

CHAPTER - I

INTRODUCTION

1.1 Background

Despite its landlocked nature, Nepal is a burgeoning economy that is heavily trade dependent especially with India. Foreign trade-notably exports was the engine of growth for most of the 1990s. Nepal's trade performance over recent years has been highly variable. The country's trade sector has been affected by structural, cyclical and trade relation factors. The low and imitated exports base, recession in international economic, trade-treaties changing international trade framework, trade barriers and phasing out of certain trade agreement have had an effect on Nepal's trade growth. Until the beginning of 1970s, Nepal's trade was almost directed towards India and the diversification began in the beginning of 1980s with some attractive export incentives. From 1990s till now, two exportable products, namely hand. Knotted woolen carpets and readymade garments are still in prime-place of export, which alone make (2/3 in 2004/05, 4/5 in 1999/00) of overseas (other than India) exports and 1/5 of total exports.

Nepal's trade direction in last 30 years is learning back and forth vis-à-vis India and overseas, indirect subsidies were prevalent until the end of 1980s to appeal exports to intensify their efforts in overseas front with view to expand and diversify overseas trade and to shift from heavy dependency on India from trade concern however, the schemes witnessed large misuse which resulted in the withdrawal in the beginning of 1990s. The middle of 1980s witnessed the turn around as the Nepal's international trade started to go in overseas direction which lasted until the year 2000. Since then it has gone again in favor of India constituting up to 65 percent of entire trade despite Nepal's diversification efforts. This is largely due to the petroleum imports from India since then, which alone makes up 1/4 of total imports from India and a little less than 1/5 of total imports. Slow growth of exports to India until mid-1990s was suddenly reenergized after the conclusion of Nepal- India trade agreement in 1996. The treaty did away with the prevalent positive list concept and reversed the concept introduction small negative list of products, which allowed all other products of Nepalese origin get privileges of duty-free excess to India with out quantitative

restrictions. New industries like acrylic yarn, textile, vegetable ghee, zinc oxide and copper products, herbal products oral products soaps and toiletry came in, which surged the export India substantially increasing the proportion of export to India to 40 percent of the total from about 15 percent in nearly 1990s. The average export growth to India during 1997-2000 periods jumped to about 60 percent relative to 35 percent during 1992-96 periods. The renewed trade treaty with India in 2002, differing with the spirits of 1996 treaty, introduced rules of origin criteria which require changes in customs tariff heading and more value addition. Moreover, quantitative restrictions were imposed on export of four items namely, vegetable ghee, acrylic yarn, zinc oxide and copper products.

Nepalese foreign trade structure is broadly categorized into two parts viz. foreign trade with India and overseas. Expansion of trade with overseas countries substantially increased form 1970. Due to political instability and absence of necessary technical and financial support expanding of overseas export constraint. India has been one of the most important trading partners of Nepal. Firstly, close historical, geographical and cultural ties between Nepal and India secondly; landlocked position of the Nepal there is no options to sea other than in India. Nepal witnessed spectacular growth in export to India until few years after the 1996 trade treaty was signed. Exports to India grew by about 50 percent average during the 1998-2000 periods. Indeed, the strong growth which started in 1996 has allowed Nepal to narrow its substantial trade deficits with India. The change in policy under bilateral trade treaty, from virtual free trade in 1996 to one with a number of restrictions, has had an immediate negative effect on Nepal's formal export trade with India. In 2003, Nepal witnessed negative export growth to India resulting to widening trade deficit with her.

In the recent years the total share of trade with India is increasing 60.3% (2004/05), 63.1% (2005/06) and 64.6% (2006/07) where export share with India 69.41% (2006/07) and import share 62.9% (200/07), (Economic survey, 2006/07). The history of trade between Nepal and India is as old as the existence of the two countries for a long time and in terms of present volume, similar socio-Economic culture and access to sea only through the India.

1.2 Statement of the Problem

Although foreign trade plays crucial role in the development process of the less develop country, but Nepalese foreign trade hasn't achieve the enormous benefits form foreign trade even after entering on the path of development. Overdependence on agriculture sectors and slow growth of non-agriculture sectors, Geographical constraint and exportable items are extremely confined to primary, manual products and herbals are the serious problems on other hand increasing import and decreasing export day by day shows that poor performance of Nepalese foreign trade.

The dependency of Nepalese trade concentrated in India shows vulnerability of Nepalese trade on other hand industrial products occupy a small proportion so that the trend and structure should be analyzed trade and transit treaties with India have been taking place with regular modification in (1923, 1950, 1960, 1971, 1978, 1983, 1991, 1996, 1999, 2002). Nepal has granted almost free access to India goods ever since its first agreement on trade and transits with British India in 1923. Nepal India trade treaty was renewed in March 2002. The treaty on transit between Nepal and India has been renewed on 1st April 2006. It was made effective from 1st January 2006 and will be remain valid within January 2013, besides the approval of various treaties in between Nepal India. Nepalese products yet have not got market access in Indian market as committed on agreement. This is the main problem in the bilateral trade between these countries.

To improve foreign trade government is making continuous efforts to liberalize and modernize trade system and procedures. Since the beginning of 1980s, Nepal has adopted the policy of economic liberalization as a result, most of the economic sectors are open for private sector. Foreign investment in most of the economic activities including banking, agro based industries, tourism, communication, Hydroelectricity is permitted.

Measures of trade facilitation is another effort of the government to increase the external trade facilitation measures can reduce these hindrances and words that end need serious consideration by all countries including by those in south Asia. It is however, important that trade facilitation is looked at from a broader perspective rather than a narrow framework of customs administration only review of country's

foreign trade with major trading partners including regional and global neighbors and overseas partners regarding existing trade infrastructure, support services regulatory frameworks and bilateral, regional and global commitments it is a necessary condition to analyze how trade and transport operations are carried out? This exercise can help identify obstacles and costs incurred in international trade. Such understanding will support the formulation of trade facilitation measures. A study conducted by Prof. Dr. Bishwambhar Pyakurel states that priorities in Nepal's trade facilitation may include.

-) Trade facilitation institutional structure
-) Collect feedback from industry players.
-) Revise trade and customs law and regulations.
-) Simplify, standardize and harmonize import-export and custom procedures.
-) Implementing effective trade and customs enforcement.
-) Implement effective information dissemination:
-) Applying information and communication technology (ICT)
-) Review and assessment of results.

Although government is making continuous efforts to liberalize and modernize trade system and procedures but export trade is not promoted properly.

In view of all these, it is self-important to study Nepal-India trade focusing on its trade agreement, trend, structure and determinants of trade between two countries during 1990 - 2007. At the same time, it is imperative to arise the pertinent question what is the recent trade scenario of Nepal with India similarly, another question is how Nepal should achieve maximum benefit in compliance with the World Trade Organization (WTO) and South Asian Free Trade Area (SAFTA) provision. Hence the study of Nepalese foreign trade with India would shed valuable lights on the problems of promoting Nepal- India trade.

1.3 Objectives

The general objective of the study is to examine the trend of Nepalese foreign trade with India.

The specific objectives are as follows:

- a) To review the major Indo-Nepal trade agreement.

- b) To analyze the volume, trend and direction of export and import with India during 1990/91-2006/07.
- c) To examine the factors of export and import trade with India during the period 1990/91-2006/07.
- d) To suggest recommendations for enhancing Nepal- India Trade.

1.4 Hypothesis

This study tries to test the following hypothesis.

1. Country's export and GDP have positive relation.
2. Country's import and GDP have negative relation.
3. Relative prices have positive association with export growth.
4. Relative prices have negative association with import growth.

1.5 Significance of the Study

Nepal can acquire immense comparative advantage from foreign trade by disseminating exportable commodities because still they are primary and agricultural products. Study of foreign trade between Nepal and India provides new insight, which would be very needful for uplifting the national economy. Many industries in Nepal are not in a position to compete with Indian industries and they are far even to meet the internal demands of goods. Bilateral trade between Nepal and India plays dominant role to cater specialization and division of labor in production and market access to developing country like Nepal. It is considered not only as a device for achieving productive efficiency but also it is the engine of economic growth. So trade relation between Nepal and India plays dominant role in the economic development of Nepal. Hence this study arguments the Nepalese landlockedness in to open.

Due to on direct access to sea to foster foreign trade, Nepal's trade market exhibits highly centered to India. Therefore, it is hard to connect a direct route to china. Hence, the trade diversification is not possible without co-operation and good trade relation with India. So, it is prone to study that trend volume, magnitude and direction of Nepal's foreign trade and observe the performance with India, there by

Nepal is capable of supplying goods and services to India at comparative cost advantage.

1.6 Limitation of the Study

-) This study is based on published secondary data and information from (1990-2007) and an attempt has been made to examine the reliability of the data. (trade scenario after established of multi party system)
-) This study doesn't deal with the informal trade between two countries.
-) Third countries have been taken here only for comparison with India.
-) Simple statistical tools and models are used to examine the determination of export and import.

CHAPTER - II

REVIEW OF LITERATURE

A study by **CEDA (1969)**, focuses on analyzing the contemporary trade situation between India and Nepal. The study contains two papers one by Pashupati Shamshare J.B. Rana and the other by Prakash Chandra Lohani. This study is made on the eve of 1971 Treaty of Trade and Transit. The papers highlight the contemporary trade situations which are still relevant today. The paper "Indo-Nepalese Trade Today and its Policy Implication for Nepal" by Rana focuses on trade instead of aid for long-run prospectively. On other hand the paper "India-Nepal Trade Relation" by Lohani Doubts on India's policy in Nepal about honoring Nepalese nationalism and suggests on the co-operation of trade and transit facilitation.

Baskota (1981), analyses the trends of Nepal's foreign trade and economic relation with India. Based on the data from 1950 to 1980, he examines the prospects of economic gain if two developing countries co-operate in trade and economic fields. The author describes the structural change in Indo-Nepal trade and economic relations, highlighting the trade structure that has emerged with growth in trade with overseas countries. This study attempts an economic analysis rather than a mere portrayal and description of the Indo-Nepalese trade and economic relation. He points that the treaty of 1923 put a death-knell to the Nepalese trade, where as treaty of 1950 debarred Nepal in précising independent, economic domination over Nepal. In this way the treaty of 1960 also stood against Nepal's favour. It studied that Nepal enjoyed favourable trade balance with India during 1944/45 to 1949/50 whereas there is adverse balance in between 1956/57 and 1969/70. Further, the study includes the construction of instability index and concentration of export and import.

