

RESEARCH ARTICLE

COMPOSITION AND DIRECTION OF FOREIGN TRADE OF NEPAL

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ABSTRACT

Foreign trade is the exchange of capital, goods and services across the international borders or territories. The study is based on the objective to study and analyze the composition and direction of foreign trade of Nepal. The study can be referred as a descriptive study which uses the secondary sources of information like annual report of Nepal foreign trade statistics and Nepal Rastra Bank. The data obtained were analyzed using simple statistical tools like percent, ratio and trend analysis was done using Ms Excel. The study finds Nepal's top ten major exported commodities of the fiscal year 2075/76 and 2076/77 in which refined palm oil was found to be top exported commodity in terms of quantity and value. Similarly among Nepal's top ten major imported commodities of the fiscal year 2075/76 and 2076/77 diesel was found to be the top imported commodity in terms of quantity and value. Study further analyze the trend of foreign trade which shows the imbalance of foreign trade of Nepal. Trend analysis of export and import shows the increasing trend of import and very slow (near to zero) increase of export from fiscal year 1990/91 to 2019/2020. This has created the problem of rapidly increasing trade deficit over the period. To solve this problem Nepal's trading structure both in terms of commodities and destinations should be improved.

KEYWORDS

Export, Import, Trade balance, Trade deficit

1. INTRODUCTION

International trade occurs to harness comparative and competitive advantage. International trade helps to make domestic market efficient by increasing total surplus (Chaudhary, 2011). Thus international trade makes market efficient as gain of winners is greater than loss of sufferer. Nepal's foreign trade is rapidly increasing, but as the total volume of trade grows, so does the trade deficit with the main cause of the imbalance being a lack of exportable commodities and a huge amount of importable goods (Kafle, 2017).

Prior to the Rana government, Nepal's sole commercial partners were India and Tibet. However, in this period of modernization, when worldwide commerce of goods import and export facilitates trade, Nepal has built trade relations with a number of other nations, including the United States, Singapore, Malaysia, Thailand, France, and Bangladesh (Kafle, 2017). In this area, international trade plays a critical role in helping to improve the country's economic situation. As a result, it is also regarded as a tool for economic progress (Silwal, 2008). The proximity of Nepal to India, the open border with India, and similarities in language, culture, religion, tradition, and other factors all contributed to the concentration of Nepalese trade with India. However, India remains Nepal's most important trading partner (Acharya, 2019).

Nepal has one of South Asia's most liberalized and trade-dependent economies. The economic liberalization trend began in 1985 and accelerated after 1990. Nepal proceeded to extend its openness and push down tariff walls and other types of import restrictions by the 23rd of April 2004 (the year of WTO membership) (Silwal, 2008). In the medium term, the process of trade liberalization has enhanced the countries' GDP per capita. Unlike the effects on GDP, trade liberalization did not improve the ratio of imports, exports, and trade over GDP (Ghani, 2011).

The goal of this research is to evaluate Nepal's trading performance. The study can be referred as the descriptive study to analyze the composition and trend of foreign trade. The study aims to analyze the trend of export and import of Nepal over the period of past 30 years. Also using the export and import, this study aims to analyze the trend of trade balance. The study does, however, have certain limitations. The validity of this study is dependent on the validity of secondary data. The research covers the fiscal years 1990/91 to 2019/20.

The study is based on secondary data. Data was gathered to determine the growth trend, composition, and diversity of Nepalese foreign trade. Data was collected from multiple publications because the study is based on secondary sources. To characterize and analyze the research objectives, extensive information was gathered based on the problem, issues, and objectives. For trend analysis, MS-Excel 2013 was used to analyze the data received. Text, tables, and graphs were used to present the examined data.

2. RESULTS AND DISCUSSION

This section is concerned with the outcome and findings of the study. Considering the data collected and analyzed whole section is divided into two parts.

2.1 Composition of Foreign Trade

The composition of trade relates to how imports and exports are made up. The analysis of changes in the composition of foreign trade aids in determining the country's economic success. For example, if manufacturing goods imports are dropping and exports are increasing, the country's economic development or advancement is regarded to be moving at a faster pace.

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2.1.1 Nepal's Major Exported (Top Ten) Commodities (Fiscal Year: 2075/76 and 2076/77)

The backbone of any economy is its export trade. The Government of Nepal is pursuing various policy initiatives to promote Nepal's export trade, keeping in mind that export trading is the backbone of the national economy. As a result, Nepal was able to export over 800 items in fiscal year 2076/77. The top major exported commodities have been chosen from among them and are shown here as an overview of Nepal's export situation (Nepal foreign trade statistics, 2019/20).

