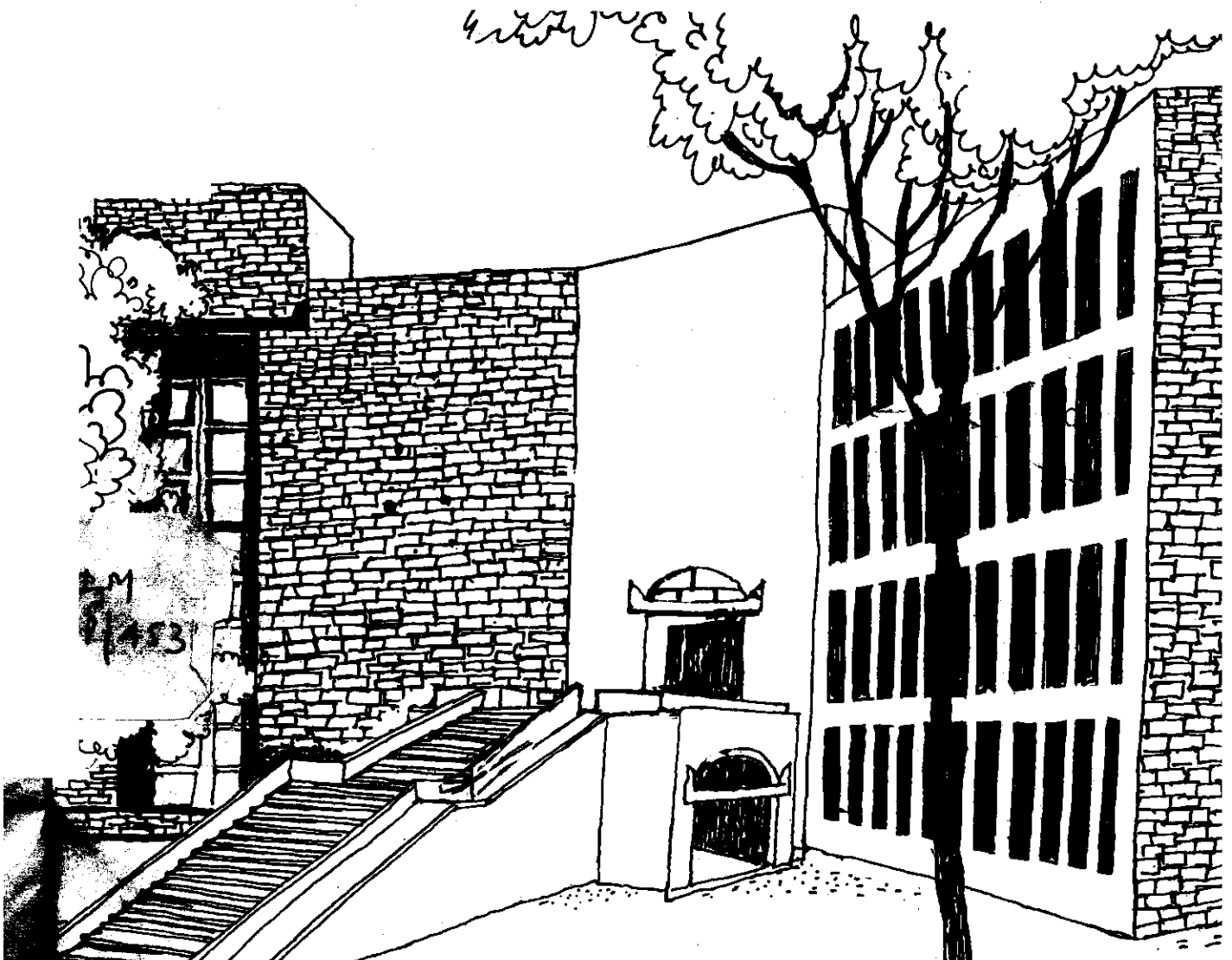




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NEPAL - ASEAN ECONOMIC RELATIONS

by

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NEPAL--ASEAN ECONOMIC RELATIONS

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ABSTRACT

This paper highlights the salient features of economic relations between Nepal and the five member countries of the ASEAN (Association of South-East Asian Nations) grouping, namely, Indonesia, Malaysia, Philippines, Singapore and Thailand since 1974-75. The paper is divided into three sections. Section I deals with the survey of trade relations; Section II with the survey of industrial investment in joint ventures and other economic relations; and Section III speculates on the prospects for future economic cooperation between Nepal and the ASEAN countries.

Besides analysing the recent trends in the exports, imports and balance of trade of Nepal with the countries of the ASEAN grouping, we have also computed and analysed the behaviour of three types of analytical measures to survey the trends in the trade relations of the countries concerned. These measures are :
(1) Kojima indices of trade (export and import) intensities;
(2) Grubel-Lloyd indices of movements in intra-industry trade;
and (3) Trade reciprocity Index developed by one of the authors.

A survey of the economic relations between Nepal and the ASEAN countries leads us to the conclusion that considerable scope exists for expanding economic cooperation between Nepal and each of the countries of the ASEAN grouping. The paper identifies some of the avenues for such cooperation in the fields of trade, joint ventures and other services.

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NEPAL-ASEAN ECONOMIC RELATIONS*

by

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Nepal's economic relations with the members of the Association of South-East Asian Nations (ASEAN) mainly through trade and in a very small way through investment in joint ventures are of relatively recent origin. From time immemorial, Nepal's economic relations have been primarily confined to its one large neighbouring country, namely India. This was so until early 1970's. Thus, as late as in 1974-75, Nepal's exports to the group of five ASEAN countries (namely, Indonesia, Malaysia, Philippines, Singapore and Thailand) constituted only 2 per cent of its total exports to the world whereas its exports to India constituted 84 per cent of its total exports to the world (See Table 2). Similarly, Nepal's imports from all ASEAN countries in the same year were nearly 2 per cent of its total imports from the world whereas the corresponding proportion of imports from India was 81 per cent. This position can easily be explained by the land-locked nature of the country and the traditional open border and easier transportation links existing with

* Thanks are due to Mr. Devi Singh for the statistical assistance rendered by him.

