

Rupantaran : A Multidisciplinary Journal
 Vol. IV : pp 143-152, October, 2020
 ISSN : 2091-0061
<https://doi.org/10.3126/rupantaran.v4i1.34210>
 Research Management Cell (RMC)
 Dhankuta Multiple Campus, Dhankuta
 Tribhuvan University, Nepal

Direction and Problems of Foreign Trade in Nepal

Shashikala Sharma¹

Email: shashikaladkt@gmail.com

Abstract

Foreign trade or international trade is the transaction of goods and services between two or more countries. It plays a vital role in developing the economy of a country. The purpose of this study was to identify the direction and problems of foreign trade in Nepal, and to find out the possibilities of foreign trade expansion of the period from fiscal year 2011/12 to 2018/19. The study used quantitative data collected from secondary sources consulting physical library and internet. It was found in the study that most of the foreign trade of Nepal is directed to India. It was also found that there was deficit trade balance as there was decreasing export and increasing imports. As a result, the trade balance is negative and growing every year. Further, the foreign trade in Nepal is highly dependent with India which needs to be diversified to rest of the world.

Key Words: export, foreign trade, import, trade balance, trade diversification

Introduction

Foreign trade or International trade is the exchange of capital, goods, and services across international borders or territories. Generally, it refers to the purchase of goods and services by the citizens of one country from the citizens of another country. In other words, it is the transaction and trade of goods and services between nations among the residents of different countries of the world, and it represents a significant share of gross domestic product (GDP). According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries" (as cited in Rajarajan & Sivakumar, 2015, p. 180). Similarly, Miltades Chacholiades (as cited in Khanal et al., 2070, p. 221) define, "The exchange of goods and services among residents of same country is usually called domestic trade while the exchange of goods and services among residents of different countries is called

1. Ms. Sharma is a Lecturer of Economics at Tribhuvan University, Dhankuta Multiple Campus, Dhankuta, Nepal.

international trade.” In this way, foreign trade or international trade is simply the exchange of goods, capital and services in several countries. Foreign trade includes imports and exports between or among the citizens of different countries.

A country imports those goods, which are not available in the country and exports those goods, which have excess supply in the country. International trade has played a very important role in the economic development of countries. Economy of countries is not independent to fulfill their needs producing all the required goods and services themselves. Due to invention of the transportation and communication technology, goods and services can easily transfer from one place to another place. People of one country can enjoy the product produced from the distance country in affordable prices. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries.

The field of foreign trade has grown wider as the international activities also include financial flows and the movements of factors of production, such as labour, capital and entrepreneurship along with the transactions of goods and services. It provides capital goods and raw materials, transmits technological knowledge and promotes relationship among different countries. It also enhances product quality and benefits the countries with respect to production, consumption, competition, employment, and income (Bashyal, 2008).

The basic principle of foreign trade is that goods and services must cross through the border. From the age of barter economy, foreign trade took place. Generally, a country imports the goods that cannot be produced cheaply at home country. All countries cannot provide various kinds of goods efficiently. Each country has to depend upon others for import and export of raw materials, manufactured goods, and technology and so on. Thus, foreign exchange can only be earned from foreign trade which can be spent on the import of machinery and equipment. Foreign trade helps to accelerate the pace of economic growth. Hence, the economists have rightly referred to foreign trade as “engine of growth”. (Jensen, 2000).

In general, a country exports the goods which can be produced at low cost. Similarly, a country imports the goods which can be purchased at lower price in foreign countries than in own country. The foreign trade is inevitable in modern days since all countries cannot produce all goods and services efficiently. The developed countries import natural resources from developing countries and export the machinery and equipment and readymade goods to them. International trade plays most important role in the development of the country. No country can provide all the goods and service to the people without importing from international market. There are many benefits of international trade. Some of the benefits of international trade have been given below:

- Benefit of specialization
- Benefit of technological progress
- Availability of raw materials widens the market
- Promotion of employment opportunities
- Increase in fair competition
- Fulfillment of basic needs
- Increase in public revenue

Nepal is a small, landlocked country situated between two emerging global economic powers, China and India. Nepal is least developed, economically traditional and backward agriculture based country. Therefore, the foreign trade in Nepal is still in its infancy. The manufacturing sector is still small though it is growing gradually. Several studies have discussed about the, growth, composition and trend of foreign trade of Nepal. However, there is still some lacking of recent study about the direction and problems of foreign trade. This study makes an attempt to discuss the present situation and position of foreign trade of Nepal.

