

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Business Administration**



**Bachelor Thesis**

**Direction and Issue of Foreign trade policy of Nepal**

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## BACHELOR THESIS ASSIGNMENT

Bc. GOPAL KANDEL, BBA

Business Administration

Thesis title

**Foreign Trade Analysis – Case Study of Nepal**

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### Objectives of thesis

The paper aims to

1. Describe the direction of the Nepalese foreign trade,
2. Point out the possibility of foreign trade expansion.
3. To examine the situation of foreign trade in Nepal.
4. To analyse the problems of foreign trade in Nepal and suggest some measures to resolve problems.

### Methodology

Quantitative information will be utilized to investigate Nepal's international trade status. The paper will utilize secondary data on imports, exports, trade balances, and private consumption was gathered and collated from published sources such as the Budget Speech, Nepal Rastra Bank articles and news stories, the Central Census, the Dept of Cultural practices, the Dept of Foreign Recruitment, the Dept of Industry, and the Trade Development Centre, among others. Similarly, data will be collected from ten fiscal years, from the Fiscal Year 2009/10 to the Fiscal Year 2019/20, using a variety of periodicals, media, unreleased case studies, degrees, books, and websites. The information gathered will be organized into tables and evaluated.

The opinions of manufacturers, imports, exports, citizens (consumers residing in Nepalese territory), public officials, customs clearing agents, experts, and legislators will be assessed using a qualitative research methodology in this study.

## **The proposed extent of the thesis**

35 – 40 pages

## **Keywords**

Foreign trade, Nepal, analysis

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## **Recommended information sources**

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- Prasai, L. P. (2014). Foreign trade pattern of Nepal: Gravity model approach. *NRB Economic Review*, 26(1), 24-43.

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## **Declaration**

I declare that I have worked on my bachelor thesis titled "Direction and Issue of Foreign trade policy of Nepal" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on \_\_\_\_\_11.30.2021\_\_\_\_\_

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# Direction and issue of foreign trade policy of Nepal

## Abstract

The exchange of products and services between two or more nations is known as foreign trade or international commerce. It is critical for a country's economic development. Foreign trade benefits both importing and exporting countries, allowing them to strengthen their economic and political clout. The goal of this research was to determine the direction and issues of Nepal's international trade, as well as the opportunities for foreign trade growth from fiscal years 2011/12 to 2019/2020. Quantitative data was gathered from secondary sources, including a physical library and the internet. The majority of Nepal's international commerce is routed to India, according to the research. It was also discovered that the trade balance was in deficit, as exports were falling and imports were rising. As a result, the trade deficit is growing year after year. Furthermore, Nepal's foreign trade is heavily reliant on India, and it needs to be diversified to the rest of the world. Nepal's foreign trade situation is unpredictable. In Fiscal Year 2018/19, Nepal imported nearly 15 times more than it exported. Growth was slow to 6% in FY 2019/20, but due to the COVID epidemic, the World Bank's "baseline" forecast was at 1.8 percent, with the "downside" projection at 0.5 percent.

**Keywords:** Export, Import, Foreign Trade, Competitiveness



# Směr a problematika zahraniční obchodní politiky Nepálu

## Abstrakt

Výměna produktů a služeb mezi dvěma nebo více národy je známá jako zahraniční obchod nebo mezinárodní obchod. Je to zásadní pro ekonomický rozvoj země. Zahraniční obchod prospívá dovážejícím i vyvážejícím zemím, což jim umožňuje posílit jejich ekonomický a politický vliv. Cílem tohoto výzkumu bylo určit směr a problémy nepálského mezinárodního obchodu a také příležitosti pro růst zahraničního obchodu od fiskálních let 2011/12 až 2019/2020. Kvantitativní data byla shromážděna ze sekundárních zdrojů, včetně fyzické knihovny a internetu. Většina nepálského mezinárodního obchodu je podle výzkumu směřována do Indie. Bylo také zjištěno, že obchodní bilance byla deficitní, protože vývoz klesal a dovoz rostl. V důsledku toho obchodní deficit rok od roku roste. Kromě toho je zahraniční obchod Nepálu silně závislý na Indii a je třeba jej diverzifikovat, aby zahrnoval zbytek světa. Situace zahraničního obchodu Nepálu je nepředvídatelná. Ve fiskálním roce 2018/19 Nepál dovezl téměř 15krát více než vyvezl. Růst byl ve fiskálním roce 2019/20 pomalý na 6 %, ale kvůli epidemii COVID byla „základní“ prognóza Světové banky 1,8 procenta s projekcí „dolů“ na 0,5 procenta.

**Klíčová slova:** Export, Import, Zahraniční obchod, Konkurenceschopnost

## Table of content

<b>1 Introduction</b> .....	<b>7</b>
<b>2 Objectives and Methodology</b> .....	<b>9</b>
2.1 Objectives.....	9
2.2 Methodology .....	9
<b>3 Literature Review</b> .....	<b>10</b>
3.1 International Trade .....	10
3.1.1 Type of Foreign Trade .....	11
3.1.2 Advantage and Disadvantage of Foreign Trade .....	12
3.1.3 Purpose of Foreign Trade .....	13
3.2 Foreign Policy .....	14
3.3 Nepal’s Trade with India and China .....	16
3.4 Nepal – World Trade Organization (WTO) .....	17
3.5 Historical observation on Trade and Policy Shift .....	18
<b>4 Practical Part</b> .....	<b>21</b>
4.1 Nepal-China New Security and Strategic Cooperation.....	21
4.2 Chinese Prudence .....	22
4.3 Problems Relating to Trade Promotion.....	23
4.3.1 Major Issues .....	23
4.3.2 The following are the primary causes of Nepal India's trade deficit: .....	24
<b>5 Problem of Foreign Trade</b> .....	<b>25</b>
5.1 Measures to manage Foreign Trade .....	26
<b>6 Results and Discussion</b> .....	<b>28</b>
6.1 Direction of Foreign Trade of Nepal.....	28
6.1.1 Foreign Trade Situation .....	30
6.1.2 Direction of foreign trade policy of Nepal.....	32
<b>7 Conclusion</b> .....	<b>37</b>
<b>8 References</b> .....	<b>40</b>
<b>9 Appendix</b> .....	Error! Bookmark not defined.



## **List of tables**

Table 1: depicts the trajectory of Nepalese international trade from 2012/13 to 2016/17 fiscal years.

Table 2: indicates that throughout the 1980s, the Organization for Economic Co-operation and Development (OECD)

Table 3: Direction of foreign trade policy of Nepal

Table 4: Imports and exports of Nepal

# 1 Introduction

The conventional definition of business is the exchanging of things. Commerce in contemporary times applies to global business. Paul (1999) describes it as the transfer of commodities across nations or political borders. The origin of the shift in trade policy is debatable, although it began 5,000 years ago as a bartering system, or the exchanging of commodities. Mercantilists characterised cross-border commerce growth at tax as a symbol of national growth and power in the 17th and 18th centuries. (Cherunilam, 2007).

Keynesian theory emerged in the aftermath of World War II. The advancement of science and technology has created limitless opportunities for international commerce. More than 100 nations signed the GATT (General Agreement on Tariffs and Trade) in Geneva in 1947. It has been moved to the World Trade Organization (WTO). Simply said, international commerce promotes democracy. The transfer of money, commodities, and activities across global boundaries or regions is known as foreign commerce or global trade. In general, it refers to residents of one nation purchasing products and services from foreign nationals.

A nation buys products that are not accessible and exporting items that are oversupplied in the nation. Global trade has played a critical role in nations' economic growth. Countries' economies are not self-sufficient in terms of meeting their requirements by generating all of the necessary products and services. People in one nation may enjoy products made in another country at reasonable rates. International commerce includes a variety of currencies from several nations and is governed by the various nations' laws, rules, and policies. (Sharma, 2020. pp.143-152).

Global commerce has expanded to encompass capital system as well as the mobility of elements of industry such as labour, capital, and innovation, in addition to the exchange of commodities and services. It supplies consumer goods and raw resources, disseminates technical information, and fosters international cooperation. It also improves the quality of products and helps nations in terms of output, usage, competitiveness, jobs, and revenue (Dhungana, 2018).