India for centuries and also by the similarities in cultural, social and religious values between the two countries. Until 1960's, Nepal had exclusively depended on India for providing transit facilities for its trade with the countries overseas. Transportation links with its other large neighbouring country, namely, China, have traditionally been weaker due to high mountains and difficult terrain.

It is only during the seventies that Nepal consciously started programmes of diversification of its economic relations with countries other than India, especially with the other countries of South Asia and the ASEAN grouping. This paper traces the changing profile of Nepal's economic relations with the ASEAN countries since 1974-75. The data base of Nepal's economy is quite weak. However, to the extent data is available, we will draw upon this from the national and international sources. The primary focus of our study will be on trade relations (Section I) but "other" economic relations (such as investment in joint ventures in industries) will also be touched upon to the extent possible (Section II). In Section III, we will present some general remarks on the future scope for economic cooperation between Nepal and the ASEAN countries.

I

TRADE RELATIONS

Tables 1 to 5 present the main features of the trade relations between Nepal and each of the ASEAN member countries and also contrasts them with Nepal's trade with other South Asian countries (including India).

Export Trade

Table 1 presents data on Nepal's exports to ASEAN countries and South Asian countries during the period 1974-75 to 1980-81. It may be noticed that Nepal's exports to all ASEAN countries were at a low level of Nepali Rupees (NRs.) 18.49 million in 1974-75.¹ As Table 2 shows, this accounted for 2 per cent of Nepal's total exports to the world. However, as a result of the efforts to diversify its trade with countries other than India mentioned earlier, Nepal's exports to all ASEAN countries increased to its highest level of N.Rs. 77.36 million in 1978-79 but declined by 57 per cent the very next year (1979-80), but rose again in 1980-81 ending up with N.Rs. 75.19 million. Thus, **the average**

1. The official exchange rate of Nepali Rupees per U.S. dollar has been as follows:

<u>Year(s)</u>	<u>Nepali Rupees per U.S.\$</u>
1974-75 and 1975-76	10.55
1976-77 and 1977-78	12.50
1978-79 till 1980-81	12.00

Source : Nepal Rastra Bank, Quarterly Economic Bulletin (Kathmandu), various issues.

TABLE 1

Nepal's Exports to ASEAN and South Asian Countries

(In Million Nepali Rupees)

Country/ Region	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
<u>ASEAN</u>	18.49	44.73	35.87	45.41	77.36	33.17	75.19
Indonesia	-	-	-	-	-	-	-
Malaysia	0.10	0.18	0.14	0.29	40.30	1.10	3.53
Philippines	-	0.01	-	0.01	0.01	-	2.58
Singapore	18.10	43.55	35.16	42.02	35.86	29.19	65.58
Thailand	0.32	0.99	0.57	3.08	1.21	2.90	3.50
<u>SOUTH ASIA</u>	750.64	893.70	779.83	581.72	825.60	618.80	1059.44
Bangladesh	3.94	0.01	-	74.06	122.31	44.10	52.37
India	745.70	893.69	779.58	489.02	650.1	520.94	992.4
Pakistan	-	-	0.15	9.65	53.19	43.37	14.72
Sri Lanka	-	-	0.10	-	-	10.40	-
Total (South East Asia and South Asia)	769.13	938.43	815.7	627.13	902.96	651.96	1134.70
World (including India)	889.6	1185.8	1164.7	1046.2	1296.8	1150.5	1608.7

SOURCE : Figures for India are taken from Nepal Rastra Bank (NRB), Quarterly Economic Bulletin, and the rest from Trade Promotion Centre, Overseas Trade Statistics.

TABLE 2

Share of Nepal's Total Exports to ASEAN and South Asian Countries

(Percentage)

Country/ Region	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
<u>ASEAN</u>	2.08	3.77	3.08	4.34	5.97	2.88	4.67
Indonesia	-	-	-	-	-	-	-
Malaysia	-	0.02	0.01	0.03	3.10	0.10	0.22
Philippines	-	(.)	-	(.)	(.)	-	0.16
Singapore	2.03	3.67	3.02	4.02	2.77	2.54	4.08
Thailand	0.04	0.08	0.05	0.29	0.10	0.25	0.22
<u>SOUTH ASIA</u>	84.38	75.36	66.95	54.74	63.66	53.78	65.86
Bangladesh	0.44	-	-	7.08	9.43	3.83	3.26
India	83.94	75.36	66.93	46.74	50.13	45.28	61.69
Pakistan	-	-	0.01	0.92	4.10	3.77	0.92
Sri Lanka	-	-	(.)	-	-	0.90	-
World (including India)	100.00	100.00	100.00	100.00	100.00	100.00	100.00

(.) Negligible

SOURCE : Computed from Table 1.

compound rate of growth of Nepal's exports to the ASEAN works out to around 27 per cent per annum during the period 1974-75 to 1980-81. In contrast to this, the comparable growth rate for exports of Nepal to the world was around 10.4 per cent and to India around 4.9 per cent. Thus, Nepal's exports to the ASEAN grew at a faster rate than to the world as a whole or to any other region during this period. This is due to the low base levels and too much should not be read into the magnitude of these growth rates.

Looking at the data on exports of Nepal in Table 1, one cannot fail to notice that Nepal still has virtually no export trade with Indonesia and negligible export trade with the Philippines. Within the ASEAN markets, despite ups and downs in year-to-year level of exports during 1974-75 to 1980-81, Nepal registered the highest (compound) rate of growth of its exports to Malaysia (around 80 per cent per annum) and the lowest for Singapore (at 24 per cent per annum) and at the medium rate (of about 49 per cent per annum) for Thailand. Once again, this reflects low base levels. Virtually, Singapore dominates in ASEAN markets for Nepal's exports. Thus, as Table 1 shows, Singapore alone accounted for N.Rs. 65.68 million of Nepal's exports in 1980-81 while all other ASEAN markets accounted for a little less than N.Rs. 10 million of Nepal's exports.

