

Foreign Trade Situation of Nepal

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Abstract : *This study analyzes the growth, direction and trade balance of Nepal's foreign trade for the period 2005/6 to 2014/15. The study finds that the import has grown rapidly (at an annual average rate of 17%) and the export at snail's pace (at an annual rate of 4%) over the study period. As a result the trade balance is negative and growing every year. Such a trend can't sustain for long. Further, Nepal's foreign trade is too much dependent (exceeding two-third of both export and import) on India which needs to be diversified to rest of the world.*

Key words: Foreign trade, Trade diversification, Trade balance.

I. INTRODUCTION

Foreign trade refers the business of imports and exports with foreign countries. In other words, it is international trade which deals the transaction of goods including services, financial flows and the movement of factors of production like labor, capital and entrepreneurship. It provides capital goods and raw materials, transmits technological knowhow 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 foreign trade of Nepal was limited with Tibet and India during Lichhivi and Malla period. It could not flourish during Rana period as Nepal remained isolated with the world. Nepal started expanding trade with foreign countries after she overthrew autocratic Rana regime in 2007 B. S. By now it has expanded its trade with more than 150 countries of all continents. However, Nepal's foreign trade is concentrated with her neighbors mainly with India.

II. OBJECTIVES AND METHODS OF THE STUDY

The objective of this write up is to examine Nepal's foreign trade situation and make recommendations to improve it. Specifically, this study attempts to find out the growth

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and direction of foreign trade of Nepal, and analyze the Nepal's trade balance with India.

The study is based on secondary data collected from Economic Survey published by Ministry of Finance of the Government of Nepal. The study period is 10 fiscal years (2005/06 to 2014/15). Annual growth rates, compound growth rates and export to import ratio have been calculated to examine the growth pattern of the foreign trade and trade balance.

III. DATA ANALYSIS

Growth of foreign trade

Table 1 and Figure 1 present Nepal's import and export data for a period of 10 years (2005/6 – 2014/15). Both export and import have grown over the study period, but the growth of import is rapid as compared to export. The export was Rs 6,023 crore (10 million) in 2005/6 which increased to 8,309 crore in 2014/15. The import increased from 17078 crore in 2005/6 to Rs 67,452 crore in 2014/15. Over the study period, the export increased by 1.38 times or an annual average growth rate of 4.09% while the import increased by 3.95 times or an annual average growth rate of 16.91%. Further, the growth in export is erratic with four negative growths whereas the import has increased every year. The rapid increase in import over export has led to growing trade deficit.

Table 1: Growth of Foreign Trade of Nepal

(Rs in 10 million)

Year	Total Trade		Total			
			Export		Import	
	Amount	Growth rate (%)	Amount	Growth rate (%)	Amount	Growth rate (%)
2005/6	23101		6023		17078	
2006/7	25408	9.98	5938	-1.41	19469	14.00
2007/8	28120	10.68	5927	-0.20	22194	13.99
2008/9	35217	25.24	6770	14.23	28447	28.18
2009/10	43576	23.74	6082	-10.15	37493	31.80
2010/11	46051	5.68	6434	5.78	39618	5.67
2011/12	53593	16.38	7426	15.42	46167	16.53
2012/13	56912	6.19	7483	0.77	49429	7.07
2013/14	73020	28.30	8915	19.13	64105	29.69
2014/15	75761	3.75	8309	-6.80	67452	5.22
Annual growth rate (%)		14.44		4.09		16.91

Figure 1: Growth of Import and Export of Nepal

Direction of foreign trade

The direction of foreign trade has been analyzed between India vis-à-vis other countries. Nepal's foreign trade is very much concentrated towards India. During the study period, almost two-third of the export is with India and the rest is with the rest of the world. The share of export to India is about 67% during the study period 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 a period of 10 years (2005/6- 2014/15). Further, Nepal's reliance on import from India has increased from 63% in 2005/6 to 73% in 2014/15 while the export is almost stagnant at around 67% during the same period. These facts indicate failure in trade diversification policies. The hardship the Nepalese people had to face during 2014/15 due to blockade by India was the result of our failure in foreign trade policy.