Nepal agreed its first trade and tourism pact with India, its biggest export market, in 1950; the contract has since been extended many times, and Nepal and India inked a formal trade

deal in March 2007. Nepal started new its borders for foreign commerce after embracing a liberalisation policy in the mid-1980s, moving from an in on itself to a horizontally approach. Nepal has engaged into a number of local, bilateral, and international trade deals as a consequence of its open industrial policy. Since 2004, Nepal has been a member of two important trading blocs: SAFTA (South Asian Free Trade Area) and BIMSTEC (Bay of Bengal Initiative for Multi-sectoral Trade and Economic Cooperation). Nepal was the first least developed nation (LDC) to join the World Trade Organization (WTO) through agreement in 2004. All of these initiatives reflect Nepal's dedication to an open economic policy and world trade and competitiveness. (Sharma, 2020. pp.143-152).

Since the past several decades, Nepal's Economy is still not constant. Nepal had the greatest growth rate of 8.2% in 1994 and the poorest rate of increase of 0.12% in 2002. Farming and semi industries contributed 11.3 percent and 64.9 percent of GDP in FY 2011/12, accordingly. Nepal's sluggish growth is owing to a heavy reliance on the monsoon for agricultural production and a weak industrial foundation. As a result, better infrastructural growth is critical for Nepal's long-term economic success. For total financial health, it is critical to attract local and international investment as well as expand job opportunities. Iversen, et al. performed research to determine the efficacy of Nepal's current trade strategy, recognising that international trade is an effective method of economic growth. According to the research, Nepal's external trade strategy should be focused on Economic growth and the creation of businesses that make use of local resources are two important goals. (Iversen, et al., 2006. pp.93-107).

## **2 Objectives and Methodology**

### **2.1 Objectives**

#### **Research Objectives**

1. Describe the direction of the Nepalese foreign trade,
2. Point out the possibility of foreign trade expansion.
3. To examine the situation of foreign trade in Nepal.
4. To analyse the problems of foreign trade in Nepal and suggest some measures to resolve problems.

### **2.2 Methodology**

Quantitative information was utilised to investigate Nepal's international trade status. Secondary data on imports, exports, trade balances, and private consumption was gathered and collated from published sources such as the Budget Speech, Nepal Rastra Bank articles and news stories, the Central Census, the Dept of Cultural practices, the Dept of Foreign Recruitment, the Dept of Industry, and the Trade Development Centre, among others. Similarly, data was collected from ten fiscal years, from Fiscal Year 2009/10 to Fiscal Year 2019/20, using a variety of periodicals, media, unreleased case studies, degrees, books, and websites. The information gathered was organised into tables and evaluated.

The opinions of manufacturers, imports, exports, citizens (consumers residing in Nepalese territory), public officials, customs clearing agents, experts, and legislators were assessed using a qualitative research methodology in this study.

## **3 Literature Review**

### **3.1 International Trade**

International commerce is based on the premise that commodities must pass across a boundary. International commerce has existed since the era of barter trade. In general, a nation buys things that it cannot manufacture at a low cost in its own nation. Every country is unable to effectively offer a variety of products. For raw resources, processed products, tech, and other items, each nation must rely on others. International trade contributes to a faster phase of urban expansion. As a result, analysts have correctly labelled international trade as a "growth engine." ( Jensen, 2000) Generally, a nation produces low-cost products. Likewise, a nation buys products that may be bought for a cheaper price in another country than in its own. Foreign commerce is unavoidable in today's world since no country can effectively manufacture all items. Mineral wealth are imported from emerging economies, while manufacturing, tools, and prepared products are sent to them. The importance of global trade in the growth of the country cannot be overstated. Without buying products and services from the global marketplace, no country can meet the needs of its citizens. International commerce has many advantages.

Nepal is a tiny mountainous nation sandwiched among China and India, two rising major market giants. Nepal is the world's least advanced, financially conventional, and agriculturally backward nation. As a result, Nepal's international commerce is still in its infancy. The industrial trade is relatively modest, although it is slowly expanding. Numerous researchers have observed at the development, content, and direction of Nepal's global trade. Not all analyses and findings are the same. Traditional and neo-classical thinkers place a premium on it as a policy priority in a nation's progress. Adam Smith (1976) saw global trade as a source of income growth, actual cost savings, and a way to get rid of surpluses. Furthermore, the Heckscher-Ohlin Theory states that relative cost differences are the foundation of global trade (Bista, 2005). Foreign trade benefits, on the other hand, are a threat to international poverty and unemployment. As a result, while some emerging nations have done well, the developing nations (LDCs) have not increased their share and growth in global commerce. As a result, gloomy viewpoints may be found, yet reality forces globalisation.

According to Ghacholiades, 2017. global commerce has contributed greatly to the developing and underdeveloped nations in the nineteenth and twentieth centuries, and it will continue to do so in the future, and that significant free trade with minor, insignificant adjustments and deviance is the best policy for economic growth. Furthermore, there is a link between world trade and industrial progress. Pant (2005) said that there is a symbiotic relationship between commerce, growth, and economic expansion. Despite the difficulties, the importance of global trade is an unavoidable sector tool for LDCs like Nepal in terms of future growth prospects via diverse specialisation opportunities and benefits across all key activities. It is feasible if Nepal, an LDC, implements proper trade policies.

Sharma, and Bhand, (2005) investigated the impact of international commerce on Nepal's income progress. Exporting increase, asset value, labour force, mean inclination to save (APS), relative price level (RPI), and public construction spending to GDP ratio are all variables that may influence global trade, according to the authors. After 1990, Sharma, and Khanal, (2010) looked at Indo-Nepal trade trends. They discovered that Nepal's reliance on India for trade has grown as the percentage of exports to and imports from the nation has risen. The study makes no recommendations on how to decrease trade dependence on India derived from empirical results. Basyal (2011) looked at how the complete implementation of a free trade deal may help the selling industry develop and what it means for Nepal's gdp. Thapa (2012) utilised a gravity framework for assessing Nepal's export performance in 2009, utilising just 19 trading partners. Trade potentiality is easily computed in the article using the projected trade to actual trade ratio. Likewise, Acharya (2013) utilised the gravity model to determine the factors that influence Nepal's foreign commerce.

### 3.1.1 Type of Foreign Trade

**Import Trade:** It refers to the inflow/purchase of goods and services by a country from foreign land. The country inflow goods and services from another country comes under import trade. For example: If Czech Republic bought milk from Austria then Czech is importer and its import trade with Austria.

**Export Trade:** It refers to trade outside of country, selling of goods and services from own country to foreign country is export trade. The exporting country always inflow cash or

cash equivalent. For example: If Czech import Airplane from Germany, then Germany is an exporter.

**Entrepot Trade:** It is referred as Re-export, the process of buying goods and services from one country and after some changes selling them to another country is Entrepot Trade.

### 3.1.2 Advantage and Disadvantage of Foreign Trade

Foreign trade is an exchange of goods and services across the border. It has many advantages but also many disadvantages on the side. Some of them are as below:

#### **Advantages:**

**Employment Opportunities:** Foreign trade generates employment opportunities for both importer and exporter country in different sectors such as Transportation, Manufacturing, insurance, warehouses, border security, banking sector, communication and so on.

**International co-operation:** Foreign Trade brings different projects from global, different people from different countries close to each other for trade. It creates mutual understanding and harmony among different nationalities.

**Ability to face Natural Calamities:** All countries suffer from natural calamities once, which turns scarcity in goods and services, but foreign trade can sufficient scarcity of consumer by importing goods.

**Stability in Prices:** Foreign Trade creates competition around the globe which equalizes the cost of goods and services.

**Availability of Goods:** By importing goods which is insufficient, can't be produced or with higher production cost within a country brings consumer satisfaction.

**Industrial Society:** Foreign trade helps to promote business and manufacturing sector in countries. Foreign trade gives access to modern technology and software's which is most to country economy.

**Disadvantages:**

**Irruption of Culture:** Foreign trade led to change the lifestyle and culture of a poor country people. Foreign trade is a pathway to country culture invasion.

**Political instability:** By importing goods to country, it creates dependency to other resources and country. Exporting country might interfere in internal politics of other countries.

**Dependency:** To maintain sustainable development own country need to invest in production sector. When a country economic is not good it starts to depend on other neighbour country which is a great loss.

**Over Utilization of Natural Resources:** Natural resources has been over utilized for making profit. Excessive amount of export leads to higher profit which helps in country economic, so we seek to make profit rather than preserving natural resources.

