

Nepal-India Trade Rapprochement: A Way Forward

Prof. Krishn A. Goyal

Department of Business Finance
& Economics & Director,
Institute of Evening Studies,
Jai Narain Vyas University, Jodhpur
Email: kag.bfe@jnvu.edu.in

Rekha Verma

Research Scholar,
Department of Management Studies,
Jai Narain Vyas University, Jodhpur
Email: rekhavrm13@gmail.com
Corresponding Author

Sudha Bishnoi

Research Scholar,
Department of Management Studies,
Jai Narain Vyas University, Jodhpur
Email: sudh9156@gmail.com

Abstract

Nepal is a country of abundant natural resources, rich culture, liberal policies, and a large number of young populations. With this vast diversity, it also has a high potential for economic connectivity, as Nepal is a top priority nation under India's 'Neighbourhood First' strategy. Indo-Nepal trade and economic cooperation are indispensable for both economies as well as for the growth of the South Asia region. The strategic interests of both countries coincide to a great extent based on their close geographical proximity. In addition to providing transit for nearly all of Nepal's third-country trade, India is the country's foremost trade partner and source of foreign investment. This study focuses on Indo-Nepal trade links and trade patterns. Analyses the breadth of Indo-Nepal trade ties as well as possibilities for improvement. The findings of the study are substantiated by analysing trade volume and balance of trade for the period ranging between 2010 to 2020. The outcome of the study reveals that India accounts for over fifty percent of Nepal's overall trade volume during the period of study. Aforesaid findings support India's status as a vital trading partner for Nepal. Results endow with an immense future trade potential between India and Nepal. This study will help the policymakers, importers, exporters, and research scholars of both countries.

Keywords: India, Nepal, Export, Import, Trade relations.

JELClassificationCode: P45, F18, F53.

Introduction

A landlocked country's foreign trade is strongly reliant on bordering nations for unfettered access to trade channels and transit. Being a landlocked nation situated between China and India, limiting its trade choices with other countries. Nepal's topographical constraints highlight the importance of bilateral trade with India. Prior to 1923, 95% of Nepal's total trade were to India (Pant, 1962). Nepal and India have a strong trade relationship. Several treaties were signed to strengthen cooperation based on mutual trust and friendship. The 'Indo-Nepal Treaty of Peace and Friendship,' signed in 1950, enabled open borders, the absence of a visa system, and free movement of individuals and trade

between the countries, thereby strengthening strategic ties. As a result, India has become an important trade partner for Nepal, serving as a transit point for 3rd country trade.

About two-thirds of Nepal's merchandise trade is currently with India (Embassy of India Kathmandu, Nepal, 2021). The trade figure of the current study reveals exponential increase in the bilateral trade volume between the two countries during 2010-2020. Nevertheless, due to its landlocked status and lack of commercial diversification, Nepal's trade imbalance with India is growing. Besides trade deficit, Indo-Nepal trade has its importance for the economic development of both countries.

People in India and Nepal are culturally, religiously, economically, ethnically, historically, socially related. India is eager to help Nepal in realizing its aspiration of being a prosperous nation. Since the country's independence, Nepal has received aid from India. When an earthquake struck Nepal in 2015, India provided emergency food and supplies to the disaster-stricken country. During the COVID-19 pandemic, India supplied one million doses of the Covi-shield vaccine to Nepal as humanitarian aid.

Review of literature

Nepal and India have been trading partners since the beginning of time. Prior to the Nepal-Britain Treaty (1923), Nepal's commerce with India accounted for far more than 95 percent of overall trade; presently, it accounts for barely 65%. Nepal's import relations with India is exponentially greater than its export and overall trade balance; as a result, country's trade balance with India has been rising at an unusually high rate (Kharel and Chalise, 2020).

As Nepal's biggest trade partner, the top source of imports, the major dealer in overseas investment equity, and one of the greatest givers of international support, India is a key participant in the area. Nepal is permitted to cross India's borders in order to access international seaports. There is much room for policy changes that will boost bilateral commerce and FDI between the two countries (Taneja, Bimal, and Garg, 2020). Prior to 1990, the proportion of inflow and outflow intensive trading Gross Domestic Product in the Import Intensive and Export Intensive Trade Policy had a significant impact, with a significant value

shift after 1990. However, India has prioritized the reduction of trade barriers with Nepal. As a result, the rate of expansion in Indo-Nepal trade has accelerated since 1990. The effective Nepal trade strategy has resulted in significant trade development between India and Nepal (Shah, 2017). In terms of agricultural imports, India accounts for more than 43% of total imports from Nepal and its proportion in overall agricultural commodity exports from Nepal increased dramatically. Since the signing of the agreement in 1996, India has been Nepal's most important trading partner (Pandey, Kumar, Agarwal, et al., 2014).

