

A Note On Prospect Of Balance Of Trade Of Nepal

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INTRODUCTION

Foreign trade plays a vital role in the process of economic development of a nation. Export is its major part. It is one of the important sources of foreign exchange. It is considered as an engine of growth. For Nepal, a least developed country, foreign trade has specific role to play. First, the domestic market is limited and hence, surplus commodities have to be exported. Secondly, because of limited variety and quality of available natural resources, goods that cannot be manufactured within the country have to be imported. Thirdly, the goods that can be manufactured only at a greater cost have to be imported. Fourthly, as technological base of the country is not up to the mark, hence in order to increase production and productivity, modern technology has to be imported. Thus, in the context of economic development, foreign trade to this small, land-locked and least developed country is much more significant. However, the performance of export sector in Nepal is not up to the mark. It is, therefore, essential that the export performance of the country be evaluated at a regular interval so that defects can be detected and corrective measures can be taken effectively and efficiently.

In this paper an attempt has been made to project the future trend in foreign trade of Nepal. For this purpose, export, import and trade balance have been computed by applying statistical tool and time series equation. Though it is not possible to accurately measure the future behaviour of foreign trade of Nepal, it has been assumed that no radical changes would take place in the area of foreign trade. Further, at the national level, the foreign trade policies would also be not changed drastically. Again, the behaviour of foreign market would also not take any rapid change. In brief, it is hoped that the situations of export and import trade would be changed on the earlier pattern. However, it is also accepted that trade policies of the HMG of Nepal would be implemented in letter and spirit. The estimations have been made for 2001/02, 2006/07 and 2019/020.

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TRADE BALANCE OF NEPAL

Table 1
Nepal's Balance Trade Of During 1974/75/1996/97 And Propect For 2001/02,
2006/67 and 2019/020

(NRs. in Million)

FY	Exports (F.O.B.)	Imports (C.L.F.)	Trade Balance (+) (-)
1974-75	889.6	1814.6	-925.0
1975-76	1185.8	1981.7	-795.9
1976-77	1164.7	2008.0	-843.3
1977-78	1046.2	2469.6	-1423.4
1978-79	1296.8	2884.7	-1587.9
1979-80	1150.5	3480.1	-2329.6
1980-81	1608.7	4428.2	-2819.5
1981-82	1491.5	4930.3	-3438.8
1982-83	1132.0	6314.0	-5482.0
1983-84	1703.9	6514.3	-4810.4
1984-85	2740.6	7742.1	-5001.5
1985-86	3078.0	9341.2	-6263.2
1986-87	3011.4	10905.2	-7893.8
1987-88	4114.6	13869.6	-9755.0
1988-89	3160.4	16263.7	-13103.3
1989-90	5156.2	18324.9	-13168.7
1990-91	7387.5	232226.5	-15839.0
1991-92	13706.5	31940.0	-18233.5
1992-93	17266.5	39205.6	-21939.1
1993-94	19293.4	51570.8	-32277.4
1994-95	17639.2	63679.5	-46040.3
1995-96	19881.1	74454.5	-54573.4
1996/97	22480.6	96005.6	-73525.0
2001-02 +	46110.5	195794.3	-149683.8
2006-07 *	102931.9	487865.4	-384933.5
2019-020 *	830424.2	5238416.2	-4407992.0
Compound growth rate (1974/75-96/97)	15 %	18 %	20.9 %
1974/75-2001/02	15.1 %	18.2 %	19.9 %
1974/75-2006/07	15.4 %	18.5 %	20.0 %
1974/75-2019/20	16.0 %	18.9 %	20.2 %

Note - Exports and Imports of 2001-02, 2006-07 and 2019-020 have been calculated by Time Series method and compound growth rate has been computed by compound interest method.

Indication - + : Provisional

* : Forecast

Source : HMG Of Nepal (1997-98), Economic Survey, MOF, 1998, HMG, Kathmandu.

The trade balance of Nepal has remained unfavourable during the period under study. An immediate cause for the deficit trade balance is higher imports against exports. But the factors, which cause deficit trade balance, as stated earlier, are narrow production and exportable base, infant industrial shape, low level of quality, agro and forest based exportable goods, high transit and transportation cost, land-locked situation, mountainous and rugged geographical structure of the country, lack of sound and effective strategical policies for foreign trade, etc.

