Czech University of Life Sciences Prague

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Bachelor Thesis

Foreign Trade Analysis – Case Study of Nepal

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BACHELOR THESIS ASSIGNMENT

Shiv Narayan Mandal

Economics Policy and Administration
Business Administration

Thesis title

Foreign Trade Analysis – Case Study of Nepal

Objectives of thesis

The main objectives of the thesis is to analyze the international trading in
Nepal called NEPSE and analyze the foreign trade of a listed company in Nepal which plays vital role in the economy of Nepal.The partial objectives of the thesis are such as:
- observation of import and export of goods in Nepal.
-Analyzing the current economy and economical policy of the government of Nepal.

Methodology

The literature review will be about understanding the international trade and financial market with particular focus on import and export of goods in Nepal. The findings will be used to compare between import and export of goods and how import can be reduced and export can increased in several years. Methods of multiple-criterion decision analysis (MCDA) will be used to get the optimal solution including financial evaluation.

The proposed extent of the thesis

35 – 40 pages

Keywords

Trade, Policies, import, export, financial market, economy

Recommended information sources

Title-Foreign Trade and Export Management: With Nepalese Perspective; Author- Bijendra Man Shakya; Publisher- EduTech Nepal Publications, 1991; Original from-The University of Michigan; Digitized-1 Dec 2010; Length-152 pages

Title- The Foreign Trade of Nepal; Author- Diwaker Chand ; Publisher- Himachal Times Press, 1977 ;Original from- the University of Michigan ;Digitized- 28 Sep 2007 ;Length-103 pages

Title – Understanding Global Trade, ISBN – 0674061012, 9780674061019, Edition- illustrated, Publisher- Harvard University Press, 2011, Author- Elhanan Helpman, Leng- 232 pages

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Prague on 13. 03. 2021

Declaration

I declare that I have worked on my bachelor thesis titled " Foreign Trade Analysis – Case Study 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 copyrights of any their person.

In Prague on 15th March 2021 ______________________________

Acknowledgement

I would like to express many thanks to prof. Ing. Mansoor Maitah, Ph.D. et Ph.D. for his outstanding advices, professional recommendations, and all other persons, for their advice and support during my work on this thesis.

Foreign Trade Analysis - Case Study of Nepal

Abstract

The goal of my thesis is to introduce the main elements of foreign trade and about its different trade theories. It is focused and emphasized on how the trade is important for poor countries like Nepal, where the trade is deficit in present.

This thesis is written into two parts (portions). The first part called theoretical part which includes theoretical background of fundamental factors which frame international trade, market, and its policy. Moreover, this study explains the purpose and advantage of international trade. The world trade organization and international trade institutions are described in brief.

The primary purpose of second part called practical part is to emphasize about Nepal's trade. This study explains in briefly about Nepal's main trading partners countries and highest valued countries from where Nepal import and export. The purpose of this article is to study and analyze the growth, composition, and direction of Nepal's foreign trade, together with the causes and recommendations of the trade deficit. This study shows the very low performance of Nepal's exports, creating the problem of the growing trade deficit. Nepal is also unable to diversify its trade in terms of countries and commodities. The major causes for the increase in the trade deficit are low exports and high imports and geographical location, low-quality goods, lack of resources, high production costs, remittances, currency devaluation and political instability. etc. After analyzing the barriers in foreign trade, the study suggests some of the possibilities for investment from abroad and some measures to be taken to reduce Nepal's trade deficit.

Keywords: Trade, Policies, import, export, financial market, economy, Trade deficit, Recommendations, trade theory, foreign trade, WTO, GDP.

Analýza zahraničního obchodu - případová studie Nepálu

Abstrakt

Cílem mé práce je představit hlavní prvky zahraničního obchodu a jeho různé obchodní teorie. Zaměřuje se a zdůrazňuje na to, jak je obchod důležitý pro chudé země, jako je Nepál, kde je obchod v současné době deficitní.

Tato práce je rozdělena na dvě části (části). První část s názvem teoretická část obsahuje teoretické základy základních faktorů, které rámují mezinárodní obchod, trh a jeho politiku. Tato studie navíc vysvětluje účel a výhody mezinárodního obchodu. Stručně jsou popsány organizace světového obchodu a instituce mezinárodního obchodu.

Primárním účelem druhé části zvané praktická část je zdůraznit nepálský obchod. Tato studie stručně vysvětluje hlavní nepálské země obchodních partnerů a země s nejvyšší hodnotou, odkud Nepál importuje a exportuje. Účelem tohoto článku je studovat a analyzovat růst, složení a směrování nepálského zahraničního obchodu spolu s příčinami a doporučeními obchodního deficitu. Tato studie ukazuje velmi nízkou výkonnost vývozu Nepálu, což vytváří problém rostoucího obchodního deficitu. Nepál také není schopen diverzifikovat svůj obchod, pokud jde o země a komodity. Hlavními příčinami zvýšení deficitu obchodu jsou nízký vývoz a vysoký dovoz a zeměpisná poloha, nekvalitní zboží, nedostatek zdrojů, vysoké výrobní náklady, převody, devalvace měny a politická nestabilita. atd.

Po analýze překážek zahraničního obchodu studie navrhuje některé možnosti investic ze zahraničí a některá opatření ke snížení obchodního deficitu Nepálu.

Klíčová slova: : Obchod, Opatření, import, Vývozní, Finanční trh, Ekonomika, Obchodní deficit, Doporučení, Teorie obchodu, Zahraniční obchod.

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2 Introduction

International trade is nothing but exchanging of goods and services berween countries for well being of human life. It plays a significant and crucial role in the modern world. Almost every one is connected with it and we all are a part of internatioanal trade. The firms, people and countries are getting profit by exchanging goods and services in our daily life thriugh international trade. Famous American politicoan, lawer and 44th vice president James Danforth Quayle claims that ,‘‘we need to remember that trade is a great peacemaker that enriches people and enriches international understanding and ties between nations‘‘. This statement undoubtely represents the fact and benefit of internatioanl trade. Internation trade is key for maintaining peace in the whole world. It binds one country with another and make a smooth relationship between them. International trade provides a playful and comfortable platform in the international market there countries can trade their goods and services at the optimal choice and prizes. The crucial goal of international trade is Provide a safe intermnational market where countries can exchange their products and make policies such as free trade,anti-dumping that would be benefit for living being and countries.

Nepal is a poor and least developed country. It has been observed that the international trade in Nepal is decreasing day by day. It implies that Nepal is getting weaker and weaker in the international market . The economy of Nepal is adversely affected by the international trade because as we know that trade is a backbone of our modern, commercial world, as producers in different countries want to profit from an expanded market, rather than be limitting to selling within ther own countries. Because of many reasons trade deficit takes place in Nepal which is worst for the Nepal economy and for Nepalese people as well. Although Nepalese government gives his best effort to reduce trade deficit but it is not fruitful to do so. It is known that China and India is a great role player in the international trade and both the countries are neighbour of Nepal, so Nepal have to learn from them. It will be beneficial for Nepal if Nepal can create a free trade with them. In the practicle part of this thesis I focused on the cause of trade deficit and what are the possibilities to increase foreign trade in Nepal. I would present some of my recommendations which can be useful and helpful to decrease trade deficit.

Historically has been proven that many poor countries in the world can developed their economy through international trade. The swedish Democratic politician ,‘Anna Lindh‘ said that‘‘Nonetheless, the developing countries must be able to reap the benefits of international trade‘‘. So it is clear that least developed and developing countries have opportunities to get profit from international trade. In this present mordern world industralised countries are more economically strong than others. For instance, China, USA, Japan, Israel, UK and Germany are the key player in the international market. They provide goods, products, services and technologies in the international market at reasonable price from where others can buy which help to make the humal life standard and welfare. Moreover we all are a part of of international trade and we can not sepearate ourself from international trade. Infact, Nepal is also a important part of it and focusing to improve the promotiotion of internatioan trade by following the experience of developed and its neighbour countries. By solving many problems, Nepal is trying to make smooth economic relatioship with others and expanding export section. Nepal imports the essential goods and modern technologies and try to acheive their goal to produce and finilize more quntity of goods and services which result more export. Hence, foreign economic relation and direction of trade are important goal to be acheive by government of Nepal.

3 Objectives and Methodology

3.1 Objectives

The main objectives of the thesis are to analyze the international trading in Nepal.
The partial objectives of the thesis are such as:

- Observation of import and export of goods in Nepal.
- what are the reasons for the trade deficit in Nepal and how it can be solve?
- Analyzing the current economy and economic policy of the government of Nepal.

3.2 Methodology

The literature review will address the brief introduction and understanding of international trade and the financial market in Nepal. What are the reason for trade deficit in Nepal are mentioned and the main partners of trade with Nepal are also showed in practical part. After reviewing the country's foreign market and analyzing it, I used multiple criteria decisions Making (MCDA) method is used and on the behalf of MCDA, recommendations will be addressed to improve foreign trade, investment areas aimed at improving the trade balance.

4 Literature Review

4.1 International Trade

International Trade is the exchange of goods across national boundaries. It is also called Foreign Trade. Prof. J.L. Hanson said, “An exchange of various specialized commodities and services rendered among the corresponding countries is known as foreign trade.” In simple words we can say that foreign trade is the exchange of capital, goods and services across international territories. For continuance of globalization, the increase of international trade is very essential. International trade plays a vital role in world power and it is a major source of country’s economy revenue. Without international trade it is not possible to fulfil all the basic needs of a nation. Simply, import and export is called international trade . The back bone of foreign trade is the product or services which is being imported or exported to the some other area outside of the particular country’s geographical structure (Kangal, 2021)

Foreign Trade is changing services, input, commodities and technologies essentially which boost benefit in two ways. Foreign trade generates a huge market outside the country and ensures best and reasonable price of exporting goods. The advanced technologies and un-available goods in own country can be brought by another way called import. Sometimes goods are not available at lower price but available at higher price and hence customer bought it at high price, their level of satisfaction is high too. Goods are generally traded between two or more countries on the behalf of trade policies (Krugman, 2012).