Not much should be read into the growth rates of Nepal's exports to the ASEAN markets as the share of these markets in its exports to the world, though growing, is still quite small as shown in Table 2. Thus, the share of all countries of ASEAN grouping in Nepal's exports to the world increased from 2 per cent in 1974-75 to its highest at 5.97 per cent in 1978-79 but was at 4.67 per cent in 1980-81. As shown earlier, most of Nepal's exports to the ASEAN were confined to Singapore. Thus, Singapore alone accounted for 2.03 per cent of Nepal's exports to the world in 1974-75 and this rose to 4.08 per cent in 1980-81. In the year 1978-79, the share of Malaysia in Nepal's exports to the world was at the high of 3.10 per cent. The shares of all other ASEAN countries in Nepal's exports to the world in the years 1974-75 to 1980-81 were still lower than the ones highlighted above (the extreme case being Indonesia with zero per cent share in all these years).

Import Trade

The data on Nepal's imports from the ASEAN grouping and other sources from 1974-75 to 1980-81 is presented in Table 3.

TABLE 3

Nepal's Imports from ASEAN and South Asian Countries

(In Million Nepali Rupees)

Country/ Region	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
<u>ASEAN</u>	33.47	65.93	30.68	39.23	124.01	136.44	264.60
Indonesia	-	-	0.01	0.09	4.69	22.67	5.03
Malaysia	0.7	0.43	1.43	0.75	3.61	4.75	30.34
Philippines	-	1.90	2.05	2.41	5.49	12.76	15.01
Singapore	11.94	51.49	14.91	21.93	86.02	67.54	117.7
Thailand	20.83	12.10	12.28	14.95	24.21	28.73	96.52
<u>SOUTH ASIA</u>	1475.92	1227.67	1345.24	1540.57	1588.47	1795.67	2199.01
Bangladesh	-	0.47	1.57	1.47	2.03	8.47	18.40
India	1475.70	1227.12	1345.54	1534.12	1581.70	1786.41	2179.0
Pakistan	0.22	0.01	0.02	4.92	4.64	0.37	0.54
Sri Lanka	-	0.06	0.11	0.03	0.10	0.42	1.07
Total (South-East Asia & South Asia)	1509.39	1293.60	1375.91	1579.8	1712.48	1932.12	2463.60
World (including India)	1814.60	1981.70	2008.0	2469.6	2884.7	3480.1	4428.2

SOURCE : Same as in Table 1.

Nepal's total imports from all the ASEAN countries increased from N.Rs. 33.47 million in 1974-75 to N.Rs. 264.6 million in 1980-81. There was a sudden drop in Nepal's imports from the ASEAN in 1976-77 by 53.5 per cent over the year 1975-76. If we ignore this, the average annual compound rate of growth of Nepal's imports from the ASEAN works out to about 41 per cent per annum during the period 1974-75 to 1980-81. The comparable rate of growth of imports from the world ("all sources") was 16 per cent per annum and from India alone was 6.7 per cent per annum. Thus, Nepal has been expanding its import trade at a faster rate with the ASEAN region than with other regions (such as South Asia) and with the world as a whole. Consequently, the share of the ASEAN grouping in Nepal's total imports has gone up from a mere 1.84 per cent in 1974-75 to nearly 6 per cent in 1980-81. (See Table 4). This share is, however, still not large.

Table 3 also reveals that Nepal perhaps started importing from Indonesia for the first time in 1976-77. Its import trade with Indonesia suddenly increased from N.Rs. 4.69 million in 1978-79 to N.Rs. 22.67 million in 1979-80 but closed at N.Rs. 5.03 million in 1980-81 for which final data is available at present. Similarly, Nepal appears to have started importing from the Philippines continuously since only 1975-76. In 1974-75, Thailand was the most important source of Nepal's imports (at

TABLE 4

Share of Nepal's Total Imports from ASEAN and South Asian Countries

(Percentage)

Country/ Region	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
<u>ASEAN</u>	1.84	3.33	1.53	1.59	4.30	3.92	5.97
Indonesia	-	-	(.)	(.)	0.16	0.65	0.11
Malaysia	(.)	(.)	0.07	(.)	0.13	0.14	0.69
Philippines	-	0.10	0.10	0.10	0.19	0.37	0.34
Singapore	0.66	2.60	0.74	0.89	2.98	1.94	2.66
Thailand	1.15	0.61	0.61	0.60	0.84	0.83	2.18
<u>SOUTH ASIA</u>	81.34	61.95	67.00	62.38	55.07	51.60	49.66
Bangladesh	-	(.)	0.08	0.06	0.07	0.24	0.42
India	81.32	61.92	66.91	62.12	54.83	51.33	49.21
Pakistan	(.)	(.)	(.)	0.20	0.16	(.)	(.)
Sri Lanka	-	(.)	(.)	(.)	(.)	(.)	(.)
Total (South-East Asia & South Asia)	83.18	65.28	68.52	63.97	59.36	55.52	55.63
World (including India)	100.00	100.00	100.00	100.00	100.00	100.00	100.00

(.) Negligible

SOURCE : Table 3.

N.Rs. 20.83 million) out of total imports of N.Rs. 33.47 million from all the ASEAN countries, and Thailand was the next important source within ASEAN. But in 1980-81, this position was reversed. Singapore took the first position (with imports at N.Rs. 117.7 million) compared to Thailand (with imports at N.Rs. 96.52 million).

Despite the growth in absolute value of imports from the ASEAN countries during 1974-75 to 1980-81, the share of these countries in Nepal's total imports is still small. This can be seen from the computed data on shares in imports - source-wise - given in Table 4. Thus, even in 1980-81, Singapore's share in Nepal's total imports was 2.65 per cent and that of Thailand was 2.18 per cent - all other ASEAN countries having a share well below 1 per cent.