Finally, this study on points the constraints and suggestions for relevant problems associated with transit, diversification, trade deficit, trade surplus, excise refunds, lack of finance, rightly in the composition of trade items, tariff preferences, and production bottlenecks etc. and suggestions are as follows: Indo-Nepalese trade should achieve the commanding heights but at the same time commodities which are out of the focus in Indo-Nepalese trade must find a place in trade with other countries at an increasing pace. India and Nepal must commit themselves to working out concerned foreign economic strategy which is essential not only for the economic

growth of India and Nepal but also to that of advancement of in interests of other developing countries the two countries should help each other to achieve a good degree of industrial growth, which must be seen as the essential instrument for a balanced restructuring of these two economics etc.

Thapa (1985), overviewed the transit problems, limited resources hindering the development of Nepalese foreign trade and transits with India and Tibet. He analyzed the trade routes, trade arrangements, incentives for trade diversification and other things that help in the development of trade and he has also given the glimpse of Nepalese foreign trade prior to 1961/62 using secondary data. His study shows that export is 86 percent in 1961/62 but it dropped to 63.03 percent in 1982/83. It also reveals that the manufactured export to overseas countries increased from 28.0 percent to 64.9 percent in the same period and import was more than export. The author has highlighted on trade instability, concentration and diversification. This study represents a brief summary and some suggestions and reveals no special indication and incentives for the improvement of Nepalese trade.

Poudyal (1988), focuses on deriving the estimates of various important structural parameters in the field of investment, saving export and import. This book covers the structure of trade, diversification of export and determinants of export and import from 1956/57 to 1982/83. On the basis of regression analysis the author says that import of primary products are influenced only by income where as import of investment goods are influenced by income, foreign aid, and export earning. The author also discusses the growth and composition of foreign trade, direction of trade, determinants of trade patterns commodity geographic concentration of export and import.

Panta (1991), tries to analyze trade situation between SAARC countries. He has attempted in particular, to introduce Nepal and its trade and development efforts more in the field of industrial development. Similarly, trade strategies for South Asia in the context of the SAARC have been analyzed, he puts forth suggestions with respect to trade strategies both in general and for group of countries with caution in future for underscoring on economic aspects.

Dahal (1992), has tested two hypotheses: (a) there is significant contribution of foreign trade to the total revenue of the government and (b) there is significant

deterioration in the terms of trade of Nepal. He provides the overview of historical background of Nepalese foreign trade; examines the foreign trade and relationship between foreign trade and GPP of Nepal. He uses Almon lag scheme to show the effect of lagged import on current import. Gini-Hirschman coefficient has been used to measure the coefficient of concentration. To measure the instability index for convertible currency earnings from exports, log variance index (popularly known as koppeck formula) has been used and found that trade sector accounted 22% of GDP during the study period and import-GDP ratio is greater than the exports-GDP ratio signifying grown foreign dependency.

Panta (1994), reviews Nepalese economy and foreign trade annually as well as plan wise up to eight five year plan, narrating the trade treaties and trade policies. He analyzes Nepal-India trade, under the circumstance liberalization and privatization. There is an empirical study on import substitution and export promotion analysis for the period (1974/75 - 1989/90). For import substation analysis considering milk, tea, special, juice, sugar, soap, cotton textile and cement industries, he has computed three measures: (1) Chenery's measure (2) Fane Measure (3) Ranking, with two variant. For export promotion analysis, the models of Tyler, Kavoussi, Balassa are used. Among these measures, Ranking with two variant provides more appropriate measures because it avoids inconsistencies rising from aggregations and desegregation of data.

Sharma (1999), attempts to assess the current trends and major issue facing the Nepalese foreign trade sector. The discussion on trade policy reforms with reference to export and trade with South Asian Association for Regional Cooperation (SAARC) countries and also attempts to discuss relating to Nepal's entrance to the World Trade Organization. The author has found that the trade deficit of Nepal has been increasing over the period through export has also increased but less as compared to import. The author also points out that Nepal has been actively participating in many multilateral economic cooperation programs. Nepal intends to integrate into the multilateral trading system to increase the supply of tradable items, both goods and services, to attract the foreign investment and gain better market. However one vital missing factor in the domestic set of strategies and policy instrument to boost up quality production in sufficient amount for low bulk high value selective commodities. He has also focused on export expansion through the supply of

selective items as well as on necessity of responsible tariff protection the adjustment on reduces import from India.

Garanja (1999), explained the various aspect of export performance, identities the problem standing in the way of expanding and diversifying export and measuring the prospects of exports. His study addressed the main points of export trade such as: recent trends in trade, export performance of the country, major markets for Nepalese products and performance of commodities exported from Nepal etc. He used both descriptive as well as empirical method to explain his study. With a view to examining the export performance of the country, export problem had been studied under two main heads: micro level export problem and Macro level export problem. His study of export marketing strategy covers the analysis of its components like situation analysis, determination of marketing objectives, selection of target markets and composition of export marketing etc. He also stretches from a detailed analysis of the post trends, compositional and directional pattern of exports from the country.

Finally, the author suggests that to expand and diversity exports from country. First of all an effort should be made to analyze the existing and potential complexities, challenges and opportunities available in the world export market and he also recommends that in order tap the market potentials available for Nepalese products abroad, segmentation of basis of homogeneous features, the entire export market may be put into three major categories: high potential market, markets of medium potentially and low potential markets. These markets need to be analyzed and investigated on the line of consumer's needs and wants, buying habits, buying behaviour, trade practices and behaviour, competitive conditions etc.

Shrestha (2003), is entirely concerned about the analyzing the Indo-Nepal's trade treaty of 1996 and he tries to find out the scope and areas of improvement in Indo Nepal trade relation. He observes that the major problems of Indo Nepal are trade deficit, which recorded 18 billion to 20 billion rupees from 1996 to 2001, adequate market frequent revision of duties and rules, administrative and procedural complication and delays, Export and Import (EXIM) facility understanding and good faith and unauthorized trade. He observed that some of the prospects which are completely based upon the cooperation between India and Nepal. The pointed key areas are potentialities of hydroelectric power, tourism, education and tanning, mineral exploration and exploitation, information and communication technology etc.

Karmacharya (2004), discusses the country's merchandise trade in terms of both recorded and unrecorded transactions. In addition, this study reviews various external and internal factors affecting recorded export performance. The paper then explores the extent, commodity composition and possible cases of informal trade between Nepal and India. The author finds export contribution negatively to the economic growth in recent years of study. He forwarded a period of economic crisis (2001/2002). Some of the external factors affecting poor export performance i.e. the weaker world demand and adverse policy shift in countries that import such as low competitiveness, higher transport costs and the Maoist insurgency deepened the impact of negative external shocks.

Finally, the author presents the policy implications they are: a) good macroeconomic policies to keep the economy competitive with low and stable inflation and interest rates and a competitive exchange rate will need to be sustained b) transport costs have to be lowered to promote trade and competitiveness. c) regulatory barriers that prohibit mobility of labor laws that hinder flexible labor market investments in labor training and productivity and lower incentives for productivity will need to be reformed. d) rising productivity and efficiency will help to promote Nepal's trade etc.

Pyakural, Dahal & Adhikari (2005), summarize the historical relationship between Nepal and India, Indian aid policy to Nepal. The authors also analyze the major features of Nepal-India trade treaties signed in 1950 to 2002 and their impact on Nepal-India trade. Nepal's trade with India has increased significantly since 1995/96 as compared with total trade exports to India during 1965/96 remained at 3682.6 million and imports at 24398.6 million. The export during FY 2001/02 boosted up to 28865.2 million and import also increased to 45364.3 million during the same period. Rate of growth of Nepal's trade with India both in exports and imports is seen to be much higher than its total export and import.

Kafle (2006), tried to summarize Nepal's international trade; trade policies adopted in different plans. She says that, realizing the fact that foreign trade is an appropriate means for rapid economic development, Nepal is giving importance to the sustainable development of the external sector adopting trade promotion policies in different times. Despite the implementation of a number of policy and procedural

reforms to promote the trade sector, several problems are still in existence. Therefore, policies adopted till now are not sufficient.

The First Five Year Plan (1956-61) emphasized on the establishment of industries producing basic necessities and exportable. The focus of the plan was to develop industrial sector to enhance production and to expand export however there were only a few export industries. The third plan (1965-70) emphasis was given to export promotion to earn the foreign exchange so that capital goods required for the industrial growth can be imported in adequate manner. The sixth plan (1980-85) set forth the trade related objectives separately for export and import business. Export related objectives were business to provide employment and income resources to the people through export trade to increase export capacity and support balance of trade and to develop international relations through technology and skill development etc. The author also analyze the trade policy 1992 foreign Exchange Arrangement for Trade Promotion, Exporter's Exchange Entitlement scheme (1963), Dual exchange rate system (1978), Adoption of Flexible Exchange Rate System (1983), features of international trade like, diversification of trade, major trade partners in third countries etc.

Lastly, she concluded that despite the implementation of a number of policy and procedure reforms to promote the trade sector; several problems at still in existence. She recommended that Nepal should be able to fully utilize the transits route via Kalarbhitta-Fulbari-Banglaband to expand foreign trade. The government should create favorable environment for investment and should infrastructure led emphasis on and private sector to enhance the production activities. In order to increase exports, production of exportable must be enhanced. New Exportable items that have comparative advantage should be identified. Due to the difficult geographical situation, Nepal's External sector policy should focus on: rapid development in infrastructure to utilize the local resources and fulfill local needs as well as to observe production surplus to Export to create primary and manufactured commodities etc.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

This study is conducted to assess the behaviours and characteristics of Nepalese foreign trade with India and to describe the situation and events occurring at present. In this research we accumulate facts. So, this research does not necessarily seek in explaining relationships, making prediction or getting at meaning and implications of the study. Furthermore, this study simply portrays the facts: we collect, classify and correlate data to describe what exists but we do not fully analyze and explain why phenomenon behave as they do.

3.2 Nature and Sources of Data

Based on the secondary sources of data, the study made an attempt to derive a conclusion with regard to the established objectives of this study. The required secondary information so far as possible are collected from World Bank Report, IME Report, Nepal Rastra bank Publications, National Planning Commission and Government of Nepal (GoN), reports published by Ministry of Finance, Reports and the data issued by Trade Promotion Center. Data and information with to trade patterns between Nepal and India have been used from the published and unpublished research papers, books, periodicals, journals, Internet websites and official sources.

The information on foreign trade is classified by SITC groups not by specific commodity. The primary products are summed of (0+1+2+4) and manufacturing goods are summed of (3+5+6+8+9). Similarly, SITC 7 is given separately. This study starts the description of the historical prospective of Indo-Nepal trade. Simple statistical tools also have been used to analyze the data.

