
An Examination of Policy Failures and Structural Issues in Nepalese Foreign Trade (1994–2024)

Rajesh Keshar Khanal¹

Article Information : Received : May 13, 2025 Revised : May 29, 2025 Accepted : July 02, 2025

Abstract

This paper analyses Nepal's foreign trade performance from 1994 to 2024, emphasising enduring structural and policy deficiencies that have perpetuated a chronic trade deficit. Despite economic liberalisation in the 1990s, Nepal's trade deficit rose 45 times (from \$300 million to \$13.5 billion), but exports remained stagnant at 10% of total trade. Critical challenges encompass geographic entrapment as a landlocked nation, remittance-reliant import dependency, ineffective trade agreements (e.g., SAFTA, Nepal-India Treaty), and inadequate industrial infrastructure. The paper highlights unequal advantages in bilateral agreements, exploitable weaknesses in Rules of Origin, and non-tariff barriers as significant obstacles. It also faults Nepal's inability to diversify exports beyond low-value items (e.g., carpets, textiles) or markets beyond India, which constitutes 65% of trade. Political instability, policy inconsistency, and the ramifications of Dutch Disease resulting from remittances further intensify trade challenges. The report proposes the Himalayan Trade Transition Framework, advocating for digital trade corridors, the establishment of export ecosystems, and deliberate regional involvement to disrupt this cycle.

Keywords: Export diversification, landlocked economies, Nepal-India trade, Trade imbalance, remittance

Lecturer (Economics), Tribhuvan University, Mahendra Multiple Campus, Nepalgunj, Banke

Corresponding Author: drrajesh.blc@gmail.com

ISSN : 2091-2161

©The Author(s)



Published by Autar Dei Chaudharain Research Centre (ADCRC), Mahendra Multiple Campus, Nepalgunj, Banke

The open access article is distributed under a Creative Common Attribution (CC BY-NC 4.0) licence.

Introduction

The topography of Nepal and its historical connections with neighboring countries, particularly India and Tibet, have influenced the nation's trade policies over time. Nepal facilitated trade along historic routes such as the Silk Road due to its strategic location in the Himalayas and its rich cultural heritage. The border between Nepal and Tibet, a Chinese autonomous region, is closed, but the India border is open. This unique trait links Nepal with India in culture, politics, and the economy (Katti, 1992). Nepal has been significantly reliant on India for an extended period. Following the signing of a trade agreement in 1923, India significantly exerted influence on Nepal's international trade (Shrestha, 1974). Nepal signed its first Treaty of Trade and Commerce with India in 1950. This helped the nation integrate into the global world and establish diplomatic connections with other nations. Nepal's overseas trade was 99 percent with India till 1960 (Singh and Khanal, 2008). Nepal initiated trade diversification efforts in the 1960s due to India's limited provision of various construction materials (Paudel, 1998). Despite certain beneficial alterations in the composition of primary and manufactured goods and the trading practices among nations, the trade diversification initiative did not significantly affect the trade balance structure until 1990 (Singh and Khanal, 2008).

Nepal's foreign trade has seen significant transformation since the government implemented economic liberalisation policies in the mid-1980s to early 1990s. These were components of broader structural adjustment programmes (SAPs) advocated by international financial institutions (World Bank, 1996). International trade is especially vital for the economies of landlocked and geographically constrained nations such as Nepal. Nepal's trade sector continues to face issues. The trade imbalance is deteriorating, the nation depends on a limited range of export commodities, and it is susceptible to external shocks (World Bank, 2022). Since the economy liberalized in the early 1990s, Nepal's trade with foreign nations has undergone peculiar transformations. The volume of foreign trade increased 28-fold, from \$1.2 billion to \$33.7 billion, between 1994 and 2024. Nevertheless, the configuration of the trade composition remained fundamentally unchanged (World Bank, 2024). The transition from a predominantly regulated and protectionist economy to a more open and market-oriented one was

anticipated to enhance trade competitiveness, expand export diversity, and stimulate economic growth (Pandey, 2018). However, Nepal's foreign trade sector continues to face challenges, including an escalating trade imbalance, reliance on a limited range of export commodities, and susceptibility to external economic shocks (Adhikari & Ghimire, 2020).

Nepal's trade dynamics have revealed structural vulnerabilities, including insufficient industrial capacity, inadequate infrastructure, and a significant dependence on imports for essential goods in post-liberalization era (Sapkota, 2015). Trade liberalization has facilitated Nepal's access to international markets; nonetheless, the nation's export sector predominantly comprises low-value primary commodities such as carpets, textiles, and agricultural products, which face significant competition in the global arena (Paudel & Shrestha, 2019). The nation's landlocked status, volatile political climate, and inadequate policy execution have exacerbated its trade challenges (Dahal, 2017).

This paper analyses the structural and policy-related challenges in Nepal's foreign trade and investigates alternative methods to improve trade sustainability. This study seeks to enhance Nepal's trade performance and mitigate its persistent trade deficit by examining current trade patterns, policy frameworks, and regional trade agreements.