According to Table 1, the top ten goods accounted for 66.49 percent of Nepal's total export receipts in FY 2076/77. In this fiscal year, compared to FY 2075/76, exports of these commodities increased by 20.31 percent.

In FY 2076/77, the value of these 10 goods' exports increased to NPR 64.97 billion, up from NPR 54.00 billion in FY 2075/76 (Nepal foreign trade statistics, 2019/20).

2.1.2 Nepal's major Imported (Top Ten) Commodities (Fiscal Year: 2075/76 and 2076/77)

Nepal's import trade is dominated by a small number of products. Ten of the Harmonized System's ninety-seven chapters account for roughly 63 percent of Nepal's import trade. Mineral fuels, iron and steel, machinery and mechanical appliances, electrical machinery and equipment, automobiles, cereals, animal or vegetable fats and oils, plastic and articles thereof, and pharmaceutical products are all grouped under these 10 chapters (Nepal foreign trade statistics, 2019/20).

Table 1: Export Performance of Nepal's Major Exported Commodities (Value in NPR billion)

Product	Unit	Quantity		Export value		% Change		Share in total export	
		FY 2075/76	FY 2076/77	FY 2075/76	FY 2076/77	Quantity	Value	FY 2075/76	FY 2076/77
Refined Palm Oil	MT	95,665	169,982	10.33	18.32	77.68	77.27	10.64	18.75
Refined Soybean Oil	MT	20,459	94,184	2.35	12.69	360.36	440.88	2.42	12.99
Synthetic Yarns	MT	37,900	29,355	9.72	7.19	-22.55	-26.00	10.01	7.36
Woolen Carpets	SQM	403,574	308,512	7.37	6.16	-23.56	-16.45	7.59	6.30
Readymade Garments	Million PCS	10.7	8.9	5.69	4.35	-17.35	-23.61	5.86	4.45
Cardamom	MT	5,240	5,013	4.28	4.02	-4.34	-6.19	4.41	4.11
Juice	KL	63,490	47,861	4.57	3.43	-24.62	-24.95	4.71	3.51
Jute Fabric	Million MTR	84.7	82.5	3.06	3.15	-2.49	3.04	3.15	3.23
Other Textile (except Cotton, Woolen and Terry Cotton)	Million MTR	356.0	335.3	3.42	2.87	-5.82	-15.92	3.52	2.94
Tea	MT	15,044	11,185	3.20	2.78	-25.65	-13.14	3.30	2.85
Subtotal	-	-	-	54.00	64.97	-	20.31	55.61	66.49
Total	-	-	-	97.11	97.71	-	-	100.00	100.00
% Share of Subtotal	-	-	-	55.61%	66.49%	-	-	-	-

Table 2: Import Performance of Nepal's Major Exported Commodities (Value in NPR billion)

Product	Unit	Quantity		Value		% Change In		Share In Total Import	
		FY 2075/76	FY 2076/77	FY 2075/76	FY 2076/77	Quantity	Value	FY 2075/76	FY 2076/77
Diesel	KL	1,718,955	1,500,273	119.89	87.38	-12.72	-27.12	8.45	7.30
MS Billet	MT	1,188,485	888,727	66.96	42.24	-25.22	-36.9	4.72	3.53
LP Gas	MT	428,840	451,029	35.55	30.73	5.17	-13.55	2.51	2.57
Petrol	KL	567,288	512,217	35.55	28.37	-9.62	-20.21	2.51	2.37
Hot Rolled Sheet	MT	431,142	425,054	28.76	24.46	-1.41	-14.96	2.03	2.04
Ready-made Garment	Million PCS	206.37	143.11	31.06	23.46	-30.66	-24.46	2.19	1.96
Rice	MT	489,445	410,924	24.63	22.24	-16.04	-9.71	1.74	1.86
Other Coal	MT	1,664,410	1,337,213	26.26	19.25	-19.66	-26.71	1.85	1.61
Polythene Granules	MT	155,754	154,296	22.49	19.03	-0.94	-15.38	1.59	1.59
Crude Soybean Oil	MT	151,583	199,536	13.43	18.72	31.64	39.42	0.95	1.56
Subtotal				404.58	315.88		-21.92	28.52	26.39
Total				1418.53	1196.80		-15.63	100.00	100.00

The top merchandise imports in FY 2076/77 were Diesel, MS Billet, LP Gas, Petrol, Hot Rolled Sheet, Readymade Garment, Rice, Other Coal, Polyethylene Granules, and Crude Soybean Oil. The top 10 imports accounted for 26.39 percent of all imports. However, the value of the top 10 item imports has dropped by 21.92 percent to NPR 315.88 billion. In FY 2075/76, it was NPR 404.58 billion. All of the top ten commodities' imports declined in FY 2076/77, with the exception of crude soybean oil.