To be honest, it is impossible to find a country which do not involve in foreign trade. No one country in the world is self-sufficient in each source for fulfil the basic need of goods, commodity, input, services, and technologies. Thus, they prefer to do trade with one another and fulfil their needs and requirement. Moreover, we can describe foreign trade in many ways, and we all are a part of it almost every day. For a good example If my parents bought a BMW car in Nepal, Since BMW car is not manufactured in Nepal, so it is imported from Germany which represent we are a part of foreign Trade. Foreign Trade plays a vital role in country economy as well as our life.

4.1.1 Purpose of International Trade

When we talk about international trade purpose, if directly focused on export and import goods which is essential for living standard between countries. In fact, every country is not similar to each other in natural resources and artificial resources therefore we need an international trade. In can be simply understand by a good example; Many countries do not have natural resources like oil and gas which consequences them to import from other country. Because we live in the modern world. So, oil and gas are a crucial part of our lives. Professor Krugman highlighted one of the fundamental principles in international trade is that ‘’the country should always buy commodity, goods or materials from the country which have low price and always sell to those countries have high price’’. According to this principle, the developed country will get benefit but the under-developed and developing countries will get benefit too. In one hand they can export their resources at a beneficial price while by other hand they can import machinery or technologies as well. Since we live in the modern world, trading plays a vital and crucial role to fulfil the requirements of our lives because trading on international market provides beneficial opportunities to buy goods which are not available in that country (Krugman, 2012).

4.1.2 Types of International Trade

International trade is trade between different countries. It is also called External or Inter-Regional Trade which is divided in to three types. They are as follows:

1) **Import Trade**: It can be defined as purchase of goods from other country to own country or simply we can say inflow of goods from other country to own country. For example, Nepal bought motor bikes and cars from India then Nepal is importer and doing Import trade with India.

2) **Export Trade**: It can be defined as selling of goods from home country to foreign country. In this case, the seller is always exporter, and, in this case, there is always cash inflow. For instance, Czech Republic exports Skoda cars in foreign countries and foreign countries needs to pay to Czech Republic which results cash inflow.

3) **Entrepot Trade**: It is also called Re-export. It is defined as purchase of goods from one country and after doing some changes or processing activities with the goods and are sold to other countries. For instance, India purchase oil from Iran and Saudi Arabia and after some operations or processing it is sold to Nepal (Akrani, What is Foreign Trade ? Types and Importance of Foreign Trade, 2011).

4.1.3 Need and importance of Foreign Trade

The international trade is essential and very important in modern world and human life. The following points illustrates the need and importance of it.

1) Equality of prices: Foreign trade keeps balance between supply and demand. Therefore, the price could be stable.
2) Promotes world peace: Foreign trade helps countries by facilitating transfer of technologies and other assistance from developed countries to developing countries. Because of trade agreement, countries come closer and be friendly and loyal to each other which helps to avoid war between them.
3) Facilitate Economic Development: Economic development of a country can be grown by importing of capital goods and technologies which will help in different sectors such as agriculture, health, industry, and service sector of that country.
4) Raises standard living of people: Import of advanced goods and technology provides more choice of new and better varieties of goods and technology which will make people life modern and easy. And thus, living standard rises.
5) Brings reputation and helps earn goodwill: Mainly exporting countries earns goodwill in international Market. For example: Japan export electronic goods and earned many goodwill similarly Germany exports cars and earned a lot of goodwill in international market.
6) Assistance during natural disaster: During natural disaster a country faced the problem of food and medical shortage. In that case foreign trade enables that country to import food grains and medical stuff from other country to help affected peoples.
7) Maintains balance of payment position: Every country has import means they have outflow of exchange currency. So, they must maintain balance of payment.

8) Availability of multiple choice: Foreign trade helps to provide better choice for the consumers all over the world (Akrani, What is Foreign Trade ? Types and Importance of Foreign Trade, 2011).
9) Generate employment Opportunities: It generates employment through importing mobility of labour and resource. International trade directly generates employment in import sector and indirectly to other sector such as service sector.

4.1.4 Advantages and Disadvantages of International Trade

As we know that everything has two parts like coin. Literally everything has advantage and disadvantage. In the same context international trade have also some advantages and disadvantages. In this study, a brief description of advantages and disadvantages are described below:

Advantages

1) Development of backward nations; The international trade helps the backward and under-developed country to import essential and modern technologies and capital goods in exchange of their raw materials and food grains.
2) Provide opportunity for backward and poor country to become rich and forward; Due to international trade many poor and backward countries became rich and forward. For best example, the middle east countries such as Iraq, Iran, Saudi Arabia, Kuwait, and Qatar became rich and forward because of trading their crude oil in the international market.
3) Improvement in transport: It is clear that import and export is possible only with the help of transportation And it is done in high quantity and amount which result in improvement in all sector of transport in the whole world.
4) Establishment of new industrial society: For trading in international market, the countries need a large-scale production which uses modern machinery and natural resource which helps to create a new industrial society.
5) Availability and cheapness of goods: International trade provides more option and choice and it is known that the international market is under competition. So, the consumer has best offer to buy goods at cheap price from not only their country but from the whole world.
6) National Welfare: It is impossible to find a country which is self- sufficient. For some countries international trade acts as a matter of life and death. They can't fulfil their basic needs such as food and clothes which can be only possible to fulfil through import in exchange of export their surplus products. For instance, Japan can't fulfil their Agriculture products for their present population (Accountlearning, 2019).

Disadvantages

1) Dependence on other country: To maintain the living standard high of a country, a country needs to be dependent on international market for not only selling resources but also selling finished products. Literally developed country such as Japan and UK are more dependent on other countries. This should be reduced in future.
2) Opposing national defence: The country which is dependent on the international supply source can get in problem during wars or even they have lack of defence. If we see in past during the second world war, Germany submarine blocked the England which results the lack of imports of commodity and raw materials.

3) Destructive reaction of Dumping: It can be done by certain countries that they use international trade to dumb their goods in foreign country with an opinion that the value of second or final goods will be cheaper.
4) Emptying of Natural resources ore or Materials: Because of international trade countries are exporting minerals and materials more and more which result in lack of resources in future. If they are preserved, then they could bring a better return in future for that country (Accountlearning, 2019).
5) Negative impact on domestic industries: International trade directly impact on the consumer pattern of the country. In the competitive international market, country imports cheaply manufactured and harmful commodity, products or goods. And In fact, consumer wants to buy cheap and affordable product which is cheaper in comparison to domestic products. For example: Indian handicrafts suffered hard time because of unrestricted and free trade imports of textile from England.
6) Unreliability and economic planning: Import is cash outflow for the country. So, it is source of economic unreliability and it will always sit in the way of economic planning for the growth and development (Accountlearning, 2019).

4.2 Trade Theories

To know about the modern theory, it is necessary to acknowledge about how the countries trade with one another in the past. Later many economists proposed theories about the mechanism of global trade. The main purpose of the trade theory is to explain about the existing pattern of trade, its effect on the national economy and how to increase the national welfare. Historically, there were main theories called classical which is country-based theory. Over time, the theories are switched to explain trade from firmed based than a country based. It was happened by the middle of twentieth century. These types of theories are called as modern theory or firm-based theory. Country-based and firm-based theories consists of many international theories.

4.2.1 Country-based Trade Theories

- **Mercantilism:** An economic system of trade which can be seen between16th to 18th century. It was mainly seen in the Europe. This theory declares that a nation's wealth can be determined or known by how much the nation have precious metal such as gold and silver. Mercantilist believed that a country should increase holding od gold and silver by promoting exports and decrease imports. The main theme of this theory is if a country import more from your country than they(sell) export to your country then they have to pay in gold or silver. This theory was flourished in 1500s to the late 1800s. During this period many new countries promotes trades and hold wealth (gold) but imposed restriction on imports which is called Protectionism strategy which is still used in present. There is no doubt that mercantilism is an old trade theory, but many countries takes as a part of modern thinking. Protectionism strategy influence on many developed country such as Germay, France, Japan,China, Taiwan and Singapore. These countries are still in favours of promoting more exporting but discourage impots via neo-mercantilism. (What Is International Trade?, n.d.)

- **Absolute Advantage:** This trade theory was proposed by Adam Smith in 1776. The aim of this theory is focused on the ability of a nation to produce a good more efficiently than other nation. He reasoned that due to government policy the trade between nations should not be restricted. And also emphasized that the trade should always flow naturally with market forces. Let's understand it by an example; Germany is producing automobiles in cheaper price and faster than Czech Republic, then Germany have an advantage and should focused on specializing on producing the automobiles. In the same way if Czech Republic is better in producing beer then Czech should focus on specialization of beer as well. Because specialization creates efficiencies, more skilled labour force which results faster and more efficient product. In this way both countries will get an absolute advantage of production of their own product.
- **Comparative Advantage:** This trade theory was introduced by English economist David Ricardo in 1817. Comparative Advantage is an economy's ability to produce a specific commodity or services at a lower opportunity cost than its trading partners. It provides opportunity to sell products at a lower price in comparison to their competitors in the market and gain strong sales margins (HAYES, 2020).
- **Heckscher-Ohlin Theory (Factor Proportions Theory);** This theory is given by two Swedish economists named Eli Heckscher and Bertil Ohlin in early 1900s which is based on country's production factor such as labour, land and capital that provides monetary support on investment of plant and equipment. The theory states that nations export what they produce and have in large and plentiful amount. In simply, A country export that goods or service in which their production factor is abundance and produce as efficiently while in the same way the country can import the resources what they cannot produce efficiently or the don't have it in access amount and they need. (What Is International Trade?, n.d.)