Statement of the Problem

Despite the Nepalese government's implementation of liberal economic policies in the early 1990s, the nation's international trade industry continues to encounter significant and escalating challenges. Nepal's transition from a closed, protectionist economy to an open-market system was supposed to enhance its export capacity, reduce trade imbalances, and improve integration with the global economy (World Bank, 1996). Nepal's trade performance remains inadequate during more than thirty years post-liberalisation period. This is evidenced by a sustained trade deficit, sluggish export expansion, and excessive dependence on a limited range of primary commodities (Adhikari & Ghimire, 2020). Nepal's escalating trade deficit is a significant issue, increasing from NRs. 20 billion in 1994 to over NRs. 1.5 trillion in 2023 (NRB, 2023). The primary reason is the country's excessive dependence on importing petroleum

products, machinery, and manufactured goods, coupled with insufficient diversification in exports (Sapkota, 2015). The export economy continues to depend heavily on low-value-added products such as carpets, textiles, and agricultural commodities. These products encounter significant rivalry from SAARC nations; India and Bangladesh (Paudel & Shrestha, 2019). The landlocked geography of Nepal, coupled with inadequate infrastructure and ineffective trade logistics, has hindered the nation's ability to compete in exports (Dahal, 2017). Trade policies are ineffective in addressing structural issues, which constitutes a significant concern. Nepal has failed to take advantage of trade agreements like SAFTA and preferential EU and U.S. market access due to supply-side constraints, insufficient industrial capacity, and inconsistent policy execution (Pandey, 2018). The situation has deteriorated due to political instability, bureaucratic inefficiency, and insufficient foreign direct investment (FDI) in export-oriented businesses (Khatriwada, 2021). Under these pressing constraints, this study seeks to understand Nepal's post-liberalisation international trade issues and the unrealised benefits of trade openness. It seeks answers to these questions.

1. Why has Nepal's trade imbalance expanded despite the country's liberalisation efforts?
2. What are structural and policy-related issues impeding the expansion of exports?
3. How can Nepal enhance the competitiveness of its trade in regional and global markets?

Methodology

This paper adopts a quantitative technique to examine policy failures and structural issues in Nepalese foreign trade during the period from 1994 to 2024.

Research Design

The research employs analytical and exploratory research design that incorporates the following two analyses.

Descriptive Analysis: It involves in examination of Nepal's foreign trade trends, deficits, and export-import composition.

Policy Analysis: It involves in analysis of the effectiveness of international trade policies and agreements of Nepal.

Data Collection Method

The research relies on secondary data acquired from the subsequent sources.

Trade Statistics: From the World Bank, Nepal Rastra Bank (NRB), Ministry of Finance, and Department of Customs (DoC) regarding trade balance, export-import composition, and regional trade dynamics.

Government Reports: From policy documents different ministries other agencies government of Nepal dealing with international Trade.

International Publications: Reports of international agencies such as the Asian Development Bank (ADB), International Monetary Fund (IMF), and United Nations Conference on Trade and Development (UNCTAD), the World Bank (WB) etc. on trade barriers, logistical effectiveness, and economic integration from.

Results and Discussions

Policy Failure and Structural Issues in Nepalese Foreign Trade Policy

The ensuing shortcomings in Nepalese foreign trade strategy make it more difficult to achieve the expected results of the 1990s economic liberalisation initiatives. The following are some contributing elements to policy failures and structural challenges in international trade of Nepal.

Highly Imbalanced International Expansion

Nepal's foreign trade has consistently exhibited an imbalance, with imports substantially surpassing exports, leading to a chronic trade deficit as illustrated in Table 1.

Table 1 demonstrates that the liberalization policies implemented by the country did not rectify the significant foreign trade deficit. The table indicates that imports have surged by 30.9 times, compared to 7.9 times increase in exports, culminating in a 44.6 times escalation in the trade deficit from 1993/94 to 2023/24.

Table 1*Magnitude of Nepalese Foreign Trade (Export, Import and Balance of Payment)*

(NRs. Million)

Fiscal Year	Export	Import	Balance of Trade
1993/94	19293.4	51570.8	-32277.4
1994/95	17639.2	63652.5	-46040.3
1997/98	27513.5	89002	-61488.5
1999/00	49822.7	108504.9	-58682.2
2001/02	46944.8	107389	-60444.2
2003/04	53910.7	136277.1	-82366.4
2005/06	60234.1	173780.3	-113546
2007/08	59266.5	221937.7	-162671
2009/10	60824	374435.5	-313511
2011/12	74261	461667.7	-387407
2013/14	91994.3	714365.8	-622375
2015/16	70117.1	773599.3	-703482
2016/17	73049.1	990113.2	-917064
2017/18	81359.8	1245203	-1163743
2018/19	116093.7	1418535	-1321426
2019/20 ^R	97709.1	1196799	-1099090
2020/21 ^R	141124.2	1539837	-1398893
2021/22 ^R	200031	1820448	-1720417
2022/23 ^R	157140.7	1611732	-1454591
2023/24 ^R	152380.6	1592986	-1440605
2024/25 ^{P*}	217911	1474188	-1256277