**Scarcity of goods and product:** When country start to depend by importing goods, neighbour country can take advantage in time of suffering, they can increase the price of goods and block boarder to make scarcity. For example: When Nepal had Earthquake in 2015, India blocks the border when Nepal depend on 64.95% of importing with India.

### 3.1.3 Purpose of Foreign Trade

Foreign Trade is focused on export and import of goods and services between two countries for essential living. None of the country in the world can't produce all good and services therefore foreign trade is essential. Foreign trade increase competition around the global for goods and services, which benefits consumer to access qualitative goods in reasonable price. It fulfils the satisfaction of consumer to buy goods and services which are not available in the country. Moreover, it generates employment opportunities in various



sector such as import sector, transportation, banking, communication, and insurance etc. Foreign trade maintain the stable cost of goods and services providing variety of choices, which is a big plus point in consumer point of view. While suffering from Natural disaster such as flood, earthquake, fire, and famines most of the countries in global suffer from scarcity of goods, because of foreign trade it enables to import various goods and services, medicine, foods and vegetable, clothes etc.

### **3.2 Foreign Policy**

International policy plays an important role for safeguarding and advancing national interests, as well as for developing shared trust among countries. It is basically a state's behaviour towards all countries. According to Dhakal, (2020). International policy is usually seen as different from a country's internal policy. "Foreign policy is the pivot of domestic and international politics," Hill says. As a result, a clear foreign policy perspective is inextricably linked to the examination of domestic problems. As a result, both "international" and "internal" variables affect a country's foreign policy.

International policy shapes world affairs and sets the ground for political discussions. No state can stay isolated in the world stage in today's globalized economy; therefore every country needs a foreign policy to safeguard its national interests. Such international engagement, on the other hand, is methodical and based on a state's well-defined values, which are reflected in its foreign policy (Outlook Afghanistan, 2016). A foreign policy safeguards a country's sovereign territory and promotes its strategic interests both inside and beyond the country (Outlook Afghanistan, 2016). According to Malhotra (2014), effective foreign policy execution boosts the administration's legitimacy. It deepens bilateral relations and promotes collaboration in all areas feasible for mutually beneficial.

Nepal's international policy aims to uphold the country's dignity through protecting the nation's freedom, sovereign rights, and freedom, as well as fostering the state's financial health and progress (Ministry of Foreign Affairs [MoFA], 2020a). Article 51 of Nepal's Constitutional directs the country to pursue an autonomous foreign policy while adhering to the UN Charter's concept of non, Regulating, humanitarian treaties, and global peace standards. "Sustaining international ties based on national sovereignty and strengthening the dignity of the country is an essential aspect of our foreign policy," said the current Minister of Foreign Affairs (Gyawali, 2019, pp. 7). As a result, Nepal has made a strong promise to

protect each other's integrity, state sovereignty, and freedom, as well as to recognize and satisfy each other's aspirations.

The protecting of the liberties, national identity, self-determination, nativism, autonomy, and honour, border protection, social stability and success, and the protections of the Nepali people are among the core areas of environmental interests highlighted in Article 5.1 of the Constitution of Nepal 2015. (Secretariat, and Durbar, 2015). However, these concerns are seen as hazy and/or ignored in practise, with the governing party's interests taking precedence. As a result, it has been difficult to define "country's interests."

In reality, Nepal underwent a major and evolution progressive change with the final resolution of polls at all 3 tiers of the national government and the establishment of administrations at all three levels. It also marks the start of a new age of political stability and economic growth. Nevertheless, based on inter rituals was more accommodating, which harmed the country's national as well as country's reputation. With Nepal's recent technological and social changes in regard to its countries, as well as India's neighbour first policy, it is time to take a fresh look at our diplomatic relations with India (Shrestha, 2018). As a result, given the changing socio-political environment, Nepal's stated foreign policy has grown increasingly significant. How will Nepal react to the global economic and political growth of its near neighbours? What role will Nepal play in the SAARC and other regional organisations? How will it interact with the rest of the globe (and will it be able to break free from the grip of India and China)? How will it chart a more self-sufficient course? Is Nepal capable of meeting the expectations of its neighbours? Is it capable of pursuing a foreign policy that is consistent with its "Prosperous Nepal, Happy Nepali" goal? There are far too many issues in the works. Shrestha (2018) correctly points out that presidential candidates' divergent political agendas have hampered agreement on strategic interests. Recognizing this fact, Foreign Minister Pradeep Kumar Gyawali emphasised the need of public discussions in developing a nation's international affairs based on broad agreement (Rastriya Samachar Samiti, 2019). As a result, on June 29, 2019, the Ministry of Foreign Affairs, in collaboration with the Research center of International Relations, the governmentally think tank, hosted a Public Debate on Foreign Policy with party leaders, top members from various groups, representatives, ambassadors, business owners, civil society representatives, academics, and media representatives, with the goal of assisting the govt in fine-tuning its foreign policy.

### 3.3 Nepal's Trade with India and China

Oli was elected Leader for the first time in 2016 and again in 2018. After the passage of the law in 2015. Oli was praised for resisting the notorious Indian trade embargo and negotiating the levels of turnover agreement with China, which signalled the end of the nation's over there on India. Since then, the Oli administration has been accused of favouring China. Furthermore, since Nepal officially joined China's ambitious Belt-and-Road Initiative (BRI) and internal political developments in Nepal (left government), political analysts from the West and South have concluded that Nepal is trending northward (Dahal, 2018). On the ground, however, the deal with China has made little headway, while ties with India are becoming more difficult than ever (The Record, 2020). H.E. Xi Jinping, President of the Chinese government, legalised visit to Nepal from October 12 to 13, 2019, within Oli's second term as Prime Minister, which is regarded as one of the Oli government's diplomacy achievements. Similarly, hosting the BIMSTEC conference in Kathmandu and striking a deal with India to construct a railway linking Kathmandu and Raxaul were seen as diplomatic successes (The Record, 2020). Furthermore, Oli's "tit for tat" diplomacy, which includes Limpiyadhura, Kalapani, and Lipulek in its map, might be seen as a practical move to push India to the negotiation table (Khanal, 2020). Oli's directive to stop work on updating new maps in school textbooks, use outdated maps on official stationery, and stay quiet on India-related issues (The Record, 2020) demonstrates his double standards. That is why Nepalese foreign policy has been more about drama than substance for decades (The Record, 2020). China has given lip service to reopening the Zhangmu/Khasa port as soon as possible. The planned Chinese trans-Himalayan railway project, which would link Kathmandu with Tibet, has yet to begin. These indicated that the Oli government's premise that China could serve as a stand-in for India had been proved incorrect (The Record, 2020). In reality, India has adopted a "holding but not delivering" strategy on a number of projects, including hydro and transportation (KC, 2018). Dealings during state head visits are often an issue in Nepali politics. It has been usual to sign too many areas of cooperation at a time during such trips, and to not implement even a handful of them. It demonstrates a complete lack of strategic priority setting as well as a flimsy dedication to execution.

### **3.4 Nepal – World Trade Organization (WTO)**

After evaluating participation in the World Trade Organization (WTO) in 2004, Nepal joined the global trade system, which has opened up excess of possibilities for the marketing of products and services via world trade organization (WTO) (Khanal 2016). Nepal, on the other hand, was unable to profit from international commerce and remains one of the world's poorest nations. In recent years, Nepal has seen a steady transition from a completely agriculture sector to a semi-modern one. Economic productivity is, in fact, usually a precondition for industrialization. One of the most essential preconditions for industrialization in a largely closed market is the attainment of a rate of rise in agricultural productivity that surpasses the contemporaneous rate of increase in food demand. Industrial growth is aided and sustained by rising crop output (Bhagat 2008).

The less advanced nations, like Nepal, have many challenges to industrialisation, such as a limited market, a conventional agricultural sector, a lack of funding, a lack of finance, and a lack of knowledge of economic possibilities, among others. Nepal is experiencing trade losses, and its imbalance is steadily growing. It is past time for Nepal to consider its trade imbalance and take steps to boost domestic production and core competencies in order to expand its trading base (Sharma, 2020.).

Foreign trade covers a wide range of topics with connection to other nations. Importing items has the advantage of providing commodities or services that a country cannot create in sufficient quantities. Similarly, commerce provides both products and services to the exporter as well as money with which to buy goods and services from other nations. Imports and exports benefit the economy through generating employment, attracting foreign investors, and driving innovation, among other things. No nation on the planet is completely self-sufficient. Each nation is required to import some products and services that are in short supply in their own country. Weak and underdeveloped nations import more and export less, while economically advanced integers less and produce more. When local manufacturing is insufficient, the goods does not meet customer tastes and preferences, or the cost of manufacturing is too expensive, item purchase becoming required and imperative to intellectual environment need (Khatri, 2017).