4.2.2 Firm-based Trade Theories

1) **Country Similarity Theory**: This theory is derived after second world war by a Swedish economist Steffan Linder in 1961. The theory mainly explains about the intra industry but not interindustry. Interindustry is the exchange of goods produce in two countries by same industry. It is easy to understand by an example, for instance Germany export BMW and Mercedes to Japan and japan exports Toyota to Germany. In this case both country import and export but the industry is same i.e. car industry. It is suggested in the firm-based theory is the firms first manufactured or produce its first production for domestic consumption. And then to explore export the most trade in manufactured goods will be traded between different nations which have similar per capita income (Griffin).
2) **Product Life Cycle Theory**: This is a second firm-based theory of an international trade which is developed by a professor of Harvard Business School called Raymond Vernon in 1960s. This theory explains about the evolution of market strategies as a product matures. According to Vernon, the theory consists of total three stages. The first stage is called new product stage, second is called maturing product and third is called standardized product. For a good example: It is used to described that how the life cycle of Personal computer is gone through product cycle. During 1970s it was in new product cycle and between 1980s to 1990s it

went to maturing stage and now the PC is in standardized stage and manufactured in low cost-effective labour countries like Mexico and India. (Griffin).

3) **Global Strategic Rivalry Theory**: During 1980s the global strategic rivalry theory was emerged by the work of economist Paul Krugman and Kelvin Lancaster. This economist theory focuses on the MNCs and their effort to achieve a competitive advantage in comparison to other global company in their industry. In this theory firms should struggle to develop competitive advantage which provides ability to command global marketplace (Griffin).

4.3 World Trade Organization (WTO)

The idea of formation of world trade organization comes from different need and suggestions. At the beginning of the Uruguay round, negotiators and observers appreciate that a significant new amendments and agreements should needed better institutional mechanism and a better system to resolving disputes of trade. After Tokyo round (side agreement), Uruguay round negotiator comes to a suggestion and Professor Jackson use this round as an occasion to find a new 'world trade organization'. It was first proposal for a new 'Multilateral Trade Organization' when the draft of final Act of Uruguay round was issued in 1991. After that working groups and negotiator works more on it and finally renamed as 'World Trade Organization'. World trade organization come in to begin at 1st January 1995 where 125 states are participated. The package of agreement brought by WTO comes in began and was opened for signature at Marrakesh on 15 April 1994. The package was a single document which consisted agreement establishment the World Trade Organization which is also called WTO agreement. The WTO agreements binds all members of the WTO as a single body of law. The WTO agreement replaced the GATT 1947 with GATT 1994 formally which is a new and legally clear-cut agreement, and this comes in force under the GATT before 1st January 1991 (Mitsuo Matsushita, 2015).

The general purpose of WTO is to facilitate implementation, administration, and operation as well as to stimulate the objectives 'of WTO agreements. Beside this there are more specific task that must be done by this organization such as the WTO have to provide forum for negotiations among both as to current matters and further agreements, it has to administer the system of dispute settlement and the second last task is to administer the trade policy review mechanism and the last one is to cooperate as needed with the IMF and the world Bank. The WTO is only the international organization which is engaged in to maintain the rules of trade between countries.
The WTO consist of two governing bodies named as: 1) The Ministerial Conference which is Supreme Authority. It is made up of the representatives of all WTO members and held at least once in every two year. 2) The General council is responsible for chief decision-making and policy body between meetings of the Ministerial Conference. It also executes the Dispute settlement body (DSB) and the trade Policy Review Body (TPRB). The Director General, his power and term of office is appointed and set by the Ministerial Conference. The WTO budget is prepared by the Director General and the General Council has control over the budget. (Mitsuo Matsushita, 2015).

The headquarter of the World Trade organization is situated in Geneva (Switzerland) where the Director General called Roberto Azevedo is appointed in February 2014 for 4 years term.

In this office there are 4 Deputy Directors General is also located. In the current scenario there are total 164 members state and total budget of WTO is 197 million Swiss francs as of 2020. The main goal of WTO is liberalization of international trade, negotiating for aim to reduce problems for international trade and ensure a playful field for all which helps promoting economic growth and improving the economic welfare. The WTO members countries resolve their obstacles by monitoring the implementation of multilateral agreements, conducting trade negotiations, and regulating trade according to the WTO rules and policy. In fact, the prime motive of originating the WTO is to secure the functioning of the world trade system on the basis of uniform rules and policy so that market remain always open and access for the members WTO and should not be violated by the sudden interruption and arbitrary restriction on trade (import & export). Moreover, the members of WTO have the right start protective anti-dumping and countervailing measures to restrict access to their market. This type of measure will help to save from the marker crisis in the specific industry or in connection with the violation by a trade partner of WTO rules and policy (Organization, 2021).

Nevertheless, total 14 countries in the world which are still not joined the WTO. In this modern era, they are apart from international market and WTO. Most of them are poor and under-developed countries which lacks the international market to make their living standard welfare and benefit of trading accordance to WTO principles.

4.4 Nepal Stock Exchange - NEPSE

The Nepal Stock Exchange (NEPSE) is the only stock exchange in Nepal, opened on 13 January 1994. It is located at Singha Durbar Plaza, Kathmandu, Nepal. It has been 25 years since the beginning of trading of stocks in NEPSE. However, due to unavailability of data of full period, we have taken 23 years as the period of study. To understand the behavior of the NEPSE, we need to analyze the performance of the NEPSE index over time (Thapa S. , 2020) Nepal Stock Exchange is a specialized government entity registered under the Corporate Law. It operates under the Securities Act.

The main purpose of the stock exchange is to trade the securities on the list. NEPSE has been working to register publicly issued securities in the easily negotiated secondary market. This action is called a listing. Its main objectives are to contribute to the economic development of the country through the form and mobilization of capital and to promote the interest of investing, providing a secondary market for the trading of securities issued by the Government of Nepal and organizations.

At the present moment, NEPSE is facilitating the purchase and sale of securities for investors in general through loans for 50 members and 41 remote workstations (RWS) in major cities inside and outside the Kathmandu valley. Nepal's capital market is in the early stages of development. The best companies that help Nepal's economy. The companies listed on the NEPSE were grouped according to their sector, such as: ranking, development bank, finance, microfinance, hydro power, non-life insurance, life insurance, hotels, mutual fund and other sectors (Thapa S. , 2020)

4.4.1 Companies that promoted the development of Nepal's economy listed on NEPSE

The ten companies of Nepal based on market capitalization, it has included the companies listed and traded in Nepal Stock Exchange (Table 1). Commercial Banks occupy 6 out of 10 spots in the highest market capitalization category. The market capitalization is based on the share price of December 17, 2020. At current, the share price, as well as market cap, may vary.

All the companies have a market capitalization above Rs 50 Arba (NPR). Nepal Telecom (NTC) is the most valued company with a market capitalization of Rs 172.50 Arba (NPR). Nepal Reinsurance Company (NRIC) is second with a market value of Rs. 149.2. Similarly, Nabil Bank is the third biggest company in Nepal with a market cap of Rs 124.55 Arba (NPR).

Nepal Life Insurance (NLIC) is ahead of several commercial banks in terms of market capitalization with Rs. 120.60 Arba, the Citizen Investment Trust (CIT), and NIC Asia Bank (NICA) are the fifth and sixth largest companies in terms of market cap with Rs 89.91 and Rs 79.79 Arba respectively (Investopaper, investopaper, 2020)

S.N.	Security Name	Symbol (NEPSE)	Capitalization (Rs, In Arba)
1	Nepal Doorsanchar Company Limited	NTC	172.5
2	Nepal Reinsurance Company Limited	NRIC	149.2
3	Nabil Bank Limited	NABIL	124.55
4	Nepal Life Insurance Co. Ltd.	NLIC	120.64
5	Citizen Investment Trust	CIT	89.91
6	NIC Asia Bank Ltd.	NICA	79.79
7	Nepal Investment Bank Limited	NIB	72.73
8	NMB Bank Limited	NMB	65.3
9	Global IME Bank Limited	GBIME	64.33
10	Himalayan Bank Limited	HBL	59.98

Table 1:The ten biggest Table companies listed on the NEPSE.

(Investopaper, investopaper, 2020)

Source: <https://www.investopaper.com/news/top-10-companies-of-nepal-by-market-capitalization/>.

5 Practical Part

5.1 Foreign Trade in Nepal

The concept of international trade means transactions of goods and services among the residents of different nations of the world. The field has grown wider as international trade activities also include financial flows and the movements of factors of production, such as labor, capital and entrepreneurship along with the transactions of goods and services. International trade can be defined as the economic activities through exchanging of goods and services among residents of different countries (Ghimire, 2010).

Trade enables the flow of ideas, services, and capital across the world which helps to rise of innovation, more efficient use of human capital, and improving access to financing in the country. Moreover, it provides challenging employment opportunities by facilitating the mobility of factors of production. Consumers are benefited from the higher selection of goods because of it, but the competition leads to improved quality with lower prices. Besides this, It has bought global reorientation in production strategies (Mahat, 2015).

The international environment can be defined as the interaction between domestic and foreign environmental forces or between sets of foreign environmental forces of two countries when one country does business with customers in another (Ball, 2004)

Trade is the process of exchanging goods and services for money or money's worth. In the trade process, manufacturers produce goods then it moves on to wholesalers, after that retailer and finally it reaches the consumer. Trade can be classified as two, internal and external trade. Internal trade can be said as home trade and it includes wholesale trade and retail trade. External trade which is also known as foreign trade consists of import trade, export trade, and entrepot trade (Picture 3) (Akrani, Kalyan City Life, 2011).