Crude soybean oil imports climbed by 39.42 percent (Nepal foreign trade statistics, 2019/20).

In terms of revenue collection, the top ten imports contributed NPR 84.54 billion, accounting for 27.7% of total total income collected in this fiscal year. However, when compared to the previous fiscal year, revenue collection declined by 12.27 percent in FY 2076/77 (Nepal foreign trade statistics, 2019/20).

3. DIRECTION OF FOREIGN TRADE

3.1 Trend of Import and Export

Direction of foreign trade means the trend of import and export of Nepal. To analyze the trend data of import and export from fiscal year 1990/91 to 2019/2020 was obtained from the Nepal Rastra Bank annual report of the

year 2019/2020. Annual trend analysis was done to estimate the trend of export, import and trade deficit after performing moving average technique of three years.

Below Figure 1 shows the increasing import trend from 1990/91 to 2019/20 whereas the trend of export is somewhat constant over the period.

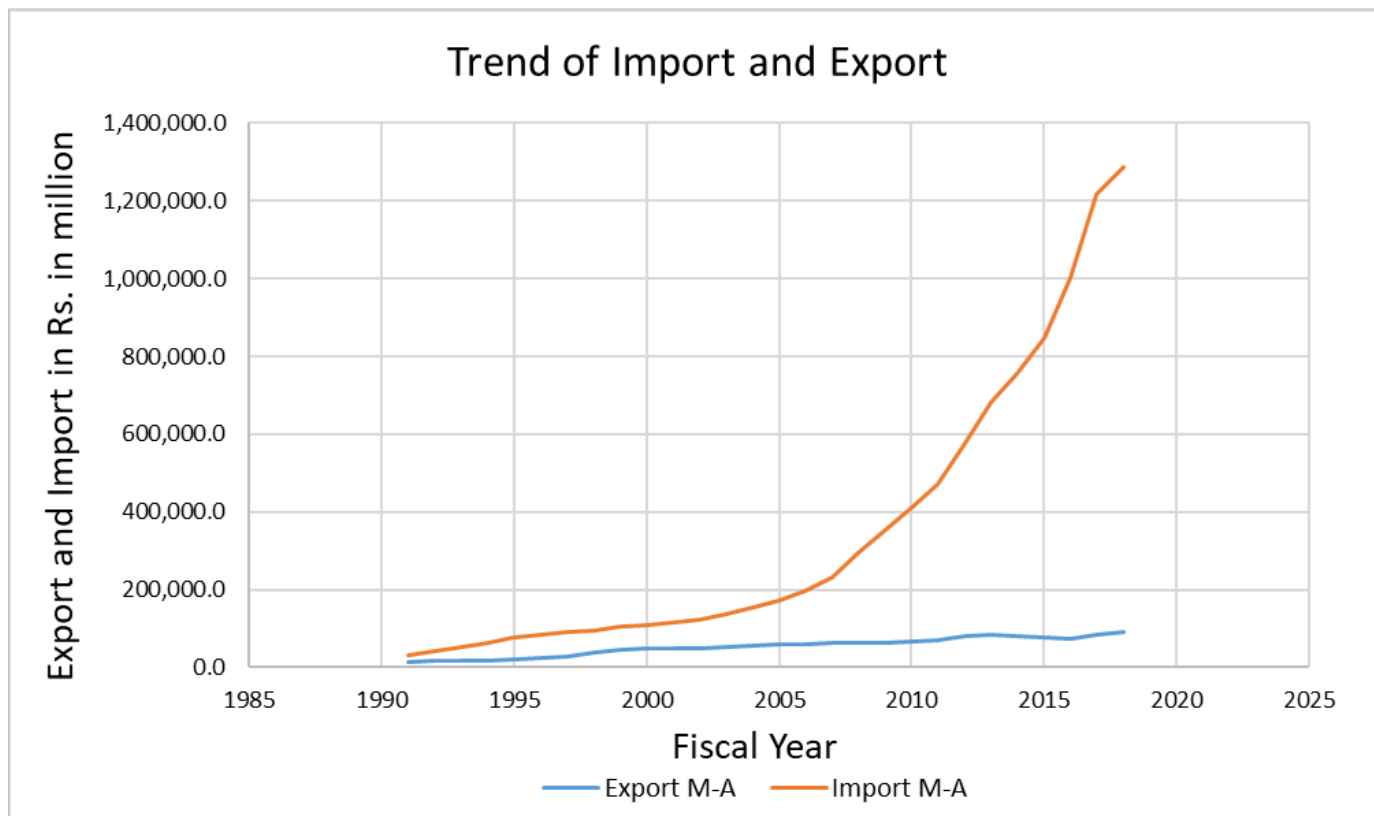


Figure 1: Trend of import and export
(Source: Annual Report of Nepal Rastra Bank, 2019/2020)

3.2 Trend of Trade Balance

Trade balance or balance of trade is the difference between value of country's export and import over a period. Trade deficit is the condition

when the value of country's imports exceeds the value of its exports. Data used in figure 1 was again analyzed and the values of difference between export and import were plotted in the graph to analyze the trend of trade balance over the period.