According to the most recent statistics, Nepal's total exports hit 115.4 USD million in May 2021, up 322.4 percent year on year. In May 2021, total imports were 1.2 USD billion, up 235.0 percent year on year. (Ceicdata.com. 2021)

### **3.5 Historical observation on Trade and Policy Shift**

Since the Malla era, history shows that Indo-Nepal commerce has been Nepal's favoured main commerce over Tibet. For the sake of studying trade and policy shifts, the neoclassical economics may be divided into four periods: Malla-Shah Dynasty, Rana Regime, Panchyat Regime, and Democratic regime. Until the early days of the Rana Regime, trade policy was expansionist and protectionist. To put it another way, the policy favoured exports while restricting imports. It was a secret cause for the country's success at the time, according to trade analysts and parliamentary analysts. After a trip to England, Junga Bahadur Rana's trade policy shifted somewhat towards purchase rather than restricted import trade. The import dominance of Indo-Nepal trade, which was about 70%, resulted in a greater rate of trade deficit increase. It was implemented again during the Panchyat era (1970-1980) for tax purposes, despite the leadership's prioritisation on industrialization. Indo-Nepal was in the lead. It had the unfavourable effect of causing financial crisis and crises. Since 1980, the country's trade strategy has changed to a focus on exports. (Shah, 2017. pp.74-79).

In the 1980s, as the world moved toward globalisation, the policy was changed toward liberalisation for competitiveness, interconnectedness, and effectiveness. Its effects include a more dynamic current classification, content, and orientation toward export expansion and development. Then, when commerce with third-world nations grew, Indo-supremacy Nepal's waned. However, commerce between India and Nepal was still greater than trade between third-world nations. Because of the comparatively lower exporting growth momentum, the trade figures are unsatisfying in terms of handling growth in the economy. In 1990, its speed and strength were discovered. It has caused tremors in the growth of international commerce. Macroeconomic factors, on the other hand, are poor. (Shah, pp.74-79, 2017).

Bangladesh, India, Pakistan, and Sri Lanka all have trading relationships with Nepal. The bulk of Nepal's Free Trade Agreements (FTAs) involving trade deals are focused on goods trade rather than services, finance, or internal migration. SAARC members are more likely

to pursue multilateral free trade deals (FTAs) in order to get easier access to their neighbours. Forms of cooperation have become increasingly popular among SAARC member nations due to a lack of shared understanding on how to execute multilateral trading system accords. Nepal is renowned for its market economics in goods such as handcrafted woollen rugs, Shawl goods, garment manufacturing (RMG), footwear and leather products, arts, gold and silver jewellery, and tourism, hydropower, and agribusiness. Stuck between two major industrial superstars, India and China, Nepal, on the other hand, suffers significant scale-related difficulties. Due to its lack of structure and the necessary technologies needed for their manufacture, Nepal's productive capacity in the manufacture of products is extremely small.

More over 60% of Nepal's commerce is with India, with the rest 40% going to the rest of the globe. As a result, it's critical to distinguish the main products exchanged with India from those exchanged with the rest of the globe. Textiles (8%), zinc sheet (7%), thread (6%), and cotton yarn (6%) account for the majority of Nepal's exports to India (6 percent). These items feature features typical of developing nations with a competitive edge in the export of labour intensive commodities. As a result, we may conclude that Nepal gains little from exporting lower-value-added products (rather than finished goods) to India. Crude oil account for 26% of total Indian imports, followed by cars, equipment, M.S. Billet, and other items (Prasai, 2014. pp.24-43).

In 1992, Nepal established a trade agreements policy, and in 2014, a new trade strategy was unveiled. After joining the World Commerce Organization (WTO) in 2004, Nepal's international trade has expanded to include a wider variety of nations. Nepal has trade agreements with over a hundred nations. Through its National Trade Integration Strategy (NTIS) in 2010, Nepal recognized 19 products.(Us.nepalembassy.gov.np. 2021)

For a dataset of 22 improving countries that support trade liberalisation policies since the mid-1970s, Santosh-Paulino and Thirlwall (2004) used panel data methods to assess the impact of trade liberalisation on foreign exchange productivity, import trade efficiency, the domestic economy, and the budget deficit. They discovered that although liberalisation boosted export investment efficiency, it also boosted import economic growth, resulting in a deterioration of the trade and receivables ratio.

For the period 1990/91 to 2010/11, Chaudhary (2011) investigated the sensibility or effect of capital flows in Nepal, utilising different characteristics of trade openness such as susceptibility, sensibility, and harmonisation, as well as the influence of capital flows on per

capita growth. The findings indicate that Nepal's overall financial development danger is low, with the production and financial industries being more open than farming and energy. While the exposure growth rate has performed well throughout the study period, the ideal percentage of accessibility growth and per capita real wages to economic output is pessimistic. The findings show that per capita income growth is rather insensitive to trade openness increase. The results show that the income gains from increased trade are greater for Nepal's export markets than for Nepal itself. He claims that Nepal liberalised trade without putting in place the necessary domestic policies and practices.[ Acharya, 2019].

Using the Philip Hanson Fully Modified Ordinary Least Square Cointegration Model, Upreti (2012) examined the impact of trade liberalisation on Nepalese foreign commerce in both the pre- and post-liberalization eras. His study's primary empirical finding is that trade liberalisation has no substantial beneficial effect on production, purchase, or currency value in both the pre-liberalization and post-liberalization periods, in both the low and high. The research also found that trade liberalisation had no beneficial effect on the economy or the balance of payments.

Since the past few years, Nepal has had a patchy financial outlook. Between 2000 and 2010, the average GDP growth rate was 3.8%. GDP increased by 4.6 percent in Fiscal Year 2011-12, compared to 3.8 percent in Fiscal Year 2010-11. In the fiscal year 2011-12, the intermediate sector contributed 50.31 %, the basic sector 35.68 percent, and the intermediate sector 14.02 %, while exports contributed 9.8 percent to GDP and imports contributed 32.6 %. [Chaudhary, and Ghimire, 2017].

Trade liberalization businesses and export-oriented industries may be able to assist the nation in rebalancing its trade. Outflows have primarily funded the trade imbalance, thus the volume and sign of the current account are mostly controlled by importers and repatriation from outside.

## 4 Practical Part

### 4.1 Nepal-China New Security and Strategic Cooperation

Apart from mending ties with South, Nepal established connections with China in the wake of the India-Nepal boundary blockage, despite public opposition. Nepal established new military and geopolitical connections with China, in addition to strengthening economic and political ties. Nepal publicly established its defence relations with China for the first time. Any defense partnership with China was previously seen through the lens of India. During India's weapons purchases from China in the 1990s, Nepal experienced illegal trade and transportation barricades. To oxygenate any possible collaboration with China, India has repeatedly urged Nepal to abide by the 1950 Treaty of Peace and Friendship. Nevertheless, Nepal took advantage of the chance after 2015, and in April 2017, the Nepal Army and the National liberation Army (PLA) of China conducted the first-ever Joint Military Exercise (JME)- Sagarmatha Friendship-1 in Nepal. Since the beginning of Nepal-China ties in 1955, the JME was the first of its type (Wolf, 2018)

As the PLA conducted refute actions in Tibet and Xinxiang region, the point of the study was to teach the Nepal Army in CT techniques. Despite the fact that the Nepal Army performs JME with the Indian Army every year, India was surprised to learn about a full workout with China. In a conversation with the writer, then-Defense Minister Bal Krishna Khand said: "After hearing stories in the news about India's worries over the JME with China, as a military minister, I had discreetly communicated to New Delhi about the drill." While New Delhi made no remarks, I took the effort to decrease the number of people participating in the action in order to allay India's fears<sup>2</sup>. However, the Nepali Party was hesitant to hold the JME with the PLA. Nonetheless, it was Maoist Chief and Prime Minister Prachanda who pushed on holding the JME, and Nepali Party had no choice but to accept as a governing party. On May 12, 2017, Nepal made a second strategic change by signing China's most comprehensive One Belt and One Road Initiative (OBOR) [now Belt and Road Initiative (BRI)] (Chand, 2018). It was yet another significant policy change in latest days favoring China. While India refused to join OBOR because the China-Pakistan Economic Corridor (CPEC) went across contested Indian-Pakistani territory and breached India's "fundamental concerns on sovereignty and territorial integrity," Nepal did. Nepal and China agreed on a Trans-Himalayan rail line to link Kathmandu and Tibet shortly after signing the BRI, facilitating commerce and people-to-people relations. With a cost estimate of USD 2.6



billion, the agreed-upon railway line is “one of the world's most challenging railroads to engineer” (GUPTA, 2020). The BRI agreement between the two nations includes railway connection as part of the larger BRI accord. Coordination (underneath the BRI) "includes major aspects like as ports, highways, aircraft, and telecommunications under the existing program of the trans-Himalayan Multi-Dimensional Connectivity Network," according to the BRI (MoFA 2019b). Nepal wants to take advantage of the planned railway link with China.