Table 2
Calculation Of Prospect Of Trade Balance Of Nepal

FY	Exports				Imports			
	Export (F.O.B)	log Y	Deviation from 1985-86 X	X log Y	Imports (CIF)	log Y	Deviation from 1985-86 X	X log Y
1974-75	889.6	2.94	-11	-32.34	1814.6	3.2588	-11	-35.86
1975-76	1185.8	3.07	-10	-30.70	1981.7	3.30	-10	-33.0
1976-77	1164.7	3.07	-9	-27.63	2008.0	3.30	-9	-29.7
1977-78	1046.2	3.02	-8	-24.16	2469.6	3.39	-8	-27.12
1978-79	1296.8	3.11	-7	-21.77	2884.7	3.46	-7	-24.22
1979-80	1150.5	3.06	-6	-18.36	3480.1	3.5416	-6	-21.24
1980-81	1608.7	3.21	-5	-16.05	4428.2	3.65	-5	-18.25
1981-82	1491.5	3.17	-4	-12.68	4930.3	3.69	-4	-14.76
1982-83	1132.0	3.05	-3	-9.15	6314.0	3.80	-3	-11.4
1983-84	1703.9	3.23	-2	-6.46	6514.3	3.81	-2	-37.62
1984-85	2740.6	3.44	-1	-3.44	7742.1	3.89	-1	-3.89
1985-86	3078.0	3.49	0	0	9341.2	3.97	0	0
1986-87	3011.4	3.48	1	3.48	10905.2	4.04	1	4.04
1987-88	4114.6	3.61	2	7.22	13869.6	4.14	2	8.28
1988-89	3160.4	3.50	3	10.50	16263.7	4.21	3	12.63
1989-90	5156.2	3.71	4	14.84	18324.9	4.26	4	17.04
1990-91	7387.5	3.87	5	19.35	23226.5	4.37	5	21.85
1991-92	13706.5	4.14	6	24.84	31940.0	4.50	6	27.0
1992-93	17266.5	4.24	7	29.68	39205.6	4.59	7	32.13
1993-94	19293.4	4.29	8	34.32	51570.8	4.71	8	37.68
1994-95	17639.2	4.25	9	38.25	63679.5	4.80	9	43.2
1995-96	19881.1	4.30	10	43.00	74454.5	4.87	10	48.7
(+) 1996-97	22480.6	4.35	11	47.85	96005.6	4.98	11	54.78
Total	-	81.6	0	70.56	-	92.53	0	80.27

Note : (+) Revised Estimation

Source : Calculated by the Author Based on Economic Survey 1997/98, HMG/N.

In the calculation of the trend values of the available data for the present and the future, it has been noted that the straight line technique is not appropriate. Therefore, an exponential curve technique has been used for the calculation of the trend values for all the respective given years or for the future. In this case instead of $Y = a+bx$, we must use $Y = ab^x$