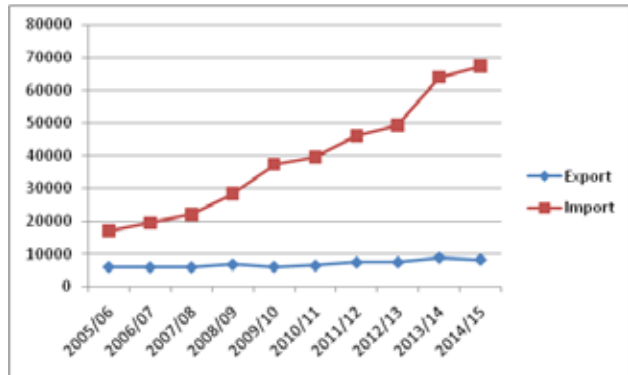


Table 2: Trade Diversification with India and Other Countries

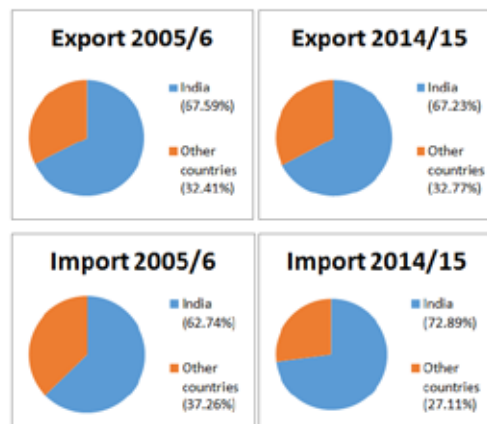
(Rs 10 million)

Year	Export						Import					
	Total		Export to India		Export to Other Countries		Total		Import from India		Import from Other Countries	
	Amount	Amount	Growth rate	% of total export	Amount	Growth rate	Amount	Amount	Growth rate	% of total import	Amount	Growth rate
2005/6	6023	4071		67.59	1952		17078	10714		62.74	6364	
2006/7	5938	4173	2.49	70.27	1765	-9.56	19469	11587	8.15	59.51	7882	23.86
2007/8	5927	3856	-7.60	65.05	2071	17.31	22194	14238	22.87	64.15	7956	0.94
2008/9	6770	4101	6.35	60.57	2669	28.88	28447	16244	14.09	57.10	12203	53.38
2009/10	6082	3999	-2.47	65.75	2083	-21.96	37493	21771	34.03	58.07	15722	28.84
2010/11	6434	4336	8.42	67.39	2098	0.71	39618	26193	20.31	66.11	13425	-14.61
2011/12	7426	4961	14.42	66.81	2465	17.48	46167	29939	14.30	64.85	16228	20.88
2012/13	7483	5100	2.79	68.15	2383	-3.30	49429	36703	22.59	74.25	12726	-21.58
2013/14	8915	5961	16.89	66.87	2954	23.94	64105	47795	30.22	74.56	16310	28.16
2014/15	8309	5587	-6.29	67.23	2723	-7.83	67452	49166	2.87	72.89	18286	12.12

Figure 2: Trade Diversification: India vis-à-vis Other Countries in 2005/6 and 2014/15

Trade balance

Table 3 and Figure 3 presents trade balance data between Nepal and India along with other countries for the study period. The rapid rate of import and export at snail's pace has resulted into widening trade deficit particularly with India. The aggregate trade balance was negative by Rs 11,055 crore in 2005/6 which has increased by more than five times to Rs 59,143 crore in 2014/15. The export/import ratio (export as a fraction of import) was 0.3527 in 2005/6 has deteriorated every year (except in 2010/11) and fallen to 0.1232 in 2014/15.