Balance of Trade

Nepal's balance of trade with the ASEAN countries, South Asian countries and the world for the period 1974-75 to 1980-81 is presented in Table 5. Nepal, being one of the Least Developed Countries, has been generally facing deficit in its balance of trade with the ASEAN grouping as well as with South Asia and also with the world. The trade deficit with the ASEAN grouping in

TABLE 5

Nepal's Balance of Trade with ASEAN and South Asia Countries

(In Million Nepali Rupees)

Country/ Region	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
<u>ASEAN</u>	(14.9)	(21.2)	5.2	6.1	(46.7)	(103.4)	(189.4)
Indonesia	--	--	(.)	(0.1)	(4.7)	(22.7)	(5.0)
Malaysia	(0.6)	(0.3)	(1.3)	(0.5)	36.7	(3.7)	(26.8)
Philippines	--	(1.9)	(2.1)	(2.4)	(5.5)	(12.8)	(12.4)
Singapore	6.2	(7.9)	20.3	20.1	(50.2)	(38.4)	(52.1)
Thailand	(20.51)	(11.1)	(11.7)	(11.0)	(23.0)	(25.8)	(93.02)
<u>SOUTH ASIA</u>	(725.2)	(334.0)	(565.4)	(958.8)	(762.8)	(1262.9)	(1139.5)
Bangladesh	4.0	(0.5)	(1.6)	72.6	120.3	35.6	34.0
India	(729.0)	(333.4)	(563.9)	(1036.1)	(931.6)	(1265.5)	(1136.6)
Pakistan	(0.2)	(.)	0.1	4.7	48.6	(43.0)	14.2
Sri Lanka	--	(0.1)	(0.1)	(.)	(0.1)	10.0	(1.1)
Total (South-East Asia & South Asia)	(740.1)	(355.2)	(560.2)	(952.7)	(809.5)	(1366.3)	(1328.9)
World (including India)	(925.0)	(795.9)	(843.3)	(1423.4)	(1587.9)	(2329.6)	(2819.5)

(.) Negligible.

Note : Figures in paranthesis indicate trade deficit.

SOURCE : Nepal Rastra Bank, Quarterly Economic Bulletin,
and Trade Promotion Centre, Overseas Trade Statistics

particular increased from N.Rs. 46.7 million in 1978-79 to N.Rs.189.4 million in 1980-81. Nepal, in fact, had a small surplus balance of trade with the ASEAN grouping during 1976-77 as well as 1977-78. Within the ASEAN, for the year 1980-81, Nepal experienced its highest trade deficit with Thailand (N.Rs. 93.02 million) and the second highest deficit with Singapore (at N.Rs. 52.1 million). Its largest trade deficit in 1980-81 with one country was with India at N.Rs. 1186.6 million. Its overall trade deficit in this year (with the world) was N.Rs. 2819.5 million.

Composition of Exports and Imports

Nepal's data base on its trade (overseas and India) is relatively very weak. No data on quantities exported or imported is systematically available product-wise and countrywise for Nepal's trade with the ASEAN countries or "other" countries. Published data is available in value terms at SITC one digit level and relates to "Composition of Foreign Trade with Countries Other than India" from 1974-75 to 1980-81. This is presented in Tables 6 and 7. We have assumed that the pattern of trade depicted in Tables 6 and 7 would generally be applicable to the pattern of Nepal's trade with the ASEAN as a regional grouping.²

² This, of course, is a highly simplified and somewhat unrealistic assumption since a significant part of such trade of Nepal is with the E.E.C. countries which would depict a different pattern than Nepal's trade with the ASEAN Countries. However, we have been constrained by the availability of data to make the above assumption.

TABLE 6

Nepal : Composition of Foreign Trade (Exports), with Countries Other than India 1974/75-1980/81

(In Million Nepali Rupees)

	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
EXPORTS (F.O.B.)	<u>142.8*</u>	<u>292.1</u>	<u>385.2</u>	<u>548.1</u>	<u>646.7</u>	<u>629.6</u>	<u>616.1</u>
Food and Live Animals	24.2	82.5	58.8	183.1	247.0	123.7	104.5
Tobacco and Beverages	-	0.5	10.8	11.0	12.7	1.0	15.0
Crude Materials, Inedibles, except Fuels	38.6	90.1	170.7	189.7	129.4	174.5	117.4
Mineral Fuel and Lubricants	-	0.6	-	-	-	-	0.4
Animal and Vegetable Oil and Fats	-	0.4	0.1	0.2	-	0.5	0.3
Chemicals and Drugs	0.5	3.6	0.2	0.5	0.3	0.8	3.8
Manufactured Goods Classified Chiefly by Materials	17.3	90.2	116.7	114.5	208.1	278.8	235.3
Machinery and Transport Equipments	1.9	2.2	1.3	-	1.6	0.5	0.5
Miscellaneous Manufacturing Articles	45.8	19.9	25.5	48.7	47.5	49.7	438.1
Commodity and Transactions not Classified by Kind	6.5	2.0	0.9	0.3	-	-	0

* Includes one month's estimated figure.

Note: As the figures have been rounded off, total may not tally with their component units.

SOURCE : Nepal Rastra Bank.

TABLE 7

Nepal : Composition of Foreign Trade (Imports), with Countries
Other than India 1974/75-1980/81

(In Million Nepali Rupees)

	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
IMPORTS (C.I.F.)	<u>338.9*</u>	<u>754.6</u>	<u>664.5</u>	<u>935.6</u>	<u>1303.0</u>	<u>1693.7</u>	<u>2249.2</u>
Food and Live animals	9.0	32.9	20.9	37.6	30.2	68.6	127.6
Tobacco and Beverages	2.3	10.4	1.3	15.1	4.1	3.5	0.9
Crude Materials, Inedi- bles except Fuel	17.2	57.6	1.5	10.3	20.0	27.8	46.5
Mineral Fuel and Lubri- cants	2.8	116.6	132.7	159.1	211.7	374.4	531.9
Animal and Vegetable Oil and Fats	0.3	1.9	0.9	6.5	4.0	10.9	68.7
Chemicals and Drugs	44.8	75.2	82.8	85.5	103.3	165.8	253.9
Manufactured Goods Classified Chiefly by Materials	84.4	136.4	160.9	268.9	468.3	487.2	604.1
Machinery and Transport Equipment	113.5	255.3	201.9	273.9	318.0	426.9	403.3
Miscellaneous Manufac- tured Articles	53.2	63.0	53.4	76.3	139.4	122.4	208.2
Commodity and Transac- tions not Classified According to Kind	8.0	5.3	8.3	2.3	4.1	6.6	4.2

* Includes one month's estimated figure.

Note : As the figures have been rounded off, total may not tally with their component units.

SOURCE : Nepal Rastra Bank.

