

# Nepal's Foreign Trade: The Changing Scenario Of Commodity Composition And Direction

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## INTRODUCTION

Foreign trade plays a significant role in economic development of developing countries like Nepal. Nepal is a least developed country where inputs for economic development are scarcely available, hence foreign trade becomes inevitable for Nepal. It provides indispensable raw materials for development, technical know-how, foreign capital and competition conducive to economic development. It also creates specialisation and division of labour in production and market access to developing countries like Nepal.

Nepal is a primary product producing country, its terms of trade remain unfavourable. Under these circumstances production, productivity and efficiency are to be generated which is possible by foreign trade in the short run. Under economic reforms at global level, i.e., liberalisation and globalisation, Nepalese economy is to be made compatible with these changes, hence cost of production is to be reduced, efficiency and competitiveness are to be generated. It requires in the short run the imports of raw materials, expert services and technical know-how, which proves the significance of foreign trade. As under its policy reforms Nepal has to liberalise her foreign trade further, hence, infrastructures, elasticity in production pattern and so on are to be created, which requires rapid advancement in foreign trade.

Another point which is worth considering is the establishment of SAARC. It would be relevant to examine the existing trade scenario of Nepal in the context of SAARC vis-a-vis rest of the world. The objective of the present paper is to examine the commodity composition and direction of Nepal's foreign trade and make some constructive suggestions under changing world conditions.

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There is no doubt that Nepalese foreign trade in value has increased tremendously over the years. It was 460 million U.S. dollars in 1986 which increased to U.S. \$ 1378 million in 1995, registering an increase of about three fold in imports. On the other hand, export which was amounting to U.S. \$ 142 million in 1986, increased to U.S.\$ 349 million in 1995, showing an increase of 145. 7 percent. Thus, it can be noted that there has been a tendency of imports exceeding exports, resulting in persistent deficit in balance of trade. It shows a poor state of economic development of Nepal. All these trends can be well seen from Table 1.

### PATTERN OF COMMODITY COMPOSITION

Another important issue of Nepalese foreign trade is the pattern of commodity composition, classified as import commodity composition and export commodity composition. Import commodity composition of Nepal is more diversified than export commodity composition. A study of import commodity composition from 1986 to 1995 indicates that woollen goods occupy the first place in total imports. It amounted to 3529 thousand U.S. dollars in 1986 which increased to U.S. \$ 27295 thousand in 1995, indicating an increase of 673.36 percent. Imports of fertilisers, manufactured occupy the second place in import commodity composition. It was 24713 thousand U.S. dollars in 1986 which increased to U.S. \$ 25000 thousand in 1995, recording a slight rise. Imports of soyabean oil occupy the third place, registering tremendous rise. It amounted to 961 thousand U.S. dollars in 1986 which increased to 17125 thousand U.S. dollars in 1995, showing more than 178 times rise. Passanger cars excluding buses amounted to 5007 thousand U.S. dollars worth imports in 1986 which rose to U.S. \$ 15135 thousand in 1995 (Table 2).

Thus it is obvious from the import composition of Nepal that there is meagre import of capital and investment goods, while food items, such as, spoyabean oil, spices, refined sugar, rice, etc. predominate the imports of Napales economy. Luxury items are also being imported. Such trends in imports of Nepal indicate that there is meagre efforts for creation of economic infrastructures which are prerequisites for expansion of foreign trade via increase in domestic production.

A study of Nepalese export commodity composition indicates that a few items like woollen carpets, woven undergarments of textile fabrics, women's dresses not knitted are dominating the Napal's exports

commodity composition. It shows that Nepal's exports items are limited. Further, traditional exportables like rice, wheat, spices, jute manufactures, bags, sacks of textiles are losing their significance. The pattern of exports of selected items can be seen and well understood from the Table 3.

#### DIRECTION OF TRADE

A study of direction of trade is significant because it indicates a country's international relations, facilities for trade and liking of nations. In the context of Nepal a study of direction of trade is important to show that whether its trade is diversified or limited to a few regions or countries, and to see whether the country trade with capitalist regions only or with socialist and mixed economics like India as well.