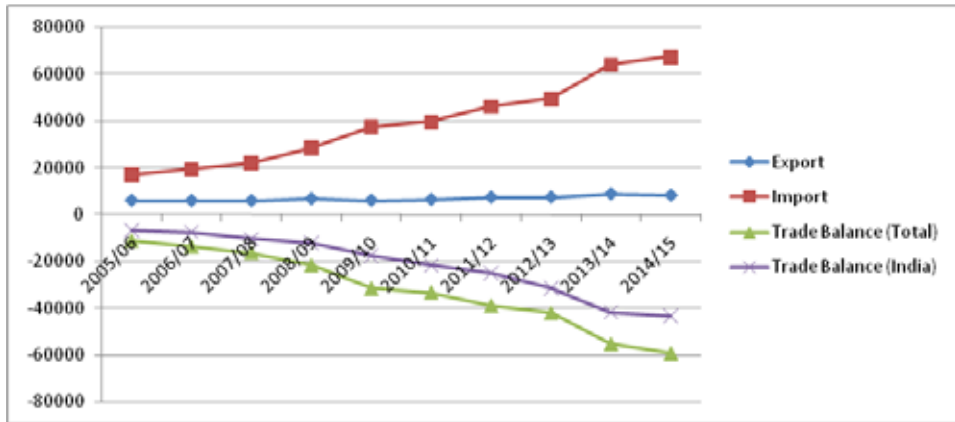
A look at trade balance with India shows that the trade balance was negative by Rs 6,643 crore in 2005/6 which jumped by more than six fold and reached to Rs 43,579 crore in 2014/15. The export to import ratio has fallen from 0.3800 to 0.1136 in the same period. The trade deficit with other countries is also growing, but it is not as grave as with India.

Table 3: Trade Balance with India and Other Countries

(Rs in 10 million)

Fiscal Year	Total				India				Other countries			
	Export	Import	Balance	E/I ratio	Export	Import	Balance	E/I ratio	Export	Import	Balance	E/I ratio
2005/06	6023	17078	-11055	0.3527	4071	10714	-6643	0.3800	1952	6364	-4412	0.3067
2006/07	5938	19469	-13531	0.3050	4173	11587	-7414	0.3601	1765	7882	-6117	0.2240
2007/08	5927	22194	-16267	0.2670	3856	14238	-10382	0.2708	2071	7956	-5885	0.2603
2008/09	6770	28447	-21677	0.2380	4101	16244	-12143	0.2524	2669	12203	-9534	0.2187
2009/10	6082	37493	-31411	0.1622	3999	21771	-17772	0.1837	2083	15722	-13639	0.1325
2010/11	6434	39618	-33184	0.1624	4336	26193	-21856	0.1655	2098	13425	-11327	0.1563
2011/12	7426	46167	-38741	0.1609	4961	29939	-24978	0.1657	2465	16228	-13763	0.1519
2012/13	7483	49429	-41946	0.1514	5100	36703	-31603	0.1390	2383	12726	-10343	0.1873
2013/14	8915	64105	-55190	0.1391	5961	47795	-41833	0.1247	2954	16310	-13356	0.1811
2014/15	8309	67452	-59143	0.1232	5587	49166	-43579	0.1136	2723	18286	-15564	0.1489

Figure 3: Nepal's Trade Balance (Total and with India)



IV. DISCUSSIONS AND RECOMMENDATIONS

The state of the growth of foreign trade of Nepal is evident from the fact that the total trade has grown at an annual rate of 14.44% while the export has grown by meager 4 percent and import by almost 17%. It urgently calls for boosting export so that the contribution of export trade is fair in total trade. Nepal should focus on high value products to avoid high transport cost due to land-lockedness of the country.

The excessive dependence on one country i. e. India must be reduced through third country diversification of import as well as export trade. Both the development of import-substituting industries and the export of goods and services must be promoted. For example, the development and export of hydropower can reduce import of fuel as well as increase export.

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