Note: NRB, <https://www.nrb.org.np/category/current-macroeconomic-situation/?department=red>

R=Revised & P*=Provisional (10 months till mid-May 2025)

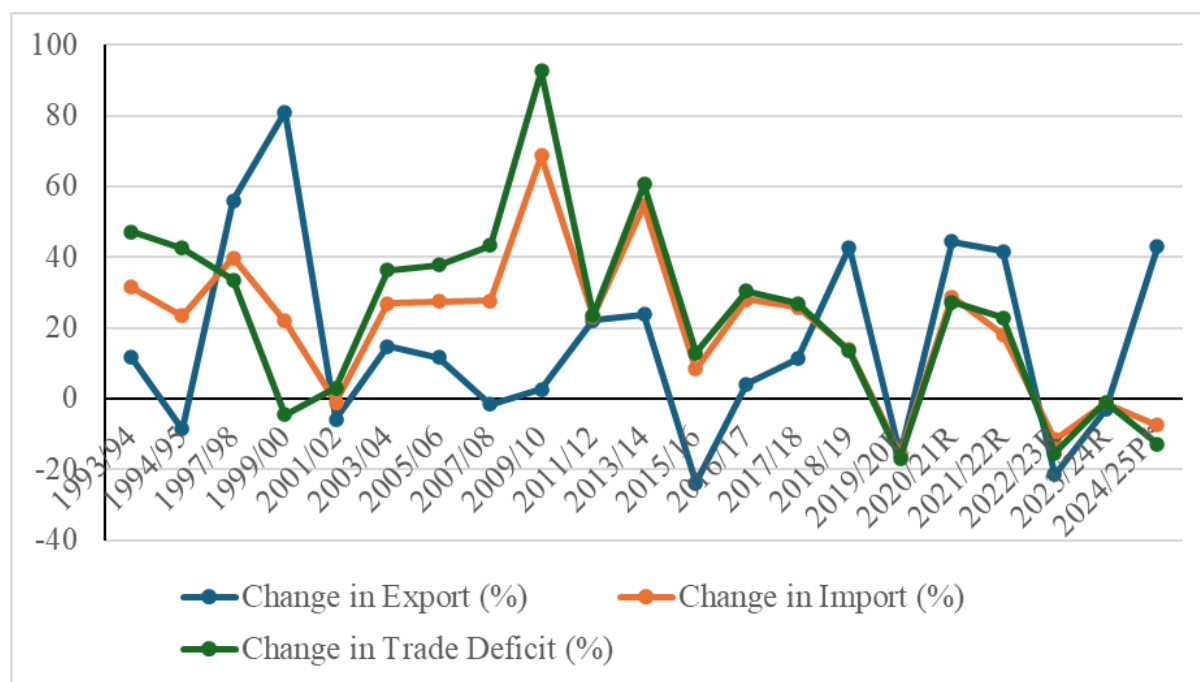


Figure 1: Growth of Export, Import and Trade Deficit

Note: Table 1

Figure 1 depicts the trends in percentage variations of exports, imports, and trade deficit. Although a clear pattern is lacking among these trends, the percentage change in imports and trade deficit has been positive in almost every year of the study period. In 2019/20, the percentage change in exports, imports, and trade imbalance was negative due to the effects of Covid-19. Over the previous three consecutive years, a decrease in exports, imports, and trade deficit have been observed, ascribed to the economic recession triggered by the government's implementation of import restrictions for around nine months in 2022/23.

Failure of Trade Diversification Policies

Nepal's international trade was predominantly influenced by India till 1960. In the fiscal year 1961/62, exports to and imports from India were 99.5% and 98.93% of Nepal's entire international trade, respectively. (Singh and Khanal, 2008). Nepal's trade policy in the 1960s and 1970s prioritized the diversification of products and markets (Paudel, 1998). Nepal persisted in its liberalisation policy reforms from the 1990s onwards to mitigate its trade deficit by enhancing exports through trade diversification strategies (Singh and Khanal, 2008). Recent efforts to diversify trade include the Trade and Transit Agreement with China, granting

Nepal access to Chinese seaports and dry ports. But these routes are not currently functioning, and reliance on India continues to be significant (International Trade Administration, 2021). All these efforts of trade diversification failed in geographical diversification of markets. Table 2 clearly illustrates this. This table indicates that the proportion of exports to India from Nepal constituted 98.7 percent of total exports in 1970/71, down to 21 percent by 1990/91. Similarly, the share of imports from India in total imports was 88.2 percent in 1970/71, which decreased to 11.8 percent in 1990/91. The trade diversification initiatives of the 1960s and 1970s appear to have mitigated dependency in India through the geographical diversity of Nepalese foreign trade. In contrast, the economic liberalisation measures instituted from the 1990s have failed to geographically diversify Nepalese foreign trade, as the Nepal had foreign trade with approximately 170 countries in 2022/23, despite India and China being prominent partners. 78 percent of Nepal's exports are concentrated in three countries: India, the United States, and Germany, while 92 percent of imports originate from five countries: India, China, the UAE, Indonesia, and Japan (Department of Custom, 2023). The table 2 illustrates that India's dominance in Nepalese foreign trade has been on an upward trajectory from 2000/01. In recent years, more than 60 percent foreign trade of Nepal is conducted with India.