Nepal's direction of trade can be examined in terms of destination-wise exports and imports. In case of exports, North and Central America and Western Europe are at the top. Nepal's export to Western Europe was 20.63 percent of total export in 1986, which increased to 52.92 percent in 1995. It indicates that more than half of its export is confined to Western Europe. Similarly, Nepal's export to North and Central America amounted to 18.51 percent of total exports in 1986 which increased to 28.69 percent in 1995. If we look at the export of Nepal to North and Central America and Western Europe together we can very easily say that more than 80 percent Nepal's export is now confined to these two regions only, while it was only 40 percent in 1986. Among these two regions, Nepal's export to Western Europe is increasing rapidly as compared to North and Central America.

On the other hand, Nepal's exports to SAARC and ESCAP regions are declining. With ESCAP region it was 30.68 percent of the total exports in 1986 which substantially declined to 9.47 percent in 1995. Similar trend is observed in regard to exports to SAARC region from Nepal. It amounted to 27.51 percent in 1986, which declined to 8.07 percent in 1995. It indicates that Nepal is losing its traditional markets of exports. Nepal's exports even to India are declining as it was 19.58 percent in 1986 which remained mere 6.96 percent of total exports in 1995 (Table 4). It can be attributed to Nepalese market diversification, decline in demand of India for Nepalese goods due to domestic availability and rise in domestic consumption, etc. Another reason for fall in exports of Nepal to India may be large scale smuggling across Indo-Nepal borders.

Destination-wise import of Nepal (Table 5) also indicates that Nepal is concentrated on ESCAP region. Its members like Singapore, Thailand and Japan, showed more than fifty percent imports in 1986 and more than sixty percent in 1995. Its imports from North and Central America, Western and Eastern Europe are declining. In case of North and Central America, it was 2.15 percent of the total imports in 1986 which declined to 1.45 percent in 1995.

Similarly, its imports from Western Europe were 10.32 percent in 1986 which slightly declined to 8.55 percent in 1995. Substantial decrease took place in imports from Eastern Europe. It was 10.64 percent in 1986 which declined to 0.12 percent in 1994. The main reason of this decline may be the disintegration of former Soviet Union.

Nepal's imports from SAARC region have also come down being 21.74 percent of total imports in 1986 declined to 12.80 percent in 1995, which is not a good sign. Similarly, imports from India, the strongest member of SAARC, have also come down. The reasons attributed to it can be the poky of trade diversifications, terms of trade, smuggling practices trade and transit facilities, etc.

## CONCLUSION

In brief we can draw some points about Nepalese foreign trade as given below:

- Nepal's foreign trade has increased considerably but there has been a tendency of imports exceeding exports, showing permanent deficit in balance of trade. Moreover, the rate of increase of deficit in balance of trade has been rising rapidly during recent years.
- Export commodity composition is limited only to a few items like woollen carpets, garments, etc.
- Import commodity composition of Nepal shows that main importables are consumables and luxury items. The share of capital and investment goods is meagre.
- Region-wise exports indicate that Nepal is confined to limited markets, such as, North and Central America and Western Europe, while exports to SAARC and other regions are limited.

On the other hand, Nepal has also been concentrated on ESCAP region for imports. It incorporates Singapore, Thailand and Japan as major exporters to Nepal, while imports from SAARC region including India, Western and Eastern Europe are declining substantially.

In the light of above observations about Nepal's foreign trade, the following points deserve special consideration:

To improve balance of trade position Nepal should increase exports and reduce imports. Exports can be encouraged by improving the quality of products, reducing costs of production, generating export surpluses, encouraging research and development. On the other hand, to reduce imports indigenous production of import substitutes should be encouraged by adopting improved indigenous technology curbing non-essential and luxury imports and controlling growth of population. It should also diversify its import and export markets and products via trade agreements and developing friendly relations.

Nepal is a member of SAARC region. Hence, it would be advantageous to Nepal to expand and diversify its trade with SAARC countries. SAARC countries should also come forward to meet the requirements of Nepalese economy. Among SAARC countries, India is comparatively more developed, so it should help Nepal by importing products from Nepal and exporting products to Nepal at reasonable terms of trade and providing trade and transit facilities, so that Nepal can remove its fear of exploitation.

