imports and exports have increased in the first nine months of this current fiscal year. The amount is estimated to reach NPR 1.016 trillion as the first nine months of the fiscal year are over. The value is 12.49% more than the previous year.

3.2 Causes of the trade deficit in Nepal

The some of the causes of trade deficit in Nepal are:

a. Higher External debt:

External debt is the foreign loan obtained from various international organizations such as the World Bank, Asian Development Bank, or any countries capable of providing a loan. The burden of external as well as internal debt is increasing which is a hot debate. It is required for any country to upgrade the development of a nation as well as for completion of projects, to fulfill the trade deficit. In the case of Nepal increased foreign debt is not utilized properly in the development of industrial sectors, agriculture sectors, and other potential sectors of trade which results in multidimensional problems including trade deficit.

b. Higher production cost:

The cost of raw materials available inside or outside of the country is higher. Lower or no subsidy in exportable goods, high impose of tax, and customs duty in the border are the hindrances of cheap production cost. Similarly, the absence of manufacturing and processing companies inside the country has added extra costs which resulted in higher production costs. Lower demand and lower production capacity cannot attend economics of scale so, it is harder to compete with an international market. The higher price of local commodity impedes the consumer's preferences and buying capacity as compared to the cheaper products. Thus resulting in the higher market intervention of international products displacing local products.

c. Trade Competitiveness:

Nepal is a small and underdeveloped country with very few numbers of manufacturing industries. Fiscal, monetary, and trade policy, financial and physical infrastructure, available quality raw materials, and human resources are vital determinants of competitiveness. Nepal has lower competition capacity in terms of quality, quantity, and production cost. A lower subsidy, lower technology, absence of value addition in products has resulted in lower trade competitiveness as compared to other countries.

d. Economic liberalization:

According to Krueger (1978), more liberalized trade has a positive effort on growth i.e. through high utilization of capacity and more investment on projects, and faster growth of export. Nepal has adopted economic liberalization policy since the restoration of democracy. Nepal has signed a treaty with WTO in 2004 which widens the trade market globally. In the case of Jordan, compared with pre-JUSTFA, the country has enjoyed a trade surplus during the JUSTFA period however, on full implementation US has surpassed export resulting in a trade deficit that may persist in coming years (Almaro, 2017). After the implementation of the WTO treaty, Nepal has faced series of trade deficits from 1:2.5 in 1990 to 1:12.2 in the fiscal year 2019/2020. Import of steel, petroleum, and types of machinery, vehicles, electric accessories have surpassed the trade deficit. The absence of manufacturing, processing factories inside the country and poor utilization of foreign investment have triggered the expanding trade deficit. Similarly, the demand for cereals, vegetables, and daily items has been increased and fulfilled mostly by cheaper Indian products. Policymakers should develop a strategy that encompasses a “proper mix” of export promotion and import substitution.

e. The direction of economic growth:

Particularly in developing countries during economic development trade deficit is observed since it requires a large number of raw materials, goods, technologies that increase import. Awan and Mukhtar (2019) regard the long-term trade deficit as one of the main factors slowing down economic growth. First, if import controls are maintained, export promotion as a strategy for economic growth would only be partially successful. Second, there's import. Openness is critical for economic growth because it complements the position of exports by providing intermediate production inputs that are needed in the export sector. Third, developing economies with limited technological capabilities could benefit.

f. Landlockedness:

Landlocked countries face series of obstacles in foreign trade while exporting and importing goods from other countries' routes. High shipping and transportation charges along with the risk of degradation of perishable goods add extra insecurity. Nepal has a unique trading pattern as it is surrounded by India on three sides i.e.(East, west, south) and complex Himalayas in Northern Chinese border with inadequate road access. Nepal witnessed external political shocks of a strike of traded goods in the Indo-Nepal border that directly hampers the foreign trade leading to the trade deficit.

g. Political instability:

Nepal has witnessed political instability since the restoration of democracy from 2047 till now. A fragile political situation plays a vital role in overall economic development. Necessary amendments, policies, regulations, and reviews of foreign trade treaties are hampered. Poor foreign aid and utilization capacity directly influence the production sector as well as trade. A decade-long Maoist arm struggle had demolished manufacturing industries and series of strikes during a royal coup in (2002-2005), Terai strikes, India’s strike in 2012, Coronavirus pandemic from 2020 to till now has a great influence in foreign as well as domestic trade.

h. Devaluation of currency:

Devaluation of currency hurts the trade balance. According to (Devkota,2004) devaluation of currency caused both decreases in export and import in India whereas found to be insignificant in the rest of the world. Foreign exchange devaluation cannot correct the trade deficit. We should increase the export by mobilizing the local resources, subsidizing exports, and decrease imports by using fiscal tools, establishing import substitution industries.

i. Inflation rate:

An increase in the inflation rate is due to high consumption, import of goods that surpass the production and export of the country. It causes devaluation of currency and an increase in the price of goods and commodities. It leads to an increase in production cost and reduces competitive ability in the international market. Thus, increase in the inflation rate widens the trade deficit.