Table 2*Direction of Nepalese Foreign Trade*

FiscalYear	Export to			Import from		
	India	China	Other Countries	India	China	Other Countries
1961-62	99.5	-	0.5	98.93	-	1.07
1970/71	98.7	-	1.3	88.2	-	11.8
1980/81	61.7	-	38.3	49.2	-	50.8
1990/91	21.0	-	79.0	31.5	-	68.5
2000/01	46.8	-	57.4	39.1	-	60.9
2010/11	67.4	-	32.6	65.9	-	34.3
2020/21 ^R	75.4	0.7	23.9	63.1	15.2	21.7
2021/22 ^R	77.6	0.4	22.0	62.5	13.8	23.7
2022/23 ^R	67.9	1.1	21.0	63.8	13.8	22.4
2023/24 ^R	67.7	1.7	30.6	62.6	18.8	18.7
2024/25 ^{P*}	80.8	1.1	18.1	59.7	18.8	21.5

Note: FY 1961/62 to 2000/01: Arun Kumar Singh and Rajesh Keshar Khanal, Indo-Nepal Trade Relations (2008), Regal Publication, New Delhi, PP 167

FY 2020/21 to 2024/25: Nepal Rastra Bank (NRB): <https://www.nrb.org.np/category/current-macroeconomic-situation/?department=red>

R=Revised & P* = Provisional (10 months till mid-May 2025)

Nepal had sustained dominance in export of carpets and textiles in early 1990s which accounted for 45 percent of exports of the country (World Bank, 1992). International competition and labour challenges reduced this figure to 22% in 2022. (NRB, 2023). Export of Garments reached 30 percent of exports in 2000 due to US quota benefits which were reduced to 4 percent due to phase out of the Multi-Fiber Agreement (Pandey, 2015). Cardamom and coffee are emerging successful exports even after facing restrictions. Their share increased from 2 percent in 1995 to 8 percent in 2023 (MoALD, 2023). Table 3 shows the share of major commodities in Nepal's foreign trade in 2022/23.

Table 3

Share of Major Commodities in Nepalese Foreign Trade 2022/23

Export		Import	
Commodities	Share (%)	Commodities	Share (%)
Refined Pam oil	13.05	Disel	9.54
Synthetic Yarn	7.77	Petrol	4.15
Woolen Carpet	7.32	LP Gas	3.61
Refined Soyabean Oil	5.39	Gold	2.72
Cardamom	5.27	Pure Iron	2.71
Prepared Clothes (Garments)	4.98	Crude Soyabean	2.21
Iron Plate	4.58	Other Coal	1.68
Fruit Juice	4.22	Mobile & Telephone	1.65
Jamoth Cloth	3.33	Polythene Granules	1.61
Jute Woven Fabric	3.04	Crude Pam Oil	1.61
Total	58.95	Total	31.49

Note: Department of Customs (2023) https://giwmscdntwo.gov.np/media/pdf_upload/Annual%20Foreign%20Trade%20%20Statistics%20Book%202079-80_k8hkcxx.pdf

Nepal's exports remain dominated by a limited number of products, indicating that diversification in commodity exports has not been achieved in the past three decades.

Inadequacies of Trade Agreements

Nepal's trade deficit continues to deteriorate due to many structural issues within its trade agreements. Nepal conducts trade with around 170 nations and has negotiated numerous bilateral and regional trade ties. However, these accords have intensified trade imbalances instead of alleviating them (Department of Customs, 2023). The following difficulties related to trade agreements are regarded as impediments to mitigating the country's increasing trade deficit.

Asymmetrical Advantages in Bilateral Agreements

The Nepal-India Trade Agreement: It was revised in 2009, affecting Nepal's capacity to export goods to India. Nepal can export commodities to India tax-free; nonetheless, Indian products are more favoured in Nepal due to economies of scale and subsidies. Nepal's agricultural exports, including refined palm oil, soybean oil, tea, and ginger, encounter non-tariff hurdles such as stringent quality standards, protracted customs delays, and intricate certification procedures. These obstacles render the exportation of goods more costly and time-intensive, hence diminishing the competitiveness of Nepalese products (Adhikari and Ghimire, 2020).