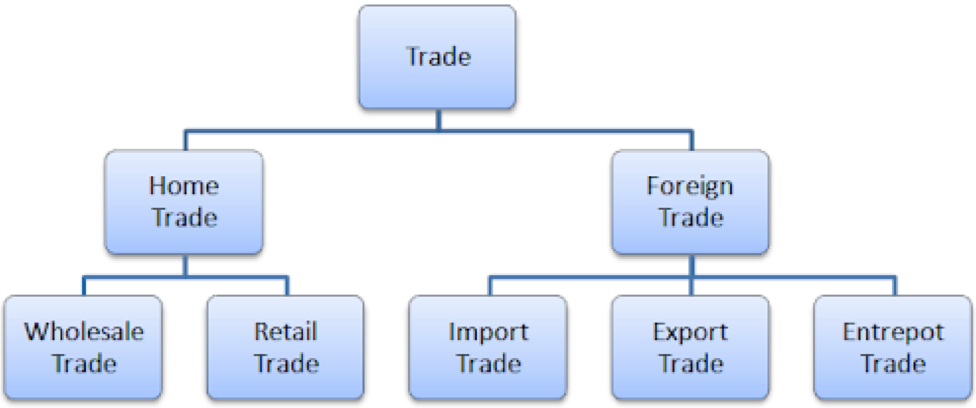

Figure 1: The different types of trade in the world.
(Akrani, Kalyan City Life, 2011

Source: <https://kalyan-city.blogspot.com/2011/03/what-is-trade-meaning-and-nature.html>.

5.2 Nepal’s International Trade

After the adoption of globalization in Nepal, the Nepalese economy becomes a dependent economy. Nepal has entered into a trade agreement with many countries for import and export. Because of inadequate available resources, Nepal must import a variety of goods from abroad. So, international trade has become the boon of globalization for developing countries like Nepal (Kafle, 2017).

Nepal's trade and industrial policies have passed through three divergent phases during the post-war period, moving from a free trade period (1923-56) to an increasingly closed, protectionist period (1956-85) and then towards an open, liberal period from 1985/86 to date. (Ghimire, 2010).

Before 1951, Nepal's trade relation was only with India and Tibet. The trade relation of Nepal expanded with other many countries after the decline of the Rana regime. Nowadays, the foreign trade of Nepal has expanded rapidly with many countries of the world and the volume of trade has also increased. The process of economic liberalization started in 1985 and geared up after 1990. By 2004 Nepal continued to broaden the openness and pushed down tariff walls and other kinds of import restrictions. Currently, Nepal is one of the most liberalized and trade-dependent economies in South Asia (Acharya, 2019).

Nepal's government has applied for membership in the General Agreements on Tariffs and Trade (GATT) in May 1989. Finally, the World Trade Organization (WTO) which is known as the third economic pillar of the worldwide dimension, Nepal has been able to join GATT since 1 January 1995. Nepal has been listed as 147th member of the multilateral trade body and it acceded to the World Trade Organization in 2004. As agreements in WTO, Nepal will get help from other member nations to integrate with the global system and the special provisions of WTO will help to maintain a stable trading environment for Nepalese SMEs. Likewise, the national treatment provision guarantees that Nepalese goods and services are equally treated as the goods and services from importing countries (Thapa B. , 2010).

Nepal's total foreign trade (in goods) has seen an increasing trend over the past four years, as noted in the graph (Picture 4). However, there was a downward trend in the fiscal year 2076/77 (2019/2020). Nepal's total merchandise trade decreased 14.59% to NPR 1294.5 billion in the 2019/2020 fiscal year from NPR 1515.64 billion compared to 2075/76 (2018/2019) fiscal year (Table 2). Total export revenues increased slightly by 0.62% from NPR 97.11 billion in the fiscal year 2075/76 (2018/2019) to NPR 97.71 billion in the fiscal year 2076/77 (2019/2020).

The improvement in export value was mainly attributed to the export commodities recently introduced in Nepal's export basket, namely refined palm oil and soy oil. This year, imports from Nepal decreased by 15.63% to NPR 1196.80 billion (Table 2), from NPR 1418.53 billion in the fiscal year 2075/76. While a downward trend in import trade has already been witnessed in the first eight months of the fiscal year 2076/77, the overall decline in imports was also driven by the effect of the COVID-19 pandemic that began in Nepal in late March 2020 (Picture 4). In this year, Nepal's trade deficit fell 16.83%, to NPR 1099.09 billion (Table 2). The value reached NPR 1321.43 billion in the fiscal year 2075/76. However, an unfavorable trade balance of goods also persisted in this exercise (Finance, 2019/20).

Picture 4: Five-Years Trend of Nepal's Foreign Trade (Finance, 2019/20).

Figure 2:Five-Years Trend of Nepal's Foreign Trade

(Finance, 2019/20)
Source: Nepal Foreign Trade Statistics

Description	FY 2075/76	FY 2076/77	% Change
Imports	1418.53	1196.80	-15.63
Exports	97.11	97.71	0.62
Customs Revenue	362.75	305.19	15.87
Total Trade	1515.64	1294.51	14.59
Balance of Trade	-1321.43	-1099.09	-16.83

Table 2:Nepal's Foreign Trade and Customs Revenue (FY 2075/76 – 2076/77) Value in NPR. Billion

(Finance, 2019/20)
Source: Nepal Foreign Trade Statistics

5.3 Direction of Nepalese Trade

Before 1951, Nepal's foreign trade was limited to India and Tibet only. Trade with India formed 95% and the remaining trade was with Tibet. The main reasons behind the concentration of Nepal's trade with India were basically due to the open border with India and similarities in language, culture, religion, tradition, and the absence of the ocean in Nepal. But nowadays, Nepal's commercial relationship takes place with foreign countries, in addition to India and China (Acharya, 2019).

If we look at Nepal's foreign trade direction from 2012 to 2013 and 2016 2017 (Table 3), it is clear that the Nepal's main trading partner is still India. It shows that Nepal has not been successful in the country's diversification of trade. Although, the share of trade with India in the past three years is decreasing and the share in China and other countries is increasing such as the U.S., Germany, Japan, United Kingdom, France, Italy, Spain, Switzerland, Belgium, etc. In addition to India and China, Nepalese products are exported to the USA, Germany, Japan, Bangladesh, the United Kingdom, France, Italy, Spain, Switzerland, Belgium, etc. ((Finace, 2018/19).

Nepal has also been unsuccessful in diversifying its commodity trade. Nepal has over 90% of foreign exchange earnings from commodity exports recently export of these products is also on the decline.

Since the fiscal year 2018/19, the export growth rate has been high. In 2018/19, export was increased by 19.4 percent and imports by 13.9%. The share of exports in the total merchandise trade has increased due to the negative growth rate of imports and the high growth rate of exports in recent months of the fiscal year 2019/20. The share of merchandise export to total trade was 6.4 percent in the fiscal year 2018/19 has increased to 7.5 percent in mid-March of the fiscal year 2019/20 (Table 6) (Finance, 2019/20).

Description	Fiscal Year			
	2012/2013	**2016/2017**	**2018/2019**	**2019/2020 First eight months**
Export	7691.72	7011.7	9710.95	7490.79
India	5099.98	4144.9	6273.18	5227.85
China	208.58	170.1	210.98	109.90
Other countries	2383.16	2989.8	3226.76	2154.05
Import	55674.03	99011.3	141853.53	92424.26
India	36703.12	63367.0	91790.93	56667.42
China	6245.13	12724.5	20552.74	14665.22
Other countries	12725.78	22919.9	29509.86	21091.63
Total Foreign Trade	63365.8	1063316.2	151564.48	99915.06
India	41803.10	67511.9	98064.11	61895.27
China	6453.71	12894.7	20763.72	14774.11
Other countries	15108.94	25909.7	32736.65	23245.67
Total Trade Share (%)	100.00	100.00	100.00	100.00
India	66.0	63.5	64.7	61.9
China	10.2	12.1	13.7	14.8
Other countries	23.8	24.4	21.6	23.3

Table 3:: Direction of the foreign trade during the years.

(Finance, 2019/20)
Source: Nepal Rastra Bank, 2020

During the first eight months of 2019/20 (Table 3), the total export of goods increased by 22.3% to INR 74.91 billion. During the corresponding period of 2018/19, total merchandise exports increased by 15.6%, to INR 61.22 billion. During mid-March 2019/20, exports of goods to India increased by 35.5%, other countries by 1.51%, and decreased by 19.4% to China.

Compared with the corresponding period of 2018/19, exports of goods to India increased 26.3%, other countries 1.3%, but decreased 5.1% to China (Finance, 2019/20).
The merchandise import has decreased by 2.6 % to Rs 924.24 billion. During the corresponding period of the fiscal year 2018/19 (Table 3), such imports had increased by 23.8% to Rs.949.11 billion. During the mid-March of fiscal year 2019/20, the import from India has decreased by 7.5%, China by 5.5% but other countries increased by 6.8%. The exports of palm oil, cardamom, Ayurvedic medicine, herbs, jute goods have increased and exports of corrugated sheet, wire, readymade garment, juice, copper wire, etc., have decreased. During the mid-March of fiscal year 2019/20, total foreign trade has decreased by 1.1% to Rs.999.15 billion. In the corresponding period of the fiscal year 2018/19, total trade had increased by 23.2 percent to Rs.1010.33 billion (Finance, 2019/20).

5.4 Nepal Foreign Trade Partners

Nepal's foreign trade took place with more than 154 countries in FY 2076/77(2019/20). However, the majority of its trade in the past five years has taken place with its two neighboring countries - India and China. India is the largest trading partner of Nepal – both in terms of import and export trade, as we can see in the graph (Picture 5). Nepal's 62.22% of total trade took place with India in this fiscal year. In addition, India accounted for 61.44% of Nepal's total import trade and 71.75% of its total export during this fiscal year (Finance, 2019/20).
China is the second-largest trading partner of Nepal constituting 14.15% of Nepal's total trade with third countries in FY 2076/77. In addition, Nepal's import trade with China accounted for 15.20 percent of its total import trade. However, China does not represent the second-largest trading partner of Nepal for exports. 1.22% of Nepal's total export was destined to China.

(Finance, 2019/20)
Source: Nepal Foreign Trade Statistics

Figure 3:Five-Years Trend of Nepal's Total Foreign Trade by Trading Partners.

