



# International Journal of Research in Academic World

Received: 25/May/2023

IJRAW: 2023; 2(6):55-59

Accepted: 21/June/2023

## Export Potential in Nepal: A SWOT Analysis

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### Abstract

Nepal is a landlocked least developed country. It is a country of potential and has huge prospects of export through agricultural baskets of food and cash crops, products of horticulture, spices, lifesaving herbal materials and above all hydro-electricity as well. In fact, Nepal can be food basket in South Asia, if agricultural perspective plan of Nepal is really implemented honestly and effectively, it would create a new environment of prospects in accelerating the volume of exports in Nepal. Potential export products of Nepal are tea, cardamom, ginger, lentil, rosary nut, thread/spinning, health and education services, etc.

Nepal has diversified its volume of trade, commodity composition and direction of trade, but India is still the major trading partner of Nepal. An analysis of strength, weaknesses, opportunity and threats of export potential of Nepal has been depicted. The objective of this paper is to find out the export potential in Nepal in terms of volume, commodity composition, direction of trade, trade in-services and to explore the measures to accelerate the export potential of Nepal.

**Keywords:** Potential, adventurous, diversity, technology, productivity

### Introduction

Nepal is one of the least developed countries of the world. Foreign trade expansion is the only means to develop Nepal as it contributes major part of its GDP. There is tendency of exceeding imports over exports, causing persistent deficit in Nepal's balance of trade and payments. To overcome this situation exports are to be enhanced. There is considerable export potential in this region. Leading export-items of Nepal are tea, cardamom, ginger, lentil, rosary nut, thread and trade in services. Large cardamom occupies the significant place in export potential of Nepal. The objective of this paper is to show export potential in Nepal and point out its strength, weaknesses, opportunities and threats, measures for greater export potential are also to be explored.

### Scenario of Nepalese Foreign Trade

The volume of foreign trade, i.e., export and import trade is recognised as a leading indicator of economic development in global economy. In fact, the quality of sustainable economic development is reflected in the export and import trade in an economy. The income employment generation is enhanced through the stimulus package of export promoting and import substituting industries in an economy like Nepal. An encouragement to export trade through export promoting industries can perform the role of life breathing element in the

economy. Import substituting industries can open the door for efficient utilization of available resources through potential pocket of consumption in the domestic sector. In the developing countries like Nepal, the magnitude of Marginal propensity to consume remains high, which facilitates the sustainable development of import substituting enterprises within the country. Nepal has been able to make significant progress in volume, composition and direction of foreign trade. On the basis of Standard International Trade classification guideline, Nepal focuses on both export and import Trade. However, export trade of Nepal increases in arithmetic progression, but import trade of Nepal increases in geometric progression. Such a serious situation creates huge deficit in foreign trade of Nepal year after year. Similarly Nepal has been able to diversify her foreign trade in regard to commodities and countries. The real diversification is observed in commodity trade of import sector in Nepal. Being the member of WTO, Nepal has trade relation with a large member of countries of the world, but even India is still the largest trading partner of Nepal as numerical evidence shows that 65.17% of foreign trade of Nepal is still traded with India. China is the second largest trading partner of Nepal. It is, therefore, crystal clear that growth and direction of foreign trade of Nepal are not in favour of Nepalese economy.

**Table 1:** Volume of Foreign Trade in Nepal (Rs. in Ten Million)

Fiscal Year	Export (FOB)	Import (CIF)	Trade Balance
2009-10	6082.4	37433.5	31351.1
2010-11	6433.9	39617.6	33183.7
2011-12	7426.1	46166.8	38740.7
2012-13	7691.7	55674.0	47982.3
2013-14	9199.1	71436.6	62237.5
2014-15	8531.9	77468.4	68936.5
2015-16	7011.7	77359.9	70348.2
2016-17	7304.9	99011.3	91706.4
2017-18	8163.3	124282.7	116119.4
2018-19	6122.4	94910.7	88788.2

Source: Economic Survey, FY 2019-20, Ministry of Finance, GON, Kathmandu.