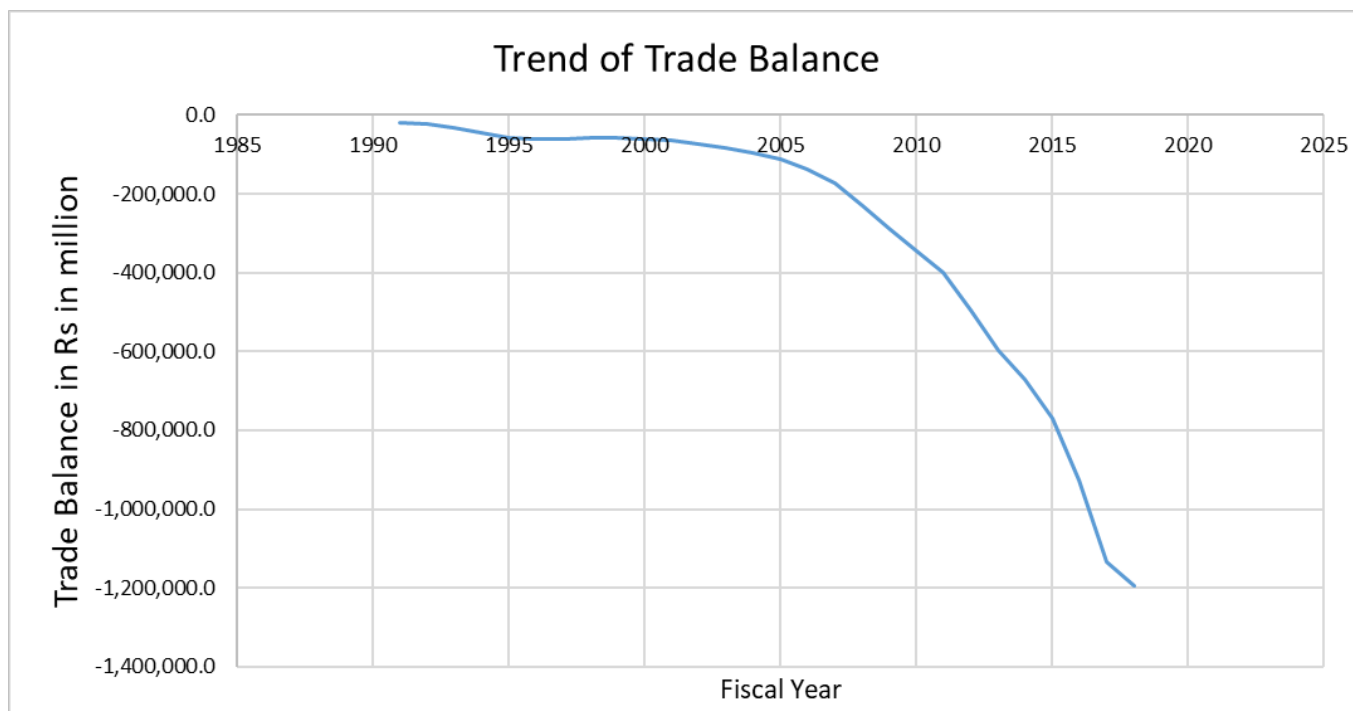


Figure 2: Trend of Trade Balance
(Source: Annual Report of Nepal Rastra Bank, 2019/2020)

Above figure 2 shows the negative trade balance over the period which means the condition of trade deficit. Also figure 2 shows the increasing trend of trade deficit continuously from 1990/91 to 2019/2020. Similar result were obtained from the study conducted by which found the very low export performance of Nepal (Acharya, 2019). The study further states the problem of rapidly increasing trade deficit and the major causes identified were low export, high import, low quality products, improper trade policy, higher cost of production, lack of publicity and advertisement, low production, slow industrial development, lack of trade diversification etc.

4. CONCLUSION

The study shows the imbalance of foreign trade of Nepal. Trend analysis of export and import shows the increasing trend of import over the period of past thirty years. Nepal is experiencing a fast growing trade deficit as a result of poor export performance. In terms of countries and goods, Nepal is also unable to diversify its trade. Although Nepal improves its trade competitiveness through various strategies, it is unable to lower its ever-increasing trade imbalance. Nepal's trading structure, both in terms of commodities and destinations, should be improved.

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