## **4.2 Chinese Prudence**

The most anticipated deal between China and Nepal was a pact on Mutual Legal Assistance in Criminal Issues. During President Xi's visit, China expected that the GoN will sign a Diplomatic Relationship (MoFA 2019b). Eventually, it was superseded by TMLACM owing to internal resistance within the NCP and from the Nepali Congress (Swarajya 2019).

During the 2008 Tibet uprising, Nepalese Tibetans were brutally suppressed by the Maoist government (Housden, 2020). Many were threatening with the seizure of their migrant cards and deportation to China (Verma, Rise of China and India)

Nepal and China's recent friendship is built on shared interests, particularly Nepal's desire to conduct third-country commerce via Chinese ports. As a result, it's doubtful that Nepal would defy China demand to reject quasi Cardmembers and new Tibetan emigrants. Nepal's effort to change its stance on Emigrants, on the other hand, is in violation of its "Gentleman's Agreement" with UNHCR (Parajuli, 2021). Aside from increasing strategic relations on the army and defense spending fronts, Nepal has seen an inflow of China financial assistance, capital projects, Foreign Direct Investment (FDI), and the establishment of Confucian Centers (Kumar Sahu, 2015).

Since 2014, China replaced India as the country with the most investment in Nepal. China alone promised an FDI of 88 million USD in Nepal in 2019, with the United Kingdom coming in second with 1.85 million USD and India coming in third with 1.76 million USD (Xinhua 2019). While newly formed defence, commercial, and diplomatic ties may not fully eclipse India's diplomatic ties with Nepal, Beijing's growing influence in Nepal cannot be ignored. In order to achieve its objectives, China has gained strong backing in Nepal. China's success in Nepal may also be attributed to its outward appearance of non-interference in the country's domestic matters. This gives the impression that China respects Nepal's

sovereignty "more" than India, notwithstanding India's open guidance and recommendations to Nepal (Ranjan, 2019).

Although Nepal's economy is still heavily reliant on agriculture, the services sector accounts for the majority of the country's GDP. Agriculture employs 65.7 percent of the population and contributes for 27.5 percent of GDP. Manufacturing and construction are the two biggest sub-sectors of the industrial sector, accounting for 15.1 percent of GDP. Real estate, commerce, transportation, communications, and education are the biggest sub-sectors of the services sector, accounting for 57.4 percent of GDP. With substantial migration from rural to urban regions and beyond, Nepal's economy is progressively moving away from agriculture. An estimated four to six million Nepalese labour in other nations, mainly in the Gulf, Malaysia, and India. In 2019, Nepal received \$8.12 billion in remittances, accounting for 26.5 percent of its GDP. Many migrant workers utilise informal routes to send money back to Nepal, according to officials at the Nepal Rastra (Central) Bank, thus the actual amount of remittances is likely greater than \$8.12 billion. As a result, labour exports account for a substantial portion of Nepal's income. (Bhatnagar, and Shahab Ahmed, 2021).

### **4.3 Problems Relating to Trade Promotion**

#### **4.3.1 Major Issues**

**1: Landlockedness:** Nepal is a nation that is completely surrounded by water. It is surrounded on three sides by India: east, west, and south, and on the north by China. As a result, Nepal does not have direct access to the sea and does not have a seaport. Goods are to be exported to other nations, either by land or by air, from India. Both of these items are very costly. This is considered as the most serious issue confronting Nepalese international trade. Furthermore, Nepal's open border with India is a concern for the country's international commerce since it encourages illicit traffic between the two countries.

**2: Low export and high import:** Nepal exports a limited number of products, such as woollen carpets, ready-made clothes, handicrafts, herbs and shrubs, tea, coffee, and so on. However, in recent years, the export of these products has decreased. Nepal's imports, on the other hand, are extremely high in contrast to its exports. Almost 80% of Nepal's products are

imported from other nations. As a result, Nepal's trade imbalance is quickly growing year after year, making it one of the country's main international trade issues (NEPAL, 2021).

### **3: The absence of a border control inspecting mechanism to ensure that foods are safe and meet global norms.**

In Nepal, the customs office is obliged to quarantine goods such as agricultural goods, livestock, and dairy products, but it lacks the necessary inspecting tools and infrastructure to do so effectively. For example, gingers transported from Nepal to India were put onto trucks without being cleaned after processing. Despite the fact that they are washed at an Indian factory, it is obvious that the Nepalese customs office has overlooked pass examination since rigorous sanitary control is not required in the marketplace (Fisher, et al., 2021).

### **4: Scarcity of skilled manpower.**

Nepal generates technological talent, but a lack of economic opportunities and poor pay force millions of people to go for employment elsewhere. Businesses often lament the need to continually recruit and retrain new employees. Employee termination is tough due to strict labour regulations. Furthermore, militant and highly political unions often renege on negotiated agreements in order to push for additional demands, making it difficult to recruit and retain competent personnel. Many SMEs are failing to satisfy the new Social Security Fund's standards, which were implemented in 2018 (Legacy.export.gov. 2021).

#### **4.3.2 The following are the primary causes of Nepal India's trade deficit:**

**a) Political Uncertainty:** After the collapse of the Panchyat government in 1990, democracy was restored in Nepal. Then, when the government implemented an open economy strategy, the private sector was given more prominence in the economy. The government's role has been reduced to that of a facilitator for economic growth. Entrepreneurship promotion is necessary for the nation's everyday goods and services to be produced. The private sector may play a critical role in fostering high-level entrepreneurship in a country. The proper actions and policies are required to foster entrepreneurship. Political stability is a prerequisite for this. Because of the country's political volatility, Nepalese governments change often, and the country's economic policies fluctuate as well. As a result, the private sector has been unable to contribute much to economic growth. Entrepreneurs have switched to importing

commodities because they have failed to undertake risk while commodity manufacturing is taking place. As demonstrated by the statistics above, the majority of entrepreneurs import products from India. (Kafle, 2017).

**(b) Location:** Nepal is a landlocked country sandwiched between China and India. The Himalayas and mountains on the Chinese border make transit very difficult. As a result, Nepal and Tibet, China are connected by just one roadway. On the other hand, the border with India has plain areas with well-established and linked road traffic. Kolkata Port in India is the closest port to Nepal. As a result, the bulk of commodities imported into Nepal pass via India's Kolkota port. Furthermore, there is an open border between Nepal and India, which allows citizens of both nations to travel freely in both countries. As a result of their geographical location, Nepalese businesses import the vast bulk of their products from India (Kafle, 2017).

**(c) Social and Religious Links:** Nepal is a Hindu-majority country, and India's majority population is Hindu as well. In addition, Sanskrit is the source of both Hindi and Nepali languages. People from both countries speak the same language, share comparable cultures, and practise the same religion. As a result, a significant number of Nepalese people visit India each year, and when they return, they carry items for personal and commercial use, contributing to the trade imbalance. (Kafle, 2017).

## 5 Problem of Foreign Trade

Nepal is a small market with great hilly terrains covering 83 percent of the land. In the area of international commerce, transit and transportation issues are the most significant roadblocks. Unnecessary hurdles are being placed in the way of India's ability to use its transit rights. Customs procedures at ports, as well as the loading and unloading of goods from ships, take a lengthy time. As a consequence, Nepalese businesses must pay a significant amount of damages, which raises selling prices. India's maritime ports are accessible under certain circumstances. Because of the vast distance between the ports and our border, transportation costs have increased. Nepal is mostly reliant on road transportation. In mountainous regions, the roadways are restricted and small, and the road and automotive maintenance are deplorable (Bhagat, 2020).