3.3 Data Processing and Analysis

The relevant statistical information from the selected sources was processed with the help of a computer especially by SPSS programmer. The study consists of describing the role and systematic of patterns, composition and direction of Nepalese foreign trade. The study arranged systematically, simple arithmetic analysis like ratio, percentage and graphs were computed in using methods of descriptive and empirical analysis.

3.4 Regression Models

This research used simple log-linear model and double log linear model because the slope coefficient of the equation measures the elasticity or the percentage change in dependent variable for a given small change in the independent variable.

3.4.1 Export to India

The following regression equations are calculated with time variable GDP, relative price as the explanatory variables.

Equations used in Regression Analysis.

$$i. \ln X_t = \alpha_0 + \alpha_1 t + e$$

$$ii. \ln X_t = \alpha_0 + \alpha_1 \ln \frac{WPI_t}{CPI_N} + e$$

$$iii. \ln X_t = \alpha_0 + \alpha_1 \ln GDP + e$$

Where,

X_t = Export to India

t = Time variable

\ln = Natural log

GDP = Gross Domestic Product of Nepal

e = Standard Error

WPI_t = Wholesale Price Index of India

CPI_N = Consumer Price Index of Nepal.

α_0 and α_1 are the parameters to be estimated.

3.4.2 Import from India

The following regression equations are calculated with time variable, GDP, Relative price as the explanatory variables.

Equations used in Regression Analysis are:

$$i. \ln M_t = \alpha_0 + \alpha_1 t + e$$

$$ii. \ln M_t = \alpha_0 + \alpha_1 \ln \frac{WPI_t}{CPI_N} + e$$

$$iii. \ln M_t = \alpha_0 + \alpha_1 \ln GDP + e$$

Where,

M_t = Import from India

t = Time variable

WPI_t = Wholesale price Index of India

CPI_N = Consumer Price Index of Nepal

GDP = Gross Domestic Product of Nepal

\ln = Natural log

e = Standard Error

α_0 and α_1 are the parameters to be estimated.

3.5 Techniques Used to Test Hypothesis

To test the reliability of the analysis of the trend values and relationship among variables the following tests have been used.

3.5.1 (a) Coefficient of Determination (R^2)

The goodness of fitness of the regression line R^2 is the variation of dependent variable that is explained by explanatory variable.

$$R^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

$$0 \leq R^2 \leq 1$$

The higher the value of R^2 better the fit.

(b) Adjustment coefficient of multiple determinants (\bar{R}^2)

The use of additional explanatory variables in the function leads to the rise in the value of coefficient. To take account of this (\bar{R}^2) the adjustment coefficient of multiple determinations is used.

The expression will be given by

$$\begin{aligned} \bar{R}^2 &= 1 - \frac{ESS / (n - k)}{TSS / (n - 1)} \\ &= 1 - \frac{\text{Error Sum Square}}{\text{Total Sum Square}} \\ &= \frac{(1 - R^2)(n - 1)}{(n - k)} \end{aligned}$$

Where,

\bar{R}^2 Means the adjusted R^2

n = number of observation

k = number of independent variables

3.5.2 t- test

The small sample test ($n < 30$), t-test will be performed in order to identify the statistical significance of an observation sample regression coefficient and the formula for calculating the value is:

$$t = \frac{\hat{a}_i}{SE_{\hat{a}_i}}$$

Where,

\hat{a}_i = estimated value of a_i

$SE(\hat{a}_i)$ = standard error of \hat{a}_i or $\sqrt{\text{Var } \hat{a}_i}$

3.5.3 F- test

F-test is used to measure the overall significance of the estimated regression, which is also a test of significance of R^2 because these two vary directly when $R^2 = 0$, F is zero and $R^2 = 1$ is infinite. So that, larger the R^2 greater value of F. Thus, larger value of F-test implies that the overall significance of the estimated regression is good. The F value can be computed as.

$$F = \frac{R^2 / (k - 1)}{(1 - R^2) / (n - k)}$$

Where,

k = Total number of parameters to estimated

n = number of observation

R^2 = coefficient of determination

CHAPTER IV

NEPAL INDIA TRADE LINKAGE: A HISTORICAL PERSPECTIVE

4.1 Historical perspective

Nepal–India trade relation can be traced back to ancient times. Kautilya (400BC) great economist of that time, mention Nepal as the principle exporter of woolen goods. Increased trade activities were seen between northern India and Nepal during the golden age of Guptas (beginning in 320 A.D.). During the Nepal-Tibet war of 1791, the East India Company proposed a 7-clause treaty under which imports and exports of goods between Nepal and British India would be subject to 2.25 percent customs duty. A peace treaty of Sugauli in 1816 enabled the British to enter the Nepalese markets.

In the early days, foreign trade of Nepal was limited mainly with India and Tibet. The only trade route in between India and Tibet was through Nepal. It had helped very much in developing trade of Nepal. However, major proportion of the Nepalese trade was with India. Trade with Tibet was focused for meeting the basic requirements in the Himalayan and hilly region, whereas trade with India consisted of export and import of several agricultural, mineral and forest products. Before the Nineteenth century, import goods from India consisted of a few items handy scrap metals, precious stones, spices, tobacco etc. were among them. Whereas Nepal exported most of her primary products like timber, rice, ghee etc. Nepal's trade with India continued till 1923 without having a trade agreement with British India. Prior to the signing of this trade agreement, British East India Company was interested to have trade relation with Nepal, for expansion of its own exports. The opening of direct India -Tibet route via Gyantse routes further promoted Nepal to develop trade with India. Moreover, the development of good transportation system and the creation of many trade centers in the northern India further helped to enhance the trade turnover between Nepal and India.

The Article VI of the first Trade Treaty between Nepal and India signed in 1923 provided that “No customs duty shall be levied at British Indian Ports as goods imported on behalf of the Nepal government for immediate transport to that country.” Provision of this Article in Trade Treaty (1923) led to the development of Nepal-British trade freely through the port of British India for Nepal could not import goods

from other overseas countries. She was compelled to purchase goods manufactured in Britain and Nepal was very much isolated from other countries, especially from the developed Western countries prior to the political change of 1951. Before 1950, Nepal had an open interaction with Tibet where Nepalese currency was on circulation. Trading arrangements between Nepal and Tibet too was unrestricted. As a result there was an easy movement of man and materials. There appeared a break in all these, however, after 1951 when Nepal tilted more towards the southern India.

The pattern of Nepal's trade with India remained more or less the same during the 19th century and first half of the 20th century. Exports to India mainly consisted of food grains, raw jute, wool, cotton, hides and skins, musk, medicinal herbs, cardamom, metal goods, ghee, tobacco etc. Imports from India used to consist of mainly the agricultural products such as wheat, rice, gram and pulses, iron, brass, copper, cotton goods, salt and live animals besides others. Thus, India has been a major trade partner of Nepal since a long time back. Popular and cultural ties of India with Nepal have consistently been close and have reflected in trade terms continuously.

4.2 Foreign Trade Structure: Till Early 1990s

Nepal's exports to India comprised of 98.7 percent of the total exports since 1956/57 to 1970/71. The same pattern was reflected in Nepal's import as well. From the year 1970/71, however, Nepal's exports to as well as imports from India started declining significantly. This was the result of trade diversification policy of Nepal, which decided to remove the over-dependence on India by increasing Nepal's trade with overseas countries. The export share of Nepal's exports to India came down to 75.4 percent in 1975/76, 40 percent in 1985/86, and 21 percent in 1990/91. It further came down to a mere 9.6 percent in 1992/93. Likewise, share of imports from India out of the total imports came down to 61.9 percent in 1975/76. It declined to 42.5 percent in 1985/86 and it further declined in 1995/96. The trade balance with India has also been negative and has been quite substantial. Katti (2001) cited from Shrestha (2003) remarked that Nepal's exports to India as a percentage of total trade with India have been less than its imports from India. The percentage of exports to India in total trade with India has been declining over the years. It came down from 36.1 percent in 1956/57 to 31.3 percent in 1980/81. It further came down to 17.5 percent in 1990/91 and declined still further to 11.6 percent in 1992/93. It has

experienced the reversal in the trend since 1993/94 and has gone up marginally in 1995/96. An import from India as a percentage of total trade with India was 63.9 percent in 1956/57 and went up to 68.7 percent in 1980/81. There was a tendency of raising the import trend showing 82.5 percent in 1990/91 and 88.6 percent in 1992/93. Since then, however, there is a slight deceleration on the share of India in Nepal's total imports and it has come down to 86.5 percent. Although it is seen a little bit ups and downs in the import trend. Nepal's import has mostly been dominated by India's export.

Thus, Indo-Nepal trade has its own importance for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her landlocked geographic characteristics. Trade statistics show an increasing trend of trade in both the exports and imports. However, it is noteworthy that the trade balance is not in favor of Nepal. As such, it does not present a convincing picture in the macro-economic performance of Nepal. Both the countries have realized the significance of bilateral trade. Trade with India is likely to play further a key role in trade and industrial fronts in the future as well. Trade and transit treaties held between the two countries are continuously reflecting the fact. And, these treaties have increasingly guided the trade direction, more specifically in the case of Nepal. Taking into account these factors, this study has made an attempt to analyze some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future.

CHAPTRE V

NEPAL- INDIA TRADE AGREEMENTS

5.1 Nepal India Trade Agreement Before 1990

Because of its sandwiched location between India and China, Nepal's direction of trade has been less diffused and more centered to India. Nepal's historic flourishing trade with southern as well as northern neighbors was mainly because of prosperous Trans- Himalayan trade in which Nepal served as a trade link between India and Tibet. The affluence they achieved through free flow of goods and services between India and Tibet via Nepal however decline sharply along with the decay of the Trans- Himalayan trade. Especially after the signing of the treaty between Lhasa and Britishers in 1904, Nepal- Tibet trade suffered a sharp setback. The treaty opened new trade route British India and Lhasa. This route proved to be cheaper and better than Nepalese route (Sherstha 1975).

During the Nepal-Tibet war of 1791, the East India Company proposed 7- clause Treaty under which imports and exports of goods Nepal and British India would be subject to 2.25 percent customs duty. Although concluded in March 1792, the treaty would be implemented. In 1793 Lord Cornwallis against sent Col. Kirkpatrick to Nepal to induce the government of Nepal to act upon the Treaty of 1792. His attempt to negotiate proved a failure (Katti 2001) cited from Shrestha (2003). In a war with British in 1814, the Gurkhas were defeated and forced to sign a peace Treaty of Sugauli in 1816. The British were no longer dependent on mountain chiefs for passage. This treaty enabled the British to enter the Nepalese markets.