Composition of Exports

Table 6 shows that Nepal's exports to all third countries (other than India) are concentrated mainly in the following broad categories (i) Food and live animals; (ii) Crude materials, inedible, except fuels; (iii) Manufactured goods classified chiefly by materials; and (iv) Miscellaneous manufactured articles. While the percentages of these categories in total exports have varied from year-to-year during the period 1974-75 to 1980-81, the contribution of these four categories together has ranged from 88.1 per cent to 99.3 per cent of total exports. Tobacco constituted around 2 per cent of all such exports in 1978-79 and 1980-81. Nepal's major traditional export products are : (i) Jute; (ii) Tea; (iii) Minerals; and (iv) Forest based products including herbs. Nepal's non-traditional products include : (i) Handicrafts; (ii) Carpets; (iii) Leather goods; (iv) Readymade garments; and (v) Sugar. In recent years, Nepal has been making efforts to diversify its export products and markets.

Composition of Imports

Table 7 shows that Nepal's imports from all third countries (other than India) are concentrated mainly in the following broad categories: (i) Mineral fuels and lubricants; (ii) Chemicals

and drugs; (iii) Manufactured goods classified chiefly by materials; and (iv) Machinery and transport equipment. While there have been year-to-year fluctuations in the contribution of these four main categories of Nepal's imports during the period 1974-75 to 1980-81, the combined contribution of these four categories has ranged from (a minimum of) 72.4 per cent in 1974-75 to 87.1 per cent in these years. Undoubtedly in the wake of the international oil crisis, the import costs on "Mineral fuel and lubricants" had shown the fastest growth from N.Rs. 2.8 million in 1974-75 to a staggering sum of N.Rs. 531.9 million in 1980-81 (accounting for 23.6 per cent share in total imports). In that year (1980-81), "Machinery and transport equipment" accounted for 26.9 per cent share in Nepal's total imports.

Intensity of Export and Import Trade of Nepal with the ASEAN Countries

In order to undertake further analysis of the trade between Nepal and the ASEAN countries during the period 1974-75 to 1980-81, we have computed the Kojima indices of export intensity and import intensity explained in the Introduction to this Volume. We present below the results of these computations.

Export Intensity Indices

Table 8 presents the computed indices of export intensity of Nepal's exports to the ASEAN countries during the period 1974-75 to 1980-81. Except for Indonesia, export intensity of Nepal has generally increased with all other ASEAN countries during this period. The index has been above unity showing over-representation of the following ASEAN countries in its global pattern of exports in the following years: (i) Malaysia : in 1978-79 (at 6.53); and (ii) Singapore (in all the years being considered). This further confirms the earlier observation that Nepal has made conscious efforts during this period to expand its exports to the ASEAN markets, particularly to Singapore.

Import Intensity Indices

The computed import intensity indices of Nepal's import trade with the ASEAN countries during the period 1974-75 to 1980-81 (for which data is available) are presented in Table 9. These indices also clearly indicate increasing trend in import intensities over the period considered with each of the ASEAN countries. These indices have been above unity (showing over-representation in Nepal's pattern of global imports) in the following cases for the years mentioned along with the name of the

TABLE 8

Intensity of Nepal's Export Trade with ASEAN Countries

Country	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
1. Indonesia	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Malaysia	0.02	0.04	0.03	0.07	6.53	0.19	0.30
3. Philippines	0.00	0.00	0.00	0.00	0.00	0.00	0.37
4. Singapore	1.91	3.67	3.07	4.12	2.64	2.23	3.29
5. Thailand	0.00	0.21	0.13	0.68	0.22	0.55	0.46

SOURCE : Computed from data in Tables 1 and 3.

TABLE 9

Intensity of Nepal's Import Trade with ASEAN Countries

Country	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81
1. Indonesia	0.00	0.00	0.00	0.00	0.17	0.64	0.10
2. Malaysia	0.07	0.04	0.12	0.05	0.20	0.19	0.99
3. Philippines	0.00	0.30	0.36	0.32	0.67	1.22	1.09
4. Singapore	0.87	3.44	1.01	1.12	3.54	2.08	2.56
5. Thailand	3.61	1.97	1.85	1.70	2.47	2.37	6.23

SOURCE : Computed from Tables 1 and 3 .

country; (i) Philippines : 1.22 (in 1979-80) and 1.09 (in 1980-81); (ii) Singapore (in all the years except 1974-75 with the highest value being 3.54 in 1978-79); (iii) Thailand (for all the years with the highest value being 6.23 in 1980-81).

Grubel-Lloyd Indices for Intra-Industry Trade

In order to analyse intra-industry trade of Nepal with the ASEAN countries, we have computed the Grubel-Lloyd indices (as defined and elaborated in the Introduction to this volume) for Nepal with Singapore and Thailand during the period 1974-75 to 1980-81. Data for computing these indices have been taken from the Trade Promotion Centre's publication, Overseas Trade Statistics (various annual issues). Intra-industry trade has been recorded for Nepal only with two ASEAN countries during the period being considered - namely Singapore and Thailand. The products involved in the case of Nepal-Singapore intra-industry trade are: (i) Ready-made garments; (ii) Shoes. The products involved in the case of Nepal-Thailand intra-industry trade are: (i) Carpets; (ii) Leather goods; and (iii) Readymade garments. Intra-industry trade in all these cases is small in value (well below N.Rs. 1 million in value terms). Nevertheless, for whatever it is worth, we have computed the relevant Grubel-Lloyd indices for all these cases for which data was available. The results of this exercise are presented in Table 10.

TABLE 10

Grubel-Lloyd Index of Nepal's Trade with ASEAN Countries

Country/ Items	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79	1979- 80	1980 81
<u>Singapore</u>							
Readymade Garments	2.56	0.00	100.00	0.00	0.00	0.00	0.00
Shoes	0.00	0.00	-	-	-	-	-
<u>Thailand</u>							
Carpets	0.00	0.00	0.00	-	22.22	9.09	0.00
Leather Goods	1.80	0.00	0.00	0.00	-	0.00	-
Readymade Garments	1.01	0.64	0.13	0.00	0.00	0.00	0.05

Note : 1. There is no intra-industry trade for Indonesia, Malaysia, Philippines, Pakistan and Sri Lanka.