Several accords that have been renewed and changed over the years regulate India's trade and economic relations with Nepal. One of these is the Treaty of 1996, which guaranteed Nepal duty-free access to its exports, resulting in a 4.32 percent annual average growth rate. Even though this pact strengthens Nepal's foundation, it results in a significant reduction in 2001-2002. Because of the country's landlocked status, Nepal's commercial relationship with India is vital (Gautam, 2018). The Indo-Nepal trading alliance is based on mutual trust, despite attempts to undermine it. As a result, bilateral paradoxes have evolved, highlighting shortcomings in maximizing the benefits of bilateral collaboration by probing bilateral disparities (Shah, 2017). When the predicted economic repercussions for the initiator country are minimal, India's readiness for pursuing a trade embargo (a limitation on import or export to or from one or more countries) with Nepal shows that the chance of a it being imposed increases. Because of India's massive domestic market, a trade standoff with Nepal posed less of a concern to India. Nepal, on the other hand, stands to lose everything due to its dependency on India for commerce and trade passage to other nations. Despite internal and international indignation over the ethical basis of the embargoes (placed by India in 1969, 1989, and 2015), the Indian province's commitment to this policy exposes the LLS to diplomatic pressures (Chand, 2018).

Local coordination committees must play a key role in addressing some of the issues that arise as a result of inter-border disruptions. As a result, India and Nepal must collaborate to discover better solutions to border issues to prevent terrorists, smugglers, human traffickers, criminals,

and narcotics purveyors from crossing their common border, while allowing legitimate export and import to pass through (Kaur, 2018). India has a considerable impact on Nepal and its policy decisions due to its geographical vicinity, socio-cultural compatibility, and economic dependency. In August 2014, Indian Prime minister Modi's first visit to Nepal, was a huge success, with all Nepalese political parties enthusiastically welcoming him as part of the government's "neighbourhood first" strategy (Kandel, 2020). Because Nepal's overall trade with the globe is now modest, trade diversion implications would be minimal. India would attract import substitution firms because it is a developing country with enormous natural assets and substantially higher external economies in terms of labour skills and administrative knowledge. As a result, Nepal would be compelled to move to India for the same things it had previously received from all over the world. Nepal can diversify its commodities and trade markets, as well as strengthen its economic structure (Shrestha, 2014).

In addition, there are still some border disputes between these two friendly neighbours, which have been a cause of contention in the past. One such example is the Madheshi community, which in 2015 blocked the Nepal-India border, with ramifications for bilateral ties and a devastating impact on their inter-trade links. (Tripathi, 2019). The Indian side has advocated for the closure of the Indo-Nepal border due to the misuse of borders for a variety of criminal activities. The social and political consequences of a closed border are high in both countries. As a policy goal, the 'middle route' of a controlled open border needs to be sought (Das, 2008).

Objectives

1. To examine the burgeoning Indo-Nepal trade relationship.
2. Comprehensive review of all facets of trade ties of these two nations.
3. To analyse trade volume of Nepal with India and the whole World.
4. To compare Balance of trade position of Nepal with India and the whole World.

Research methodology

Nepal's trade figures have been examined concerning India

and the world in this research study to determine the country's trading priorities and importance with India. Secondary data over a decadal period spanning 2010 to 2020 was collected as the basis for this research. India's percentage of Nepal's total exports and imports was computed to compare the countries' export and import priorities in the Indian and global markets. In addition, the contribution of India to Nepal's overall trade value and BOT (Balance of trade) status were calculated. These goals are met through researching Indo-Nepal trade ties and analysing data from the IMF Dots, ITC trade map, websites of the Nepalese and Indian embassies, RBI periodicals, journals, and other sources.