Objectives

In general, the main objective of the study is to analyze the foreign trade in Nepal. The specific objectives of the study are to:

- Describe the direction of the Nepalese foreign trade,
- Highlight the problems of foreign trade in Nepal, and
- Point out the possibility of foreign trade expansion.

Methods and Materials

The study is descriptive in nature which is primarily based on secondary data. In identifying the problems, trend and diversification of Nepalese foreign trade, the data after the liberalization of international trade in Nepal have been collected. The study period is of 8 fiscal years, from 2011/12 to 2018/19. Since the study is based on secondary sources, data have been collected from the various publications of the Ministry of Finance, and Nepal Rastra Bank. Likewise, many other scholars' works relevant to the issues of study have also been consulted from the physical library and Internet. Both quantitative and qualitative data have been collected to address the issues and the objectives of the study. The description of the situation of the Nepalese foreign trade and trade performance is all in quantitative data and simple statistical tools percentage and average have been used to analyze such data. Likewise thematic analysis has been used to interpret the qualitative data.

Results and Discussion

In this section, the data related to the main issues of the study have been presented and interpreted analytically. Particularly, the direction of foreign trade, problems of foreign trade and the possibilities of expansion of foreign trade have been discussed in the sub headings to come.

Direction of Foreign Trade in Nepal

The direction of foreign trade means the countries to which a country exports its goods and the countries from which it imports. Thus, direction consists of destination of exports and sources of its imports.

India and China are the main traditional trade partners of Nepal. Before 1951 AD, Nepal's foreign trade was limited only with India and Tibet. The trade with India formed 95 percent and the remaining trade was with Tibet. The trade with overseas countries was almost nil. The major reasons behind the concentration of Nepalese trade with India were: Most parts of Nepal surrounded by India, Nepal has open border with India, and there is similarities in language, culture, religion, tradition, etc. But at present, Nepal's trade relation is with overseas countries besides India and China is relatively increasing. But India is still a major trading partner of Nepal. In the fiscal year 1974/75, Nepal's 82.2 percentage trade was with India and the trade with other countries was only 17.8 percent (Ministry of finance, 1976). In the fiscal year 1984/85, the trade with India was reduced to 52.4 percent (Ministry of finance, 1986). In the fiscal year 1990/91, the trade with India was 52.5 percent (Ministry of finance, 1992). Nepal's trade dependency with India was declining until the fiscal year 1996/97. But in the later years, the share of trade with India has increased rapidly. The direction of the foreign trade in Nepal has been presented in Table 1.

Table 1: Direction of Foreign Trade in Nepal (in million)

Particulars	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18R	2018/19P
Total Exports	74261.0 (13.86%)	76917.2 (12.14%)	91991.4 (11.41%)	85319.1 (9.92%)	70117.1 (8.31%)	73049.1 (6.87%)	81359.8s (6.13%)	97109.5 (6.41%)
To India	49616.3 (66.81%)	50999.8 (66.30%)	59613.7 (64.80%)	55864.6 (65.48%)	39493.7 (56.33%)	41449.2 (56.74%)	46719.8 (57.42%)	62731.8 (64.6%)
To China	-	2085.8 (2.17%)	2840.7 (3.08%)	2229.9 (2.61%)	1681.5 (0.23%)	1701.5 (2.33%)	2437.7 (2.99%)	2109.8 (2.17%)
To other countries	24644.7 (33.19%)	23831.6 (30.98%)	29537.0 (32.11%)	27224.6 (31.91%)	28941.9 (41.27%)	29898.4 (40.93%)	32202.3 (39.58%)	32267.9 (33.22%)
Total Imports	461667.7 (86.14%)	556740.1 (87.86%)	714365.9 (88.59%)	774684.1 (90.08%)	773599.3 (91.69)	990113.2 (93.13%)	1245103.2 (93.87%)	1418535.3 (93.59%)