There is no record found about Nepal's Trade relationship with any other country except India and Tibet during nineteen century. The pattern of Nepal's trade with India remained more or less the same the 19th and first half of the 20th century. According to available evidence, the first treaty of Nepal concerning trade took place with British India in 1923. According to this article V of the treaty, Nepal availed the imports of all sorts of arms, ammunitions, machineries, war like materials etc. from or through the India if they were not used against the country. Indo-Nepalese trade was governed by the treaty of 1923 until it was replaced in July 1950 by the treaty of trade and commerce.

India and Nepal have signed different treaties with aim of promoting trade, facilitating transits and controlling unauthorized trade. They accord each other unconditional most-favored-nation treatment. Both the countries also exempt imports of primary products from duties or any form of quantitative restrictions on a reciprocal basis in the context of border trade. These products are typical and traditional raw materials produced usually for the traditionally neighboring market destinations in each other's boarder areas.

Formal trade relations between two countries were established in 1950s. Several treaties of trade were signed from that period.

1. The Treaty of Trade and Commerce between Nepal and India was signed in July 1950. The main features of the treaty were:
 - a. India provided full and unrestricted right of commercial transit of all manufacture through the territory and ports of India.
 - b. Civil aircraft on either state was permitted to fly over the territory of the other in accordance with normal international procedure.
2. The Treaty of Trade and Transit between the Government of India and His Majesty's Government of Nepal occurred on September 11, 1960. The main features of the treaty were as follows:
 - a. The two countries to promote the expansion of mutual trade in goods originating in the two counties.
 - b. Restriction may be created for the purpose of (i) protecting public morals (ii) protecting human, animals and plant life (iii) safeguarding national treasures (iv) safeguarding the implementation of law relating to the import and export of gold and silver bullion and (v) safeguarding such other interests as may be mutually agreed upon.
 - c. Goods intended for import into or export from territories of country from or to third country shall be accorded freedom or transit through the territories of the country. No distinction shall be made which based on the flag of vessels, the place of origin, departure, entry and exit destination or ownership of goods.
3. The Treaty of Trade Transit between Government of India and His Majesty's Government of Nepal August 13, 1971. Major features were:

- a. According to this Treaty, His Majesty's Government agreed to exempt, wholly or partially, import from India from customs duties and quantitative restriction to the maximum extent compatible with the development needs and protection of industries.
- b. The Government of India agreed to promote the industrial development of Nepal through the grant of basis of non- reciprocity, of especially favorable treatment to import industrial product manufactured in Nepal into India respect of customs duty and quantitative restrictions normally applicable to theme.
- c. The Government of India, with the view to providing the primary producers of Nepal access to the Indian market, agreed to exempt the customs duty and quantitative restriction such primary products which are reproduced in Nepal imported to India (Pyakurel, Dahal & Adhakari 2005).

The treaty of trade and transit was to be renewed by March 23, 1989 but this was not done in time. Thereafter, it was settled down automatically on the same date. Due to settled down trade and transits treaties, all trades of Nepal over surface routes were restricted by India except two points. The restrictions for moment of good from Indian side created a lot of problems in Nepal including scarcity of basic and capital goods. Nepal has faced the problem of export-import from March 23, 1989 to June 10, 1990 which accounted for 15 months and 17 days due to lack of renewal of trade and transit treaty. The problems of movement of goods from India were eliminated while the prime ministers of two countries signed an agreement on June 10, 1990. The agreement of 1990 rendered the new life to trade relation of Nepal and India which provided the smooth life of Nepalese people.

5.2 Trade of Treaty, Transits and Agreement of Co-operation to Control Unauthorized Trade (1991)

Nepal and India signed two separate treaties on trade and agreed on co-operative basis to control unauthorized trade on December, 1991. The treaty of Trade contains 12 articles, transit with 11 articles and agreement of co-operation to unauthorized trade 8 articles. The treaty of trade validated for five years with a renewal provision for another five years and treaty of transits for seven years.

The main features of agreements are follows:

1. Agricultural, horticulture and forest products would be eligible for import free of basic customs duty and quantitative restriction.
2. India would import from Nepal, with out basic and auxiliary customs duty or quantitative restriction, all manufactured goods containing not less than 80 percent of Nepalese materials and of Nepalese and Indian materials, and for cases of goods containing not less than 55 percent, on a case-by- case basis. When the goods were manufactured by “small” units in Nepal, further concessions would be available.
3. In the case of other manufactured goods containing at least 40 percent of Nepalese and Indian materials, including labor value added in Nepal at the ex-factory value, Indian would be provided preferential treatment for such imports on a case-by-case basis. Indian would import goods with a local content of less than 40 percent of ex-factory value in accordance with its import regime and most favored nations (MFN) treatment accord.
4. India would provide Nepal with more facilities in respect of transit, traffic and storage of goods, and simplify procedures for the traffic and transits of Nepal’s imports and exports.
5. Both countries agreed on 22 routes for mutual trade and on 15 routes for transit.(<http://www.tepc.gov.np/trade> treaty)

Prime Minister of India Mr. P.V. Narasimha Rao during his office visit to Nepal from October 19-21, 1992 announced a number of decisions to strengthen and expand bilateral co- operation. In the trade sector in particular, substantial improvement were made in the access regime for Nepalese exports to India by amending Protocol-V of the 1991 Trade Treaty. The Performa clearance system had been replaced by system of Certificate of Origin be issued by Nepal government. The requirement of Nepalese raw materials content for duty free access to Indian market had been reduced from 55 to 50 percent. An additional dimension of Nepalese labor content had also been included in determining the eligibility of a Nepalese product for access to the Indian market free of customs duties and quantitative restriction. Movement of Nepalese private commercial vehicles from the Nepalese border to Calcutta/Haldia and back is allowed after endorsement by the Nepal Transit and

Warehousing Co. Ltd. /Nepal Transport Corporation/Government of Nepal and the necessary undertaking by them to the Indian customs authorities.

5.3 Nepal – India Trade Treaty-1996

Nepal and India signed a bilateral treaty of trade on 3rd December 1996. A provision was made for automatic renewal of this treaty for further periods of five years, unless either of the parties to the other a written notices, three months in advance of its intention to terminate the treaty. The main provisions of the treaty were as follows:

1. The government of India provides access to the Indian market free of customs duties and the quantitative restrictions for all articles manufactured in Nepal (With exception for a short negative list).
2. Local content requirement has been removed. Now the manufacturer has to certify that the item is manufactured in Nepal.
3. The number of items included in the negative list been reduced from eight to three only. Now there would be restriction only on cigarettes, beverages and perfumes and cosmetics.
4. Nepal grants preferential entry to Indian products "to the maximum extent compatible with their development needs and protection of their industries."
5. Indian refunds to Nepal the Indian excise duty on the goods imported into Nepal as an offset against the import duty.
6. Nepalese containers having "one time lock" by the international shipping company would be kept intact and Indian custom would not open it at the time of entry of goods in Nepal. If the lock was found intact, then it would be permitted to enter Nepal provided there were no reports about contraband goods in those containers. This new and simplified procedure for containerized traffic in transit to and from Nepal has been introduced by India to ensure the smooth and expeditious movement of Nepalese transit cargoes through the Indian customs authorities at Seaports and Borders of India.

The instances of traffic congestion at Calcutta port and delay in movement of Nepalese transits cargoes had been common in the past. The implementation of new

simplified procedures for Nepalese containerized traffic to and from. Nepal was expected to take care of this problem.

With a view of protecting the Indian market, India had asked Nepalese government to ensure:

1. Evolution of a mechanism by Nepal to control the inflow of third countries goods.
2. No reassembling of the third countries' goods and export to India after putting the seal of 'Made in Nepal' by the Nepalese businessman, and
3. No repacking of goods by Nepal: Indian government will allow export of Nepalese goods and not of the commodities imported by Nepal from third countries and repacked and sent to India under the label "Made in Nepal".
(<http://www.tepc.gov.np/trade> treaty)

Nepalese manufactured goods were eligible for preferential entry into the Indian market on the basis of certificate of origin to be issued by an agency nominated by the Government of Nepal. The Job of issuing Certificate of Origin was entrusted to FNCCI with a technical committee with government of Nepal backing it up.

5.4 Nepal- India Trade Treaty- 2002

Nepal India trade of 1996 is very liberal towards promoting bilateral trade between the two countries. One of the provisions under the treaty stipulated that either of the two parties purposing review of the treaty would require a review before its renewal. In this time, Indian side raised issue of export surge of some items and purposed review of the treaty. After many rounds of bilateral discussion some change to the protocol with some new provision included, the treaty has been renewed on March 2002 without any changes in the treaty itself. New provisions under the protocol are:

Provision of no quantitative restrictions and custom duties for commodities produced in Nepal was guaranteed by 1996 treaty under its Article 5 and protocol under it, has been cancelled. That has been deleted and the new mandatory provision included requires the Nepalese products destined for export to India to contain not more than 75% of new materials imported from the third countries to enjoy exemption from duties and quota for a period between 2058/11/22 and 2059/12/21. It further

requires that after 2059/12/21, such export to continue to enjoy said exemptions should not contain of raw materials imported from the third countries in excess of 70%.

Major items under export surge as claimed by India are: Acrylic yarn, vegetable ghee, copper product and zinc oxide. To enjoy exemptions from duties on the export of these items, following quotas have been fixed under the new provision: vegetable ghee 100, 000 metric tons, acrylic yarn -10,000 metric tons, copper based product 7500 metric tons and Zinc oxide -2500 metric tons. Any export exceeding these quotas are to be governed under Most Favored Nation Regime.

The article 9 of the 1996 treaty has made provision of restrictions in trade in the interest of protecting items of public moral, human animals heritage of high value, export and import of gold governed by law and such other objects as agreed by both parties. Under the new provision, accordingly cottage industry has been included for its protection. Under this provision if the import in either country increases exceedingly to the extent of disrupting income, employment and production in the short run, such country can bring matters to the joint committee installed by the parties for review and suitable measures of control. Such committee should not remit the case within 60 days. country proposing control measures can adopt the measures of control it may deem necessary. Measures so taken will be a subject of review by the Nepal-India Intergovernmental Committee.(<http://www.tepc.gov.np/trade> treaty).

CHAPTER - VI
VOLUME, DIRECTION AND COMPOSITION OF NEPAL-INDIA
TRADE

6.1 Volume of Exports and Imports

Volume of Nepal's Foreign Trade is increasing every year. An increase in the volume of foreign trade is the crucial factor in the economic development. But increase in volume of trade, export should be increased more than volume of import. Increased export offers the decreased in import, which further contributes to attain a comfortable surplus in overall balance of payments.