Exploitable Gaps in the Rules of Origin (RoO): The trade agreement between Nepal and India permits the entry of goods from third nations, such as Chinese electronics and UAE oil, into India via Nepal without additional tariffs. A product must possess a minimum of 40 percent domestic value to qualify for tariff reductions under SAFTA. Lenient Rules of Origin permit foreign products, such as Chinese electronics and UAE oil, to enter India via Nepal with minimal processing. This exploits Nepal's duty-free access to India, resulting in responses such as abrupt bans and heightened inspections that adversely affect genuine Nepalese exporters (SWATEE, 2020).

Trade Accord Between Nepal and China: The 1983 trade accord between Nepal and China was amended in 2019. Nepal is permitted to export 8030 items to China tax-free; nevertheless, its export capacity is constrained by the significant trans-Himalayan barrier and stringent sanitary and phytosanitary (SPS) regulations (MoICS, 2019). This explains why Nepal has limited exports to China.

Challenges Associated with Regional Agreements

Failure of Strong Implementation of South Asian Free Trade Area (SAFTA):

Nepal does not benefit from the South Asian Free Trade Area (SAFTA) due to the detrimental impact of poor trade relations between India and Pakistan, which adversely affects Nepal the most (SAARC Secretariat, 2020). Nepal's exports to SAFTA countries, excluding India, constitute less than 5 percent of its total exports (Department of Customs, 2023).

Anticipating the BIMSTEC Free Trade Agreement (FTA): This agreement has been pending since 2004. Nepal has forfeited potential markets in Thailand, Bangladesh, and Myanmar due to the FTA's failure to be implemented (BIMSTEC Secretariat, 2023).

Insufficient Robust Trade Facilitation Regulations

Nepal faces challenges with Indian customs checkpoints that are difficult to navigate. Despite existing accords, delays persist at the Indian borders (Birgunj-Raxaul, Bhairahawa-Sunauli) due to paperwork issues (even under the Nepal-India Treaty) and sporadic Indian customs inspections (for instance, on Nepali cardamom and ginger). The FNCCI conducted a study in 2022 revealing that Nepali trucks experienced lengthier transit times at the India border compared to Bangladeshi vehicles (FNCCI, 2022).

Excessive Dependence on India Without Diversification

India accounts for around 65 percent of Nepal's international commerce, facilitating rapid policy alterations, such as the blockade in 2015 and the palm oil restrictions in 2022 (UNDP, 2022). The Nepal Trade Integration Strategy (NTIS 2010, 2016, and 2023) identified 19 primary export commodities; however, implementation is delayed due to insufficient Foreign Direct Investment (FDI) in export industries and inadequate governmental collaboration (UNDP, 2022).

Insufficient Mechanisms for Dispute Resolution

The Nepal-India Treaty lacks an effective mechanism for dispute resolution, resulting in numerous unresolved concerns. For instance, the prohibition on the export of Nepali ghee and motorcycles. Similarly, India prohibited Nepali palm oil citing "quality concerns," however there was no impartial mechanism to challenge the decision.

Insufficient Industrial and Infrastructural Base

Nepal's chronic trade deficit, reaching \$13.5 billion in 2022/23 (NRB, 2023), is largely due to its weak industrial base and poor infrastructure. This deficit limits export competitiveness and makes Nepal dependent on imports. The country's industrial sector, which contributes only about 15 percent of GDP (World Bank, 2023), is dominated by low-value agro-processing and small-scale industries. The country's traditional export industries, such as garment and carpet, have declined due to high production costs and competition from Bangladesh and India (FNCCI, 2022). Developing countries such as Nepal also attracts minimal FDI in manufacturing due to political instability and a poor business environment. Between 2015 and 2023, FDI flows saw modest growth of 17 percent in developing countries (UNCTAD, 2023).

Poor infrastructure, including energy crisis, high production costs, and transport and logistics bottlenecks, also contribute to the country's trade deficit. Frequent power cuts and high electricity costs have led to Nepali products becoming costlier than regional competitors India and Bangladesh. Between 2008 and 2016, Nepal's GDP could have been lost by US\$11 billion due to electricity load shedding, affecting all sectors and severely impacting the country's investment climate (Timilsina, G., & Steinbuks, J. (2021). Inadequate dry ports, testing labs, and customs facilities also slow down exports (SWATEE, 2021).

The combined effect of these factors has led to a trade deficit that has widened from \$6 billion (2010) to \$13.5 billion (2023), with exports covering only about 10% of imports (NRB, 2023). Case studies indicate that Nepal imports \$500 million annually despite possessing iron ore, which remains unutilised due to the absence of large-scale steel manufacturing facilities (FNCCI, 2022). Cement factories possess comparative cost benefits; yet they cannot fully realise their potential due to power-related challenges (Nepal Cement Manufacturers Association, 2023).

Substantial Remittance Reliance and Adverse Exchange Rate

Nepal's economy heavily relies on remittances, contributing around 22.7 percent of GDP in 2023 (World Bank, 2023). This has inadvertently worsened the trade deficit and weakened export competitiveness due to exchange rate distortions. Remittances fuel import demand, but most spending goes to imported goods, leading to a widening trade deficit (NRB, 2023).