Figure 11: Inflation Rate Trend in Nepal

Source: (tradingeconomics.com | Nepal Rastra Bank)

3.3 SOLUTIONS

Nepal being an agricultural country, rich in water resources, a labor-intensive economy should prioritize the sectors that it holds a comparative advantage. The foremost hope can be agriculture in the short run and hydroelectricity in long run. With a major focus on reducing imports of agricultural products and reducing petroleum imports by 20%, Nepal can curb the trade deficit by 10%. Institutional deficiencies, ineffective import policies, corruption, lack of appropriate environment for rising small-scale enterprises, high production costs, change in consumer’s taste are factors that enable excess imports over exports. Besides, increasing-price by domestic traders, hoarding, black marketing, anti-competitive practices have made domestic products more expensive than those imports. The volume and value of imports are affected by domestic output and relative prices of domestic and foreign goods.

a. Fortification of Agriculture Sector

Nepal is an agricultural country that should identify its actual potential growth upon mitigating trade deficit lingering for the long term. Nepal, a labor-intensive country, holds a comparative advantage in the agriculture sector. The focus should be given upon how is the country's overall production functioning, which commodities are doing well, what are the factors impeding for optimal production, solutions to mitigate the problems leading to low production.

The foremost step of taking full advantage is the surplus of production. Therefore, the country should strive towards optimization leading to cost minimization and product maximization. For this, implementation of the Agricultural Development Strategy (2015 – 2035) should be the topmost priority focusing upon better processing centers, cooling facilities, research & development, rural extension, training, rural connectivity, curbing price volatility, availability of inputs. The policies should be focused upon providing subsidies to console domestic production. Nepal is the fourth-largest producer of ginger, fifth-largest producer of lentils, and wellspring of medicinal herbs but it is yet to exploit the market out of the country. China is the highest exporter of soybean in the world. Nepal can take full advantage of trade having a good diplomatic relationship with China and fertile soil effective for the cultivation of soybean. Nepal can surpass its tea export focusing on organic farming to meet high international demand for organic tea. The government should incentivize this sector by providing appropriate subsidies, loan access in low-interest rates that make farmers motivated even during uncertainties.

Table 1: Financial Diversification in Agriculture

Description	2015/16	2016/17	2017/18	2018/19	2019/20
No of credit transaction institution	355	405	446	476	487
Loans approved (Rs in Ten Million)	883.2	1223.3	1629.3	2174.9	2559.6
Loan investment amount (Rs in Ten million)	588.2	1223.3	1629.3	2174.9	2559.6
No of farmers taking credit	588.2	772.5	1035.1	1234.6	1588.3

Source: (Economic Survey 2019/20, Ministry of Finance, Nepal)

b. Focus on Hydropower Sector

The better hope can be agriculture in the short run and hydroelectricity in long run. To make hydropower a wellspring for reducing the trade deficit, injection of passable foreign direct investment (FDI) is required. Foreign investors can invest 100% investment in the hydropower sector in Nepal. The service sectors (communication, education, financial intermediation, hotels & restaurants) hold 70% of total FDI. Manufacturing, mining, quarrying holds 15.1% and energy sectors hold 13.9%. By mid-March of this fiscal year, FDI approved by the Department of Industry has increased by 165.4% to Rs 29.67 billion. Although FDI is increasing in Nepal, the country is always a victim of corruption, political instability, bureaucracy, weak infrastructure, unskilled workforce, reduced transparency in legal and regulatory systems. These impediments impeding passable FDI should be administered and regulated by Foreign Investment and Technology Transfer Act 2019 (FITTA), Foreign Exchange Act 1962, and Public-Private Partnership and Investment Act 2019 vividly.

