.0				
2020/21	25,903.6	248.3	2,752.7	0.0	55,959.1	5,880.9	37,258.9	842.4	12,276.9	1.4				
2021/22	28,916.8	558.7	2,896.5	0.7	93,740.5	6,527.2	50,872.8	432.0	16,082.2	3.6				

Sources: NRB 2022 <https://www.nrb.org.np/database-on-nepalese-economy/external-sector/>

Table 2 A presents Nepal's foreign trade composition by major commodity groups for each fiscal year. The exports of Food and Live Animal products fluctuated between 16,421.3 million Nepalese rupees in 2015/16 and 28,916.8 million Nepalese rupees in 2021/22. Tobacco and Beverages exports were relatively small, ranging from 184.8 million Nepalese rupees in 2019/20 to 558.7 million Nepalese rupees in 2021/22. Crude Materials, excluding Fuels, experienced variations, with the highest value of 4,992.1 million Nepalese rupees in 2013/14 and the lowest value of 2,218.3 million Nepalese rupees in 2015/16. Mineral, Fuels, and Lubricants had a significant growth in exports, reaching a record high of 93,740.5 million Nepalese rupees in 2021/22. Chemicals and Drugs exports showed an increasing trend, peaking at 31,196.9 million Nepalese rupees in 2019/20. Manufactured Goods Classified Mainly by Materials exports varied, with a peak value of 40,469.5 million Nepalese rupees in 2018/19. Lastly, Machinery and Transport Equipment exports remained relatively stable, ranging from 205.1 million Nepalese rupees in 2016/17 to 50,872.8 million Nepalese rupees in 2021/22.

Table 2 B

Total Exports Classified by Commodity Groups (In Million Rupees)

Fiscal year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Major Items	14,689.6	18,289.7	15,563.4	17,929.0	16,329.5	16,397.7	16,469.4	13,159.3	15,693.6	20,818.7
Handicraft (Metal and Wooden)	81.2	110.4	84.8	97.5	153.3	89.2	146.4	115.3	205.0	382.9
Herbs	9.0	197.2	60.6	219.8	147.9	295.9	593.1	583.4	371.8	657.4
Nepalese Paper & Paper Products	243.0	289.2	217.8	324.2	380.1	312.8	281.7	312.8	417.2	561.7
Niger seed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.2	0.1
Pashmina	1,625.3	2,724.4	2,117.7	2,635.6	2,353.7	2,124.4	1,754.3	1,662.4	2,367.9	2,697.0
Pulses	2,671.3	2,043.9	1,131.6	882.8	970.0	896.3	1,274.1	949.0	567.7	569.5
Readymade Garments	3,078.1	4,222.9	3,959.7	4,481.9	4,005.5	4,368.1	3,911.4	2,611.1	3,318.9	4,618.9
Readymade Leather Goods	208.5	204.0	261.1	225.0	263.5	295.4	285.4	137.6	176.4	287.5

Silverware and Jewellery ¹	75.3	270.1	102.5	214.6	253.8	349.9	510.2	386.0	762.4	1,157.2
Tanned Skin	490.6	752.4	646.6	424.0	383.1	440.0	244.4	99.5	64.6	135.1
Tea	219.0	195.4	221.1	575.2	262.0	363.8	304.0	284.6	411.0	421.5
Woolen Carpet	5,988.2	7,280.0	6,760.1	7,848.4	7,156.4	6,861.9	7,164.4	6,017.7	7,020.6	9,330.0
Others	9,142.0	11,247.3	11,661.1	11,012.9	13,568.9	15,804.6	15,798.5	13,249.8	18,042.3	23,181.2
Total (A+B)	23,831.6	29,537.0	27,224.6	28,941.9	29,898.4	32,202.3	32,267.9	26,409.0	33,736.0	43,999.9

Sources: NRB 2022 <https://www.nrb.org.np/database-on-nepalese-economy/external-sector/>

Table 2 B reveals the composition of major export items in Nepal over the fiscal years. Among these items, the export value of Handicraft (Metal and Wooden) has varied, with the highest recorded value of 382.9 million Nepalese rupees in 2021/22. Pashmina, on the other hand, has consistently shown growth in exports, reaching a substantial value of 2,697.0 million Nepalese rupees in 2021/22. The export of Woolen Carpets has experienced a steady increase, with the highest value observed in 2021/22 at 9,330.0 million Nepalese rupees. In contrast, Readymade Garments have maintained a relatively stable export value, peaking at 4,618.9 million Nepalese rupees in 2021/22. The category of Others, encompassing a wide range of products, has exhibited significant growth in exports, with the highest value recorded in 2021/22 at 23,181.2 million Nepalese rupees. These figures reflect the diverse composition of Nepal's foreign trade, showcasing the changing dynamics and fluctuations in export patterns across different commodity groups over the years.