In the fiscal year, 2076/77 (2019/2020) (Table 4) Nepal's main trading partners in terms of total trade and import trade were: India, China, Indonesia, United States, United Arab Emirates, Canada, Argentina, France, Malaysia, and Ukraine. The country's top ten trading partners contributed a total trade amounting to NPR 1137.49 billion (87.87% of total trade) this fiscal year. Nepal exported NPR 83.05 billion of commodities to these countries mentioned above, which constitute 84.99% of Nepal's total exports in the fiscal year 2076/77. On the other hand, Nepal bought commodities worth NPR 1054.44 billion from these countries, which represents an 88.10% share of total imports from Nepal in 2076/77 (2019/2020). This shows a deficit in the trade balance of goods worth NPR 971.39 billion, which is 88.4% of Nepal's total trade deficit (Finance, 2019/20).

Partner Country	Total Foreign Trade		% Change
	FY 2075/76 (2018/2019)	FY 2076/77 (2019/2020)	
India	980.65	805.40	-17.87
China	207.63	183.11	-11.81
United States	24.28	32.99	35.87
Indonesia	18.22	30.93	69.76
United Arab Emirates	35.69	18.37	-48.53
Canada	14.45	17.43	20.62
Argentina	10.45	16.03	53.40
France	21.15	12.41	-42.32
Malaysia	12.76	10.58	-17.08
Ukraine	10.18	10.23	0.49

Table 4: Nepal's Total Foreign Trade by Major Trading Partners, Value in NPR billon.

(Finance, 2019/20)
Source: Nepal Foreign Trade Statistics

In terms of export trade (Table 5), Nepal's main trading partner countries were India, the United States, Germany, Turkey, the United Kingdom, China, France, Bangladesh, Japan, and Italy in the fiscal year 2076/77 (2019/2020). Nepal exported commodities worth NPR 91.31 billion to the aforementioned countries, which constitute 93.45% of Nepal's total export in the fiscal year 2076/77. (Finance, 2019/20)

Partner Country	Export Value		% Change
	FY 2075/76 (2018/2019)	**FY 2076/77 (2019/2020)**	
India	62.73	70.11	11.76
United States	10.85	9.44	-13.00
Germany	3.16	2.74	-13.29
Turkey	2.96	2.12	-28.38
United Kingdom	2.63	2.05	-22.05
China	2.11	1.19	-43.60
France	1.30	1.12	-13.85
Bangladesh	1.29	0.95	-26.36
Japan	1.06	0.89	-16.04
Italy	1.18	0.70	-40.68
Subtotal	**89.27**	**91.31**	**2.29**
Total	**97.11**	**97.71**	**0.62**
% share of Subtotal	**91.93%**	**93.45%**	**-**

Table 5:Nepal's Export Trade by Major Trading Partners (FY 2075/76 - 2076/77)

(FY 2075/76 - 2076/77) (Finance, 2019/20)
Source: Nepal Foreign Trade Statistics

5.4.1 Nepal's Trade with India

India has been a key development partner of Nepal. The Indian cooperation started in 1952 with the construction of an airstrip at Gurcharan. Since then, India has been assisting primarily in the areas of infrastructure development and capacity development of human resources in Nepal (Affairs M. o., Ministry of Foreign Affairs, 2020).

The partnership with India in the areas of trade and transit is a matter of utmost importance to Nepal. India is Nepal's largest trading partner. India has provided a transit facility to Nepal for the third country trade. Both the public and private sectors of India have invested in Nepal. The trade statistics reveal a phenomenal increase in the volume of bilateral trade over the years between the two countries. However, Nepal has escalating trade deficit with India. Nepal and India have concluded bilateral Treaty of Transit, Treaty of Trade, and the Agreement of Cooperation to Control Unauthorized Trade (Affairs M. o., Ministry of Foreign Affairs, 2020).

Pursuant to the provision of the Treaty, to oversee the matters related to the implementation of the treaty, bilateral trade, transit, and investment issues, the Inter-

Governmental Committee (IGC) and the Inter-Governmental Sub-Committee (IGSC) mechanisms have been set up at the level of Commerce Secretaries and Joint Secretaries of both countries respectively (Affairs M. o., Ministry of Foreign Affairs, 2020).

Nepal's total trade with India decreased by 17.87% in this fiscal year. Nepal's export to India grew by 11.76% whereas imports from India has decreased by 19.90 percent in FY 2076/77. Export receipts from India were NPR 70.11 billion while payment for import commodities amounted to NPR 735.29 billion, translating to a trade deficit of NPR 665.19 which accounts for 60.5 percent of Nepal's total trade deficit (Finance, 2019/20).

Among the commodities exported to India, the largest chunk of commodities exported to India was processed palm oil valued at NPR 18.32 billion which is 26.13 percent of the country's total export to India. Processed soybean oil ranks the second export commodity comprising the share of 18.10% of the country's total export to India with valued at NPR 12.69 billion. Other major commodities exported to India were synthetic yarn, cardamom, fruit Juice, jute fabrics along with other fabrics, jute bags, and tea (Finance, 2019/20).

Among the commodities purchased from India, diesel came as the highest value worth NPR 87.37 billion (11.88% of the country's total imports from India). Diesel was followed by MS Billets whose imports value was worth NPR 42.24 billion with 5.74% of share in Nepal's total import from India. Other major commodities imported from India were LP Gas, petrol, hot-rolled sheet, rice, allopathic medicine, motorcycle, maize, and paddy (Finance, 2019/20).

5.4.2 Nepal's Trade with China

China is the second-largest trading partner of Nepal. In 2017/18, total exports to China stood above US$ 23 million. During the same period, imports from China stood above US$ 1.5 billion. The trade deficit of Nepal with China has been in an increasing trend. Although China has given zero tariff entry facility to over 8,000 Nepali products since 2009, Nepal hasn't been able to bring the trade deficit down. Nepal regularly participates in various trade fairs and exhibitions organized in China. Nepal-China's Tibet Economic and Trade Fair is the regular biannual event hosted by either side alternatively to enhance business interaction and promote economic cooperation between Nepal and TAR, China ((Finance, 2019/20).

Nepal-China Non-Governmental Cooperation Forum was established in 1996 which is led by the President of the Federation of the Nepali Chambers of Commerce and Industry (FNCCI) from the Nepali side and the Vice Head of the All-China Federation of Industry and Commerce (ACFIC) from the Chinese side. It is an initiative to mobilize the apex business organization of both sides to enhance cooperation between the private sectors of the two sides. The 14th meeting of the Forum was held in Kathmandu on 25-26 May 2017 (Ministry of Foreign Affairs, 2019). (Affairs M. o., 2019)

China is the largest source of Foreign Direct Investment in Nepal. Chinese investors committed to spending over $ 8.3 billion in Nepal during the Nepal Investment Summit concluded in Kathmandu in March 2017. China has topped in FDI pledges to Nepal in FY 2015-16, 2016-17, and in 2017-18 with the growing investment pledges from the Chinese companies in hydropower, cement, herbal medicine, and tourism (Affairs M. o., 2019).

Both sides have been carrying out joint efforts to promote Nepal in China and encourage Chinese enterprises to invest in Nepal's tourism sectors. Nepal has road connectivity via Rasuwagadhi and Tatopani for trade and international travelers. There are four other border points designated for bilateral trade. Nepal has a direct air link with Lhasa, Chengdu, Kunming, Guangzhou, and Hong Kong SAR of China (Affairs M. o., 2019).

China was the second-largest country as a trading partner of Nepal in the fiscal year 2076/77. Nepal traded worth NPR 183.11 billion with China in this fiscal year. However, Nepal's total trade with China decreased by 11.81% in this fiscal year. Nepal's export trade with China has significantly dropped by 43.60% to NPR 1.19 billion in this fiscal year which had reached NPR 2.11 billion in FY 2075/76. Imports from China decreased by 11.48%. Nepal imported worth NPR 181.92 billion of commodities from China in this fiscal year. Nepal's trade deficit with China accounted for NPR 180.73 billion in FY 2076/77 (Finance, 2019/20)

The major commodities that were exported to China in FY 2076/77 are mechanical equipment, woolen carpet, handicraft paintings, household articles of copper, a statue of base metal, bamboo, and cosmetic products. Mechanical equipment worth NPR 137.7 million was exported to China that occupied an 11.57% share in Nepal's total export to China. This was followed by a woolen carpet with NPR 137.4 million of exports value (11.54% of Nepal's export to China) (Finance, 2019/20).

Commodities such as readymade garments, mobile telephone along with other telecommunication apparatus, fertilizers, computers and software, industrial machinery, and fruits were purchased in large value from China in FY 2076/77.

5.4.3 Nepal's Trade with USA

The US is one of the important trading partners of Nepal. After the end of the quota system under the Multi-fiber Agreement (MFA) in 2004, the export of Nepali readymade garments to the US has declined significantly. Nepal has been advocating for duty-free facilities for its exports to the US, especially readymade garments. The following is the position of trade balance with the US, which shows a generally favorable balance of trade until 2015. There is a negative trade balance in the years 2018 and 2019 (Affairs M. o., Ministry of Foreign Affairs, 2020).

The duty-free program came into effect on 16 December 2016 following the introduction of the US Trade Facilitation and Trade Enforcement Act (H.R.1907) to support Nepal's economic recovery in the aftermath of the 2015 earthquakes. Carpets and rugs, shawls, scarves, luggage articles, handbags, and other containers, headbands, blankets, hats, and gloves can now enter the US market at zero tariffs. The US is among the largest investors in Nepal. As of 15 July 2020, Rs. 13.4 billion FDI has been received from the US, which is invested in 418 different companies and they have generated 18,848 jobs. 2019 (Affairs M. o., Ministry of Foreign Affairs, 2020).