2. The sign (-) indicates absence of export as well as import.

3. The zero value indicates the presence of either export or import only.

SOURCE : Computed on the basis of data from Trade Promotion Centre (Kathmandu), Overseas Trade Statistics, Various annual issues.

As may be seen from Table 10, intra-industry trade in selected products is only an occasional and somewhat insignificant phenomenon in the case of Nepal. Considering such trade of Nepal with Singapore, it is seen that intra-industry trade in readymade garments is absent in all years being considered except in 1974-75 and in 1975-76. In 1975-76, the Grubel-Lloyd index of this trade with Singapore reached its maximum value of 100 showing that intra-industry trade in ready made garments for that year was perfectly balanced (exports equal to imports). In the case of shoes, intra-industry trade with Singapore was either totally absent or was so small that the Grubel-Lloyd index was nearly zero (considering the results at two decimal places). Almost similar results, were obtained in the case of Nepal's intra-industry trade with Thailand. The Grubel-Lloyd indices were nearly zero for most years in all three products being considered in Table 10. The highest value achieved by the Grubel-Lloyd index was only 22.22 in the case of carpets traded both ways between Nepal and Thailand in 1978-79.

Trade Reciprocity Index

We have also computed the Trade Reciprocity Index (defined and elaborated in the Introduction to this volume) of Nepal with the countries of the ASEAN grouping on yearly basis from 1974 to 1980. These computations have been made from the exports (f.o.b.) data matrix of Nepal's exports to each of the ASEAN

countries and vice-versa.

It may be seen from Table 11 that the Trade Reciprocity Index (O) for Nepal-'ASEAN' trade is at moderate value (above 0.5 for most of the years) avoiding both the extreme values of zero (which would show total lack of trade reciprocity) and one (which would show effect of perfectly bilaterally balanced trade between all pairs of trading partners). There is no clear trend in the computed values of O over the period 1974-75 to 1980-81.

II

INDUSTRIAL INVESTMENT (JOINT VENTURES) AND OTHER ECONOMIC RELATIONS

The industrial investment relations through joint ventures between Nepal and the countries of the ASEAN grouping are very weak. The records with respect to foreign investment in Nepal are not easily available. However, it is known that most of the investment in industrial joint ventures in Nepal has been made by the investors from private sector of India. The investors from the ASEAN countries have so far been involved in only two projects. One of them is the collaborative effort of Comcraft Asia (Pvt.) Ltd., of Singapore with the Hulas Metal Crafts of Nepal to establish a mini-steel plant. The total equity (capital investment) planned in this project is equivalent of N.Rs.18 million

TABLE 11

Index of Trade Reciprocity (Q) of Nepal's Export Trade
with ASEAN

Year	Q
1974 /1974-75	0.497
1975 /1975-76	0.590
1976 /1976-77	0.506
1977 /1977-78	0.553
1978 /1978-79	0.522
1979 /1979-80	0.650
1980 /1980-81	0.512

SOURCE : Computed from data from Nepal Rastra Bank, Quarterly Economic Bulletin (various issues); and Trade Promotion Centre, Overseas Trade Statistics (various issues); and International Monetary Fund, Direction of Trade (Yearbook, various issues).

of which 50 per cent will be contributed in foreign exchange by Comcraft Asia Pvt Ltd., Singapore and 50 per cent by the Nepal Company, Hulas Metal Crafts, Nepal (whose partners are Messrs. G.C. Dugar, H.C. Golchha, D.K. Golchha and C.K. Golchha). This is under construction at present. The second such venture is named Nepal Electric and Electricals Pvt. Limited (based in Kathmandu). The local equity in this project is N.Rs. 5,000 (2 per cent) and the foreign equity is 98 per cent, contributed by a British citizen/resident of origin from Indian sub-continent (32 per cent), an Indian citizen (2 per cent) and a Thai citizen/resident of Indian origin (64 per cent). Unfortunately, this venture has been found to be "not operating". No investment from the Nepalese in the ASEAN countries is reported to have been made.

Foreign banks are not permitted under present laws to operate in Nepal. Thus, no banks from the ASEAN countries operate in Nepal. No Nepalese bank has yet gone into "International banking" by opening offices in any ASEAN country.

TOURISM

Nepal, being a tourists paradise, naturally attracts foreign tourists from all over the world including each of the five ASEAN countries. Nepal is mountainous and land-locked country.

Nepalese generally visit foreign countries including ASEAN countries.

Table 12 provides details of monthly two-way tourism between Nepal and foreign countries (by major destinations) for the year 1981.

As may be seen from Table 12, in the year 1981, about 3,160 tourists from ASEAN countries visited Nepal. This constituted about 7 per cent of all foreign tourists who visited Nepal in 1981. Compared to this, the number of tourists from Nepal to the ASEAN countries was much larger (about 14,074). The largest flow of tourists into Nepal from a single foreign country is naturally from the neighbouring India.

III

PROSPECTS FOR FUTURE ECONOMIC COOPERATION

Nepal can look forward to several areas of economic co-operation with the ASEAN countries in the years to come. In the area of export promotion, ASEAN countries with their high growth experience (as documented in the Introduction to this Volume) can provide additional market for Nepal's traditional as well as non-traditional products especially for tea, jute, minerals, handicrafts, carpets and leather goods. Nepal has been planning diversification of its export products and markets. Nepal has so far not paid adequate attention to promoting its exports to the