In order to expand and diversify Nepalese foreign trade, it is inevitable to have control over smuggling practices across the borders. It can be done besides surveillance at borders, by keeping the prices of smuggled items at par with black market prices in the country, where goods are smuggled. In this regard, public cooperation should also be sought.

**Table 1**  
**Nepal's External Trade**

(In Million U.S. Dollars)

Item	Years										Percentage change in 1996 Over 1986
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	
Imports	460	571	679	582	686	765	792	880	1159	1378	199.5
Percentage Change Over Previous year	-	24.13	18.91	-14.30	17.86	11.51	3.52	11.11	31.70	18.90	
Exports	142	151	191	159	209	263	374	389	364	349	145.7
Percentage Change Over Previous year	-	6.34	26.49	-16.75	31.45	25.83	42.21	4.01	-6.42	-4.12	
Total Trade	602	722	870	741	895	1028	1166	1269	1523	1727	186.9
Percentage Change Over Previous Year	-	19.93	20.49	-14.83	20.78	14.86	13.42	8.83	20.02	13.39	
Year Balance	-318	-420	-487	-423	-477	-502	-418	-431	-795	-1029	-223.6

Source : Statistical Year Book for Asia and Pacific, 1997, p. 353. ESCAP.

**Table 2**  
**Imports Of Selected Commodities By Nepal**

(In thousand U.S. Dollars)

Commodi - ties	Years									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Animal of the Bovine Species, live	10150 (8.98)	-	14181 (11.98)	9635 (10.00)	31 (0.03)	-	12510 (8.28)	535 (0.36)	-	-
Rice	-	-	-	-	-	-	4881 (3.23)	6588 (4.38)	11934 (9.38)	8000 (6.89)
Refined Sugar, etc.	8059 (7.13)	-	2389 (2.02)	3925 (4.08)	5197 (4.29)	-	4500 (2.98)	5330 (3.54)	4690 (3.69)	6200 (5.34)
Spices	4107 (3.63)	-	6558 (5.54)	8540 (8.87)	5252 (4.34)	5585 (7.86)	4846 (3.21)	4405 (2.92)	10257 (8.06)	6922 (5.97)
Tobacco	4164 (3.68)	-	5777 (4.88)	7108 (7.38)	145 (0.12)	-	3406 (2.25)	6272 (4.17)	6358 (5.00)	9176 (7.91)
Unmanufactured Wool,	3529 (3.12)	-	25205 (21.30)	13526 (14.05)	28433 (23.48)	35217 (49.6)	47337 (31.33)	54694 (36.37)	52830 (41.53)	27292 (23.52)
Animal hair	16487 (14.59)	-	-	-	17689 (14.61)	-	-	-	-	-
Kerosene, Other	-	-	-	-	-	-	13500 (8.93)	13018 (8.66)	17125 (13.47)	17125 (14.76)
Medium Oils Soyabean Oil	961 (0.85)	-	10524 (8.89)	7193 (7.47)	9690 (8.00)	-	-	-	-	-
Woven Cotton Fabrics,	35825 (31.70)	-	18166 (15.35)	20043 (21.96)	13 (0.01)	-	27263 (18.04)	24887 (16.55)	-	1189 (1.02)
Fertilisers, Manufactured	24713 (21.87)	-	22531 (19.04)	13300 (13.81)	46860 (38.70)	30230 (42.56)	25000 (16.54)	23000 (15.29)	24000 (18.87)	25000 (21.54)
Passenger cars, excluding buses	5007 (4.43)	-	13003 (10.99)	13027 (13.52)	7777 (6.42)	-	7864 (5.20)	11659 (7.75)	-	15135 (13.04)
<b>Total</b>	<b>113002 (100.0)</b>	<b>-</b>	<b>118334 (100.0)</b>	<b>96287 (100.0)</b>	<b>121087 (100.0)</b>	<b>71032 (100.0)</b>	<b>151107 (100.0)</b>	<b>150388 (100.0)</b>	<b>127194 (100.0)</b>	<b>116039 (100.0)</b>

Note : Figures in brackets denote percentage share in total.