Table 2: Foreign Direct Investment in Nepal

Fiscal Year	Amount
2010/11	10053 million
2011/12	7138 million
2012/13	19819 million
2013/14	20132 million
2014/15	67455 million
2015/16	15254 million
2016/17	15206 million
2017/18	55760 million
2018/19	24999 million
2019/20	29.67 million

Source: (Ministry of Industry, 2020)

c. Improvement of Transportation & Related Infrastructure

To combat the trade deficit, infrastructure reinforcement is crucial. The efforts count on strengthening the country's domestic transport system and border infrastructure to reduce the cost of a transaction. Introduction of multimodal transport plan is required. Modernization of customs procedures and facilities including the introduction of a single-window system. Negotiation on South Asian Regional Trade Agreement should be acknowledged.

Table 3: Trade Infrastructure in Nepal

Transport Infrastructure	Value	Score	Rank
Road connectivity	64.0	64.0	101
Quality of road infrastructure	2.9	31.9	120
Railway density	n/a	n/a	n/a
Efficiency of train services	Not accessed	n/a	n/a
Airport connectivity	27,598.2	43.8	75
Efficiency of air transport service	3.2	36.7	131
Liner shipping connectivity	n/a	n/a	n/a
Efficiency of seaport services	2.0	16.4	335

Source: (Global Competitiveness Report, 2019, World Economic Forum)

d. Trade Policy

Nepal has a wide range of trade openness. The trade agreement between India and Nepal has been agreed upon zero tariff rate. The market access to SAARC countries is based on South Asian Free Trade Agreement (SAFTA). Nepal, a least developed country(LDC), is applicable for preferential treatment under the Generalized System of Preference (GSP), duty-free access to the European market under "Everything but Arm(EBA)" initiatives, and the Chinese market. Nepal can take advantage of those schemes as long as goods meet the rules of technological and Sanitary and Phytosanitary Schemes (SPS).

Despite having various preferential schemes, Nepal is unable to take exhaustive advantage. The policy should be diverted towards meeting SPS in the case of agriculture and forest-based products. Technical requirements should be met in the case of crafts and manufacturing goods. This requires the adoption of internationally harmonized standards and the development of quality infrastructures for testing and certification. The enforcement of legal and institutional framework of quality assurance, accelerating process of international accreditation of national testing and certifying laboratories, the introduction of traceability schemes in agro-export sectors, and procedures to adopt HACCP, ISO 22000 FSMS and ISO 14000 standards should be key objectives of new trade policies. Besides, various Intellectual Property legislations related to WTO obligations like the Patent, Design, and Trademark Act 2022 (BS), new Industrial Property Act are to be updated. Use of utility models, geographical indicators (GI) should be permitted. Critically important intellectual property laws protecting medicinal and aromatic plants (MAP) should be implemented rigorously.

Table 4: Trade Openness in Nepal

Trade Openness	Value	Score	Rank
Prevalence of non-tariff barriers	3.9	48.6	122
Trade tariffs percent	16.57	0.0	140
Complexity of tariffs	6.3	88.2	47
Border clearance efficiency	2.3	32.2	117

Source: (Global Competitiveness Report, 2019, World Economic Forum)

e. Prioritization on export potential goods

Nepal should prioritize goods that it holds a comparative and competitive advantage. To do this, paramount research should be conducted with joint efforts of policymakers, researchers, stakeholders, related agencies, etc.

Table 5: Export Potential Sectors of Nepal

Priority Export Potential Sectors		HS Codes
Agro-based goods	Cardamom	090830
	Lentils	07134000
	Ginger	091010
	Tea	0902
	Medicinal and Aromatic Plants	1211
Craft and Manufacturing goods	Textiles, Yarns, Ropes	5509, 5407, 6305
	Leather	4104, 4106
	Footwear	6404
	Pashima	6214
	Carpets	5701
Services	Remittance generating	
	IT & BPO and IT engineering	
	Tourism (including education, medical, business & leisure)	

Source: (Nepal Trade Integration Strategy, 2016)

f. Cohort between Neighbor Countries (SAARC) with mutual understanding

It is overwhelming, our mother earth triggered with a global pandemic. Since the abruption of a pandemic, the business cycle of the global economy got disturbed away normal dynamics. It is patent that developing countries are hard hit with the crisis with a toll of vulnerabilities. Now it is time for the cohort of countries to resilient and to build back better.

Besides, in order to mitigate the problems of trade deficit and gain full advantage of foreign trade should focus on those goods that are less elastic in the domestic demand and supply but more elastic out of the country. The less elastic its domestic demand and supply, the bigger will be an effect on price faced by that country from trade. The more trade price differs from pre-trade price, the bigger will be the gain (Sloman, 2008). Therefore, Nepal can make more share on total GDP from foreign trade focused on comparative advantage and passable exploitation of available resources. specialization gaining economies of scale, exploiting entrepreneurial and management skills of the labor force.