From India	299389.6 (64.85%)	367031.2 (65.93%)	477947.0 (66.91%)	491655.9 (63.47%)	477212.6 (61.69%)	633669.6 (64%)	814101.6 (65.38%)	917909.3 (64.71%)
From China	-	62451.2 (11.22%)	73318.6 (10.26%)	100166.4 (12.93%)	115694.3 (14.96%)	127245.0 (12.85%)	159987.1 (12.85%)	205527.4 (14.49%)
From other countries	162378.1 (35.15%)	127257.7 (22.86%)	163100.2 (22.83%)	182861.9 (23.61%)	180692.4 (23.36%)	229198.6 (23.15%)	271014.5 (21.77%)	295098.6 (20.80%)
Total trade	535928.7	633657.3	806357.3	860003.2	843716.4	1063162.3	1326463.0	1515644.8
Total trade to India	349005.9 (65.12%)	418031.0 (65.97%)	537560.7 (66.67%)	547520.5 (63.67%)	516706.3 (61.24%)	675118.8 (63.50%)	860821.4 (64.90%)	980641.1 (64.70%)
Total trade to China	-	64537 (10.19%)	76159.3 (9.45%)	102396 (11.91%)	117375.8 (13.91%)	128946.5 (12.13%)	162424.8 (12.25%)	207637.2 (13.70%)
Total trade to other countries	187022.8 (34.90%)	151089.3 (23.84%)	192637.2 (23.90%)	210086.5 (24.43%)	209634.3 (24.85%)	259097.0 (24.37%)	303216.8 (22.86%)	327366.5 (21.60%)

Source: Data adapted from annual report of Nepal Rastra Bank, November 2019

The direction of export in Nepal has been analyzed between neighboring countries India, China and other countries in the Table 1. The data show that the total export in the fiscal year 2011/12 is 13.86%. It is 9.92% in fiscal year 2014/15 and it is 6.41% in 2018/19. This makes it clear that the trend of total export is decreasing in the recent years. Likewise the export to India in the fiscal year 2011/12 is 66.81%, it is 65.48% in the fiscal year 2014/15 and it is 64.6% in 2018/19. It shows that the export to India is most constant. Most of the goods, almost 64% have been exported to India. Although China is also the neighboring country of Nepal, the export to China is 2.17% in the fiscal year 2012/13, similarly 2.61% in the fiscal year 2014/15 and it is 2.17% in the fiscal year 2018/19. It makes it clear that only about 2.5% of the total export is done to China. Similarly 33.19% of total export to other countries in the fiscal year 2011/12, 42.93% of total export to other countries in the year 2015/16 and 33.22% of total export to other countries in 2018/19. It shows that the mid-term of study period the export to other countries increased. About 31% to 41% of the total exports were done with other countries except China and India. So, when we analyze the data of 2011/12 to 2018/19, it is clear that Nepal exports most amount of goods and service to India.

The direction of import in Nepal has been analyzed between neighboring countries India, China and other countries. The data show that the total import in the fiscal year 2011/12 is 86.14%. It is 90.08% in fiscal year 2014/15 and it is 93.59% in 2018/19. This makes it clear that the trend of total import is increasing in the recent years. Likewise the import from India in the fiscal year 2011/12 is 64.85%. It is 63.47%

in the fiscal year 2014/15 and it is 64.71% in 2018/19. It shows that the import from India is most constant. Most of the goods, almost 64% have been imported from India. Being a neighboring country Nepal has imported goods from China, the import from China is 11.22% in the fiscal year 2012/13, similarly 12.93% in the fiscal year 2014/15 and it is 14.49% in the fiscal year 2018/19. It makes it clear that only about 13% of the total import is done from China. Similarly 35.15% of total import from other countries in the fiscal year 2011/12, 23.36% of total import from other countries in the year 2015/16 and 20.80% of total import from other countries in 2018/19. It shows that the mid-term of study period the import from other countries decreased. About 20% to 35% of the total imports were done from other countries except China and India. So, when we analyze the data of 2011/12 to 2018/19, it is clear that Nepal imports most amount of goods and service from India. It is shown that Nepal imports most amount of goods and services from India. During the study period, almost two-third of the import is from India and the rest is with the rest of the world.

The data in the table show that the total trade of about 500 thousand million rupees has been traded throughout the years from 2011 to 2018. Nepal has done about 65% of the total trade to India whereas only 13% of the total trade has been done with China. It shows that only about 24% has been traded with other countries in average.

The share of export to India is about 65% during the study period is implying heavy dependence in one country. It also indicates our export diversification strategies have not been successful. The scenario of import trade is worse than the export. The import has increased almost four times in the period of 8 years (2011/12- 2018/19). Further, Nepal's reliance on import from India has increased from 86.14% in 2011/12 to 93.59 % in 2018/19 while the export is almost stagnant at around 11% during the same period. The import is increasing and export is decreasing. These facts indicate failure in trade diversification policies.