Review of Nepal-India Trade Implication

Both sides made headway on a comprehensive bilateral agenda, which included assessing trade and transit agreements, as mentioned below:

Trade treaties between Nepal and India

Before 1923, there had been no formal agreements. The first agreement initiated was called the "Nepal-Britain Treaty" signed in 1925 to secure and develop amity and peaceful relations between Nepal and Britain. The Treaty of Peace and Friendship signed in 1950 that has been inked to "strengthen and deepen these connections and to perpetuate peace between the two countries". The treaty's key clauses are for Nepalese and Indians be accorded "national treatment" in both nations. According to the pact, India would formally grant Nepal transit to access to the rest of the globe, which will be a significant gain for Nepal.

Following are some bilateral treaties which were signed in 1971 (and revised in 1991, 1993, 1996, 2002 and 2009). These treaties pave the way for tariff and other duty reductions upon items supplied from both countries. The original 1971 pact permitted duty-free imports of 14 primary commodities, which were raised to 16 in 2009. On India's side, there is a rule of origin requirement, which is crucial for Nepal's concession. The Treaty of 1971 gave India duty-free access to import of goods that contained 90% Indian or Nepalese material content, exported by Nepal. This treaty of 1971 was then revised in 1991 and in 1993, as the provision for duty-free access to import of goods containing material content was reduced to 80% and

50% respectively. In 1996, addition to the Trading Treaty, India granted duty-free access to all Nepal origin products with no value-added limits on the rationale of a certificate of origin. Under SAARC's South Asian Free Trade Area (SAFTA) agreement, both nations also accord each other trade concessions. Except for 1062 items (HS 6-digit level) included in the sensitive list, Nepal is expected to offer 0% tariff on other products under the SAFTA agreement which is still not received by India (Taneja & et al., 2019).

A Transit Treaty between both countries permits them to go via the territory of the other on mutually agreed routes. It was signed on January 6, 1999, with an addition, and has been automatically renewed every seven years since then, with the most recent renewal occurring in 2020. The Treaty, as well as the accompanying LoEs (letters of exchange), allow Nepalese goods to freely travel across India's road, rail, and port networks.

Trade blockade

In response to Indian worries about constitutional amendments, withdrew Indian security check-posts and

significant ethnic unrest in Nepal, India has imposed unofficial blockades that was essentially held in 1969, 1989, and 2015. The blockade not only stifled petroleum production, but it also stifled demand for medications, firewood, resurrected a black market for domestic fuel use, hampered textbook production due to a scarcity of paper and ink, earthquake relief materials, and caused severe economic hardship.

Nepal-India Trade Statistics

Nepal exports primarily to the South Asia region and shows overtrading with India of over \$1 billion. Nevertheless, further disintegration between exports and imports indicates that Nepal under export to India, even as it imports more than the gravity model predictions. Nonetheless, Nepal has the potential to 'quadruple its exports to South Asia' (Kathuria). Important statistics concerning Nepal's export, import, trade volume and balance of trade with India and the whole world at large can be found in the tables below.

Table 1 - Nepal's Export Statistics (in US Million Dollars)

Year	Export to India	Export to World	India's Share in Total Exports of Nepal
2010	570.59	890.65	64.06%
2011	614.38	926.70	66.30%
2012	601.18	889.18	67.61%
2013	578.09	880.83	65.63%
2014	584.11	920.50	63.46%
2015	419.09	677.81	61.83%
2016	394.60	743.23	53.09%
2017	420.18	756.50	55.54%
2018	461.82	798.19	57.86%
2019	659.58	980.36	67.28%
2020	648.21	908.04	71.39%

Source: International Monetary Fund, Direction of Trade Statistics (IMF DOTS) database 2022 and author's calculation.

Table 1 demonstrates that the percentage of Nepal's export to India is accounted for a large percentage in its total export to the World during the span of study. Nepal has the highest export of US\$659.58 million and US\$648.21 million to India for two consecutive years 2019 and 2020, which accounts for 67.28% and 71.39% of its total World export. The Consequence of 2015's trade blockade seen on reduced

Nepal's export for two consecutive years 2015 and 2016 that accounted for US\$419.09 million and US\$394.60 million respectively. According to Nepal's export data, India accounted for more than half of the country's overall export throughout the study period. This illustrates that India is Nepal's most important export partner.