The Dutch Disease Effect and adverse exchange rate policies also contribute to this imbalance (ADB, 2025). The fixed exchange rate limits flexibility, making exporters earn less when global buyers pay in dollars (NRB, 2023). Overvalued NPR due to high inflation (IMF, 2023) and fixed exchange rate (SANEM, 2022) also hurts export competitiveness, as Nepali products lose price competitiveness in India and global markets.

The combined impact of remittance-driven consumption, overvalued exchange rate, weak industrial base, and dollar shortages has led to a trade deficit reaching \$13.5 billion in 2022/23 (MoF, 2023). The Nepalese garment industry collapsed due to labour shortage and overvalued exchange rate. The data reveals a substantial rise in vehicle imports, propelled by remittance-driven demand, totalling \$1.2 billion (Department of Customs, 2023), in the lack of domestic production.

Unstable Politics and Policy Inconsistencies

Nepal's chronic trade deficit is also exacerbated by political instability and frequent policy shifts. Unstable governments disrupt long-term trade policies, leading to unimplemented trade agreements and lack of continuity in export promotion schemes. Sudden tax and tariff changes also hurt businesses, creating uncertainty (FNCCI, 2023). Weak institutional governance and corruption also contribute to delays in customs and trade facilitation (Transparency International, 2023). Poor implementation of trade agreements and lack of stable policies in key sectors like energy and industrial policy have led to policy inconsistencies (MoICS, 2023).

6tThe garment industry, a traditionally dominant export sector in the country, has deteriorated due to recurrent labour strikes and policy neglect, alongside the failure to renew trade preferences with the US and EU. Consequently, exports from this sector plummeted from \$800 million in 2000 to \$120 million in 2023 (FNCCI, 2023). Nepal imported cement worth \$500 million in a year due to regulatory uncertainty in the cement business surrounding fluctuations in mining permits, which deters foreign direct investment despite the availability of raw materials, leading to heightened import dependency (Nepal Cement Manufacturers Association, 2023).

Measures to Improve Nepal's regional and global trade competitiveness

Improving the competitiveness of Nepal's trade in regional and global markets necessitates a comprehensive strategy that tackles structural, policy, infrastructural, and institutional difficulties. The following is a comprehensive analysis accompanied by citations of studies, papers, and policy recommendations:

Trade Infrastructure and Logistics Improvement

Transport and Linkage: Poor Road networks, dependency on Indian ports, and ineffective customs procedures raise trade expenses in Nepal (World Bank, 2020). Inland container depots (ICDs), border point upgrades (e.g., Birgunj Dry Port), and regional connectivity via China's Belt and Road Initiative (BRI) and Bangladesh-China-India-Myanmar (BCIM) corridor can improve these issues (World Bank, 2023).

Facilitating Digital Trade: Implementation of paperless customs (ASYCUDA World) to reduce clearance times (Department of Customs, 2021).

Export Product and Market Diversification

Exporting Beyond Traditions: Carpets, garments, and agriculture dominate Nepal's exports, which are becoming less competitive (Trade and Export Promotion Centre, 2022). Promotion of high-value items like herbs, IT services, and speciality tourism diversifies products and markets to control large international trade imbalances (FNCCI, 2022).

Utilising Regional Trade Agreement: The SAFTA, BIMSTEC, and Bangladesh, Bhutan, India, and Nepal (BBIN) Motor Vehicle Agreement (MVA) can improve market access (SAARC Chamber of Commerce, 2021). This may assist Nepal overcome its 25 percent underutilisation of eligible exports to take advantage of India's preferential tariffs (FNCCI, 2022).

Improvements to Quality and Compliance

Compliance with International Standards: Nepalese products face non-tariff barriers (NTBs) from India and the EU due to poor certification. Adopting ISO, HACCP, and organic agriculture certifications and strengthening testing labs can improve Nepalese export quality and compliance.

Sanitary and Phytosanitary Options

Pesticide residues deter EU approval of Nepalese honey and tea (European Commission, 2021). The Nepal Trade Integration Strategy (NTIS) 2023 lists 12 priority products for quality improvements. Quality upgrade policies reduce sanitary and phytosanitary concerns.

Boosting Trade Finance and Investment

Small and Medium Enterprises' (SMEs') Access to Credit: Unstable and high interest rates and collateral requirements hinder export growth through establishment of SMEs (NRB, 2023). Expanding credit guarantees and venture capital funds enhance the export capacity of SMEs.

Export-Industry Based Foreign Direct Investment (FDI): Large export-potential sectors cannot get FDI. Nepal receives most FDI in hydropower and tourism (MoICS, 2023). The Foreign Investment and Technology Transfer Act (FITTA) reforms are needed to encourage export-oriented FDI.