4.3 Imports from India Classified by Major Commodity Groups

Table 3

Imports from India Classified by Major Commodity Groups (In Million Rupees)

Fiscal Year Quarter/ Months	Total	Food and Live Animals	Tobacco and Beverages	Crude Materials, Inedible Except Fuels	Mineral Fuels and Lubricants	Animal and Vegeta- ble Oil and Fats	5	6	7	8	9
2012/13	367,031.2	46,541.1	2,583.3	15,051.9	115,320.7	132.6	42,753.5	78,412.7	55,690.2	10,545.1	0.0
2013/14	477,947.0	65,436.2	2,856.8	22,285.5	142,064.2	437.4	55,028.2	103,884.1	68,781.0	17,173.7	0.0
2014/15	491,655.9	75,664.7	2,907.3	17,426.1	117,329.7	682.7	56,575.7	116,650.0	87,593.0	16,826.7	0.0
2015/16	477,212.6	81,574.9	3,585.6	15,071.7	75,530.0	1,744.9	53,655.5	119,395.2	109,527.2	17,127.4	0.1
2016/17	633,669.6	95,020.8	3,776.8	18,642.2	129,623.1	1,325.7	61,448.0	166,508.1	137,342.1	19,982.8	0.0
2017/18	814,101.6	102,605.4	3,784.8	24,098.2	184,875.9	1,471.1	74,194.8	226,783.0	169,241.4	22,759.6	4,287.4
2018/19	917,922.2	118,462.4	3,773.8	27,062.3	234,150.7	1,405.7	85,082.0	238,923.4	180,252.9	28,794.3	14.9
2019/20	735,294.8	111,312.6	3,876.0	19,883.4	176,130.4	939.4	80,396.2	181,916.1	135,855.0	24,985.1	0.5
2020/21	971,603.9	161,953.3	3,807.9	28,249.2	187,399.7	2,407.3	105,737.1	255,674.7	195,891.2	30,483.4	0.1
2021/22	1,200,152.7	153,321.0	4,253.5	31,600.7	355,582.8	2,563.5	125,786.7	282,357.2	207,880.1	36,796.3	10.9

Source: NRB, 2022 <https://www.nrb.org.np/database-on-nepalese-economy/external-sector/>

The data in the table provides an overview of imports from India classified by major commodity groups in Nepal over the years. The total imports from India have shown a consistent increase, reaching 1,200,152.7 million rupees in the fiscal year 2021/22. Analyzing the major commodity groups, the category of Food and Live Animals has witnessed a steady growth, with imports rising from 46,541.1 million rupees in 2012/13 to 153,321.0 million rupees in 2021/22. Similarly, imports of Tobacco and Beverages have also shown an upward trend, increasing from 2,583.3 million rupees to 4,253.5 million rupees over the same period.

Crude Materials, Inedible Except Fuels, and Animal and Vegetable Oil and Fats have displayed fluctuations in import values, but both categories have generally experienced an increase over the years. Mineral Fuels and Lubricants have seen significant growth, reaching 355,582.8 million rupees in 2021/22, indicating a rising energy demand in Nepal. Chemicals and Drugs, Manufactured Goods Classified Mainly by Materials, and Machinery and Transport Equipment have shown consistent growth in imports, reflecting the country's need for these products for various sectors and industrial development.

Overall, the data illustrates a consistent and increasing reliance on imports from India across various commodity groups in Nepal. This suggests Nepal's growing demand for a diverse range of goods, including food, beverages, raw materials, energy, chemicals, machinery, and manufactured products.

4.4 Direction and trends of Foreign Trade in Nepal

Prior to 1951 AD, Nepal's foreign trade was primarily limited to India and Tibet, with 95 percent of trade occurring with India and the remaining trade conducted with Tibet. Trade with other overseas countries was almost nonexistent. The main factors contributing to the concentration of Nepalese trade with India were geographical proximity, an open border, and similarities in language, culture, religion, and tradition. However, in recent times, Nepal has expanded its trade relations to include various overseas countries in addition to India and China, although India still remains a significant trading partner. In the fiscal year 1974/75, trade with India accounted for 82.2% of Nepal's total trade, while trade with other countries amounted to only 17.8%. By the fiscal year 1984/85, the proportion of trade with India decreased to 52.4%. In the fiscal year 1990/91, trade with India remained at 52.5% (Pant, 1994). Nepal's trade dependence on India had been declining until the fiscal year 1996/97. However, in subsequent years, the share of trade with India has experienced rapid growth.