Nepal has been conducting international trade with more than 150 nations. However, India accounts for the majority of commerce, with a share of 64.70 percent in FY 2018/19. China was the second-largest trading partner, with a 13.70 percent share. The remaining 21.60 percent of commerce was focused with over 148 other nations across the globe. The usage of different imported goods has been rising day by day. Imported goods are mostly paid for with fiat exchange earned from remittances sent by Nepalese labourers working abroad. The administration of Nepal's deficit international trade is going in the wrong direction, and excessive reliance on remittances is neither a long-term or ideal answer for the country's economy. Because of the restricted multitude of companies and poor manufacturing capability, food industry cannot satisfy the demands for Nepalese people. Nepal purchases approximately 15 times more than its sharing. (Bhagat, 2020).

### **5.1 Measures to manage Foreign Trade**

The following are some strategies for managing international trade and resolving issues: Nepal is stuck in a 'dark matter impact' since its international economic output is low and commodities mobility is mainly yet another. The Nepalese economy would suffer if Nepal is unable to use table power to eliminate the 'black hole effect.' Nepal should reduce imports as much as feasible while increasing exports. During the poll, 67 percent of government leaders said that international trade policy should be reconsidered in light of changing circumstances.

Nepal should make every effort to attract FDI, know-how, and innovation, as well as maximise the use of its resources. These will aid in increasing local production and job possibilities, as well as import substitution products manufacturing. A decrease in the trade imbalance and an increase in foreign currency deposits will be regarded as beneficial outcomes of such efforts. Agriculturally important products from mountainous and distant regions cannot reach the Nepalese market in the lack of a warehouse (cold storage), transporting means, and road network. To access such product in Nepalese and export companies, the administration should attempt to expand the transit system, power grids, manufacturing equipment, warehouses (cold storage), banking, and insurance policies. Nepal spent 2.62 times more on petroleum products than it did on total exports. As a result,

Nepal spent a significant amount of fiat exchange to import these goods. Exploiting mineral wealth and producing crude oil is a necessity for Nepal.

Some policies advertising and promotion, purchase, and sale should be examined from the standpoint of manufacture and sale. The state should enable investors to participate in manufacturing operations while also encouraging foreign demand for new sectors. Nepal benefits from low-cost raw resources, low-wage labour, a favourable climate, and big neighbours with enormous market potential, therefore it is critical to recognise and build on strengths in order to boost exports and reduce imports.

In Nepal's instance, progress in implementing cutting-edge technology in industrial sectors is slow, and the country is still lagging behind its competitors. Nepal must make significant efforts to bring manufacturing based on technology up to world standards. Some policies related to the planning, import, and exporting should be examined from the standpoint of exportation. The administration should enable investors to participate in manufacturing operations. More than 81 percent of customers (general public) believe that foreign items are usually of higher quality and durability (with the exception of Chinese goods), therefore they prefer them. They had no unfavourable feelings towards domestic goods, though. The majority of them had been utilising goods from their own country.

Nepalese global commerce is increasingly focused on India. In Nepalese international trade, India controls almost 65 percent of the market. Excessive reliance on a single nation is risky, and Nepal has had firsthand knowledge with Indian border blockades. Nepal should devise a plan to decrease purchases from India while also producing import substitutes in the nation. Furthermore, Nepal will be able to provide a significant amount of excess hydraulic to India and neighbouring nations in the near future. Mines, coal, oil products, nat gas, and other natural resources may help a nation become self-sufficient and replace a significant amount of imports.

Manufacturing zones, developing economies, tax relief, and low rates on bank loans for export-oriented businesses are some of the instruments that may be used to boost exportation. Manufacturing activities should also be helped in terms of bank loan subsidies, premiums subsidies, plant and equipment subsidies, and so on. Furthermore, the state should assist these sectors by granting preferential treatment to capacity-building initiatives, and talent programmes for unskilled and semi-skilled unorganised workers.

## **6 Results and Discussion**

The data relating to major problems has been presented and evaluated analytically in this section. The direction, problems and opportunity of foreign trade, growth has all been addressed in the subheadings to come.

### **6.1 Direction of Foreign Trade of Nepal**

Nepal is a developing nation with limited resources for economic growth. Foreign trade is crucial to the economic growth of developing nations such as Nepal. As a result, international commerce is essential for the country's economic growth since it supplies essential raw materials, technological know-how, equipment, and a variety of products and services. Foreign commerce, as we all know, is divided into two parts: export and import. Foreign trade, or more specifically export trade, is critical for industrial growth. It also gives emerging nations like Nepal access to the market. Nepal's exports are low in volume and low in value, whereas its imports are large in both volume and value. So far, Nepal's international trade performance has been dismal (Sharma, 2019).

Prior to 1951 AD, Nepal's international commerce was confined to India and Tibet. The commerce with India accounted for 95% of total trade, with the remaining 5% going to Tibet. Trade with other nations was practically non-existent. The proximity of Nepal to India, the open border with India, and commonalities in language, culture, religion, tradition, and other factors all contributed to the consolidation of Nepalese commerce with India. However, Nepal currently has commercial relations with a variety of nations outside of India and China. However, India remains Nepal's most important trade partner. Nepal's trade with India accounted for 82.2 percent of total trade in fiscal year 1974/75, while trade with other nations accounted for just 17.8 percent. The trade deficit with India was decreased to 52.4 percent in fiscal year 1984/85. India accounted for 52.5 percent of total commerce in the fiscal year 1990/91. Until the fiscal year 1996/97, Nepal's trade dependence on India was decreasing. However, in recent years, India's part in global commerce has significantly grown.

Nepal's second-largest trade partner is China. Nepal's trade imbalance with China has been steadily growing. Nepal participates in a number of trade fairs and exhibits held in China on a regular basis. The Tibet Economic and Trade Fair is a biennial event held alternately by

Nepal and China to improve business contact and develop economic cooperation between the two countries. In November 2018, Nepal took part in the China International Import Expo in Shanghai. On October 24-29, 2018, Lhasa hosted the 16th Nepal-China Tibet Economic and Trade Fair (Sharma, 2019).

Table 1 depicts the trajectory of Nepalese international trade from 2012/13 to 2016/17 fiscal years. The table clearly shows that India is Nepal's most important trading partner. 60% of Nepal's overall commerce accounts for India. It demonstrates that Nepal has had little success in terms of country-specific route selection. Although, during the past three fiscal years, the proportion of trade with India has decreased while the share with China and other nations has increased. Other nations include the United States, Germany, Japan, the United Kingdom, France, Italy, Spain, Switzerland, Belgium, and others. Nepalese goods are exported to the United States, Germany, Japan, Bangladesh, the United Kingdom, France, Italy, Spain, Switzerland, and Belgium, among other countries. Nepal, like India and China, imports from Singapore, the United Kingdom, the United Arab Emirates, Malaysia, Kuwait, and other countries. Nepal has likewise had little success diversifying its commerce by product. Only seven items account for more than 90% of Nepal's foreign currency earnings: premade garments, carpets, pulses, handicrafts, leather, medicinal plants, and paper goods. These goods' exports have likewise decreased in recent years. [Acharya, 2019].



Table 1:

Description	2012/13	2013/14	2014/15	2015/16	2016/17
Export	7691.70	9199.10	8531.91	7011.7	7011.7
India	5100.00	5961.40	5586.46	3949.4	4144.9
China	208.6	284.1	223.0	168.2	170.1
Other countries	2383.2	2953.7	2722.5	2894.2	2989.8
Import	55674.00	71436.60	77468.42	77359.9	99011.3
India	36703.10	47794.70	49165.99	47721.3	63367.0
China	6245.1	7331.9	10016.6	11569.4	12724.5
Other countries	12725.8	16310.0	18286.2	18069.2	22919.9
Total Trade	63365.8	80635.7	86000.3	84371.6	1063316.2
India	41803.1	53756.1	54752.1	51670.6	67511.9
China	6453.7	7615.9	10239.6	11737.6	12894.7
Other countries	15108.9	19263.7	21008.7	20963.4	25909.7
Total Trade Share (Percentage)	100	100	100	100	100
India	66.0	66.7	63.7	61.2	63.5
China	10.2	9.4	11.9	13.9	12.1
Other countries	23.8	23.9	24.4	24.8	24.4

### 6.1.1 Foreign Trade Situation

Nepal has a population of 23.2 million people. The population is growing at a pace of 2.27 percent. Around 80% of Nepalese people work in agriculture, which is highly dependent on the monsoon. The population growth rate is approximately balanced by the GDP growth rate of 3.1 percent. The average lifespan is 59.7 years. The incidence of illiteracy and poverty is considerable, with a per capita GNP of \$249. Foreign assistance accounts for about 60% of the country's development expenditure. Adult literacy is estimated to be about 57.6%. Nearly half of the population lives in poverty, with a daily income of one dollar or less. The work force in Nepal is made up of around 54 percent of the population (aged between 15-64 years). In Nepal, 300,000 people join the job market each year. A total of 5% of the population is jobless, with a 45 percent underemployment rate. Children aged 5 to 14 are financially engaged in 41% of cases. Workers are negatively impacted by more unemployment, lower-paying jobs, and unpleasant working conditions (Dahal, 2002).