**Table 2:** Direction of Nepalese Foreign Trade (In Percent)

Fiscal Year	Trade with India	Trade with Alive	Other Countries	Total
2009-10	59.1	--	40.9	100
2010-11	66.3	--	33.7	100
2011-12	65.1	--	34.9	100
2012-13	66.0	10.2	23.8	100
2013-14	66.7	9.4	23.9	100
2014-15	63.7	11.9	24.4	100
2015-16	61.2	13.9	24.8	100
2016-17	63.5	12.1	24.4	100
2017-18	64.7	12.3	23.1	100
2018-19	64.5	13.9	21.7	100

Source: Economic Survey, FY 2018-19, MOF, GON, Kathmandu.

### Leading Export Materials of Nepal

**a) Tea:** Tea is one of the leading export materials of Nepal. Due to geographical surroundings, orthodox tea of Nepal is considered as one of the best and health friendly tea in the global economy.

In accordance with ITC report, Nepal claims 0.1 percent share in the global export of tea and has reached 56<sup>th</sup> place as leading exporter of tea in the world. Nepal exports tea mainly to India, Germany, Russia, Czech Republic, U.S.A., China, France and Japan. A glance of Nepalese tea export to different countries of the world can be highlighted by the help of following schedule-3.

**Table 3:** Export of Nepalese Tea in World (2018 A.D.)

Country	Export (Kg)	Monetary Value (Rs.)	Price per Kg.
Ukraine	21217	6898754	325
India	15046204	2871314360	191
Germany	97350	133433333	1371
Russia	372922	109585377	294
Czech Republic	34010	32326571	951
USA	10786	20690974	1918
China	51267	16570016	323
France	4456	12993263	2916
Japan	14707	12971537	882
Canada	3668	9579348	2612
Others	27957	25322964	906
Total	15684544	3251686497	207 (Average)

Source: International Trade Centre, 2020

**b) Cardamom:** Amomum Subulatum Roxb is a natural vegetation which is grown in the ecology of hilly region in Nepal. Black Cardamom is the spicy and herbal material which is grown at a large scale in the hills of Nepal, mostly in Province one. Apart from Nepal, it is mostly grown in India, Bhutan, Sri Lanka, Malaysia, China and few other countries in the world. It is a costlier material and a leading export of Nepal.

**Table 4:** Cardamom Export of Nepal

Country	Export Value in 2018 (In \$ US)	Percent	Export Quantity	Unit	Unit Price	Custom Duty
India	36567	99.9	4321	MT	8463	0.00
South Africa	14	0	0	MT	14000	0.00
Germany	6	0	0	MT	0	0.00
France	3	0	0	MT	0	0.00
New Zealand	2	0	0	MT	0	0.00
Switzerland	1	0	0	MT	0	0.00
Ukraine	1	0	0	MT	0	0.00
Dermot	1	0	0	MT	0	0.00
Total	36595	100.0	4322	Ton	8467	0.00

Source: TEPC/ITC.

The table-4 shows clearly that high value crop cardamom can be productive source of income employment generation in Nepalese economy. It in the demand of the situation that Nepal should focus on the potential pockets of cardamom basket which would certainly be helpful in uplifting the economic status and would help to reduce the extent of poverty in the country. But, no doubt the cardamom exports are facing major problems such as lack of qualitative grading, labeling, packaging, branding, diversification in marketing etc. These problems are to be minimized through public and private sectors of the economy.