Table 4***Direction and Trends of Foreign Trade in Nepal (In Ten Million)***

Fiscal Year(AD)	Export	India (Export)	China (Export)	Other countries (Export)	Import	India (Import)	China (Import)	Other countries (Import)
2012/13	7691.71	5099.98	208.58	2383.16	55674.03	36703.12	6245.13	12725.78
2013/14	9199.14	5961.37	284.07	2953.69	71436.58	47794.7	7331.86	16310.02
2014/15	8531.91	5586.46	222.99	2722.46	77468.42	49165.59	10016.64	18286.19
2015/16	7011.71	3949.37	168.15	2894.19	77359.91	47721.26	11569.43	18069.24
2016/17	7304.91	4144.92	170.15	2989.84	99011.32	63366.96	12724.5	22919.86
2017/18	8135.98	4671.98	243.77	3220.23	124510.32	81410.16	15998.71	27101.45
2018/19	9710.95	6273.18	210.98	3226.79	141853.53	91790.93	20552.74	29509.86
2019/20	9770.9	7010.9	119.1	2640.9	119679.9	73529.5	18192	27958.4
2020/21	14112.41	10637.21	101.61	3373.6	153983.71	97160.39	23392.31	33431.01
2021/22	20003.1	15522.23	80.88	4399.99	192044.84	120015.27	26478.37	45551.19

Source: Ministry of Finance, 2022 <https://data.mof.gov.np/data.aspx#>

Table 4 shows the direction of the Nepalese foreign trade since the fiscal year 2012/13 to 2021/22. From the table, it is clear that Nepal's major trade partner is India. Nepal's more than 60 percent of the total trade is with India. Although, the share of trade with India for the last three fiscal years is increasing and share with China and other countries is also increasing. Besides India and China, Nepalese products are exported to the USA, Germany, Japan, Bangladesh, the UK, France, Italy, Spain, Switzerland, Belgium, etc. Similarly, besides India and China, Nepal imports from Singapore, UK, UAE, Malaysia, Kuwait, etc. and at the same time, Nepal has also not been successful in the commodity-wise trade diversification. Nepal's more than 90 percent foreign exchange earnings are from commodity exports that merely encompass seven commodities — readymade garment, carpet, pulses, handicrafts, leather, medicinal herbs, and paper products. In the recent years, the export of these products is also gradually declining.

Table 5***Foreign Trade Direction:***

<i>Based on First Month (Shrawan) of FY 2079/80 (Mid July 2022 to Mid August 2022)</i>			
Trade Indicators	FY 2078/79	FY 2079/80	Change (%)
Imports (Rs.in `000)	150,731,719	131,286,066	-12.90
Exports (Rs.in `000)	20,765,117	14,809,700	-28.68

Trade Deficit (Rs.in `000)	129,966,602	116,476,365	-10.38
Total Foreign Trade (Rs.in `000)	171,496,836	146,095,766	-14.81
Imports/Exports Ratio	7.26	8.86	22.12
Exports Share to Total Trade (%)	12.11	10.14	-16.28
Imports Share to Total Trade (%)	87.89	89.86	2.24

Source: Ministry of Finance, 2022 <https://customs.gov.np/page/fts-fy-207980>

During the first month of the fiscal year 2079/80 (mid-July 2022 to mid-August 2022), the direction of foreign trade in Nepal experienced some notable changes. The total value of imports decreased by 12.90% compared to the previous fiscal year, reaching 131,286,066 Nepalese Rupees (000). Similarly, exports also saw a decline of 28.68%, with a total value of 14,809,700 Nepalese Rupees (000). Consequently, the trade deficit, representing the difference between imports and exports, decreased by 10.38% to 116,476,365 Nepalese Rupees (000). The overall foreign trade, which encompasses both imports and exports, decreased by 14.81% to 146,095,766 Nepalese Rupees (000).

Another notable change was the increase in the imports/exports ratio, which rose by 22.12% to reach 8.86. This indicates a higher emphasis on imports relative to exports during the given period. The share of exports in total trade declined from 12.11% to 10.14%, representing a decrease of 16.28%. On the other hand, the share of imports in total trade increased by 2.24% to reach 89.86%.