Reforming Policy and Institutions

Coherent Trade Policy: Nepal, strategically located between India and China, faces challenges in trade and investment due to its slow growth and inability to diversify its exports. With a large trade deficit and less than 1% of GDP in foreign investment, Nepal has among the lowest participation in global value chains. Challenges include inadequate infrastructure, landlocked status, rugged terrain, and non-tariff barriers. Improving the current trade policy framework could help boost growth and investment (World Bank, 2018).

Trade Deficit Reduction: Nepal's trade imbalance amounted to NPR 1440.61 billion in 2023/24 as a result of substantial imports (NRB, 2024). Advocating for import substitution in agricultural items and energy is intended to diminish the trade deficit.

Utilising the Digital Economy and E-Commerce

The potential for developing cross-border e-commerce is substantial due to the presence of two neighbouring giants, rising as key global economies and markets. Nepal's e-commerce sector is expanding at approximately 30 percent per annum, although it is deficient in legislative

frameworks (FNCCI, 2023). Implementing Digital Trade Laws and integrating with regional platforms like as Daraz, Amazon, and other global selling platforms would augment the capacity to harness Nepal's e-commerce potential.

Conclusion

Nepal's foreign trade has experienced a 28-fold expansion over the past thirty years, but it has not addressed its structural vulnerabilities, leading to a worsening deficit and stagnant exports. The research identifies four systemic deficiencies: policy incoherence, export stagnation due to excessive dependence on low-value commodities, infrastructure deficiencies due to high logistical expenses, power constraints, and insufficient industrial capacity, and remittance distortions due to an import surge. The Himalayan Trade Transition Framework aims to address these issues by enhancing digital and physical connectivity, export diversification, policy reforms, and regional integration. Failure to address these deficiencies could perpetuate Nepal's trade imbalance and jeopardize its long-term economic resilience. The research calls for immediate, collaborative measures to transition Nepal from a trade-dependent to a trade-competitive economy.

References

- Adhikari, P. K., & Ghimire, K. P. (2025). The impact of Indo-Nepalese bilateral trade trends on gross domestic product in Nepal. *Rupantaran a Multidisciplinary Journal*, 9(01), 75–90. <https://doi.org/10.3126/rupantaran.v9i01.73486>
- Asian Development Bank (ADB). (2025). *Nepal: Country partnership strategy, 2025–2029*. Asian Development Bank. <https://www.adb.org/documents/nepal-country-partnership-strategy-2025-2029>
- Dahal, R. (2017). Political instability and trade performance in Nepal. *Journal of South Asian Studies*, 12(3), 45–60.
- Department of Customs. (2021). Nepal Foreign Trade Statistics 2020/21. Ministry of Finance, Government of Nepal. https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fgiwmscdntwo.gov.np%2Fmedia%2Ffiles%2FFTS_

Annual_207778_qu6gqsv.xlsx&wdOrigin=BROWSELINK

Department of Customs. (2023). Nepal Foreign Trade Statistics 2022/23. Ministry of Finance, Government of Nepal. https://giwmscdntwo.gov.np/media/pdf_upload/Annual Foreign Trade Statistics Book 2079-80_k8hkcx.pdf.

European Commission. (2021). *Sanitary and phytosanitary measures for Nepalese exports*. https://ec.europa.eu/food/horizontal-topics/international-affairs/eu-imports_en

FNCCI. (2022). *Trade barriers and export challenges in Nepal*. Federation of Nepalese Chambers of Commerce and Industry.

FNCCI. (2023). *Policy inconsistencies and their impact on Nepal's trade sector*. Federation of Nepalese Chambers of Commerce and Industry.

IMF (2023). *Nepal: 2023 Article IV Consultation*. International Monetary Fund. <https://www.imf.org/en/Publications/CR/Issues/2023/05/04/Nepal-Staff-Report-for-the-2023-Article-IV-Consultation-First-and-Second-Reviews-Under-the-533075>

International Trade Administration. (2021). *Nepal-China trade protocol: Opportunities and challenges*. U.S. Department of Commerce. <https://www.trade.gov/country-commercial-guides/nepal-market-challenges>

Katti, V. (1992). *Indo-Nepal trade relations: Historical perspectives*. Academic Publishers.

Khatriwada, Y. K. (2021). Foreign Direct investment in Nepal: status and way forward. *Economic Journal of Nepal*, 44(1–2), 93–112. <https://doi.org/10.3126/ejon.v44i1-2.55030>

Ministry of Agriculture and Livestock Development. (2023). *Statistical information on Nepalese agriculture 2077/78 (2020/21)*. <https://moald.gov.np/content/39/statistical-information-on-nepalese-agriculture-2077-78--2020-21-/>

Ministry of Finance, Government of Nepal. (2023). Economic Survey 2022/23. https://giwmscdntwo.gov.np/media/pdf_upload/1710323031_Economic%20Survey%20Eng%202022-23%20Eng%20Final%20for%20WEB_qqoy.py.pdf