4. Conclusions

To many developing countries like Nepal, the trade deficit has been a growing challenge affecting overall economic development. Many countries highly dependent upon imports have forgotten to achieve their full potential of exploiting available resources and comparative advantage. Even the myriads of benefits of globalization and the fourth industrial revolution, developing countries are unable to get maximum out of it. The hidden hurdles should be foremost acknowledged and the country should come up with better policies to upgrade and fortify the production and expanding exports in international markets. The country should strive towards specialization, strengthening the rural economy, gaining economies of scale, exploiting entrepreneurial and management skills of the labor force. This will be the roadmap towards achieving maximum benefits from globalization as a result of reducing trade deficit; negative trade balance.

Acknowlegement

We would like to express our sincere gratitude to Assistant Professor Thaneshwor Bhandari, Department of Agri Economics, Agri Extension and Rural development, Institute of Agriculture and Animal Science, Lamjung Campus and Assistant Professor Ujjal Tiwari, Department of Agriculture Economics and Agribusiness Management, Agriculture and Forestry University for their guidance and suggestions.

References

Bist, J. P. 2021, April Friday. To reduce trade deficit, Nepal has to rely on agriculture. Retrieved from kathmandupost.com: http://kathmandupost.com/columns/2019/11/02/to-reduce-the-trade-deficit-nepal-has-to-rely-on-agriculture#:~:text=Being%20an%20agriculture-based%20economy,subsidies%20to%20promote%20the%20sector.&text=In%20the%20long%20run%2C%20Nepal,the%20help%20of%20fore

Bloomenthal, A. 2020, November Friday. Trade Deficit. Retrieved from Investopedia.com: https://www.investopedia.com/terms/t/trade_deficit.asp

Economic Survey 2019/20. Singh Durbar, Kathmandu: Ministry of Finance.

Finance, M. o. 2020. Nepal Foreign Trade Statistics. Kathmandu: Government of Nepal.

Karki, S. 2020, November Saturday. Fruits worth nearly Rs 3 billion imported for Dashain, Tihar and Chhath. Retrieved from english.khabarhub.com: https://english.khabarhub.com/2020/14/141941/

Nepal Trade Integration Strategy (NTIS) 2016. Singha Durbar, Kathmandu: Ministry of Commerce.

Nepal Trade Statistics Fiscal Year 2019/20 (2076/77). Tripureshwor, Kathmandu: Ministry of Finance.

Nepal Trade to GDP Ratio 1997 - 2020. (2020). Retrieved from www.macrotrends.net: https://www.macrotrends.net/countries/NPL/nepal/trade-gdp-ratio

Nepal: Foreign Investment. 2019. Retrieved from santandertrade.com: https://santandertrade.com/en/portal/establish-overseas/nepal/investing-3#:~:text=The%20services%20sector%20accounts%20for,%25)%20(Nepal%20Rastra%20Bank).

Prasain, K. 2020, April Friday. The price of rice continues to increase and cartelling is partly to blame, observers say. Retrieved from kathmandupost.com: https://kathmandupost.com/money/2021/02/13/the-price-of-rice-continues-to-increase-and-cartelling-is-partly-to-blame-observers-say

Prasain, S. 2020, July Tuesday. Nepal's overall imports have gone down but agriculture import continues to expand, hitting record of 250 billion. Retrieved from kathmandupost.com: https://kathmandupost.com/national/2020/07/27/nepal-s-overall-imports-have-gone-down-but-agriculture-import-continue-to-expand-hitting-record-rs-250-billion

Republica. 2020, August Saturday. Imports bill of agricultural products rising year-on-year due to poor implementation of government policies. Retrieved from myrepublica.nagariknetwork.com: https://myrepublica.nagariknetwork.com/news/import-bills-of-agricultural-products-rising-year-on-year-due-to-poor-implementation-of-government-policies/

Schwab, P. K. 2019. TheGlobalCompetitvenessReport.2019. Geneva, Switzerland: World Economic Forum.

Service, H. N. 2020, November Thursday. Nepal's trade deficit down 15.1 percent in Q1. Retrieved from thehimalayantimes.com: https://thehimalayantimes.com/business/nepals-trade-deficit-down-15-1-per-cent-in-q1

Sloman, J. 2008. International Trade and Development, Economics. Noida (U.P) 201309, India: Pearson India Educarion Services Pvt.Ltd.

Workman, D. 2019. Nepal's Top 10 Imports & Exports. Retrieved from worldstopexport.com: https://www.worldstopexports.com/nepals-top-10-imports/.