Source : Statistical Year Book for Asia and Pacific, 1997, p. 353. ESCAP.

**Table 3**  
**Exports Of Selected Commodities By Nepal**

(In thousand U.S. Dollars)

Commodities	Years									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Bovine Species, Live	4352 (5.05)	-	1304 (17.92)	1854 (2.41)	-	-	3713 (1.37)	1340 (0.45)	-	-
Rice	3092 (3.59)	-	-	-	-	-	-	-	-	-
Wheat, etc. Meal or Flour	491 (0.57)	-	-	-	-	-	-	-	-	-
Leguminous	14253 (16.53)	-	-	-	-	-	27256 (10.08)	22556 (7.55)	-	-
Vegetables, Dry	-	-	-	-	-	-	-	-	-	-
Spices	4615 (5.36)	-	3547 (4.87)	2724 (3.54)	168 (1.79)	5384 (4.48)	5326 (1.97)	4147 (1.39)	3082 (1.55)	-
Jute and Other	1805 (2.09)	-	3727 (5.12)	2538 (3.30)	385 (4.10)	-	-	-	-	-
Textile based fibers	-	-	-	-	-	-	-	-	-	-
Leather from Goat, kid	10236 (11.88)	-	6664 (9.16)	5388 (7.01)	8842 (94.11)	-	-	-	-	7124 (2.88)
Bags, Sacks of Textiles	2763 (3.21)	-	3090 (4.25)	1324 (1.72)	-	-	-	-	-	-
Woollen Carpets, Woven	2540 (2.94)	-	54453 (74.8)	63023 (82.01)	-	98880 (82.31)	166935 (61.75)	196638 (65.82)	175406 (88.64)	154376 (62.32)
Oil-Seeds and Oleaginous Fruits	-	-	-	-	-	8523 (7.10)	7137 (2.64)	8101 (2.71)	2971 (1.49)	1741 (0.70)
Women's Dresses, not Knitted	42033 (48.77)	-	-	-	-	-	34514 (12.77)	48876 (16.36)	-	51694 (20.87)
Undergarments of Textiles Fiber	-	-	-	-	-	7330 (6.10)	25475 (9.42)	17102 (5.72)	17775 (8.92)	32788 (13.24)
<b>Total</b>	<b>86180 (100.0)</b>	<b>-</b>	<b>72785 (100.0)</b>	<b>76851 (100.0)</b>	<b>9395 (100.0)</b>	<b>120117 (100.0)</b>	<b>270356 (100.0)</b>	<b>298760 (100.0)</b>	<b>199234 (100.0)</b>	<b>247723 (100.0)</b>

Note : Figures in brackets denote percentage share in total.

Source : Statistical Year Book for Asia and Pacific, 1997, p. 353. ESCAP.



**Table 4**  
**Destination-wise Exports Of Nepal**

(In Million U.S. dollars)

Destination	Years									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
ESCAP Region	58 (30.68)	47 (25.00)	72 (27.58)	21 (10.93)	29 (12.18)	30 (10.79)	54 (13.46)	27 (7.08)	21 (5.80)	34 (9.47)
SAARC	52 (27.51)	41 (21.80)	33 (12.64)	5 (2.60)	15 (6.30)	21 (7.55)	46 (11.47)	13 (4.72)	13 (3.59)	29 (8.07)
Bangladesh	-	-	-	1 (0.52)	1 (0.42)	-	-	-	-	4 (1.11)
India	37 (19.58)	37 (19.68)	32 (12.26)	3 (1.56)	14 (5.90)	17 (6.12)	21 (5.24)	17 (4.46)	13 (3.59)	25 (6.96)
Pakistan	2 (1.06)	1 (0.53)	1 (0.38)	1 (0.52)	-	4 (1.44)	3 (0.75)	1 (0.26)	-	-
Srilanka	13 (6.88)	3 (1.60)	-	-	-	-	22 (5.49)	-	-	-
Other Asia	3 (1.58)	1 (0.53)	4 (1.53)	6 (3.12)	7 (2.94)	3 (1.07)	3 (0.74)	2 (0.52)	2 (0.55)	1 (0.27)
Asia	-	-	-	3 (1.56)	-	-	-	1 (0.26)	1 (0.27)	1 (0.27)
North and Central America	35 (18.51)	35 (18.61)	57 (21.83)	51 (26.56)	48 (20.16)	63 (22.66)	85 (21.19)	104 (27.29)	121 (33.42)	103 (28.69)
South America	-	-	-	-	-	-	-	(0.26)	(0.82)	(0.27)
Western Europe	39 (20.63)	62 (32.97)	94 (36.01)	105 (54.68)	138 (57.98)	161 (57.91)	213 (53.11)	228 (59.84)	201 (55.52)	190 (52.92)
Eastern Europe	2 (1.05)	2 (1.06)	1 (0.38)	1 (0.52)	1 (0.42)	-	-	-	-	-
<b>Total</b>	<b>189</b> (100.0)	<b>188</b> (100.0)	<b>261</b> (100.0)	<b>192</b> (100.0)	<b>238</b> (100.0)	<b>278</b> (100.0)	<b>401</b> (100.0)	<b>381</b> (100.0)	<b>362</b> (100.0)	<b>359</b> (100.0)