Table 2 indicates that throughout the 1980s, the Organization for Economic Co-operation and Development (OECD) nations were the most important importing and exporting partners, contributing for 38% of total exports and 25% of 's trade. In the 2000s, there was a significant shift in trade partner nations. During this decade, India\s Accounting for about 60% of the value of both Nepal's foreign trade, making it the country's most important trade partner. Exports to ASEAN nations have decreased in importance. In the past three decades, China's share in global imports has steadily risen. During the same three decades, the United States contributed for about 20% of total market value, with minor variations. During the investigated years, trade with non-OECD EU and SAARC nations accounted for less than 5% of total exports. (Bhagat, 2020)

Germany was Nepal's biggest export market throughout this decade. In the 1980s, Germany and Japan were the second-largest foreign exchange trade nations, followed by the United States and Singapore in the 1990s, and the United States and China in the 2000s. During the past three decades, China has been one of the top five trade partners in terms of imports. During the 1990s and 2000s, China, on the other hand, was ranked sixteenth. Although it is a significant bordering nation, China was a less powerful partner for Nepal's exports (Bhagat, 2020)

Nepal began its economic liberalisation programme in the mid-1980s, which included liberalisation of the finance sector, trade liberalisation, current account intermediation, the removal of major protectionist measures, a number of privatisation programmes and policies, a revised version of the trade treaty with India, banking reform programmes, and a reduction in government role. Nepal signed international deals with 18 nations as a result of this. Similarly, on April 23, 2004, the nation became the 147th member of the World Trade Organization (WTO).

Table 2:

Countries	1980s (in Percent)		1990s (in Percent)		2000s (in Percent)	
	Export	Import	Export	Import	Export	Import
India	28.02	24.01	16.15	22.39	59.04	58.06
ASEAN	4.89	13.10	0.63	19.76	0.60	11.16
OECD (except Japan & USA)	38.10	25.20	49.91	17.91	18.03	10.69

China	2.42	6.59	0.51	7.42	0.39	9.63
Others	0.45	2.70	1.58	16.63	0.63	5.13
Japan	1.17	19.60	0.69	8.11	1.26	1.94
Middle East	0.01	0.02	0.03	4.82	0.32	1.55
USA	21.20	6.35	28.28	1.42	17.17	1.33
SAARC	3.75	2.31	2.22	1.46	2.56	0.49
EU (Non-OECD)	0.00	0.12	0.00	0.08	0.01	0.01
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### 6.1.2 Direction of foreign trade policy of Nepal

In 2010, the government issued a new, progressive, and extensive Trade Policy with the goal of expanding international trade by meeting the problems of utilising business opportunities in goods and services trade while also protecting intellectual property rights. The main policy thrust of this Trade Policy is to promote the export sector and achieve sustained trade development while taking into account the changing paradigm of the domestic and international business environment. The current trade policy aims to create a favourable environment for the promotion of trade and business in order to make it more competitive on a global scale, to reduce trade deficits by increasing exports of valuable products through trade linkages between imports and exports, and to increase income and employment opportunities by improving the competitiveness of goods and services. The newly enacted trade policy, on the other hand, has just recently gone into effect. To boost exports, a particular emphasis area has been selected, and policies have been enacted to promote exports of products such as: There are two groups of the product. I in export markets; ii) in high-potential export items There are a few key goods that are already well-known and have a strong export potential. Ready-to-wear clothing, carpets and woollen goods, pashmina and silk products, handicraft items Tea, vegetable seeds, large cardamom, pulses, floriculture, valuable and semi-precious gems and stones, as well as gold and silver jewellery, Gingers/dried gingers, and processed leather Essential oils and herbs are two types of herbs that may be used to make a variety of products. Handmade paper and paper goods, Wooden

craft items, Coffee, Oranges (Junar), and Vegetables are just a few of the things available. (Ghimire, 2010).

The whole producing, industrial, and distribution network has been negatively impacted as a result of the COVID-19 epidemic. The global economic downturn is expected to have a significant influence on commerce development, employment, pricing, and world trade, and has already had a significant impact on Nepal's gdp (MoF 2019/20). Table 3 show direction of foreign trade in Nepal.

Table 3: Direction of foreign trade policy of Nepal

Particulars

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19P
Total	74261.0	76917.2	91991.4	85319.1	70117.1	73049.1	81359.8s	97109.5
Exports	(13.86%	(12.14)	(11.41)	(9.92%)	(8.31%)	(6.87%)	(6.13%)	(6.41%)
	49616.3	50999.8	59613.7	55864.6	39493.7	41449.2	46719.8	62731.8
To India	(66.81)	(66.30)	(64.80)	(65.48)	(56.33)	(56.74%)	(57.42%)	(64.6%)
To China	-	2085.8	2840.7	2229.9	1681.5	1701.5	2437.7	2109.8
		(2.17%)	(3.08%)	(2.61%)	(0.23%)	(2.33%)	(2.99%)	(2.17%)
To other countries	24644.7	23831.6	29537.0	27224.6	28941.9	29898.4	32202.3	32267.9
	(33.19)	(30.98)	(32.11)	(31.91)	(41.27)	(40.93%)	(39.58%)	(33.22%)
Total Imports	461667.	556740.	714365.	774684.	773599.	990113.	1245103.	1418535.
	7	1	9	1	3	2	2	3
	(86.14)	(87.86)	(88.59)	(90.08)	(91.69)	(93.13%)	(93.87%)	(93.59%)

		367031.					917909.	
From	299389.6	2	477947.0	491655.9	477212.6	633669.6	814101.6	3
India	(64.85%)	(65.93)	(66.91%)	(63.47%)	(61.69%)	(64%)	(65.38%)	(64.71)
								205527.
From	62451.2	73318.6	100166.4	115694.3	127245.0	159987.1	4	
	-							
China	(11.22)	(10.26%)	(12.93%)	(14.96%)	(12.85%)	(12.85%)	(14.49)	
From	127257.						295098.	
	162378.1	7	163100.2	182861.9	180692.4	229198.6	271014.5	6
other								
countries	(35.15%)	(22.86)	(22.83%)	(23.61%)	(23.36%)	(23.15%)	(21.77%)	(20.80)
Total	633657.				1063162.	1326463.	1515644.	
	535928.7	3	806357.3	860003.2	843716.4	3	0	8
trade								
Total	418031.						980641.	
	349005.9	0	537560.7	547520.5	516706.3	675118.8	860821.4	1
trade to								
India	(65.12%)	(65.97)	(66.67%)	(63.67%)	(61.24%)	(63.50%)	(64.90%)	(64.70)
Total								207637.
	64537	76159.3	102396	117375.8	128946.5	162424.8	2	
trade to	-							
	(10.19)	(9.45%)	(11.91%)	(13.91%)	(12.13%)	(12.25%)	(13.70)	
China								
Total	151089.			209634.3			327366.	
trade to	187022.8	3	192637.2	210086.5		259097.0	303216.8	5
other	(34.90%)	(23.84)	(23.90%)	(24.43%)	(24.85%)	(24.37%)	(22.86%)	(21.60)

In Table 3, the direction of export in Nepal has been compared to neighbouring nations India, China, and other countries. The overall export in the fiscal year 2011/12 was 13.86 percent, according to the statistics. In fiscal year 2014/15, it was 9.92 percent, while in fiscal year 2018/19, it was 6.41 percent. This clearly shows that overall exports have been declining in recent years. Similarly, exports to India were 66.81 percent in fiscal year 2011/12, 65.48 percent in fiscal year 2014/15, and 64.6 percent in fiscal year 2018/19. It demonstrates that exports to India are the most consistent. The majority of the products, almost 64%, were shipped to India. Despite the fact that China is Nepal's neighbour, exports to China increased by 2.17 percent in fiscal year 2012/13, 2.61 percent in fiscal year 2014/15, and 2.17 percent in fiscal year 2018/19. It is obvious that China accounts for just around 2.5 percent of overall exports. Similarly, in the fiscal year 2011/12, 33.19 percent of total export to other countries, 42.93 percent of total export to other countries in 2015/16, and 33.22 percent of total export to other countries in 2018/19. It indicates that exports to other nations rose in the middle of the research period. Except for China and India, other nations accounted for around 31% to 41% of total exports. As a result, when we look at the statistics from 2011/12 to 2018/19, we can see that Nepal exports the most products and services to India. (Sharma, 2020).