Taking logarithms to both side, we get,

$$\log y = \log a + x \log b$$

$$\log a = A, \log b = B$$

$$\log y = A + x B$$

By the help of normal equation,

$$A = \frac{\sum \log y}{n} \quad B = \frac{\sum x \log y}{\sum x^2}$$

$$A + x B$$

$$Y = 10$$

For export

$$A = \frac{\sum \log y}{n} = \frac{81.6}{23} = 3.5478$$

$$B = \frac{\sum x \log y}{\sum x^2} = \frac{70.59}{1012} = .06975$$

For 2001/02, X will be + 16

$$3.5478 + 16 (6975)$$

$$Y = 10$$

$$= 46110.52$$

For 2006/07, X will be + 21

$$3.5478 + 21 (0.06975)$$

$$Y = 10$$

$$= 102931.9$$

For 2019/020, X will be + 34

$$3.5478 + 34 (0.06975)$$

$$Y = 10$$

$$= 830424.2$$

$$\text{For Import } A = \frac{\sum \log y}{n} = \frac{92.53}{23} = 4.023$$

$$B = \frac{\sum x \log y}{\sum x^2} = \frac{80.27}{1012} = 0.0793$$

For 2001/02, x will be + 16

$$4.023 + 16 (0.0793)$$

$$Y = 10$$

$$= 195794.28$$

For 2006/07, x will be + 21

$$4.023 + 21 (0.0793)$$

$$Y = 10$$

$$= 487865.3792$$

For 2019/020, x will be + 34

$$4.023 + 34 (0.0793)$$

$$Y = 10$$

$$= 5238416.19$$

FEATURES OF FOREIGN TRADE OF NEPAL

The trend in exports shows fluctuations as compared to imports during the period under study. According to Table 1, the exports registered a little over 25 times growth whereas imports witnessed about 53 times increase during 1974/75- 1996/97. On the other hand, deficit of the trade balance recorded more than 79 times growth during the same period.

Exports will increase to Rs. 46110.5 million in 2001/02, five years onward, NRs. 102931.9 million in 2006/07, ten years onward, and NRs. 830424.2 million in 2019/20, twenty three years onward. Keeping in view the above facts, we shall get about 51 times rise, 115 times growth and about 933 times rise during 1974/75-2001/02, 2006/07 and 2019/20 respectively. Similarly, imports would register about a 107 times, 268 times and about 2886 times rise during the same period respectively. Beside this, trade deficit would account for a little over 161 times rise during 1974/75-2001/02, 416 times in 1974/75-2006/07 and about 4765 times rise in 1974/75-2019/20 respectively.

The annual average growth rate of exports during 1974/75-1996/97 recorded at 15 percent p.a. and an estimation of growth rate of it will be 15.1 percent, 15.4 percent and 16.0 percent during 1974/75-2001/20,

2006/07 and 2019/20 respectively. As against this, that of import heightened 18.1 percent during 1974/75-1996/97, it is estimated at 18.2 percent, 18.5 percent and 18.9 percent during 1974/75-2001/02, 2006/07 and 2019/20 respectively. Similarly, the trade deficit recorded 20.9 percent growth late p.a. during 1974/75-1996/97 which would decrease to 19.9 percent slightly and again rise to 20 percent, and 20.2 percent p.a. during 2001/02, 2006/07 and 2019/20 respectively.

CONCLUSION

An analysis of the Table 1 reveals that in the ten year period the exports accounted for NRs. 889.6 million in 1974/75, it aggravated to Rs. 1703.9 million during 1983/84, whereas imports rose from NRs. 1814.6 million to NRs. 6514.3 million in the same period. Consequently, the trade deficit augmented from NRs. 925.0 million to NRs. 4810.4 million during the the same period. During this period, exports witnessed 1.2 times growth while imports recorded 3.5 times rise. In addition, trade deficit registered more than 5 times growth during the same period. As a matter of fact, exports accounted for NRs. 19293.4 million in 1993/94, showing 21.7 times rise, while that of imports recorded to NRs. 51570.8 million in the same period, indicating 21.4 times increase. On the other hand, trade imbalance increased to NRs. 32277.4 million, showing a 34.9 times growth during the same period. Exports enhanced to NRs. 22480.6 million, showing a 25 times growth during 1974/75-1996/97. In spite of this, imports in value terms rose to NRs. 96005.6 million in the same period. As a result, the trade deficit increased to Rs. 73525.0 million during 1996/97. According to Economic Survey 1997/98, during the 1996/97, total foreign trade deficit rose to NRs. 73525 million, an increase by 34.7 percent as compared to the previous fiscal year.

Estimated value of exports will be increased by NRs. 23629.9 million in 2001/02 as compared to 1996/97. Imports and trade deficit soared up by NRs. 99788.7 million and NRs. 76158.8 million during the same period respectively. Further, during 2006/07, the exports will be enhanced by NRs. 30451.3 million as against to 1996/97 while imports will increase by NRs. 391859.8 million during the same period. As a result, trade deficit will increase by NRs. 311408.5 million in 2006/07 as compared to 1996/97. Consequently, trade deficit during the same period will be increased by NRs. 4334467.0 million as compared to 1996/97.