The United States was another major trading partner of Nepal. Nepal conducted worth NPR 32.99 billion of foreign trade with the United States in FY 2076/77. It accounts for 2.55% of Nepal's total foreign trade. The volume of trade with the United States has increased by 35.87% in FY 2076/77. Export receipts from the United States valued at NPR 9.44 billion which is 13.00% lower than the export value of the previous fiscal years. while imports payment to the United States grew by 29.32% to NPR 23.55 billion resulting in a trade deficit of NPR 14.11 billion in FY 2076/77 (Finance, 2019/20)

Major Nepalese goods exported to the United States were woolen carpet, dog or cat food, felt fabric, readymade garment, glassware used for kitchen purposes, pashmina shawl, bangles, and tika tiki, musical instruments, and handicraft paintings. NPR 3.38 billion woolen carpets and NPR 1.06 billion of dog or cat food were exported to the United States in FY 2076/77 (Finance, 2019/20)

Commodities such as soybean, oilcake of soybean, coal, parts of airplanes and helicopters, medical equipment, almond, pulses, walnuts, polythene granules, and computer server were imported in large volume in FY 2076/77. Soybean worth NPR 7.95 billion was imported from the United States while oil-cake of soybean worth NPR 4.14 billion was imported (Finance, 2019/20).

5.4.4 Nepal's Trade with Indonesia

Indonesia was the fourth largest trading partner country with a total trade for amounting to NPR 30.93 billion (share of 2.39% in Nepal's total trade) in FY 2076/77. Nepal's total trade with Indonesia has grown by 69.76% in FY 2076/77. Nepal's import trade with Indonesia has significantly increased by 129.41% in this fiscal year. Total export valued worth NPR 125 million while total payment for import reached at NPR 30.81 billion, resulting in a trade deficit of NPR 30.68 billion (Finance, 2019/20).

Nepal mainly exported airplanes and helicopters, the leather of bovine, handicraft paintings, metal items, sculptures and statuary, musical instruments, flowers, jute bags, and readymade garments. Airplanes and helicopters were the country's major export to Indonesia with earning of NPR 114 million (91.2% of total export to Indonesia). This was followed by the export of leather of bovine equine animals at NPR 5.4 million (4.73%) of Nepal's export to Indonesia (Finance, 2019/20).

On the other hand, the majority of the imported products from Indonesia were crude palm oil worth NPR 16.36 billion (53.10% of Nepal's import value from Indonesia). Crude palm oil was followed by nuts valued at NPR 3.46 billion with a share of 11.23% in the country's total import from Indonesia (Finance, 2019/20).

5.4.5 Nepal's Trade with United Arab Emirates (UAE)

The United Arab Emirates was the fifth largest trading partner country with total trade worth NPR 18.37 billion (1.41% of the total external trade). Total export was NPR 222 million while payment for commodities imported amounted to NPR 18.14 billion, resulting in NPR 17.92 billion trade deficit (Finance, 2019/20).

The major exported goods to the United Arab Emirates were vaccines for veterinary medicine, mobile telephones, razors, and razor blades, newspapers and magazines, woolen carpet, cardamom, musical instruments, pashmina shawl, dog or cat food, and tobacco in FY 2076/77. Among these commodities, vaccines for veterinary medicine valued at NPR 62.69 million (28.24% of Nepal's total export to the United Arab Emirates). This product was followed by mobile telephones worth NPR 44.86 million (20.21% of Nepal's export to the United Arab Emirates) ((Finance, 2019/20)

Gold, copper wire, polythene granules, bitumen, silver, lubricating Mobil oil, base oil, date palm, glass sheet, and carpets were the major goods purchased from the United Arab Emirates. In FY 2076/77, gold valued worth NPR 9.28 billion (51.16% Nepal's total import from the United Arab Emirates) was imported (Finance, 2019/20)

5.5 Composition of Nepalese Foreign Trade

Nepal, a small economy, having around 56% (World Bank, 2019) of contribution by trade in its GDP in 2019, the country has been confronting a trade deficit for few years. In Nepal, a trend of trade deficit is continuously increasing as it has very few goods to export. In the 1980s, the majority of the Nepal’s exports were used to be raw materials, agro-based goods, handicrafts, Blankets, cultural items like Dhaka topi, and so on in large volume but low profitable value.

The composition of Nepal's foreign trade is based on the composition of imports and exports in recent years (Table 5). Nepal’s exports are hugely concentrated; both in terms of product and destination. Hence, export diversification has become a goal of the national development strategy of Nepal since the implementation of the Third Five Year Plan; 1965-70 (Nepal Planning Commission, 2016). However, limited exportable items and trade dependency, particularly with India, continue to remain a burning challenge for the Nepalese economy (Saurav Khanal, 2020)).

S.N.	SITC Group	Exports		Imports	
		Rs. in crore	In Percentage	Rs. in crore	In Percentage
1	Food and live animals	1830.6	25.1	13062.3	13.2
2	Tabaco and beverage	25	0.3	801.1	0.8
3	Crude materials and inedible	299.3	4.1	3665.5	3.7
4	Mineral, fuels and lubricants	0	0.0	14137.9	14.3
5	Animals and vegetal oil and fats	15.9	0.2	3015.6	3.0
6	Chemical and drugs	442.1	6.1	10285.7	10.4
7	Classified by materials	3445.3	47.2	21089.9	21.3
8	Machinery and transport equipment	20.5	0.3	24700.7	24.9
9	Misc. manufactured articles	1226.1	16.8	5509.6	5.6
10	Not classified	0	0.0	2743.2	2.8
	Total	7304.9	100.0	99011.3	100.0

Table 6: Export values for the fiscal year 2016 - 2107 (Finace, 2018/19)

Table 5: Export values for the fiscal year 2016 - 2107 (Finace, 2018/19)
Source: Economic Survey, 2018

Concerning the main exportable products of Nepal are wool products, carpets (handmade wool), Nepalese paper and paper products, ready-made clothes, crafts, ornaments, pashmina, legumes, cardamom, medicinal herbs, etc. These products are exported to India's main export partner and other countries such as the USA, China, Germany, the United Kingdom, etc. The table 2 shows Nepal's export values by SITC group for the fiscal year 2016 and 2017 we realized that the value of classified by materials occupied the first position (47.2%) in the total export in the fiscal year 2016/17. Similarly, the value of 'food and live animals' had the occupied second position (25.1%) and the value of 'miscellaneous manufactured articles' had occupied the third position (16.8%) in the total export (Finace, 2018/19).

Now for the main products imported into Nepal, there are several finished products, semi-finished products, raw materials for industry, machinery, equipment, chemical fertilizers, petroleum products, gold, electrical products, ready-made clothes, etc. Table 1 shows the values of imports from Nepal by the SITC group for the 2016/17 fiscal year. The table shows that the value of 'transportation machinery and equipment' had occupied the first position (that is, 24.9%) in 2016/17. Likewise, the second position (21.3%) was occupied by 'classified by materials' and the third position (13.2%) was occupied by 'food and live animals (Finace, 2018/19).

5.6 Major Challenges of Foreign Nepal Trade

The huge difference between import and export of the country is leading towards a huge trade deficit and creating an international exchange burden to the economy. Nepal's economy has a close connection with foreign trade, the country is facing many challenges and difficulties in the trading of goods and services. Some major constraints are long political transition, difficult terrain, geographical location, limited export basket, weak labor relations, inadequate economic and social infrastructure, insufficient skilled human resources, inadequate market information, and inadequate trade-related assistance (Mahat, 2015).

Political transition is taking an unexpectedly long time, even after the declaration of the country as a federal republic in 2008. As a result, the problems like revolution, strikes, extortion, and hurdles in the flow of goods and services occurred. The development process could not go properly because of political instability. Another constraint is the difficult geographical structure. Most of the lands are not suitable for commercial farming because of not being arable land. The reason behind being less trade with the neighboring country of Nepal- China is because of the difficult terrain on the northern border. The third constraint goes to the geographical location which creates big challenges to promote trade. The long-distance from seaport is another big problem in trade which is 660 miles away from Nepal's border. And it adds significant cost in foreign trade which is additional service charges and undue delays. (World Trade Organization, 2012).

5.7 Impact on the import and export of Nepal

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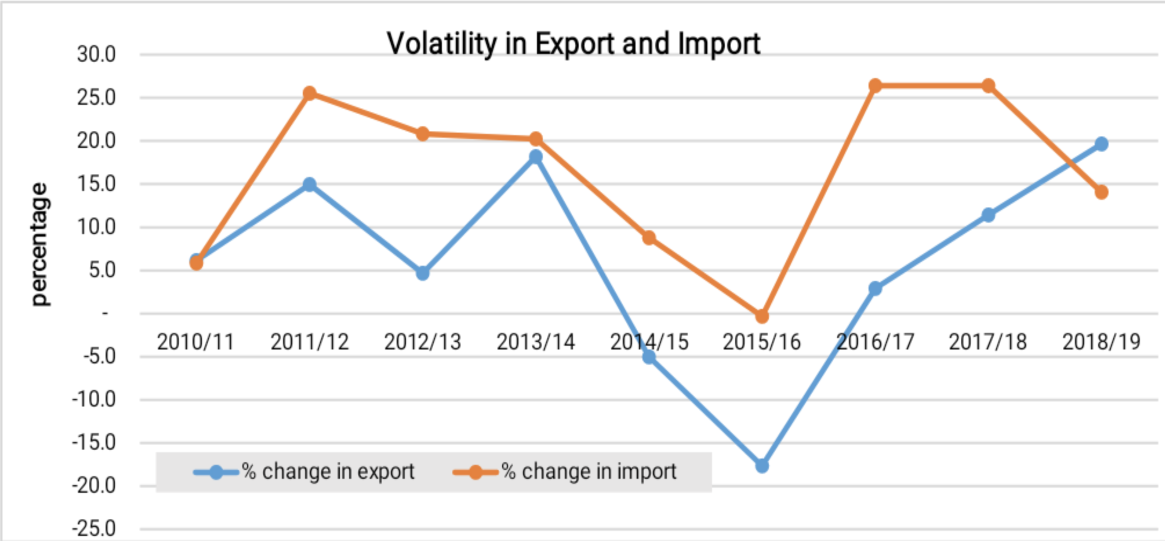

Figure 4:Volatility in Export and Import

(Saurav Khanal, 2020)

Source: Trade and export promotion center, 2019

During the years 2014/15 and 2015/16 exports decreased, however, they regained pace after 2016. Over the decades, imports are promoted and triggered by remittances that support the consumption of goods and services. In 2018 and 2019, imports from India accounted for around 65.5% of Nepal's total imports. Exports with China accounted for a total of 13.70% (figure 4). Nepal imported 20.70% from countries other than India and China. Nepal's economy is still highly dependent on agriculture, but the service sector is the biggest contributor to the national GDP. Agriculture accounts for 31.7% of GDP and about 65% of jobs. The structure of Nepal's economy is gradually changing from agriculture, with a notable migration from rural to urban areas and abroad (Saurav Khanal, 2020).