Problems of Foreign Trade in Nepal

There are several problems with Nepal's foreign trade. Firstly, it is a land-locked country and it compelled to depend with India for most of the foreign trade. Likewise, being a developing country, it produces low quality goods with a high cost of production, and capital formation is inefficient and government policy is antiquated. Similarly, most of the geography is mountainous and remote which is not in favor of foreign trade in Nepal.

Secondly, the infant industrial shape with narrow base of exportable production having low quality products has been challenging scene of Nepalese trade, though it has already entered into global trade i.e. WTO and bilateral trade arrangements like SAPTA and SAFTA. Likewise, unfavorable environment for industrial development,

lack of effective strategic policies, inconsistency of government policies, political instability and more than a decade long moist movement are hampering facts for the Nepalese trade expansion. No doubt delay in decision-making and lack of political-will cannot possess a country's progress.

Thirdly, unsystematic documentation of export procedure, lack of human resources, less quality industrialization, lack of dry port facilities, high cost of transportation, can also be considered as the barrier to expand Nepalese export trade. In the same way, lack of diplomatic efforts, India oriented policies, donor driven strategies, less effective monitoring and supervision, lack of prize and reward, can also be considered as the challenging factors to affect foreign trade..

Thus, foreign trade in Nepal has not been able to make its satisfactory progress. Some of the main problems of foreign trade in Nepal have been highlighted in the following points.

- **Land-locked:** Geographically, Nepal is a land-locked, mountainous and rugged structured country, which is one of the biggest bottlenecks in Nepalese foreign trade expansion. As a land-locked country, it has to import/export through India/China which by itself raises the cost of commercial transactions not only in transportation costs, but on merchandise shifting from one mode of transportation to another. Also, border crossing fees and transit time among other issues are unfavorable for foreign trade in Nepal.
- **Open Border:** Free flow of goods due to open border between Nepal and India is also a serious problem for Nepalese products. It is because Indian and Chinese products are available cheaply in Nepalese market and Nepalese goods are relatively costly. Likewise, owing to smuggling practices, the illegal traders are getting advantage of imports and exports due to open boarder. Nepal uses only one trade route with overseas countries other than India and China. Although Nepal can use other trade routes too, but no any action has been forwarded yet.
- **Increasing import and decreasing export:** Nepal's export mainly constitutes raw material which gets little price. On the other hand, Nepal imports the manufactured goods which has high price. Nepalese domestic industries cannot produce enough goods for Nepalese growing population. So Nepal has increasing import and decreasing export
- **Lack of diversification:** Although several policies have been made in Nepal for the diversification of production and trade of goods, the trend is that most of the foreign trade is directed to India. It might be due to the geographical position of India that it has surrounded Nepal by three sides,

east, west, and south. Among the overseas countries Nepal has limited trade of only certain products to certain countries like America, Germany, Japan and other Asian countries.

- **High cost of production:** Nepal is a developing country which has not modern technology. Lack of modern technology goods are costly produced using the costly imported raw materials Likewise, because of the lack of skilled manpower, the product of Nepal is of high cost and of low quality which cannot compete to foreign goods. Though the agricultural is the fundamental aspect of the Nepalese economy, it has been extremely disappointing. Transit and transportation cost is too high and there is no effective rural- urban linkages practices too.
- **Lack of capital:** Capital is most important thing for foreign trade. There is not expansion of money market and capital market in Nepal. Therefore the traders cannot get credit facilities. Due to this lack of credit facilities, importer and exporter cannot expand foreign trade
- **Heavy import of luxury goods:** One of the main causes of deficit trade balance is importing luxury goods. Many of the Nepalese people import such kind of luxuries goods due to the demonstration effect
- **Economic liberalization:** Nepal is the member of liberalization. Due to the adoption of liberal economic policy, government levied international trade tax to generate revenue but it neglected the aspect of import substitution. So, the trade deficit of Nepal has become more acute.

Possibilities of Foreign Trade Expansion

The possibility of foreign trade of Nepal is extremely high. Nepal is a resourceful Himalayan country it has many natural resources so many raw materials are found in Nepal. If Nepal could produce and export the raw material, electricity, agricultural products, skilled manpower, mineral resources; trade balance would be maintained and it would reduce import also. Thus, there are many ways that the government can adopt for increasing foreign trade. Some of the main possibilities of foreign trade are mentioned below:

- **Development of hydro-electricity:** Nepal is the second richest country in water resources in the world, it has many potentialities of hydropower. After developing the hydro- electricity in Nepal, it can be exported to many other countries which can help to minimize the deficit trade balance, and Nepal can earn much foreign currency, too. It can help to make the economy of the country strong.