Nepalese export trade with India shows a steady growth during the study period (1990/91-2006/07) except in the years 1991/92 and 2002/03. In 1990/91, total export to India was 1552.2 million rupees which went on increasing and reached to 41874.8 million rupees, more than 26 times in 2006/07. The import from India has also shown steady increasing tendency in the consequent years .It reached to 117740.4 million rupees in 2006/07, increasing more than about 16 times in comparison to Rs. 7323.1.

Before the signing of Indo-Nepal Trade and Transit Treaty 1996, Nepal's exports to India in 1996/97 were 5226.2 million. In five years after the treaty it has grown to Rs.27956.2 million in 2001/02. Similarly import from India which was Rs.24853.3 million in 1996/97 rose to Rs.56622.1 million in 2001/02. Trade has grown impressively in both directions. So this treaty has provided win-win situation for both the countries economic growth. After signing the Nepal India Trade Treaty-2002 export to India increased less rate as compared to imports from India due to various restriction and quotas system in Exports where exports grew 1.6 times but import from India grew 2.4 times during the fiscal year 2001/02 to 2006/07.

Table No. 6.1
Volume and Annual percentage Changes of Exports and Imports
(value in million)

Fiscal year	Export to India	Percentage change to previous year	Import from India	Percentage change to previous year	Total trade volume	GDP of Nepal	$\frac{TotalTrade}{GDPofNepal}$
1990/91	1552.2	-	8875.3	-	30614	103416	0.30
1991/92	1450.2	-6.6	12695.3	53.6	45646.5	120371	0.37
1992/93	1621.7	11.8	14163.8	11.5	56472.1	149485	0.38
1993/94	2408.9	48.5	19444.3	35.8	70864.2	171386	0.41
1994/95	3124.3	29.7	22740.2	15.1	81318.7	199216	0.40
1995/96	3682.6	17.9	28081.2	24.4	94335.6	219175	0.43
1996/97	5226.2	41.9	30079.5	1.9	116189.9	248913	0.46
1997/98	8794.4	68.3	36125.4	10.0	116515.5	280513	0.41
1998/99	12530.7	42.5	44650.4	17.5	123201.6	300845	0.40
1999/2000	21220.7	69.3	60880.8	23.5	158327.6	342036	0.46
2000/01	26030.2	22.7	71241.2	14.0	171341.3	379488	0.45
2001/02	27956.2	7.4	84578.3	25.2	154333.8	410789	0.37
2002/03	26430.0	-5.4	97354.2	15.1	174282.7	422301	0.41
2003/04	30777.1	16.4	109516.6	12.5	190187.8	454934	0.41
2004/05	38916.9	26.4	127592.4	16.8	208179.3	494882	0.42
2005/06	40714.7	4.6	147857.8	15.8	234014.4	496026	0.47
2006/07	41874.8	2.8	159615.2	7.9	252504.6	509911	0.49

Source: Quarterly Economic Bulletin, Mid October, 2007.

Figure No. 6.1



As can be seen from table 6.1, annual percentage change of Nepal's exports and imports has been fluctuating quite considerably. Increase in exports to India is relatively sluggish till 1992/93 because of the adaptation of liberal market oriented policies by Indian government and re-evaluation of Nepal currency vis-à-vis the Indian rupee. After the removal of perform and adaptation of Rule of origin certificate, speed of export promotion is taking quantum Jump. Since 1992/93, Nepal's export to India has grown at a faster rate than her import, except in 1995/96 but still it account for only about half of its imports from India. Since the year 2001/02 has again the several of this trend. In 2002/03 export was decreased by Rs.1526.2 billion as compared no previous year, where as import was increased. The economy seems to need some more items due to growing development needs as a consequence of economic reforms in the country.

6.2 Direction of Trade

The study of direction of trade is important because it indicates a country's international relation, facilities for trade and linking of nation. The direction of trade

shows the share of export and import destinationwise of both exportable and importable commodities. In the context of Nepal, direction of the foreign trade is important to show whether the trade diversified to a few regions or countries. Nepal trade direction is basically with India and overseas countries but here, direction of Nepal's trade only with India is only presented.

Table No. 6.2
Direction of Nepal's Foreign Trade

(value in million Rs.)

Fiscal year	Total Export	Export to India	Total imports	Import from India	Total Trade	Total Trade with India
1990/91	7387.5	1552.2	23226.5	7323.1	30614.0	8875.3
1991/92	13706.5	1450.2	31240.0	11245.5	45646.5	12695.3
1992/93	17266.5	1621.7	39205.6	12542.1	16472.1	14163.8
1993/94	19293.4	2408.9	51570.8	17035.4	70864.2	19444.3
1994/95	17639.4	3124.3	63679.5	19615.9	81318.7	22740.2
1995/96	19881.1	3682.6	74454.5	24398.6	94335.6	28081.2
1996/97	22636.5	5226.2	93553.4	24853.3	116189.9	30079.5
1997/98	27513.5	8794.4	89002.0	27331.0	116515.5	36125.4
1998/99	35676.3	12530.7	87525.3	32449.7	123201.6	44650.4
1999/00	49822.7	21220.7	108504.9	39660.1	158327.6	60880.8
2000/01	55654.1	26030.2	115687.2	45211.0	171341.3	71241.2
2001/02	46944.8	27956.2	107389.0	56622.1	154333.8	84578.3
2002/03	49930.6	26430.0	124352.1	70924.2	174282.7	97354.2
2003/04	53910.7	30777.1	136277.1	78430.5	190187.8	109516.6
2004/05	58705.7	38916.9	149473.6	88675.5	208179.3	127592.4
2005/06	60234.1	40714.7	173780.3	107143.1	234014.9	147857.8
2006/07	60795.8	41874.8	191708.8	117740.4	252504.6	159615.2

Source: 1. Nepal and The World A statistical Profile 2007 (FNCCI)

2. Quarterly Economic Bulletin (NRB)

Figure No. 6.2
Direction of Trade with India

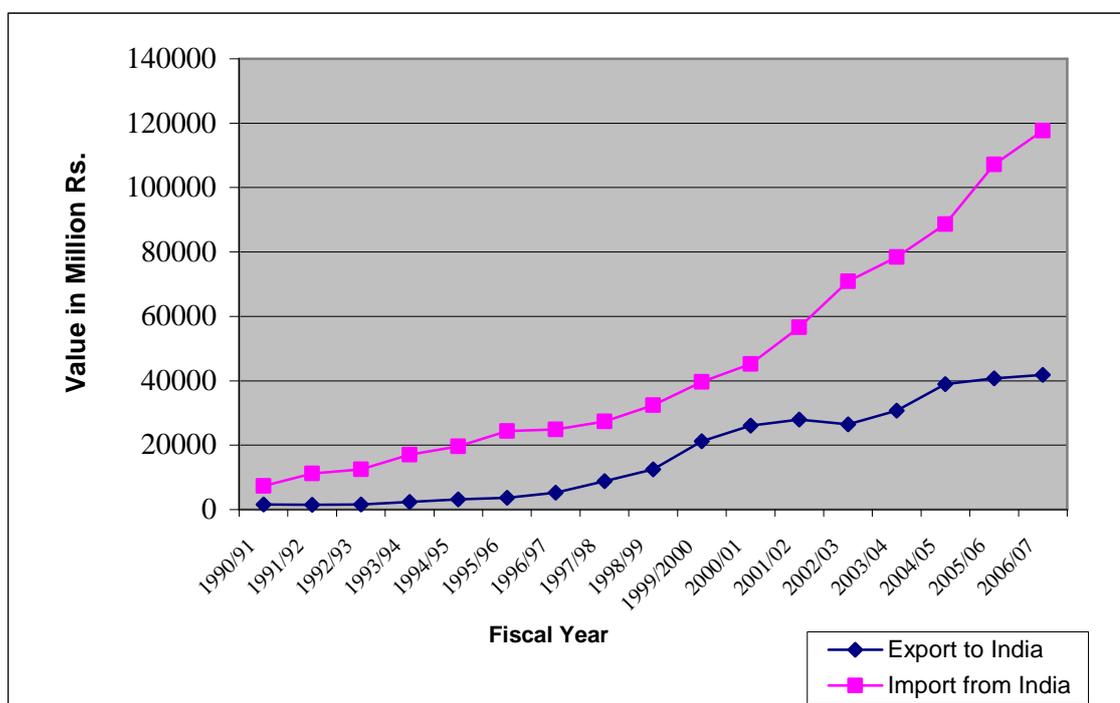


Table No. 6.3
Direction of Nepal's Foreign Trade (in%)

Fiscal year	Export to India as % of total Export	Imports from India as % total Imports
1990/91	21.0	31.5
1991/92	10.6	35.2
1992/93	9.4	32.0
1993/94	12.5	33.0
1994/95	17.7	30.8
1995/96	18.5	32.8
1996/97	23.1	26.6
1997/98	32.0	30.7
1998/99	35.1	36.7
1999/00	42.6	36.6
2000/01	46.8	39.1
2001/02	59.0	52.7
2002/03	52.9	57.0
2003/04	57.1	57.8
2004/05	66.3	59.3
2005/06	67.6	61.6
2006/07	68.8	61.4

Source: Quarterly Economic Bulletin (NRB)

Table 6.2 shows that the direction of the foreign trade of Nepal from the fiscal year 1990/91-2006/07. It is clear from the table (6.2) that share of India in total exports to Nepal declined till fiscal year 1992/93. It was due to the demand of Nepalese goods in India and domestic availability. Another cause of fall in exports of Nepal to India may be large-scale smuggling across Nepal- India border. The export share with India was Rs.1532.2 million in the fiscal year 1990/91 and it went up 41874.8 in the fiscal year 2006/07. As table 6.3 shows that the percentage of export share of India in total export is increased, percentage of export with India is rapidly declining up to 1992/93 and rebound from the next year. Even though, it could not meet the same present before 1996/97. After the 1996 Trade-Treaty, Nepalese products could enter India free of custom duty and quantitative restriction so that there was a phenomenal increase in export to India. The export share of India in percentage in the year 1996/97 is 23.1 it mounted to 57.1 in 2003/04 and reached 68.8 in year 2006/07.

On the other India's share in total export shows the fluctuating tendency. Total import in fiscal year 1990/91 is Rs.23226.5 million in which India's share is Rs7323.1 million. In this figure an amount is increasing in each year but as percentage it increase and decreased. As import share is small i.e. 26.6 percent in fiscal year 1996/97 and high 61.6 percent in fiscal year 2005/06. This increasing trend shows that large chunk of import demand is mostly met through imports from India because import from India are cheaper for Nepal then from the countries other than India because of close proximity and open borders.

During the year 1990/91- 2006/07 it is founded that export and import of Nepal is not limited with her neighboring country India only, but after the year 2000/01, maximum share has been covered by India.