5.8 Impact of trade Deficit on the economy of Nepal

The main causes of the trade deficit in Nepal are mainly the absence of coastline, political instability, lack of export diversification, devaluation of the national currency, lack of resources, etc. are the main causes of the trade deficit in Nepal. Nepal, as it is not self-sufficient in factors of production, consumer goods and capital goods, needs to import goods from abroad. On the other hand, Nepal's exports are heavily concentrated; both in terms of product and destination. Nepal's main trading partners are India, China, the United States of America, Bangladesh, Germany, etc. During 2018/19, Nepal exports goods worth RS. 97 billion and imported goods worth RS. 1418 billion leading to a trade deficit of RS.1321 billion (Saurav Khanal, 2020).

The trade deficit, simply, is the amount by which the cost of a country's imports exceeds the value of imports. The trade deficit is also called the Negative Trade Balance.

A region's trade “balance” shows the difference between what it earns from exports and what it pays from imports. If this value is negative, that is, the total value of the goods imported by a region is greater than the total value of the goods exported by that region, then it shows the condition of "trade deficit". A trade deficit means it can generally mean two things - first, that demand in the domestic economy is not being met by domestic producers. Second, the deficit implies a lack of competitiveness in the local industry (Saurav Khanal, 2020).

The low export performance, Nepal is fronting the complication of a rapidly increasing trade deficit. Nepal is also unsuccessful to broaden its trade in terms of countries and commodities. Owing to rising imports of goods over slower exports, the country's trade deficit has been expanding for a long time. Due to the current adoption of a double-edged policy of substituting imports and increasing exports by the Nepal government, the growth rate of merchandise import has been falling and the export part has been improving since the last few months of the fiscal year 2018/19 (Picture 7). But, while going through the trade history of Nepal, Nepal has never been in a trade surplus. The trade deficit has always been a shadow of the Nepalese trade economy. Implications of trade deficit depend on impacts of production, employment, and how the deficits are financed (Saurav Khanal, 2020).

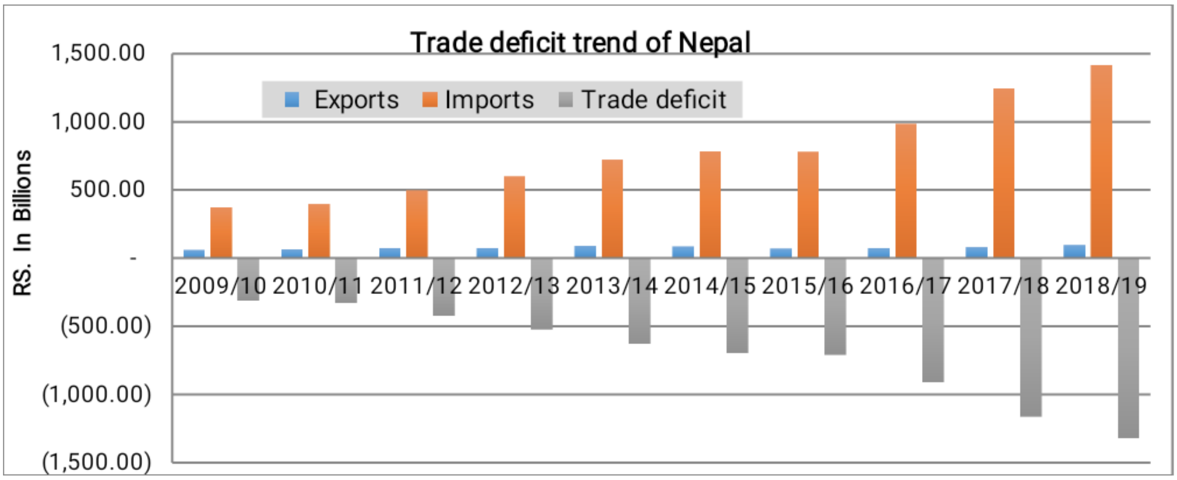

Figure 5:Trade deficit trend of Nepal
(Saurav Khanal, 2020).
Source: Trade and Export Promotion Centre, Glimpse of Nepal's foreign trade, 2020.

5.9 Impact of Trade Deficit on National Income

Trade deficit occurs when the imports exceed the export of a country. Nepal's trade deficit has seriously influenced its economy. Nepal's GDP is negatively affected due to the huge growth in the import rate, higher prices for goods and services causing negative impacts on the supply side. In addition, the FDI rate in the country is decreasing due to political instability and the lack of good infrastructure.

Nepal's national income is the sum of the current account and national expenses. The difference between national income and the results of investments in the current account (Econ, 2007). A trade deficit occurs as the increase in the consumption power of goods and services. Limited resources in many developing countries, such as Nepal, were unable to meet the growing demand and needs of people, so the country must import the necessary goods and services from other countries.

Trade surpluses are no assertion of economic health, and trade deficits are no guarantee of economic weakness. Nepal is one of the economically struggling sovereign nations. The trade deficit is rising at an annual average rate of at least 13%, which warns that if not adequately offset by export promotion or import substitution, will double in the next few years and quadruple in a decade. Even if we had a very effective strategy and institutional arrangements in the nation, enough researched market studies and cautiously identified potential export products that have both comparative and competitive advantages which, say, are able to offset the deficit of at least $2 billion per annum, it will take at least a decade only to bisect the imbalance (wagle, 2018).

Mathematically, one of the renowned economists Keynesian proved with formula that more import certainly creates deficit that influences national output. According to him, National Income Accounts Identity = G + C + I + (EX – IM). Where, Y stands for total national output, G is equal to government consumption, C is for private consumptions, I is equal to Investment expenditure, EX stands for exports and IM equals import. If G, C, I and EX increases then Y (total output) gets accelerated but if (IM) import exceeds then there is negative influence on national output. Furthermore, if imports increased more than export, it is trade deficit (IM-EX). (Griswold, 2011)

5.10 Impact of Trade Deficit on Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is becoming popular especially in developing countries and it becomes an important source for them. The reason of being popular in developing countries like Nepal is because of having plenty of resources and these countries suffer lack of sufficient finance, technology, and competitive management. FDI is the one which can introduce technology, competitive practice, knowledge, and skills in the recipient economy of the country. (KC, 2011.) An in-flow of Foreign Direct Investment (FDI) can push to higher imports rate if financial transaction is particularly intensive and autonomous and also because of revaluation of currency leads to trade deficit. (Piana, 2006)

The countries with more trade deficits usually have higher interest rates than those with surplus or balanced trade (Ravi Batra, 2013). The high-interest rate tends to lead to a reduction in net exports (Exports-Imports). And negative exports mean trade deficit.
The interest rate is also increased to prevent the domestic currency from being devalued and ultimately increases the value of Exports leading to reduce in the Trade deficit. On the other hand, trade deficit rises inflation in the county of import. Inflation can be controlled by reducing the money supply in the economy. The interest rate is increased to reduce the money supply. So, in general, and being skeptical of cause and effect, it can be said that a tendency towards the balance of payments deficit might commonly co-exist with interest rates being higher than would otherwise be the case.

Trade deficit brings adverse effects to the nation. It destroys jobs, decreasing salary and wages, and hurting competitiveness. As a result, those who have lower incomes have to face struggling life because of cutting wages and destroying jobs. The people who have lower income and do not have jobs could not save for the future and it reduces national savings because national saving is the saving of people of the nation. It furthermore impacts the national investment in research and development. (Mahat, 2015).

5.11 Causes of Nepal’s Trade Deficit

There are several causes for the Trade deficit in Nepal, among them, we can list your geographic location, low-quality goods, lack of resources, high cost of production, remittance, devaluation of the currency, and Political Instability.

Nepal is located between two economic powers: India and China. The geographical absence of the coast meant that Nepal could export a limited number of products, while imports are always greater from India and China. Nepal's biggest trade barrier has been not being directly connected to the sea route, promoting high import costs and high transport freight.

Due to the lack of good quality materials and skilled labor, products of satisfactory quality cannot be produced in Nepal. Customers' willingness to buy also declines and exports gradually decrease. In agriculture, the use of pesticides greater than the recommended standard resulted in toxic and low-quality agricultural products. In the manufacturing industries, they do not use the ingredients in the proper mixture, leading to product deterioration. Due to these acts and the carelessness of national suppliers of goods and services, Nepalese people have been persecuted for the idea that domestic goods are not of good quality to be used. Thus, even the Nepalese people are attracted to Western fashion products. All of this has an impact on general foreign trade (Saurav Khanal, 2020)..

As it is a small and landlocked country, it faces the scarcity of various resources, such as materials, capital, machinery, etc. With the resources available, Nepal cannot produce goods to the point of serving even its entire population. Therefore, the lack of these resources means that Nepal imports more than it exports products. The country also suffers from a shortage of semi-skilled and highly skilled labor. Most people belong to a middle-class family whose earnings/savings are equal to expenses. Thus, there is a lack of capital to start the company, which pushes the Nepalese economy backward. Due to the lack of resources, an adequate quantity could not be produced domestically, and it would have to pass through foreign trade leading to a trade deficit.

The high cost of acquisition on import is related to the cost of transportation, customs duties, insurance in transit, bank charges, incidental expenses, and so on. Expenses with machine maintenance, general expenses, and high wages, all of these expenses lead to an increase in the cost of production. Finally, the cost per unit of goods is high compared to the same goods that can be imported from abroad.

After the signing of the labor agreement with many countries, remittances became one of the key sources of external financing for Nepal. This brought problems in the balance of trade. With the entry of remittances into the country, the population's purchasing power increases due to the higher disposable income. Ultimately, aggregate demand for consumer goods and other goods also increases, leading to an increase in import (Saurav Khanal, 2020).