- Ministry of Industry, Commerce and Supplies (MoICS). (2019). *Nepal-China trade agreement: An assessment*. Government of Nepal. https://giwmscdntwo.gov.np/media/app/public/6/posts/1717143992_95.pdf
- Ministry of Industry, Commerce and Supplies (MoICS). (2023). *Nepal Trade Integration Strategy (NTIS) 2023*. https://giwmscdntwo.gov.np/media/pdf_upload/NTIS%20English%20version_FINAL_u82ldmw.pdf
- Nepal Cement Manufacturers Association. (2023). *Cement industry report: Challenges and opportunities*.
- Nepal Rastra Bank (NRB). (2023). *Current macroeconomic and financial situation report*. <https://www.nrb.org.np/category/current-macroeconomic-situation/?department=red&fy=2079-80&subcategory=annualp>
- Nepal Rastra Bank (NRB). (2024). *Current Macroeconomic and Financial Situation of Nepal*. <https://www.nrb.org.np/contents/uploads/2024/08/Current-Macroeconomic-and-Financial-Situation-English-Based-on-Annual-data-of-2023.24-3.pdf>
- Pandey, R. (2018). Trade liberalization and export diversification in Nepal. *Journal of Economic Development*, 15(2), 78–95.
- Paudel, R. C., & Shrestha, M. K. (2019). Challenges of Nepal's export economy: Low-value-added products and regional competition. *Journal of South Asian Economics*, 12(2), 45–60
- Paudel, S. R. (1998). Nepal's trade diversification efforts in the 1960s. *Himalayan Studies*, 5(1), 112–125.
- SAARC Secretariat. (2020). *SAFTA implementation review*.
- Sapkota, C. (2015). Structural vulnerabilities in Nepal's trade sector. *Economic Review*, 22(4), 33–50.
- Shrestha, B. (1974). *History of Nepal's foreign trade*. Nepal Academic Publications.

Singh, A. K., & Khanal, R. K. (2008). *Indo-Nepal trade relations*. Regal Publications, 143-255.

South Asian Network on Economic Modeling (SANEM) (2022). *Exchange Rate Misalignment in Nepal*. <https://sanemnet.org/exchange-rate-misalignment-nepal/>

South Asian Watch on Trade and Environment (SAWTEE) (2019). *Nepal-India Trade Treaty: Performance and Challenges*. <https://www.sawtee.org/publications/Nepal-India-Trade-Treaty.pdf>

South Asian Watch on Trade and Environment SAWTEE (2020). *Nepal-India Trade: RoO Challenges*. <https://www.sawtee.org/publications/RoO-Challenges.pdf>

South Asian Watch on Trade and Environment SAWTEE (2021). *Non-Tariff Barriers to Nepal's Exports*. <https://www.sawtee.org/publications/NTBs-Nepal-Exports.pdf>

South Asian Watch on Trade and Environment SAWTEE (2022). *Non-Tariff Barriers in Nepal-India Trade*. <https://www.sawtee.org/publications/NTBs-Nepal-India-Trade.pdf>

Timilsina, G., & Steinbuks, J. (2021). Economic costs of electricity load shedding in Nepal. *Renewable and Sustainable Energy Reviews*, 146, 111112. <https://doi.org/10.1016/j.rser.2021.111112>

BIMSTEC Secretariat. (2023). *BIMSTEC Free Trade Agreement: Progress and challenges*.

Transparency International. (2023). *Corruption and trade facilitation in Nepal*.

United Nations Conference on Trade and Development. (2023). FDI de-risking: Political risk insurance. UNCTAD. <https://unctad.org/publication/fdi-derisking-political-risk-insurance>

World Bank. (1996). *Structural adjustment in Nepal*. <https://documents.worldbank.org/en/publication/documents-reports/downloadstats?docid=730411468758112035>

World Bank. (2018, August). Nepal policy notes (Report No. 637451537351408020). <https://documents1.worldbank.org/curated/en/637451537351408020/txt/Nepal-Policy-Notes-August-2018.txt>

- World Bank. (2019). *Concept project information document (PID) – Nepal strategic road connectivity and trade improvement project (P170409)*. World Bank Group. <https://documents1.worldbank.org/curated/en/209991563349522043/Concept-Project-Information-Document-PID-Nepal-Strategic-Road-Connectivity-and-Trade-Improvement-Project-P170409.docx>
- World Bank. (2022). *Nepal country profile*. World Integrated Trade Solution. <https://wits.worldbank.org/CountryProfile/en/Country/NPL/Year/LTST/Summarytext>
- World Bank. (2023). *Nepal development update*. <https://thedocs.worldbank.org/en/doc/f7cacc93bf594ebe0f649fe785809676-0310012023/original/Nepal-Development-Update-2023-October-Final.pdf>
- World Bank. (2024). *Nepal Development Update*. <https://documents1.worldbank.org/curated/en/099040124010511219/pdf/P500910-408e8a6c-9fda-439d-aa2d-d52cd32db742.pdf>