Table 2- Nepal's Import Statistics (in US Million Dollars)

Year	Import from India	Import from World	India's Share in Total Imports of Nepal
2010	3,252.66	5,143.38	63.24%
2011	3,751.68	5,947.06	63.08%
2012	3,935.46	6,042.71	65.13%
2013	4,103.81	6,481.01	63.32%
2014	4,935.20	7,620.88	64.76%
2015	4,008.22	6,633.80	60.42%
2016	5,816.21	8,906.05	65.31%
2017	6,519.70	10,097.14	64.57%
2018	8,327.40	12,932.96	64.39%
2019	7,777.21	12,397.53	62.73%
2020	6,467.92	10,402.02	62.18%

Source: International Monetary Fund, Direction of Trade Statistics (IMF DOTS) database 2022 and author's calculation.

Table 2 indicates that Nepal is more reliant on Indian exports than other countries' imports. Nepal's Import from India shows increasing trend for the period of study except for 3 years 2015, 2019 and 2020. 2018 marked as highest Nepal's import from India was US\$8,327.40million, and

US\$12,932.96million from the world. India accounting for 65.31 percent in Nepal's total imports for the year 2016. Throughout the study period, India records more than 60 %in Nepal's total imports. According to the statistics, India is Nepal's primary imports partner.

Table 3-Nepal's Volume of Trade (in US Million Dollars)

Year	Nepal's Trade Volume with India	Nepal's Trade Volume with World	India's Share in Total Trade Volume of Nepal
2010	3,823.25	6,034.03	63.36%
2011	4,366.06	6,873.75	63.52%
2012	4,536.64	6,931.89	65.45%
2013	4,681.90	7,361.84	63.60%
2014	5,519.30	8,541.38	64.62%
2015	4,427.31	7,311.61	60.55%
2016	6,210.80	9,649.28	64.37%
2017	6,939.88	10,853.65	63.94%
2018	8,789.22	13,731.15	64.01%
2019	8,436.78	13,377.89	63.07%
2020	7,116.13	11,310.06	62.92%

Source: International Monetary Fund, Direction of Trade Statistics (IMF DOTS) database 2022 and author's calculation.

Nepal's trade volume with India has always been found higher than its trade volume with rest of the World, visible in Table 3. Nepal's trade volume gradually increased with India over the years. In 2010, it was US\$ 3,823.25 Million and in 2020 was US\$ 7,116.13 Million. Nepal marked the highest trade volume of US\$8,789.22 Million with India in 2018 reckoned for 64.01% in its total trade volume. Nepal's

Trade Volume with World also shows increasing trend from US\$ 6,034.03 Million in 2010 to US\$ 13,731.15 Million in 2018 except for three years 2015, 2019 and 2020.

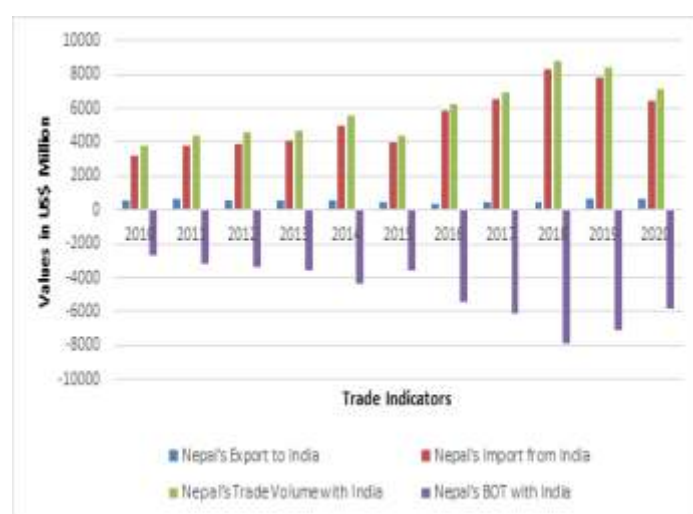
Besides these figures, Nepal has a significant difference between its exports and imports. As a result, its trade balance is in deficit, as shown in Table 4.

Table 4- Nepal's Balance of Trade (in US Million Dollars)

Year	Nepal's BOT with India	Nepal's BOT with World	India's share in Nepal's total BOT
2010	-2,682.06	-4,252.72	63.07%
2011	-3,137.30	-5,020.36	62.49%
2012	-3,334.28	-5,153.53	64.70%
2013	-3,525.71	-5,600.18	62.96%
2014	-4,351.09	-6,700.37	64.94%
2015	-3,589.13	-5,955.99	60.26%
2016	-5,421.61	-8,162.82	66.42%
2017	-6,099.52	-9,340.64	65.30%
2018	-7,865.59	-12,134.77	64.82%
2019	-7,117.63	-11,417.17	62.34%
2020	-5,819.71	-9,493.98	61.30%

Source: International Monetary Fund, Direction of Trade Statistics (IMF DOTS) database 2022 and author's calculation.