6.3 Composition of Nepal-India Trade

Composition of trade indicates the pattern of goods that are begin exported and imported. It also shows the level of development of a country. In the early stage of development primary goods dominated the import and export composition. Nepalese export commodity composition has little diversified than import commodity composition. The composition of Nepal India trade is analyzed here on the basis of STIC.

6.3.1 Composition of Nepal's Export to India

In these days structure of trade between Nepal and India have been changed Agro-based and forest based primary commodities constructor principle export to India in the past at present manufactured products have replaced them.

Table No. 6.4
Exports to India Commodities According to SITC Categories.

(Value in million Rs.)

Fiscal Year	SITC Code										Total
	0	1	2	3	4	5	6	7	8	9	
1990/91	789.1	26	212.1	0.0	185.9	7.5	339.1	0.0	15.9	0.0	1552.2
1991/92	761.6	1.8	287.5	0.0	114.5	9.7	246.8	0.0	28.1	0.0	1450.0
1992/93	754.7	5.5	326.9	0.0	169.6	15.4	317.2	0.9	30.1	1.4	1621.7
1993/94	925.9	4.1	291.6	0.0	133.5	202.4	817.9	0.1	33.2	0.2	2408.9
1994/95	1315.2	2.8	388.7	0.0	210.6	256.0	904.9	2.5	43.6	0.0	3124.3
1995/96	1267.8	1.9	336.5	1.3	137.9	618.1	1236.1	26.4	56.6	0.0	3682.6
1996/97	1750.8	1.7	381.1	1.4	153.4	1333.0	1521.5	11.2	71.6	0.5	5226.2
1997/98	1704.2	19	329.2	20.6	1979.4	1950.6	2596.4	4.4	236.9	0.0	8794.4
1998/99	2040.5	43.7	353.9	0.5	3373.0	2780.3	3248.0	23.6	667.2	0.0	12530.7
1999/00	3726.2	103.2	498.4	2.2	2931.4	3882.0	5577.7	176.1	4323.5	0.0	21220.7
2000/01	3992.4	66.7	705.6	1.2	3931.4	3995.1	8907.3	197.8	4228.6	0.0	26030.1
2001/02	4542.4	141.4	560.2	5.2	7211.7	3234.2	9971.1	314.6	197.5	0.0	27956.2
2002/03	4672.3	106.6	682.2	14.5	4053.2	3174.1	11387.7	111.8	2225.7	4.5	26430.0
2003/04	4595.5	42.3	576.2	14.5	3206.4	3624.5	16228.9	219.1	2262.5	6.9	30777.1
2004/05	5389.3	26.5	736.6	3.9	4858.8	3577.7	21353.1	85.7	2876.2	9.1	38916.9
2005/06	6306.7	14.3	1163.3	0.5	4145.7	3564.7	21928.3	111.0	3477.7	2.5	40714.7
2006/07	6148.8	14.8	1295.9	0.0	4337.2	3926.3	23745.3	185.7	2220.8	0.0	41871.8
Average	2981.4	36.6	496.7	3.8	2419.6	2832.3	7666.3	86.5	1352.6	1.5	17877.3

Source: Quarterly Economic Bulletin volume XXXX, XXXXII

SITC Code

0 = Food and Live Animals

1 = Tobacco and Beverage

2 = Crude Materials, Inedibles Except Fuels

3 = Mineral Fuels and Lubricants

4 = Animal and Vegetable Oil and Fats

5 = Chemicals and Drugs

6 = Manufactured Goods Classified Mainly by Materials

7 = Machinery and Transport Equipments

8 = Miscellaneous Manufactured Articles

9 = Commodity and Transportation not Classified According to Kind.

As the table shows the Nepal's Export to India according to SITC categories the major part is covered by the food and live animals. In the year 1990-91, exported amount was Rs.789.1. In the remaining two years, it declined and later then started to increased. Significant increase can be realized after the fiscal year 1999/00. The Share has come to be Rs.6148.8 million in the fiscal year 2006/07. Tobacco and Beverages shows the fluctuating nature in prevailing its highest contribution of such groups was in the year 2001/02, at that time, it was Rs.141.4 million which has come to be Rs.14.8 million in the fiscal year 2006/07.

Similarly, export of crude materials, inedibles except fuels classified on group 2, shows increasing tendency up to the fiscal year 1992/93 and till then there is ups and down. But in the fiscal year 2006/07 it is amounted to Rs.1295.9 million which was Rs.212.1 million is the year 1990/91. The situation of export of the mineral fuels and lubricants is vulnerable except in the fiscal year 1997/98 with the amount Rs.20.6 of our analysis and has come to be 0.5 in fiscal year 2005/06. The share of Animals and Vegetable Oil and facts seems quite low up to 1996/97. As shown by the table, Indo-Nepal Trade and Transit Treaty was the door to enter on export for group 4 and 5. Share of both items Rs.4337.2 million and Rs.3578.5 million respectively against the lowest share in the year 1996/97 Rs.153.4 million and Rs.1333.0 million respectively.

Manufactured goods mainly by materials under group 6 show the steady growth. The share in the fiscal year 1990/91 was Rs.339.1 million and it has come to 23,745.3 in fiscal year 2006/07. There is drastic change in between the time period after and before 1996/97. Export under group seven has increased only after 1992\93, before it was high. The share is very high in fiscal year 2001/02, which comes to be Rs.111.0 million against Rs.314 million in that year of 2001/02. The export share of miscellaneous manufactured articles was increasing up to the year 1999/00 and become high at that period reaching Rs.4323.5 million from Rs.15.9 million in the

fiscal year 1990/91. The share was, started to declining after the same year of 1999/00 up to 2000/05.

Export of commodity and transactions not classified according to the kind is negligible especially in all years. It is Rs.9.1 million and 0.0 million in 2004/05 and 2006/07.

Table No. 6.5
Exports to India by Commodities According to SITC Categories
(In Percentage)

Fiscal Year	SITC Code										Total
	0	1	2	3	4	5	6	7	8	9	
1990/91	50.84	0.16	13.67	0	11.98	0.48	21.84	0	1.02	0	100.00
1991/92	52.53	0.12	19.7	0	7.90	0.67	17.03	0	1.94	0	100.00
1992/93	46.54	0.34	20.16	0	10.46	0.95	19.57	0.05	1.86	0.87	100.00
1993/94	38.40	0.2	12.16	0	5.50	8.40	34.00	0.00	1.40	0.01	100.00
1994/95	42.10	0.10	12.40	0	6.70	8.20	29.00	0.08	1.40	0	100.00
1995/96	34.40	0.05	9.10	0.04	3.70	16.80	33.60	0.70	1.50	0	100.00
1996/97	33.50	0.03	7.30	0.03	2.90	25.50	29.10	0.20	1.40	0.01	100.00
1997/98	19.40	0.20	3.70	0.20	22.56	22.20	29.00	0.05	2.70	0	100.00
1998/99	16.30	0.30	2.80	0.00	26.90	22.20	25.90	0.20	5.30	0	100.00
1999/00	17.60	0.50	2.30	0.01	13.80	18.30	26.30	0.80	20.40	0	100.00
2000/01	15.30	0.30	2.70	0.01	15.10	15.30	34.20	0.80	16.40	0	100.00
2001/02	16.20	0.50	2.00	0.00	25.80	11.60	35.70	1.10	7.10	0	100.00
2002/03	17.70	0.40	2.60	0.02	15.40	12.00	43.08	0.40	8.40	0.01	100.00
2003/04	14.90	0.30	1.80	0.04	10.40	11.80	52.70	0.70	7.30	0.02	100.00
2004/05	13.80	0.06	1.90	0.01	12.50	9.20	54.90	0.20	7.40	0.02	100.00
2005/06	15.48	0.03	2.85	0.00	10.18	8.75	53.85	0.27	8.54	0.00	100.00
2006/07	14.68	0.03	3.09	0.00	10.35	9.37	56.70	0.44	5.30	0.00	100.00

Source: Table No. 6.4

The above table clearly shows the share of exportable commodities as per SITC. This clearly portrays a clear picture of changing composition of Nepal's export trade with India over seventeen years. Group 0 shows, share of food and live animals has been decreasing after fiscal year 1991/92 and it comes to be only 14.48 percent in fiscal year 2005/07. Trend of Tobacco and Beverage shows the percentage share is not explanatory where as exports of crude materials inedible except fuels had taken a main portion in the early year of 1990/91-1994/95 but in the year of 2006/07, it is

limited to keep its share only on 3.09 percentages. Export share of minerals fuels and lubricants is a very little share on over all percentage shares of manufactured goods. Mainly by materials contributes a major items after 2002-2003, as the trend reveals. Figure was only 24.48 percent in the fiscal year 1990/91. Percentage share of animals and vegetable oils and fats has increased up to 1998/99 but later it started to decrease and it is confined to only 10.18 percent in the 2005/06 against 26.90 percent in 1998/99. Similarly share of miscellaneous manufactured articles was very low up to the fiscal year 1998/99 (5.3 and below that) but after that increased on slow rate and has come to be 8.54 percent in the 2006/07.

6.3.2 Composition of Nepal's Import from India

The composition of Nepal's import from India explicitly shows an increasing tendency during the fiscal year 1990/91-2006/07. In 1990/91 the import share of food and live animals was Rs.19496.8 million, it went on increasing up to the fiscal year 1993/94 and there was fluctuating tendency up to 1998/99. The highest import share was in the 1999/00 i.e. Rs.6975.8 before 2005/06. From the fiscal year 1990/91-2006/07, the import of Tobacco and Beverage show almost same trend. In the initial year it was Rs.254.4 million and it is 885.8 million in the 2006/07.