**c) Ginger** is a spicy agricultural crop and is used in various lifesaving medicines also. Its scientific name is Zingiber officinale. All six human health friendly elements are found in ginger carbohydrate, protein, vitamin, minerals, fats and others. The commercial farming of ginger is carried out in hills and it is mostly grown at an altitude of 1500 meters from sea level. The optimum atmosphere for ginger ranges in between 20 to 30 degree Celsius. There is huge scope of exportable commercial farming of ginger in 11 hilly districts of Nepal. India is biggest importer of Nepalese ginger and Nepal is well connected with Sikkim, West Bengal and Bihar state of India. Ginger is a leading potential export item of the Nepalese economy.

**Table 5:** Ginger Export of Nepal

Country	Export Value 2018 (in \$ U.S.)	Percent	Quantity (MT)	Unit Price (\$)	Custom Duty (%)
India	3034	92.9	6711	452	0.00
Germany	227	07	55	4172	0.00
France	02	0.1	---	4172	0.00
Switzerland	02	0.1	---	4172	0.00
Total	3265	100	6766	---	---

Source: TEPC/ITC, 2020

**d) Lentil:** Lentil is mostly grown in terai region of Nepal. Province one of Nepal is fertile land for commercial

production of Lentil which is mostly exported to India, Bangladesh, Srilanka and some of these gulf countries. It has been able to occupy significant place in export management of Nepal.

**e) Rosary Nut:** Rosary Nut is produced as fruit and vegetation in hilly regions of Nepal. Its scientific name is *Ultrasum beed* and is grown as fruit in *Ultrasum bead tree*. Rosary Nut is produced from one to twenty-seven month points, out of which one to fourteen month points are easily available. One, nine and fourteen month-points rosary nuts are scarce and precious. It is plenty grown at Kaski, Syangja, Palpa, Gulmi, Bhojpur, Sankhuswasabha and Dhankuta. 123 species of rosary nuts are available in the world. It supports to protect human physiology and mental health of the people. It is practiced as spiritual ornament. The hilly region of province one of Nepal is fertile to produce rosary nut commercially.

**Table 6:** Export of Rosary Nut in Nepal

Fiscal Year	Export (In Crore)
1970-71	5.78
1971-72	9.39
1972-73	8.78
1973-74	10.00
1974-75	8.17

Source: TEPC/ITC

**f) Thread/Spinning:** Thread is one of the leading export items of Nepal. Being a raw material of cloth industries, Nepalese thread is commercially exported to India and Turkey. Nepal possesses 0.5 percent of its share in thread export and occupied 18<sup>th</sup> thread exporting country in the global economy. Nepal is privileged with zero customs duty benefit from all GSP providing European Union (ECC) member countries.

**Table 7:** Export of Thread in Nepal

Countries	Export Value (1000 \$)	Share %	Export Quantity (In tone)	Import Value
Turkey	2334	73.1	865	2698
India	861	26.9	432	1993
Total	3195	100	7297	2463

Source: TEPC/ITC

**Service Trade**

Foreign trade of Nepal consists of services trade also. Nepalese trade in services constitutes mainly trade in health and education, religious tourism, natural beauty and adventurous tourism.

**a) Health and Education:** Nepal in general and Province one in particular are academically fertile soil for health and education services. The leading and well equipped hospitals and teaching centers are providing Asian quality of health and services to the people of India and Bhutan as well. Kashi hospital developed as a teaching hospital and medical college of Purvanchal University. There are three medical colleges in Province of Nepal. Purvanchal University is promoting professional and technical education to fulfill requirements of the people. Biratnagar hospital, Nobel hospital, Neuro, Green Cross, Life guard, Biratnagar eye hospital, Golden hospital, AIMS and such other leading hospitals are currently offering qualitative health services to the people of Nepal and abroad. Further,

Province one is likely to develop its image as the hub for health and education services in the Nepalese century.

**b) Religious Tourism:** Nepal, particularly province one is supposed to be the heaven for religious tourism, some religious centres, such as, Pathibhara of Taplejung, Halesi Mahadev of Khotang, Barah Khetra, Dantkali, Pindeshor and Budhasubha of Sunsari, Chittangdevi of Dhankuta, Birat Palace, Sunbarsha and Sundarimath of Morang, Kankaidham of Jhapa and such religious places are attractions for domestic and foreign tourists. However, Pathibhara of Taplejung and Halesi of Khotang and Barah Khetra of Sunsari are special cases for attracting foreign tourists in the religious seasons.