The data reveals a decline in both imports and exports, resulting in a decrease in the overall foreign trade volume. However, the trade deficit narrowed, suggesting a reduced gap between imports and exports. Furthermore, the imports/exports ratio indicates a stronger focus on importing goods. The share of exports in total trade decreased, while the share of imports increased, indicating a shift in the composition of Nepal's foreign trade during the first month of the fiscal year 2079/80.

Foreign trade in Nepal has experienced significant developments in recent years, encompassing distinct directions and noteworthy trends. Nepal's foreign trade has been primarily characterized by a high dependency on imports compared to exports, reflecting the country's import-dependent economy and limited industrial. Efforts have been made to diversify trade relationships and explore new markets, with a focus on neighboring countries like India and China, as well as other regional and global markets (World Bank, 2021). These initiatives aim to reduce Nepal's reliance on a few trading partners and foster a more balanced and resilient trade portfolio.

A significant trend in Nepal's foreign trade is the increasing role of the service sector, particularly in terms of labor exports and remittances. The migration of Nepali workers

to countries such as Qatar, Malaysia, and the GCC nations has led to a substantial influx of remittances, contributing significantly to Nepal's foreign exchange earnings (Nepal Rastra Bank, 2021). This trend underscores the growing importance of the service sector in Nepal's overall trade dynamics.

Additionally, there has been a gradual shift towards value-added exports in sectors such as textiles, handicrafts, and information technology. Nepal has focused on enhancing the quality and competitiveness of its products in international markets (World Trade Organization, 2020). Various measures, including export promotion schemes, trade fairs, and capacity-building programs, have facilitated the development of export-oriented industries and helped diversify Nepal's export base.

In summary, the direction of foreign trade in Nepal endeavors to diversify trade relationships and explore new markets. The trends in Nepal's foreign trade include the increasing significance of the service sector, particularly in labor exports and remittances, as well as the shift towards value-added exports in sectors like textiles and handicrafts. These developments exemplify Nepal's ongoing efforts to strengthen its trade competitiveness and reduce its dependence on imports.

Table 6

Comparisons of Import and Export by years (Annual Percentage Change)

description /fiscal Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Export	3.58	19.6	-7.25	-	4.18	11.38	19.36	0.62	44.43	41.74
Import	20.59	28.31	8.44	-0.14	27.99	25.75	13.93	-	28.66	24.72
Trade Balance								15.63		
Trade	23.86	29.71	10.76	2.05	30.36	26.9	13.55	-	27.26	23
Balance								16.83		

Source: Ministry of Finance <https://data.mof.gov.np/macroeconomicChart.aspx>

The data provided represents the export, import, and trade balance percentages for each fiscal year from 2012/13 to 2021/22. Analyzing the figures reveals some interesting trends. In 2012/13, the export percentage stood at 3.58%, gradually increasing to 19.6% in 2013/14. However, it took a sharp downturn in 2014/15, with a negative growth rate of -7.25%, followed by a significant decline of -17.82% in 2015/16. The export percentage then recovered and experienced fluctuations in the subsequent years, with

some positive growth rates recorded. On the import side, there was a steady increase in the import percentage from 20.59% in 2012/13 to 28.31% in 2013/14. This was followed by a more moderate growth rate in 2014/15 and a slight decrease of -0.14% in 2015/16. From 2016/17 onwards, the import percentage demonstrated consistent growth, reaching its peak at 28.66% in 2020/21 before decreasing slightly to 24.72% in 2021/22. The trade balance, which represents the difference between exports and imports, started with a positive figure of 23.86% in 2012/13, indicating a trade surplus. It continued to rise until 2015/16 when it reached a peak of 30.36%. However, in subsequent years, the trade balance decreased due to the growing trade deficit. The lowest point was reached in 2019/20, with a deficit of -16.83%. The trade balance showed some recovery in 2020/21 and 2021/22 but remained in negative territory.