TABLE 12

Tourist Arrivals from ASEAN and South Asian Countries 1981

Country	Jan.	Feb.	Mar.	Apr.	May.	June	July	Aug.	Sept.	Octo.	Nov.	Dec.	Total
Indonesia	4	8	16	3	13	14	20	9	12	10	7	20	136
Malaysia	54	19	39	32	13	5	12	29	18	33	140	110	504
Philippines	32	20	43	26	38	20	29	9	28	21	42	24	332
Singapore	28	16	32	47	33	30	40	25	33	39	59	68	450
Thailand	195	237	220	98	72	30	52	47	105	215	319	148	1738
ASEAN	(935)	(318)	(567)	(502)	(503)	(1536)	(1072)	(2511)	(2416)	(1665)	(1057)	(987)	(14074)
Total	313	300	350	206	169	99	153	119	315	318	567	370	3160
Bangladesh	36	55	104	86	106	54	69	57	102	98	70	81	918
India	(23)	(5)	(30)	(25)	(1)	(12)	(6)	(6)	(8)	(5)	(7)	(23)	(151)
Pakistan	2384	1783	3610	3490	9459	4797	3220	2574	3806	6819	3469	4191	49552
Sri Lanka	(774)	(336)	(395)	(933)	(364)	(723)	(1108)	(1477)	(814)	(1002)	(637)	(898)	(9461)
	10	6	16	17	22	12	32	6	18	5	24	14	182
TOTAL	178	756	660	64	46	21	64	113	61	41	151	106	2261
	-	-	-	-	(12)	(6)	(19)	(57)	(9)	(17)	(10)	(7)	(137)
TOTAL	2608	2600	4390	3657	9633	4884	3385	2750	3987	6963	3714	4392	44857

NOTE : (a) Figures in parentheses indicate Nepali nationals going abroad.
 (b) Nepali nationals visiting India includes only those visiting Delhi, Calcutta, Benaras and Patna by air.

SOURCE : Department of Tourism, Annual Statistical Report 1981.

ASEAN markets. A consciously planned strategy needs to be formulated for tapping the ASEAN markets for Nepal's products. Special attention may have to be paid to develop its exports to the Indonesian market where Nepal does not have any exports at present. In addition, Nepal should make special efforts to attract investment from the ASEAN sources for export-oriented joint ventures. We will return to this subject again in the next paragraph relating to possibilities for investment cooperation.

In the field of imports too, Nepal can further intensify its efforts to rationally reduce its dependence on imports from India by looking for selected import products (including some consumer products) with lower costs and assured supplies from some of the ASEAN countries. This can, of course, be done only within limits as Nepal and India trade with each other with free convertability of each other's currency requiring no foreign exchange for financing genuine transactions.

Nepal has started on the programmes of industrialization of its economy only recently. Foreign investment can play a very useful supplementary role to finance the investment requirements of several industrial projects. These have already been identified by the planning authorities in Nepal. They include such areas as power plants, pump sets, match making, mini iron and

steel plants, textiles, leather and leather products, fruit processing, etc. Nepal is already actively exploring the possibilities of further joint industrial ventures in these and other lines with the relatively more industrialised neighbour (namely, India). It should also supplement these efforts by formulating special plans to attract foreign investment from the ASEAN countries through joint industrial ventures in the above-mentioned fields which are relevant to its national needs. The Act Relating to Foreign Investment and Technology of 1982 is pretty liberal. If necessary, this Act can be further liberalised and procedurally further streamlined so that it can be made more effective in attracting investment from the ASEAN countries.

A very special effort needs to be made to promote export-oriented joint ventures in Nepal with the participation of investors from the ASEAN countries. Nepal at present has liberal facilities for its exports to several developed countries under their schemes for Generalised System of Preferences. Nepal also at present faces no quotas on its exports of textiles (especially garments) to the developed member countries of the Multi-Fibre Arrangement. Nepal can have comparative advantage in developing the exports of several labour-intensive products such as garments and leather products. It can also plan investments in selected higher value added electronic products (especially components)

as the necessary manpower is available and its quality can easily be upgraded through marginal investment in training programmes. Such ventures will mainly require cooperation with the multi-national companies (MNCs) from the developed countries. A special effort needs to be made to identify such MNCs who may be planning to shift the location of their manufacturing facilities away from some of the ASEAN countries due to shortages of labour and/or increasing wage rates in these countries. It may also be possible to identify entrepreneurs from the ASEAN countries who are looking for investment opportunities abroad in the export-oriented lines desired by Nepal. Entrepreneurs from Singapore are recently reported to have shown interest in investing in the garments industry in the exclusive export processing zone in Sri Lanka. Similar possibilities may exist for attracting such investment in Nepal and need to be further explored through special studies.

Last, but not the least, in the area of "services", Nepal can mount special efforts to attract much larger number of tourists from the ASEAN countries and, thus, increase its foreign exchange earnings. With the growing incomes, the citizens of the ASEAN countries would be expected to spend more on leisure through tourism. Nepal, known for being "tourists paradise", is likely

to have special appeal for the citizens of the ASEAN countries because of its geographical proximity to these countries and rich cultural heritage. An appropriate marketing strategy needs to be formulated and implemented to tap this potential.

APPENDIX

"SELECTED INDICES TO MEASURE MUTUALITY OF TRADE RELATIONSHIP AMONG COUNTRIES OF AN EXISTING OR A POTENTIAL REGIONAL GROUPING ILLUSTRATED WITH REFERENCE TO NEPAL-ASEAN TRADE RELATIONS"

The following selected indices will be defined and elaborated in this appendix:

I. Trade Intensity Indices

- (i) Import Intensity Index
- (ii) Export Intensity Index

II. Grubel-Lloyd Index for Intra-Industry Trade

III. Trade Reciprocity Index

We now turn to these three sets of indices one by one.

I. Trade Intensity Indices

An analysis of the bilateral trade orientation of India with each of the ASEAN countries can be undertaken by computing the trade intensity indices on both imports and the exports side.*

The import intensity index (m_{ij}) is defined as :

$$m_{ij} = \frac{\left(\frac{M_{ij}}{M_i} \right)}{\left(\frac{X_i}{X_w - X_i} \right)} \dots \dots \dots (1)$$

where,

m_{ij} = import intensity index of trade of country i with country j.

M_{ij} = imports of country i from trading partner j.

* These indices are given in K.Kojima, "The Pattern of International Trade Among Advanced Countries", Hitotsubashi Journal of Economics, Vol.5, No.1, June 1964.

- M_i = total imports of country i
- X_j = total exports of country j
- X_w = total world exports
- X_i = total exports of country i.

The first term on the right hand side of (1) above shows the proportion of total imports of country i accounted for by imports from country j. The second term shows the proportion of world exports net of country i's share. It should be obvious that if $m_{ij} = 1$ (unity), i.e., when these two terms are equal, this would imply that country i accounts for the proportion of country j's exports identical to country j's importance in the total (net) world exports. If this index is numerically greater than unity, this would imply over-representation of country j in country i's imports; on the other hand, a value of less than unity of this index would imply under-representation.