**c) Natural Beauty and Adventurous Tourism:** Natural Beauty and Adventurous tourism are also contributing to trade in services. The highest peak of world Mount Everest (8848 m), some covered alpine regions, varieties of mountains, green forests, forest flowers, rivers, wild life, ecological surroundings have increased the natural beauty of this country. Sky diving, Bungee Jumping and mountain bike racing, rafting in rivers and such other adventurous sports can fascinate tourists in the country again and again.

**A SWOT Analysis**

The actual elements of strength, weaknesses, opportunity and Threats are clearly linked with potential export management of Nepal. The main points of strength are geographical diversity, fertile agricultural land, recognized high value cash crops, Dhavan Biratnagar Industrial and commercial corridor, surface transport connectivity between China and India through Kashi highway, self-sufficiency in hydroelectricity, generation, religious, tourist places, natural beauty and adventurous tourism, important surface entry points of the country, etc. These points of strength are presented below:

**Strength:** The geographical diversity is integrated with all three regions-mountain, hills and terai regions of the country. All types of climatic surroundings are available which support the traditional and high value food and cash crop farming. The horticulture and rare herbal plants can be grown and exports in this climate due to geographical diversity of the country.

Nepal possesses fertile soil for some recognised high value cash crops, such as, tea, jute, cardamom, sugarcane and some other high value products like world class honey and invaluable herbs which claim high prices in international market.

The commercial capital of Nepal and its connectivity with industrial and commercial corridor in the range of Dhavan-Biratnagar have created a hope to nurture the potential export promoting capability of this country in days to come.

The connectivity of Jogbani-Kimathanka through Kashi highway would develop Province one as the transit point which would really be helpful in generating huge possibility of exporting the product to China and India effectively. It would also be helpful in promoting the productive commercial and economic activity in the adjoining places of this highway practically.

In Nepal, power shortage has always been remaining a big constraint for industrial development. However, the observation shows that big rivers of the country can generate ample hydroelectricity and micro hydroelectricity stations of community level can also be helpful in producing cost friendly exportable products.

Nepal has different religious tourist spots for Hindu and Kirat people. The famous Pathibhara temple of Taplejung, Barath temple of Barah Khetre, Dantakae temple, Palace of Birat king of Mahabharat, Yakhya place of Dharan out other religious places fascinate the tourists of Nepal and India again and again, Natural Beauty and Adventurous Tourism has also encouraged the export potential of Nepal.

Nepal has certain important surface entry points which have increase the commercial and economic activities in the country, Province one is the gateway of four countries-China, India, Bangladesh and Bhutan. The door of the entry point-Kakarritta and Jogbani have increased economic and trade activities of Nepal.

**Weaknesses:** The factors responsible for the weaknesses of Nepalese export potential, such as, lack of human resource development, lack of sufficient irrigation facility, lack of modern technology and low productivity, are well presented below:

Human Resource Development is a significant component to convert the dream of sustainable development in favour of people, soil and society, the qualitative and quantitative, both components of HRD are equally important to materialize material and immaterial development province once of Nepal has surplus magnitude of quantitative HRD whereas qualitative HRD, such as, efficient scientists, technicians, policy makers and above all skilled and efficient workers have significant role in people centred economic development. Unluckily, this province and the country as a whole drags down to the back foot because of sacristy of qualitative HRD.

Agriculture is significant contributor to GDP of Nepal. However, agriculture of this country still survives on monsoon and sky irrigation. Although Sunsari, Morang and Kankati irrigation projects have been able to meet the requirements partially yet significant area of agricultural land still depends on the quality of monsoon. Due to global climate change, monsoon does not behave properly which causes damage to the agricultural production in the province.