- **Development of forest resource:** Among the resources found in Nepal, forest is one of the most important. Many fauna and flora are found in Nepal. Many medicinal herbs are found in forest which can be exported to other countries and earn foreign currency. We can also establish industries based on forest resources, and produce goods and export to other countries.
- **Development of tourist areas:** Nepal is said to be one of the most beautiful countries in the whole world. The Himalayas, forest granary, waterfall, rivers, lake, attract the citizens of other countries. Nepal is a diversified, multi-lingual, multi- cultural and multi- religious country in which many ancient temples, stupas are found. There are many world heritage sites found in Nepal. There are many religious places like Chagunaryan, Swayambhu, Pashupatinath, Janakpurdham etc. Thus they attract the foreigners to visit Nepal. In this way, we can also earn foreign currency which helps to decrease the deficit trade balance.
- **Modernization in agriculture:** Agriculture is the backbone of economy in our nation. Most of the exported goods are agricultural goods. Modernization of agriculture helps to increase the production rate and quality of the goods which also help in increasing exports.
- **Industrial development:** Industrial development is most necessary for development. It makes the economy of the country strong. It helps in increasing production rate which helps to increase the export.
- **Excavation and use of mineral resources:** Various research, have shown that Nepal is capable of excavating iron, lead, petrol, copper limestone etc. If we are able to excavate those minerals, we can easily reduce the imports and increase exports which controls the deficit balance of payment.
- **Export of skill manpower:** If we are able to produce skilled and well educated manpower, and if we export them to foreign country for employment, they will earn more foreign currency. For this, we need to conduct training and seminars to develop their skill.

Conclusion

International trade or foreign trade deals with the transaction of goods including services and facilities, economic flows and the movement of factors of production like labor, capital and entrepreneurship. It plays important role for the development of the economy of a nation. One of the main limitations of foreign trade in Nepal is that there is deficit trade balance on the one hand, and on the other hand, most of the foreign trade is limited only to India. It was found that because of low export performance, Nepal is facing the problem of rapidly increasing trade deficit. The major causes of Nepal's

increasing trade deficit are that it is a land locked country with an open boarder, it has increasing import and decreasing export Likewise, there is lack of diversification, high cost of production, lack of capital, heavy import luxury goods, and economic liberalization .

The trade situation in Nepal suggests that though foreign trade has been facing too many barriers, it has some potentials too. To minimize increasing foreign trade deficit, the government should immediately take action towards the direction of expanding export. For this, it is necessary to make further plans to improve exports and to reduce the volume of imports. Likewise, domestic industries should be encouraged to produce consumer goods by providing subsidies, by giving discounts on the tax rates, and by increasing the tax rates on imported items. It is also important to increase the amount of investment on research and human resource development. Likewise, to reduce the trade deficit, Nepal needs to develop the hydroelectricity, forest resource, tourism and other industries and establish joint venture industries. Similarly, it needs to modernize in agriculture, excavate and use mineral resources, and export skill manpower .Furthermore, Nepal needs to expand foreign trade more widely. The trading activities with SAARC countries and overseas countries, not only reduces trade dependency with India, but also improves international relation, and mutual co-operation.

References

- Bashyal, R. (2008). *Nepal Trade Expansion among SAARC countries and regional trading arrangement*. Kathmandu: Nepal Rastra Bank
- Jensen, B. S. (2000). *Dynamics, economic growth and international Trade*. Michigan: The university of Michigan Press
- Khanal, B; Poudel, H.N.; Khatiwada, S; Gautam, Y & Parajuli, N. (2070). *An introduction to economics*. Deurali Prakashan Pvt.Ltd., Kathmandu, Nepal
- Ministry of Finance (1976). *Economic survey*. Kathmandu: Ministry of Finance, Government of Nepal
- Ministry of Finance (1986). *Economic survey*. Kathmandu: Ministry of Finance, Government of Nepal
- Ministry of Finance (1992). *Economic survey*. Kathmandu: Ministry of Finance, Government of Nepal
- Ministry of Finance (2019). *Economic survey*. Kathmandu: Ministry of Finance, Government of Nepal
- Nepal Rastra Bank (2019). *Annual report of Nepal Rastra Bank fiscal year 2018/19*. Kathmandu: Author.
- Rajarajan, M., & Sivakuma, T. (2015). An empirical study on foreign trade in India-an overview. *Asian Pacific Journal of Research*, 1(32), 179-188.