Similarly, export intensity index (x_{ij}) can be defined as:

$$x_{ij} = \frac{\left(\frac{X_{ij}}{X_i} \right)}{\left(\frac{M_j}{M_w - M_i} \right)} \dots\dots (2)$$

where,

- x_{ij} = export intensity index of trade of country with country j.
- X_{ij} = exports of country i to trading partner j
- X_i = total exports of country i
- M_j = total imports of country j
- M_w = total world imports
- M_i = total imports of country i.

The first term on the right hand side of (2) above indicates the proportion of total exports of country i accounted for by country j. The second term there shows the proportion of world imports net of country i's share accounted for by country j. The equality of these two terms would again lead to the value of this index to be unity which would imply that country j accounts for country i's exports in the same proportion as country i's share in total (net) world imports. Again, a value of this index which is greater than unity would imply over-representation of country j in country i's exports, while a value less than unity would imply under-representation.

It should be noted that the values of the above trade intensity indices are influenced by several factors such as the historical patterns of trade, geographical proximity, political relationships among nations, degree of competitiveness and/or complementarities in the trade and economic structures of the partner countries, trade barriers (especially quotas, etc.) brand loyalties, and the competitiveness of the products in international trade.

II. Grubel-Lloyd Index for Intra-industry Trade

The trade intensity indices defined in Section I primarily dealt with inter-industry trade. To complete the picture, the changing nature of bilateral trade on intra-industry basis can be examined by computing the following Grubel-Lloyd (G-L) index* (denoted by B_i) :

* H.G. Grubel and P.J. Lloyd, Intra-Industry Trade: The Theory and Measurement of International Trade in Differentiated Products, London : The Macmillan Press, 1975, p.21.

$$B_i = \left[\frac{X_i + M_i - |X_i - M_i|}{(X_i + M_i)} \right] \cdot 100 \dots (3)$$

where,

B_i = intra-industry trade index (or G-L index) for industry i ; X_i & M_i = Value of exports and imports for industry i respectively.

$i = 1, \dots, n$ where n is the number of industries at a chosen level of disaggregation.

It can be noted that the value of B_i will always lie between zero and 100. The index $B_i = 100$ when the exports are exactly equal to the imports of an industry. $B_i = 0$ (Zero) when there are exports but no imports or vice-versa. This shows complete specialization in trade between two countries in a selected product. In this case intra-industry trade is said to be at its optimum.* Whenever the value of exports equals one half the value of imports or vice-versa, $B_i = 0.666$.

III Index of Trade Reciprocity

In order to measure the reciprocity in the overall balance of trade of any two partner countries (or groups of countries not

*There are several problems in the measurement of the G-L indices of which we list two major ones here. The first one relates to the definition of the "industry" itself for empirical measurement. The index is sensitive to the definition of industry adopted. In general, the proper (more aggregative) the product grouping, the greater the extent of over-estimation of intra-industry trade. Keeping this in mind, we have only computed G-L indices at the most disaggregative level available (Six Digit Level) in trade statistics. The other set of measurement problems arise when trade imbalances are very large at the level of the industry being considered. We have ignored these problems for our purpose.

including all trade partners at the global level), we have devised the trade reciprocity index (θ) as follows: *

$$\theta = 1 - \frac{\sum_{j=1}^n \left[\frac{a_{ij} - a_{ji}}{a_{ij} + a_{ji}} \right] \sum_{i=1}^n a_{ij}}{(n-1) \left[\sum_{i=1}^n \sum_{j=1}^n a_{in} \right]}$$

where, a_{ij} = exports of country i to partner j

a_{ji} = exports of country j to partner i

n = total number of countries involved in the context of bilateral or regional grouping being considered.

The index θ will always lie between zero and one. When every pair of countries in a group tends to have a balanced bilateral trade (case of perfectly balanced two-way trade), the value of θ reaches its maximum (i.e., unity). On the other hand, when there exists only one-way flow of trade between the pair of trading partners (say, complete dependence of country A on country B for its imports or exports), the value of θ is at its minimum (i.e., zero). This

* Charan Wadhva, "Note on the Revised Index of Complementarity considering Trade Values", Mimeo, March 1982. The earlier version of this note was presented for discussion at a Workshop on UNCTAD (Asian) Studies at Marga Institute, Colombo, during December 14-17, 1981. This index can be computed either at the overall level of balance of trade or sectoral level of trade (industry-wise) for any pair of trading partners. It can be better called as an index of trade reciprocity" rather than as an "index of complementarity" as called by us earlier as its link with complementarity at the disaggregate level of trade is at best indirect and only implicit by assumption.

index thus measures the degree of trade reciprocity. It can be measured at bilateral as well as multilateral levels for a group of countries. It is extremely useful in the context of schemes of regional trade cooperation among partners who are facing (or apprehending) balance of trade difficulties. These countries would like to enter into schemes for further mutual trade expansion (such as negotiated reductions in tariffs on each other's products or preferential procurement say, through their State Trading Organisations), only if the degree of multilateral reciprocity in trade increases on the whole or at least at the margin so that the two-way additional trade created is balanced (or nearly balanced); and further if this process is supported by multilateral schemes of payments arrangements so that it does not add to the stress on their existing balance of payments difficulties. This would generally require the cooperating trading partners to carefully plan trade in products which are complementary to the trade and economic structure of the concerned countries (or group(s) of countries).

It needs to be pointed out that the index θ suffers from some limitations. One of the limitations of this index is that by itself it measures trade reciprocity at a given (static) level of trade between the partner countries. Thus, it cannot clearly distinguish between the degree of trade reciprocity prevailing at varying levels of trade between trading partners: Thus, for example, compared to an initial situation in year 1 when $\theta = 1$ at the then prevailing levels (values) of trade between partner countries, θ can be equal to unity (again) in the next year (year 2) under severe recessionary conditions when the relevant levels of trade may have in fact been much lower. While comparing the computed values of θ over time, it is also essential to simultaneously examine the trends in the overall growth of trade between various pairs of trading partners before drawing inferences regarding increase (or decrease) in the degree of trade reciprocity over time.