Table 4 displays all the negative figures of Nepal's balance of trade. Data revealed that country always has trade deficit during the period of study. Nepal's trade deficit with India has grown over the year but in 2015, 2019 and 2020 BOT has dropped down respectively -US\$3,589.13million, -US\$7,117.63 Million and -US\$5,819.71 million. During the year 2016, India accounted for maximum 66.42 percent in country's trade deficit. India was the source of more than 60% of Nepal's overall trade imbalance during the study period.

Figure 1: Nepal's trade with India (in USmillion dollars)

Source: International Monetary Fund, Direction of Trade Statistics (IMF DOTS) database 2022 and author's calculation.

Figure 1 illustrates an almost staggering mirror image of Nepal's overall trade volume and trade balance. This is because of its imports which are far more than the country's exports. This is a matter of worry for Nepal facing a steep increasing trend of trade deficit. In 2018, Nepal recorded the highest trade deficit with India of -US\$7,865.59 million dollars out of a total trade deficit of -US\$12,134.77 million. On the other side of the coin, for the whole period of study except for years 2015, 2019 and 2020 Nepal's trade depict decreased compare to the preceding years, witness of country's trade competence has improved.

The trade imbalance is due to Nepal's landlocked status and the absence of a suitable market for Nepalese-produced commodities in the Indian market. In terms of business, trade has been hampered by the difficulty of competing in the Indian market due to pricing, quality, supply capabilities, product disqualification, regulations, procedures, and duties, as well as excessive documentation. Furthermore, the difficulty between Nepal and India stems from their shared open border, as well as the unregulated informal trade that occurs across it.

Delegation-level talks, discussions, visits of leaders and various bilateral and multilateral summits held continuously to nurture trade relations and discuss the trade deficit of Nepal. In the sphere of commerce and trade, the Meeting of the Nepal-India Joint Commission (JC) and Inter-Governmental Committee (IGC) between both

nations hold on to further support the expansion in economic and commercial ties. Nepal's trade volume with India swelled up over the years as a result of these attempts. In truth, India is Nepal's only commercial partner, and exports to India have gradually increased over the previous two to three years. Rosin, noodles, shoes and toothpaste, are emerging export items. Energy, drinking water, saffron, mushrooms and floriculture goods all have a lot of potentials (Embassy of Nepal New Delhi, India, 2021). The major import items Petroleum, machinery and part, iron and steel, and vehicles and parts account for 40% of overall import costs. Petroleum items are Nepal's most expensive import, costing Rs112.02 billion burdened its balance of trade (The KathmanduPost, 2022).

A Way Forward:

In a globally competitive world, India and Nepal strove to strike a balance between India's "Neighbourhood-First" policy and Nepal aspires to transition from being a least developed nation to a developing nation. Infrastructural development, human resource capacity development, and trade facilitation logistics have all benefited from Indian support. Nepal and India are working in the sector of hydropower, and Nepal's surplus electricity might be exported to India, reducing its significant trade deficit and generating revenue for the country. In coming years, it might be extended to other South Asian countries to truly comprehend regional benefits (Parikh & Parikh, 2017).

As of to the trade realities, Nepal imports more from India than its export. The present volume of exports doesn't adequately demonstrate Nepal's trade power and capabilities, as the country has significant untapped export potential. From US\$3,823.25 million in 2010 to US\$10,094.72 million in 2022, trade between the two countries has expanded considerably. But at the other front, The country's trade imbalance with India, which was - US\$2,682.06 million in 2010, would increase to - US\$8281.55 million by 2022. Nepal can minimise its trade deficit through improving basic industrial infrastructure, trade facilitation through policies and plans, transparent nontariff measures, export-led strategies, laws on informal trading, and increased supply capacity. Furthermore, Nepalese exports to India must be given preferential

treatment under the Indo-Nepal trade and transit agreements.

The immense potential for unexploited vegetable exports and also focus on comparative advantages when exporting labour-intensive items like handicrafts, carpets, and other fabrics, felt products and indigenous artefacts. Exploration of Nepal's natural resources and mineral mines is also crucial for the country's economic growth. India is Nepal's greatest trading partner as well as a key developer. Maintaining robust bilateral trade linkages with India is crucial for Nepal in the future.

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