4.5 Comparisons of Import and Export

Table 7

Comparisons of Import and Export by years (As Percentage of Gross Domestic Product)

Description/ Fiscal Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Export	3.95	4.12	3.52	2.69	2.37	2.35	2.52	2.51	3.3	4.12
Import	28.56	32	31.96	29.66	32.18	36.03	36.76	30.78	36	39.58
Trade Balance	24.62	27.88	28.44	26.97	29.8	33.67	34.24	28.26	32.7	35.46

Source: Ministry of Finance, 2022 https://data.mof.gov.np/ma_croeconomicChart.aspx

The analysis of the data provided in Table 6 reveals some notable trends in the import and export percentages of Gross Domestic Product (GDP) over the fiscal years. The export percentage of GDP exhibited fluctuations, with a slight increase followed by a decline, and then a gradual decrease until 2019/20. However, there were small increases in 2020/21 and 2021/22. On the other hand, the import percentage of GDP showed a consistent upward trend, with significant increases in recent years. This resulted in a trade deficit, as imports consistently exceeded exports. The trade balance percentage ranged from a deficit of 24.62% to 35.46%, showing an overall growing trade deficit. Efforts to enhance export competitiveness and reduce reliance on imports would be crucial in achieving a more balanced trade position and improving the overall trade balance.

4.6 Trade Balance with India, China and Other Countries

Table 8 Trade Balance with India, China and Other countries (In ten million)

Fiscal Year(AD)	Trade Balance	India (Trade Balance)	China (Trade Balance)	Other countries (Trade Balance)
2012/13	47982.32	-31603.14	-23290.7	-10342.62
2013/14	62237.44	-41833.33	-23290.7	-13356.33
2014/15	68936.51	-43579.13	-23290.7	-15563.73
2015/16	70348.2	-43771.89	-23290.7	-15175.05
2016/17	91706.41	-59222.04	-23290.7	-19930.02
2017/18	116374.34	-76738.18	-23290.7	-23881.22
2018/19	132142.57	-85517.75	-23290.7	-26283.06
2019/20	109909	-66518.6	-23290.7	-25317.5
2020/21	139871.3	-86523.19	-23290.7	-30057.41
2021/22	172041.74	-104493.04	-26397.5	-41151.2

Source: Ministry of Finance, 2022 <https://data.mof.gov.np/data.aspx#>

The data presented in Table 7 provides valuable insights into the trade balance of a specific country with India, China, and other countries over a period of ten fiscal years. A noteworthy trend is the consistent trade deficit observed across all categories. The trade deficit with India has remained persistently high, reaching a peak of -104,493.04 (ten million units) in 2021/22. Similarly, the trade deficit with China has also been substantial, with a peak of -26,397.5 in the same fiscal year. Additionally, the trade deficit with other countries, excluding India and China, has consistently been negative, reaching -41,151.2 in 2021/22. These findings highlight the country's heavy reliance on imports and the challenges associated with balancing trade. To address this trade imbalance, diversification of trade relationships and efforts to boost exports would be crucial in reducing dependence on specific trading partners and achieving a more sustainable trade position.

5. Conclusion

Nepal's foreign trade has experienced significant growth over the years. In the fiscal year 2012/13, the total volume of trade was Rs. 6,336,574 million, while in 2021/22, it reached Rs. 21,204,794 million. The trade deficit has also increased substantially, indicating a higher rate of import growth compared to exports. The composition of Nepal's foreign trade has diversified over the years. Major commodity groups in exports include Food and Live Animal products, Mineral Fuels and Lubricants, Chemicals and Drugs, and Machinery and Transport Equipment. The export of Handicrafts, Pashmina, Woolen Carpets, Readymade Garments, and Others has shown growth. In imports, major commodity groups from India include Food and Live Animals, Tobacco and Beverages, Crude Materials, Mineral Fuels and Lubricants, Chemicals and Drugs, and

Machinery and Transport Equipment.

Nepal's trade relations have expanded beyond India and Tibet. The country has established trade links with various overseas countries. Trade with India remains dominant due to geographical proximity and cultural similarities. Nepal has been diversifying its trading partners and exploring opportunities in other regions to reduce dependence on a few markets. Nepal faces a persistent trade deficit, primarily due to limited production of export-oriented goods and a higher influx of consumer goods through imports. Addressing this issue requires enhancing the production of competitive goods to boost exports and reduce imports, thereby narrowing the trade deficit. The findings suggest the need for policies that promote export-oriented industries and import substitution industries to achieve a more balanced trade. Identifying sectors with export potential and reducing reliance on imports can contribute to the country's trade competitiveness. Additionally, exploring new markets and diversifying trading partners can mitigate risks associated with overreliance on a few markets.

Overall, Nepal's foreign trade has undergone significant growth and diversification, but challenges such as the trade deficit persist. The findings emphasize the importance of formulating effective policies and strategies to enhance Nepal's trade competitiveness, promote export-oriented industries, and reduce reliance on imports. These insights can guide policymakers, businesses, researchers, and stakeholders in making informed decisions and identifying growth opportunities in Nepal's trade sector.

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