The inventions, innovations and HRD consolidate the foundation of technological advancement. Nepal and the province are weaker in research culture which is reflected in poor quality of indigenous technology in the country. The province still depends on imported technology which is unnecessarily increasing the cost of export promoting activities in agricultural and industrial sector of the country.

Due to weaker technology and primitive techniques of productions, the agricultural and industrial productivities remain very low in the country. For instance, the national production of wheat production is 1.29 metric ton per hectare in Nepal, while it is 9.27 metric ton is New Zealand. Thus, low productivity has hampered. The export management of the Country.

**Opportunity:** There are several opportunities for export potential in Nepal. Provenience one of Nepal is gateway for market access of China, India, Bhutan and Bangladesh. Such a geographical advantage has created opportunity for province one and Nepal as a whole to export its products to the productive markets. Thus easy access of market privilege creates ample scope of expanding the export potential of export in days to come.

The neighboring countries of Nepal have almost the similar life style and living standard as it is observed in the Nepalese society. It is an opportunity to Nepali people to produce and export these products to these countries as per the taste and preferences of their people.

The easy access of Haldia-Vishakhapatnam ports of India simplifies transportation of Nepalese exports. Products to overseas countries. If Nepal gets the connectivity with chatgaun-Mangala port, it would be helpful to open the door of market advantage as an opportunity to Nepalese export in Asian and overseas markets.

The leading products of Nepalese export are tea, cardamom, ginger, lentil vegetables, fruit juice and herbal materials. All these products have high scale of demand in foreign markets. It is really an opportunity to consolidate the foundation of Nepalese export management in near future.

**Threats:** There are threats to Nepalese export potential as well. Agricultural advancement is economic backbone of Indian economy. In order to protect and promote agricultural production, the India Government gives huge subsidy to seeds, chemical fertilizers, pesticides and irrigation sources, though now it is being reduced. Further, agricultural insurance is also made by the government in favour of Indian farmers. Because of all these privileges, Indians agricultural products become cheaper, while Nepalese products became costlier in Indian market.

Sizeable production develops the environment of economies of scale and reduces diseconomies. But the scale of agricultural production is not so high in Nepal. These, economies of scale do not support the Nepalese farmers practically.

In Nepal, slackness in industrial development due to Drain in entrepreneurship is observed. Industrial development is the engine of economic growth and it is the most effective sector to encourage income employment generation and economic development. The government of Nepal could not pay attention to encourage the industrial development. Industries of public sector are collapsed, except some exceptions, private industries are not in comfortable state in Nepal.

### A Way out for Export Potential

1. To enhance the export potential of Nepal, climate oriented products should be produced which have high foreign demand.
2. Hydroelectricity is inevitable for producing the export goods. Nepal is rich in hydroelectricity because of huge magnitude of water rescors. By generating hydroelectricity, agricultural and industrial development can be created in Nepal, encouraging export potential.
3. Variety of crops, having high foreign demand should be grown. For this purpose, market surveys should be promoted by constituting a Study Team in Nepal.
4. For export promotion, quality of the product is to be improve and cost to be reduced. In Nepal, quality of product is poor and cost is high. High quality of the product and low cost of production can be obtained by promoting skilled manpower and adopting advanced technology. Nepalese levels of manpower and technology are poor which should the promoted through establishment of training centres, promoting research and development, enlarging irrigation facilities and so on.
5. Nepal has the potential to increase export to south Arian countries four folds. Manmade trade barriers have held back intra-regional trade in South Asia. South Asian countries impose greater trade barriers for imports from within the region than the rest of the world. If these barriers were reduced, intra-regional trade could grow sufficiently. To deepen regional trade, trade tariff and Para tariff, real and perceived non-tariff barriers, connectivity

costs, huge magnitude of subsidies, huge sensitive list and border trade restrictions are to be minimized.

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