SELECTED REFERENCE

- HMG of Nepal (1997) *Economic Survey 1997/98* HMG, Kathmandu.
 NRB (1998) *Economic Report 1997*, NRB, Kathmandu.
 TPC (1997) *Nepal Overseas Trade Stationities*, TPC, Kathmandu.

Book Review

Sharma, Gunanidhi (2000) *Nepal : Missing Elements in the Development Thinking*, Nirala Publications, New Delhi, PP IX + 232, Price Indian Rs. 295.

The book under review is the collections of articles written by Professor Gunanidhi Sharma which have been appeared earlier in national, international journals and have deep impressions of Gunanidhi's observations on different developmental aspects of Nepalese economy.

The book has been divided into twenty chapters with thought provoking editorial comments and the subject matters range from political economy to developmental policy to macro developmental indicators like, price, money, interest rates and, never the least, the foreign aid.

Nepal is the least developed country, but the economic transformation of the economy, under the word of developing world, is complex. A definition of developing country is problemetic and, after a point, irrelevant. World Development Report 1996 employs a threshold of \$ 9,000 per capita to distinguish between what it calls high-income countries and low-income and middle-income countries : according to this classification, well over 4.5 billion of the 5.6 billion people in the world today live in the developing world of low and middle income countries. They earn, on an average, around \$ 1000 per capita per annum, a figure that is worth contrasting with the early earnings of average North American or Japanese resident which are well above \$ 25000 per capita per annum. In this context the author has reasoned authentically that in Nepal also there had has been glaring missing strategy of targeting poor, backward and socially deprived people in development thinking which consequently has left Nepal in staggering state on the road to prosperity despite the many caveats and qualifications added in the development indicators. In coming decades the ubiquitous fact of these astonishing desparaties will remain in numbers.

There are two strands of thought that run through in the book. First the author has moved away from a long held view that problems of Nepal's development can be understood best with reference to the international environment of which they are a part. This view includes not only the notion that the developing countries are some how hindered by their exposure to the developed world, eptomized in the teachings of dependance theorists, but also more mainstream concerns regarding the central role of organisations and foreign assistance. Accordingly, the problems of underdevelopment must and foremost be seen in a global context. There is much that is valid in this viewpoint, but the author wished to emphasize equally fundamental issues that are internal to the structure of Nepalese economy. Although a sizeable section of the book addresses internal aspects of the development, the reader who wishes to

concentrates exclusively on these aspects will not find a comprehensive treatment here.

The second strand is methodological : the author has a unified approach to the problems of development and emphasises a recent and growing literature that takes a level headed approach to market failure and the potential for government intervention. It is not that markets intrinsically bad or intrinsically good : the point is to understand the conditions under which they fail or function at an inefficient level and to determine if appropriate policies grounded in an understanding of these condition can fix such inefficiencies. These conditions, as author argues, can be understood best by a serious appreciation of subjects that are at the forefront of economic theory, but need to permeate more thoroughly into introductory textbooks for policy makers, planners, authorities in the power : theories of incomplete information, of incentives, and of strategic behaviour. Few would disagree, in the context of Nepal's development performances, that these considerations lie at the heart of many observed phenomena. However, the book has goal to promote a student's understanding of missing issues as a common place model, not as a set of exceptions to the usual textbook paradigm of perfect competition and full information.

Because these strands have been taken by heart by the author the book differs from other books on development in a number of respects. Most of these differences stem from author's approach to exposition and choice of subject matter. For example the author has adopted the line of research enquiry bearing a completely modern analytical perspective of economic development thinking of Nepal with story of economic development, constraints, to the replacement of informal, imaginative institutions by the formal constructs which we are accustomed to in industrialised economies which are at the apex. Similarly the absence of underfunctioning of markets gives rise to two distinct features : one is the creation of widespread externalities resulting Prisoners, Dilemma, of *game theory* and the second inequality in the distribution of income or wealth with the analytical treatment of *functional* role of inequality.

Inspite of this lacuna in developmental game, the book is very useful for the students who are very keen in understanding the missing thred of Nepal's economic development trail and the policy makers who are stranded in Nepal's development performances of forty years.

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