The devaluation of the Nepalese currency has a negative impact on foreign trade. Making export cheaper and import relatively expensive. If the value of the local currency depreciates, the value of imports will increase, and this will become a heavy burden on the country's trade balance. The depreciation of the national currency leads to a higher cost when purchasing products from foreign countries. The trade deficit increases as the value of the national currency fall.

Finally, political instability in Nepal influences the domestic market. The local market could not compete with foreign markets due to political instability. Political stability is more crucial than economic freedom to stabilize the balance of payments. Nepal's political condition is so unbalanced that 17 prime ministers have been changed in the past 17 years, which has hampered the nation's social and economic growth (Saurav Khanal, 2020).

5.12 Contribution of Trade on GDP of Nepal

Nation's balance of trade is positively affected by exports and adversely affected by imports. A trade surplus is a positive balance of trade, and a trade deficit is a negative balance of trade. Due to the balance of trade being notably added to the computation of the nation's gross domestic product using the expenditure method, trade surpluses are contributions, and trade deficits are "drags" upon their nation's GDP; however, foreign-made goods sold (e.g., retail) contribute to total GDP (Saurav Khanal, 2020)

The trade deficit is impacting on GDP of Nepal. Trade surplus helps in increasing GDP, while on the contrary trade deficit decreases the GDP of a nation. The negative results on GDP arise because of exceeding import demands over export earnings. The large growth in trade deficit results in decreasing demands of overall domestic goods and services. Balance of trade is one of the aspects of a country's GDP. If domestic consumers spend more on foreign products than domestic producers sell to foreign consumers, a trade deficit occurs. If the maximum of the consumer demands is met by the export, it means domestic producers are not capable enough to satisfy domestic demands. Similarly, trade deficit brings inflation in the economy which causes loss of aggregate demand. Trade deficit leads to loss of jobs in home-based industries, may contribute to the regional decline, and structural unemployment problems. All these cause slower real GDP growth (Saurav Khanal, 2020).

6 Recommendation to Encourage Foreign Trade in Nepal

The possibility of foreign trade in Nepal is extremely high. Nepal is a resourceful Himalayan country it has many natural resources so many raw materials are found in Nepal. Nepal has trade relations with many countries in the world, the structure of Nepalese foreign trade does not seem so concrete. Nepal is an agricultural country, produces and exports only primary goods and raw materials.

Nepal's foreign trade has a trade deficit and each year Nepal's trade is dominated by imports. To overcome this growing deficit in the trade gap, the Nepalese government must act to expand the production of local products, provide subsidies to farmers, create an enabling environment for the establishment of industries and rationally exploit commercial facilities.

Unmanaged infrastructure and a lack of a suitable business environment fueled by heightened political instability are the primary reasons for improper industrialization in Nepal. Consequently, domestic industries have not been able to capitalize on the opportunity disclosed by robust growth in domestic demands.

6.1 Possibilities of Foreign Trade Expansion

If Nepal could produce and export the raw material, electricity, agricultural products, skilled manpower, mineral resources; trade balance would be maintained, and it would reduce import also. Thus, there are many ways that the government can adopt for increasing foreign trade. Some of the main possibilities of foreign trade are mentioned below:

Development of hydroelectricity: Nepal is the second richest country in water resources in the world. The development of hydroelectricity will help to strengthen the country's economy. For this, the country needs to create incentives for the implantation of hydroelectric plants in the country, it can expose energy to other countries, it can earn many foreign currencies.

Development of tourism: Tourism sector is the best way to boost the economy of the country. Travelling is the best destination to explore the whole world and add more experiences in life. Tourism is the good way to exchange our culture and currency as well. It is easy and best way to earn more foreign currency which result in progress of the economy of nation.

Development of forest resource: Many medicinal herbs are found in the country's forests; these can be exported to other countries and earn foreign currency. The country can establish industries based on forest resources and produce goods and export to other countries.

Modernization in agriculture: Most of the products exported in Nepal come from agricultural products. In order to increase the export rate and the quality of agricultural products, modernization of agriculture is necessary, using modern machinery and management techniques

Industrial development: Industrial development is most necessary for the development of any country. This makes the country's economy strong. The government needs to create tax incentives for foreign investment in the country, reduce bureaucracy and facilitate the opening of companies. Industrialization helps to increase the production rate, which helps to increase exports.

Multicriteria decision making analysis is a major that can apply to figure out the solution of various problems. This method is used to figure out the best solution and option among various alternatives. Multicriteria decision making analysis main function is to find the way or feasible solution from the given different criteria and problems that are complex to solve by normal equation. It will help to find out the best and time-consuming way to achieve the maximum profit in terms of import and export and use. From the (table 6) it can be said that from various items that are imported, the government should take an important decision to work on the machinery, transport and technologies which will reduce import cost on these items while Nepal government will think to invest more on industrial sector. If all above criteria such as development of hydroelectricity, development of forestry, development of tourism, development of industrial sector is analyzed by the multicriteria decision making analysis then the optimal solution will be industrial sector. Nepal government have focus on technologies related to industry, Because Nepal import more machinery and technologies in every sector such as transport, forestry, Agriculture, and industrial. It can't deny that in machinery, equipment or technologies are required in every sector for manipulation and execution of work.

6.2 Incentives for the promotion of export

The availability of resources and the growing demand for natural products in recent years may attract many investors in Nepal. Many countries already operate projects in Nepal, like Japan and China, investing more in infrastructure and resources. Analyzing all barriers in foreign trade, we can make some suggestions for the promotion and expansion of Nepal's foreign trade, especially export trade and, ultimately, a country's economic growth. Some of the suggestions are provided for incorporation into Nepal's trade promotion.

In 2011, the government introduced a cash incentive scheme to boost exports. According to the incentive, exporters of products with up to 30-50% added value are entitled to request 2% of the total export revenue as a cash incentive. Likewise, those with a 50-80% increase in value are speculated to obtain 3%, while for more than 80% increase in value, the cash incentive was offered at 4% of the total export value of a specific product. However, the process of distributing cash incentives is so complex for making cash refunds. The cash incentive scheme should promote not only exports but also specialize in creating more job opportunities and the cash refund process should be simplified (Saurav Khanal, 2020)

It is crucial that the government of Nepal takes the necessary measures immediately to formulate laws relevant to the establishment and development of the Export Processing Zone (EPZs), and these measures must be initiated to establish EPZs in appropriate locations.

There is a shortage of knowledge about market information, prices, quality, and level of competition, among others. Likewise, reliable data on trade is lacking, as the figures published by one institution are different from those of the opposite institution. The Nepal Trade Promotion Organization could be tasked with creating a database of commodities related to investment, production, import, and export, among others. A timely review of the country's performance in regional and foreign markets should be carried out to boost the country's exports. According to Dr. Bhubanesh Pant, (2005), the reviews, therefore, require capacity in the various institutions to deal with issues such as the definition of destination, collection of timely and relevant data, analytical skills, and dissemination of information.

Nepal does not have a durable and flexible legal framework to manage trade and it is essential to bring about a new trade policy. The Export-Import Control Act 1957 was initiated primarily for the purpose of controlling or prohibiting the export or import of restricted items. Therefore, this act needs to be changed, taking into account its uniformity with the WTO provisions. Or else, a separate foreign trade law must be formulated and enacted to make importing and exporting more systematic, fixing and enforcing existing acts and regulations. In addition, the 1992 trade policy is out of date in the current context of globalization and liberalization.

Corporate weaknesses, taxation, corruption, and the small size of the market are holding Nepal back from solving its problems in the foreign trade sector. Therefore, the country needs to specialize in areas where it can gain a competitive advantage. Nepal should encourage the modernization of agriculture, small industries, and hydroelectric projects. Thus, it will be possible to cut the import of products that can be produced in Nepal, such as rice, grains, fruits, vegetables, etc. If the agricultural sector starts to become competitive to the point of being ready to export, the deficit can be reduced even further.

7 Conclusion

Nepal is a small Asian country, rich in natural resources, bordering with India and China. Most of the Nepalese population lives in rural areas and is economically dependent on agriculture. Most of the GDP of Nepal's last two fiscal years (2018/19 and 2019/20) comes from the service and agricultural sectors, the industrial sector contributes very little to the country's GDP growth.

The companies listed on the Nepal Stock Exchange (NEPSE) that contribute to the country's economic development are basically in the sectors of a development bank, finance, microfinance, hydropower, nonlife insurance, life insurance.

Nepal has a good commercial relationship with several countries around the world, according to the Ministry of Finance of Nepal, the country has export trade partners India, United States, Germany, Turkey, United Kingdom, China, France, Bangladesh, Japan, and Italy, with China and India being the largest import and export trading partners. Despite the good commercial relationship with other countries, foreign trade is still limited to China and India.

The country's trade balance is in an increasing trade deficit, where imports are growing each fiscal year and import costs are increasing. There are several causes for the country's trade deficit such as geographic location, low-quality goods, lack of resources, high cost of production, remittance, devaluation of the currency, and Political Instability. One of the main limitations of foreign trade in Nepal is that, on the one hand, there is a deficit in the trade balance and, on the other, most foreign trade is limited only to India and China.

The country could improve its economic performance if the political situation were stable and effective business policies were formulated.
The trade situation in Nepal suggests that, although foreign trade has faced many barriers, it also has some potential.

To minimize the growing deficit in foreign trade, the government must act immediately to expand exports. For that, it is necessary to make new plans to improve exports and reduce the volume of imports. Likewise, national industries should be encouraged to produce consumer goods through the granting of subsidies, the granting of discounts on the rates, and the increase in the rates of imported products. develop hydroelectricity, forest resources, and other industries and establish joint venture industries. Likewise, it needs to modernize agriculture. Besides, Nepal needs to expand foreign trade more broadly. Trade activities with foreign countries not only reduce trade dependence on India and China but also improve international relations and cooperation.

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