Table No. 6.6
Imports from Indian by Commodities According to the SITC
(In Rs. Million)

Fiscal Year	SITC Code										Total
	0	1	2	3	4	5	6	7	8	9	
1990/91	1496.8	254.4	178.4	210.1	1.6	1280.0	1948.9	1629.5	922.1	1.3	7323.1
1991/92	2429.9	287.3	255.1	321.3	0.9	1891.5	3298.3	2251.1	518.6	0.5	11245.5
1992/93	2537.6	443.6	393.0	356.6	3.6	1912.6	3966.5	2284.1	637.6	7.2	12542.1
1993/94	3044.9	340.5	395.7	435.0	9.2	2476.9	5228.5	3598.0	805.1	1.6	17035.4
1994/95	2834.0	468.8	638.5	379.9	11.4	2874.4	7374.4	4240.1	791.1	3.3	19615.9
1995/96	3265.7	437.7	889.5	436.7	51.4	3540.6	9472.6	5301.6	1001.8	1.0	24853.3
1996/97	8658.1	536.8	701.1	499.1	91.5	4077.0	8962.2	5053.7	1271.2	2.6	24853.3
1997/98	3364.8	667.2	1020.7	479.6	12.0	5279.5	9919.6	5154.2	1369.0	54.4	27331.0
1998/99	5501.0	658.0	1369.9	513.1	40.0	5502.0	10482.1	6663.5	1380.0	0.4	32119.5
1999/00	6975.8	642.5	1535.9	778.5	84.0	6287.7	14032.4	7006.1	2317.1	0.1	39660.1
2000/01	4412.3	63.01	2375.5	10854.4	418.2	6628.0	18099.8	8686.5	2605.3	0.8	54700.9
2001/02	4989.1	619.1	3010.6	14761.9	23.0	5129.0	18746.4	7527.4	1768.2	1.0	70924.2
2002/03	6598.1	600.1	4297.5	19609.7	55.4	678.9	22499.6	8444.8	2035.1	1.0	124203.1
2003/04	6357.9	737.9	4628.4	21593.6	107.9	8083.8	22807.5	11923.8	2714.8	324	82753.7
2004/05	6750.1	687.5	4670.4	29551.3	64.4	10479.4	22632.0	11073.8	2714.8	31.8	88675.5
2005/06	10108.8	724.5	5437.6	35665.3	152.6	13520.8	25487.4	11974.0	4072.1	0.0	107143.1
2006/07	8507.3	885.8	5499.5	35597.1	65.6	14775.9	29836.5	18678.7	3894.0	0.0	117740.4
Average	8336.1	532.6	2193.9	21217.9	68.2	5554.0	13811.5	7146.5	1812.8	25.4	60698

Source: Quarterly Economic Bulletin Volume XXXXII, XXXX

- O = Food and Live Animals
- 1 = Tobacco and Beverage
- 2 = Crude Materials, Inedibles Except Fuels
- 3 = Mineral Fuels and Lubricants
- 4 = Animal and Vegetable Oil and Fats
- 5 = Chemicals and Drugs
- 6 = Manufactured Goods Classified Mainly by Materials
- 7 = Machinery and Transport Equipments
- 8 = Miscellaneous Manufactured Articles
- 9 = Commodity and Transactions not Classified According to Kind.

As shown on the above table 6.6, the import of crude materials, inedibles except fuels up to 1996/97 is comparatively low in the year 1990/91, it was Rs.178.4 million and Rs.701.4 million in the 1996/97. After that it has become significant stride and come to reach Rs.5499.5 million in fiscal year 2006/07. Import share of mineral fuel and lubricants in the fiscal year 2000/01 from Rs.1280.0 million in the fiscal year 1990/91 was Rs.210.1 million. It has shown increasing trend up to three year later and decreased for one year and again started to increase in the remaining year. Significant increase can be realized only after 1999/00. In the fiscal year 1999/00 it was Rs.778.5 million, and it an Rs.10, 854.4 million in the year 2000/01. In the current year of 2006/07 share of the group 3 was Rs.35597.1 million. The import of group 4 has increased continuously up to 1996/97 and since then it has shown sharp fluctuation. The highest share was Rs.418.2 million in the fiscal year 2000/01. Imports of chemicals and drugs increased continuously up to the 2000/01, reaching Rs.6628.0 million in the fiscal year 1990/91. It decreased in the 2001/02, and again increased and reached Rs.14775.9 million in fiscal year 2006/07.

The import of commodities under group 6 (manufactured goods classified mainly by materials) fell down from Rs.9742.6 millions in 1995/96 to Rs.8,962.2 millions in 1996/97, but after that there has been growing trend up to the 2006/07. In the same way imports of machinery and transport equipment increased constantly except one year in 2001/02. At that period it had decreased from Rs.8686.5 million in

fiscal year 2001/02 to Rs.7527.4 millions in 2002/03. Imports of miscellaneous manufactured articles show the constant growth up to 2001/02 and decreased comparatively. There is extreme increase from the year 2004/05 to 2005/06, reaching Rs.2714.8 millions to Rs.4241.4 millions and again decreases in 2006/07. The import of commodities under group 9 from India shows a fluctuation during the study years. The lowest share was Rs. 0.5 million and highest share was Rs.54.4 million and highest share was Rs.54.4 million in the fiscal year 1997/98.

Table No. 6.7
Imports from India by Commodities According to SITC
(In Percentage)

Fiscal Year	SITC Code										Total
	0	1	2	3	4	5	6	7	8	9	
1990/91	20.4	3.5	2.4	9.2	0.02	17.6	26.6	22.3	4.4	0.02	100.00
1991/92	21.6	2.6	2.3	2.9	0.008	16.8	29.3	20.0	4.6	0.1	100.00
1992/93	20.2	3.5	3.1	2.8	0.03	15.2	31.6	18.2	3.1	0.004	100.00
1993/94	17.9	2.0	2.3	2.6	0.1	14.5	34.8	21.1	4.7	0.1	100.00
1994/95	14.4	2.4	3.3	1.9	0.1	14.7	37.6	21.6	4.0	0.009	100.00
1995/96	13.4	1.8	3.6	1.8	0.2	14.5	38.8	21.7	4.1	0.02	100.00
1996/97	14.7	2.2	2.8	2.0	0.4	16.4	36.1	20.3	5.1	0.004	100.00
1997/98	12.3	2.5	3.7	1.8	0.04	19.3	36.3	18.9	5.0	0.01	100.00
1998/99	17.2	2.0	4.3	1.6	0.1	17.1	32.6	20.7	4.3	0.2	100.00
1999/00	17.6	1.6	3.9	2.0	0.2	15.9	35.5	17.7	5.8	0.001	100.00
2000/01	8.1	1.2	4.3	19.8	0.8	12.1	33.1	15.9	4.8	0.0	100.00
2001/02	8.8	1.1	5.3	26.8	0.4	9.1	33.1	13.3	3.1	0.01	100.00
2002/03	9.3	0.8	6.0	27.6	0.07	9.6	31.7	11.9	2.9	0.01	100.00
2003/04	8.0	0.9	5.9	27.4	0.1	10.3	29.0	15.1	2.7	0.4	100.00
2004/05	7.6	0.7	5.3	33.3	0.07	11.8	25.5	12.5	3.0	0.03	100.00
2005/06	9.3	0.6	5.1	33.2	0.1	12.6	23.8	11.2	3.8	0	100.00
2006/07	7.23	0.75	4.7	30.23	0.06	12.5	25.3	15.8	3.3	0.0	100.00

Source: Table No. 6.6

The table 6.7 provides the clear picture of changing composition of Nepal's imports trade with India. The imports of food and live animals show fluctuating and decreasing trend. In the fiscal year 1990/91, it was 20.4 percent but coming up to the fiscal year 2006/07 it is limited to 7.23 percent only. As the table shows, major imported group from India is manufactured goods classified chiefly by materials that 32 percent on average each year. Similarly, another major important group from India

is machinery and transport equipment, which includes more than 29 percent on average. Both of these items have fluctuating trend decreased in the last year of our comparison with the starting year.

Imports of animals and vegetable oils and fats and commodity translation not classified according to kind contribute negligible share. The percentage share of animals and vegetable oils and fats in the fiscal year 1990/91 was 0.1 percent, and come to be 0.06 percent in the fiscal year 2006/07. Similarly, percentage share of group 9 was very low. The percentage share of Tobacco and Beverage was 3.5 percent in the fiscal year 1990/91, it was regularly decreasing after 1994/95. It is only 0.75 percent in the last year of our study. The import share of mineral fuels and lubricants was dismal in the early year but after 2001/02, it has intensively increased covering 30.23 percent in the fiscal year 2006/07. In the initial of our study, percentage share of chemicals and drugs shows that it's was contribution highest in 1996/97 i.e. 19.3 percentage, till then it was decreasing and again increased after the fiscal year 2002/03 and reached 12.5 percent in the fiscal year 2006/07.

6.4 Changing Pattern of Indo-Nepal Trade

Table No. 6.8

Changing Pattern of Indo-Nepal Trade

Fiscal Year	Nepal Export to India			Nepal import from India		
	Primary products	Manufactured products	Total	Primary products	Manufactured products	Total
1990/91	76.6	23.4	100	29.2	70.8	100
1991/92	80.2	19.8	100	23.4	70.6	100
1992/93	77.5	22.5	100	29.6	70.4	100
1993/94	65.2	43.8	100	24.9	74.1	100
1994/95	61.3	38.7	100	22.1	77.9	100
1995/96	47.2	52.8	100	20.8	79.2	100
1996/97	43.7	56.3	100	22.1	77.9	100
1997/98	46	54	100	20.3	79.7	100
1998/99	46.3	53.7	100	25.2	74.8	100
1999/00	34.2	65.8	100	25.3	74.7	100
2000/01	33.4	66.6	100	34.2	65.8	100
2001/02	44.5	55.5	100	41.3	58.7	100
2002/03	36.02	63.9	100	43.7	56.3	100
2003/04	27.3	27.7	100	43.7	56.3	100
2004/05	28.2	72.8	100	46.9	53.1	100
2005/06	28.75	71.25	100	48.62	51.38	100
2006/07	28.17	71.83	100	42.95	57.05	100

Source: Calculate from above table

Note: SITC 0-4 represents the primary products and 5-9 represents the manufactures products.

Changing pattern of Nepal's trade with India shows the exports of primary product has been decreasing as compare to the initial fiscal year of 1990/91, whereas export of manufactured product has been increasing. Export of primary product in the fiscal year 1990/91 is 76.6 percent of total export to India. In the corresponding second fiscal year it increased reaching 80.2 percent. After 1999/00 export share of primary product declined more and in fiscal year 2006/07 it has become only 28.17 percent. Opposite case is true in the case of manufacture product. It was confined to 23.4 percent in the fiscal year 1990/91 has become 71.83 percent in fiscal year 2006/07 as a consequence of Trade Treaty.

There is another situation in case of Nepal's import India. The changing pattern clearly reveals that share of primary product is almost same in three consecutive year of initial period around 29 percent. It has come down to 20.80 percent in the 1995/96. Again it increased and however reached 48.62 percent highest in the fiscal year 2006/07. On other hand, import of manufactured product showed highest share up to the fiscal year 1999/00 i.e. 70.8 percent, But after that it has been deteriorating regularly and in fiscal year 2005/06, its share is only 51.38 percent.