Note : Figures in brackets denote percentage share in total.

Source : Statistical Year Book for Asia and Pacific, 1997, p. 353. ESCAP.

**Table 5**  
**Destination-wise Imports Of Nepal**

(In Million U.S. Dollars)

Destinations	Years									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
ESCAP	253	313	353	323	315	404	365	436	502	624
Region	(54.40)	(51.22)	(51.08)	(60.03)	(53.93)	(59.67)	(56.67)	(62.64)	(61.59)	(60.52)
SAARC	102	88	97	51	52	99	83	91	133	132
	(21.94)	(14.40)	(14.03)	(9.48)	(8.90)	(14.62)	(12.89)	(13.07)	(13.89)	(12.80)
Banglades	11	6	5	11	8	13	-	8	16	11
	(2.37)	(0.98)	(0.72)	(2.04)	(1.37)	(1.92)		(1.15)	(1.96)	(1.07)
India	90	80	90	36	43	85	80	83	93	118
	(19.35)	(13.09)	(13.02)	(6.69)	(7.36)	(12.56)	(12.42)	(11.93)	(11.41)	(11.45)
Pakistan	1	2	1	1	1	1	2	-	4	3
	(0.21)	(0.33)	(0.14)	(0.19)	(0.17)	(0.14)	(0.31)		(0.49)	(0.29)
Srilanka	-	-	1	3	-	-	1	-	-	-
			(0.14)	(0.56)			(0.16)			
Other Asia	49	58	59	61	82	78	86	78	96	145
	(10.53)	(9.49)	(8.53)	(11.33)	(14.04)	(11.52)	(13.35)	(11.20)	(11.77)	(14.06)
Asia	-	1	4	5	9	18	15	11	14	23
		(0.16)	(0.57)	(0.92)	(1.54)	(2.65)	(2.32)	(1.58)	(1.71)	(2.23)
North and Central America	10	63	74	12	26	9	7	9	10	15
	(2.15)	(10.31)	(10.79)	(2.23)	(4.45)	(1.32)	(1.08)	(1.29)	(1.22)	(1.45)
South America	-	-	-	2	1	-	8	1	4	4
				(0.37)	(0.17)		(1.24)	(0.14)	(0.49)	(0.38)
Africa	-	-	-	1	-	-	-	-	-	-
				(0.18)						
Western Europe	48	86	103	74	95	67	75	69	75	88
	(10.32)	(14.07)	(14.90)	(13.75)	(16.26)	(9.89)	(11.64)	(9.91)	(9.20)	(8.55)
Eastern Europe	3	2	1	10	4	2	5	1	1	-
	(0.64)	(0.32)	(0.14)	(1.85)	(0.68)	(0.29)	(0.77)	(0.14)	(0.12)	
Europe										
Total	465	611	691	538	584	677	644	696	815	1031
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Note : Figures in brackets denote percentage share in total.

Source : Statistical Year Book for Asia and Pacific, 1997, p. 353. ESCAP.

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