The import direction in Nepal has been studied in comparison to neighboring nations such as India, China, and others. The overall import in the fiscal year 2011/12 was 86.14 percent, according to the statistics. In fiscal year 2014/15, it was 90.08 percent, and in fiscal year 2018/19, it was 93.59 percent. This indicates that the trend of total imports has risen in recent years. Similarly, India's imports accounted for 64.85% of total imports in fiscal year 2011/12. In fiscal year 2014/15, it was 63.47 percent, and in fiscal year 2018/19, it was 64.71 percent. It demonstrates that India's imports are the most consistent. The majority of the products, almost 64%, were imported from India. Nepal has purchased products from China as a nearby nation; imports from China were 11.22 percent in fiscal year 2012/13, 12.93 percent in fiscal year 2014/15, and 14.49 percent in fiscal year 2018/19. It is obvious that China accounts for just around 13 percent of overall imports. Similarly, total imports from other nations accounted for 35.15 percent of total imports in fiscal year 2011/12, 23.36 percent of total imports in fiscal year 2015/16, and 20.80 percent of total imports in fiscal year 2018/19. It indicates that imports from other nations dropped in the middle of the research period. Except for China and India, other nations accounted for around 20% to 35% of overall imports. As a result, when we look at the statistics from 2011/12 to 2018/19, we

can see that Nepal imports the most products and services from India. Nepal imports the most products and services from India, according to the data. Almost two-thirds of the imports during the research period came from India, with the remainder coming from the rest of the globe (Sharma, 2020).

According to the most recent statistics, Nepal's total exports hit 115.4 USD million in May 2021, up 322.4 percent year on year. In May 2021, total imports totaled 1.2 USD billion, up 235.0 percent year on year. (Ceicdata.com. 2021). Below table 4 show imports and exports of Nepal with USA in 2020

Table 3: Imports and exports of Nepal with USA in 2020

Month	Exports	Imports	Balance
January 2020	18.6	7.8	10.8
February 2020	15.9	6.7	9.2
March 2020	13.3	16.1	-2.8
April 2020	1.7	2.2	-0.5
May 2020	1.5	1.3	0.2
June 2020	2.5	4.5	-2.0
July 2020	5.4	5.0	0.4
August 2020	3.3	7.1	-3.7
September 2020	4.8	9.9	-5.1
October 2020	9.0	10.6	-1.6
November 2020	8.8	7.9	0.8
December 2020	8.9	7.3	1.5
<b>TOTAL 2020</b>	<b>93.6</b>	<b>86.4</b>	<b>7.3</b>

## 7 Conclusion

Nepal's international trade is beset by a trade imbalance, defined as a low volume of export and a large volume of import. In FY 2019/20, imports were nearly fourteen times larger than exports. Surrounded by water status of the country, immigration policy with less security, bad health technical and institutional status, poor trade agreements, lack of raw resources, scarcity of trained professionals, insufficient capital, and high cost in industrial sectors are the significant issues of international trade. Other issues include a lack of market knowledge, transit and transportation issues, time-consuming ports and customs procedures, the manufacture and export of low-value-added goods, and businesses' reliance on imported raw and intermediary materials, among others. Upwards of 90% of industries (manufacturers) believe that, despite the large trade imbalance, there is no way to import products at this time. Mineral wealth should be exploited as quickly as feasible, according to 76% of experts, so that imports may be replaced. More than 95% of Nepalese international trade have had a negative incident interacting with Indian authorities, since they are often met with needless roadblocks. Likewise, 67 percent of politicians and businessmen believe that international economic policy should be reconsidered, and that production capacity should be expanded to the extent feasible to replace import and export of high-value-added goods. More than 81 percent of customers (general public) favour imported items, but they have no bad emotions about fresh produce since they have used them for a long period.

Earlier study results backed up this report's assertions about the growing trade imbalance and investment in new products. Furthermore, foreign money generated through export development migration is used to control the trade imbalance. We should make an effort to close the export-import gap. Power structure that is in terrible state should be upgraded. Because oil goods need a significant quantity of foreign money, their usage should be reduced by using hydropower and beginning to exploit mineral wealth. Our industry should be revitalised by adopting low-cost, cutting-edge technologies. Output, manufacture, and FDI policies should all be evaluated in light of the changing climate. International trade in developing industries should be promoted by the private sector. Increased local manufacturing and import replacement products should be used to reduce reliance on India as much as feasible. Steps should be taken to enhance hydro power production, with surpluses being sold to India, China, and other neighbouring nations to assist decrease the



international trade imbalance. It will also be a watershed moment in terms of reducing air quality. (Fisher, et al., 2021).

Because the unitary system was established, there has been a growing emphasis on Nepal's international judgement structures, policy objectives, and concepts and philosophies that influence Nepal's foreign relations. Nepal's international law and politics have been eclipsed by its exclusive emphasis on India and China. As a result, Nepal has been “involved actively in many sectors of collaboration with India and China” (MoFA, 2019b, p. 11). With China and India emerging as the world's emerging business giants, Nepal should seize the potential for increased economic cooperation with both neighboring by developing small state economic diplomatic tactics (Adhikari, 2018). Nepal also has to foster friendly ties with its labour target nations, particularly those in the Gcc, since its economy is mostly reliant on remittances from these nations (KC, 2019). At this point, Nepal must also strengthen the voice of the lowest industrialized countries in global conferences and re-establish the value of unilateralism.

It is past time for Nepal to repair its ties with India. Furthermore, it should monitor the status of internationally development partners in Nepal and ensure that they are implemented on schedule so that the whole Janata has confidence in our current elite. Furthermore, it is critical to examine how foreign policy is made and how global affairs is shaped. Neither the MoFA officials nor the governing party's ideologists, who have the last say on foreign policy, are theoretically qualified to make such decisions. However, they, together with a few sycophantic specialists, formulate foreign policy, which is why foreign affairs is useless. Now, the Nepalese management should increase attention to foreign policy advice from impartial specialists (not those wearing a specific party hat).

Furthermore, embracing certain ground methods to foreign policy will aid in the pro-people nature of our foreign interactions. Public confidence in leaders may be bolstered as a result, and “the lost ethics in Nepali governance could be restored and reinvigorated” as a result (Dhakal, 2020, p. 7). This is, without a doubt, a sociological public diplomacy concept that calls for “direct communication or folks contact and necessarily requires state policy role in facilitating and defend freer and open interplay (e.g., visa or economic migration regulation, tracking and trying to prevent prejudice, nationalistic, or tribalism) among its civilians and persons from other countries” (Vibber & Kim,2019). We may make our trade policy and foreign affairs pro-people by redesigning conventional govt methods to communication, which are no longer effective in present era.

However, owing to the fact that “the current public governing environment in Nepal displays minimal civic engagement,” it is difficult (Dhakal, 2019, p. 1). Nevertheless, it is past time for Nepal to establish objectives terms of national goals and to conduct thorough research into potential areas where any country with bilateral relations may collaborate closely with us. There are many types of international diplomacy. Each foreign relationship's emphasis must be regarded: economics, health, climate, migration, security, and growth. We may be able to strengthen soft power with certain nations, financial diplomatic with everyone, and so on. As a result, an unified foreign relations paper is urgently required.

The MoFA is reported to have just developed a new foreign strategy, and the Nepalese state immediately approved it but it has yet to be publicly disclosed. The paper, on the other hand, seemed to have been "crafted in secret, with minimal public consultation" (Bhattarai, 2020b, para. 1). If it addresses the problems highlighted in the National Policy Dialogue and incorporates expert input, Nepal's foreign policy challenges should be resolved. Nevertheless, it is unclear whether or not it will be executed, and if so, how.

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