6.5 Trade Balance of Nepal with India

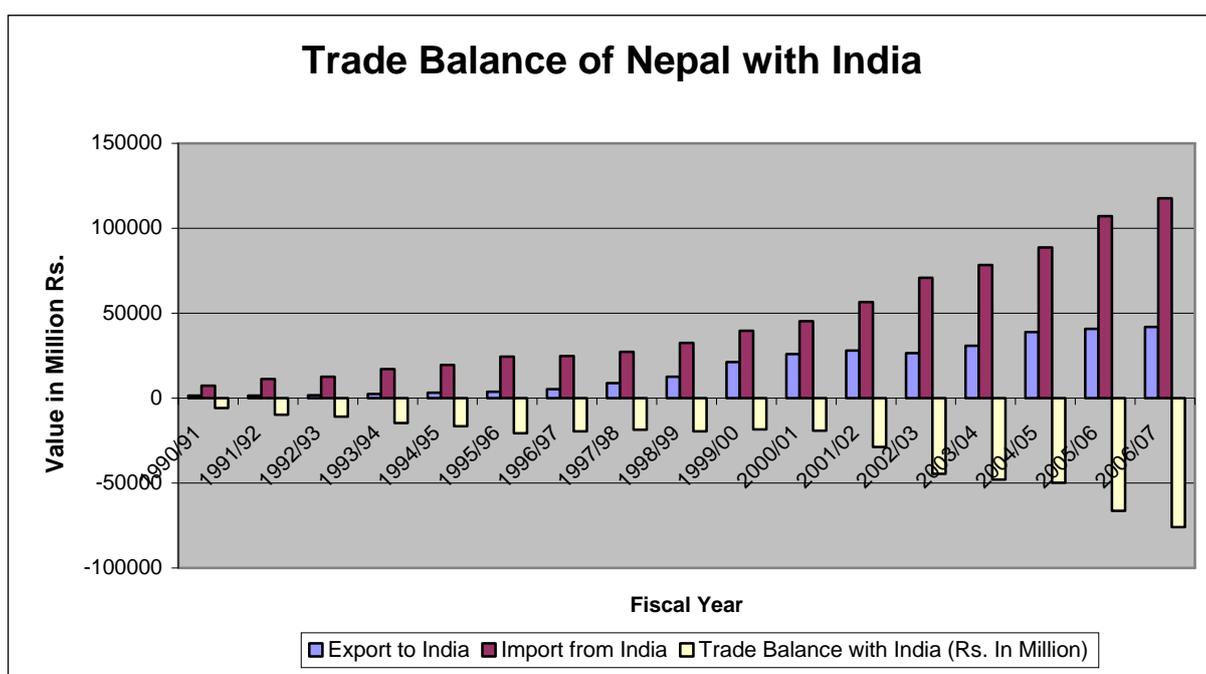
Balance of Trade is simply the difference between the value of commodity exported and imported. If this difference (X-M) is positive, there is surplus in trade balance, if it is negative there is deficit in trade balance. If it is positive there is surplus in the balance of trade, the prospects of economic development of that country will certainly be higher. But such prospect will be gloomy if there is deficit balance of trade. Thus trade deficit adversely affects the economic development of a nation. Though export to India is increasing significantly in recent years, a huge trade deficit still plagues the Nepalese economy. Nepal's deficit trade balance with India has a direct impact up on the Nations balance of payment situation.

Table No. 6.9
Trade Balance of Nepal with India

Fiscal Year	Total Trade Balance (Rs. In Million)	Trade Balance with India (Rs. In Million)	Percentage Change to Previous Year	GDP of Nepal	<i>Trade bal. India</i> <i>GDP of Nepal</i>	Trade Deficit with India as % of Trade Deficit.
1990/91	15389.0	-5770.9	-	103416	0.06	36.4
1991/92	18233.5	-9755.5	69.7	120371	0.08	53.7
1992/93	21939.1	-10920.4	11.4	149485	0.07	49.8
1993/94	32277.4	-14626.5	33.9	171386	0.09	45.3
1994/95	46040.3	-16491.6	12.8	199216	0.10	35.8
1995/96	54573.4	-20716.0	25.6	219175	0.09	38.0
1996/97	70916.9	-19627.1	-5.3	248913	0.07	27.7
1997/98	61488.5	-18536.6	-5.6	280513	0.07	30.1
1998/99	51849.0	-19589.0	5.7	300845	0.07	37.8
1999/00	58682.2	-18439.4	-5.9	342036	0.05	31.4
2000/01	60033.1	-19180.4	4	379488	0.05	32.4
2001/02	60444.2	-28665.9	49.5	410789	0.07	47.4
2002/03	74421.5	-44494.2	55.2	422301	0.11	58.2
2003/04	82366.4	-47962.4	7.8	454934	0.11	58.2
2004/05	90767.9	-49758.6	3.8	494882	0.10	54.8
2005/06	113546.2	-66428.4	33.5	496026	0.13	58.5
2006/07	130913.0	-75865.6	14.2	509911	0.15	57.9

Source: Quarterly Economic Bulletin Mid-October, 2007

Figure No. 6.3



The trade balance of Nepal has remained always unfavourable and has been quite stagnant during the study period (FY 1990/91 to FY 2006/07). An immediate cause for the deficit trade balance is higher import against the smaller export the trade balance of Nepal with India as shown in the table 9.6 and figure 6.3 above. Trade deficit with India has increased significantly from 1990/91 to 1995/96. It has shrunk a major amount in 1996/97, 1997/98 and 1999/00 as compared to previous fiscal year. This is a welcome future. The trade balance with India which was in deficit of Rs.5770.9 million in 1990/91 reached the negative of Rs.75865.9 in 2006/07. If the deficit in foreign trade goes on same trend in future the trade sector will face more acute shortages of foreign exchanges. Thus the only way to overcome this problem is through enhancing exports enhancing exports rapidly and by controlling the flow of luxury and semi-luxury items.

To overcome such deficit a massive amount of foreign trade debts and assistance have been received by the country. Such types of remedy in the balance of payments difficulties are only a short-term remedy and if they continue the debt service ratio may climb rapidly in the future hampering the economy ultimately. On top of that the burden of foreign exchange to the nation becomes more severe in case of such practices (Maskya, 1991)

The neighboring country, India is the main trading partner and hence larger proportion of Nepal's trade deficit is with India. In 1991/92, total trade deficit was Rs.18233.5 million of this deficit accounted for 53.7 percent while third countries accounted for only 46.3 percent. India accounted for more than 50 percent of Nepal's total trade deficit in that year. Afterwards India's share has remained at less than 50 percent, till 2000/01. From 1991/92 to 1996/97 a gradual declining tendency was witnessed in Indian's share in the total trade deficit of Nepal. But the trade deficit is more than 50 percent since 2002/03 the highest trade deficits 58.5 percent in 2005/06.

5.6 Comparative Study of Indo-Nepal Trade

Since our study is concerned with the trade relation between Nepal and India it is most essential to do a comparative study of these two countries. Only then we can ascertain a clear picture of the relation between two countries in the field of trade. For this purpose, Nepal's trade dealing is need not only to be with India but also with the countries other than India. This will clarify the percentage share of the Nepalese trade held by India and other countries of the world.

Table No. 6.10**Export to India and Overseas Countries****In Rs. Million**

Fiscal Year	Total Export	To India	% Total Export	Overseas countries	% of total export
1990/91	7387.5	1552.2	21.0	5835.3	79.0
1991/92	13706.5	1450.0	10.6	12256.3	89.4
1992/93	17266.5	1621.7	9.4	15644.8	90.6
1993/94	19293.4	2408.9	12.5	16884.5	87.5
1994/95	17639.2	3124.3	17.7	14514.9	82.3
1995/96	19881.1	3682.6	28.5	16198.5	81.5
1996/97	22636.5	5226.2	32.1	17410.3	76.9
1997/98	27513.5	8794.4	32.0	18719.1	68.0
1998/99	35676.3	12530.7	35.1	23145.6	64.9
1999/00	49322.7	21220.7	42.6	28602.0	57.4
2000/01	55654.1	26030.2	46.8	29623.9	53.2
2001/02	46944.8	27956.2	59.6	18988.6	40.4
2002/03	49930.6	26430.0	52.9	23500.6	47.1
2003/04	53910.7	30777.1	57.1	23133.6	42.9
2004/05	58705.7	38916.9	66.3	19788.8	33.7
2005/06	60234.1	40714.7	67.6	19519.4	32.4
2006/07	60795.8	41874.8	68.8	18921.0	31.2

Source: (1) NRB Economic Bulletin (various issues)

(2) Nepal and World A Statistical profiles 2006 (FNCCI)

In the fiscal year 1990/91, export to India includes only 21 percent of the total exports, this figure is 68.8 in the current year of 2005/06. Annual share of exports to India and overseas countries clearly depicted in the figure 6.4

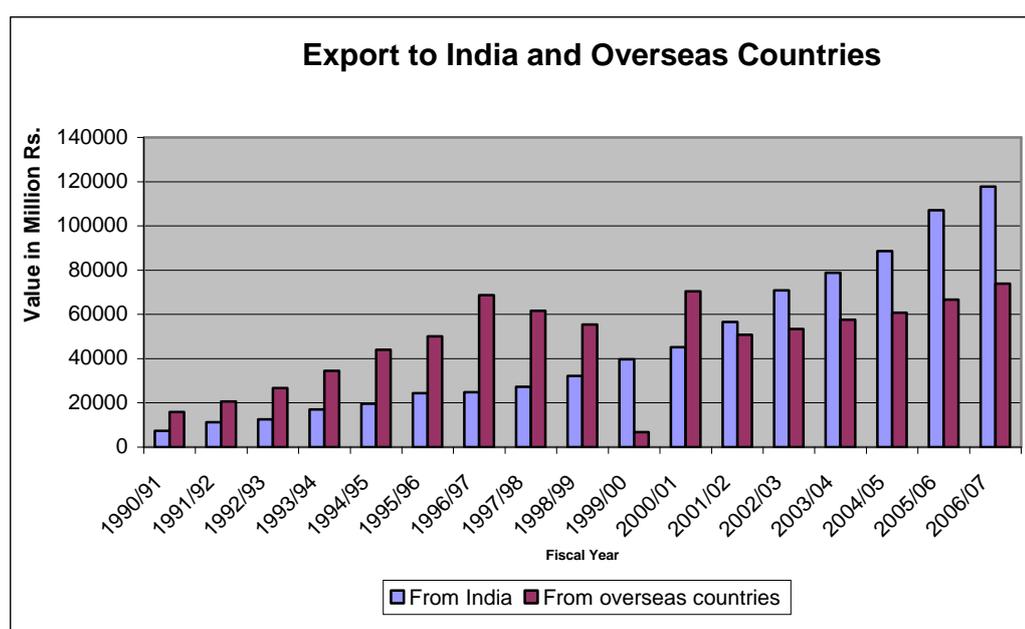
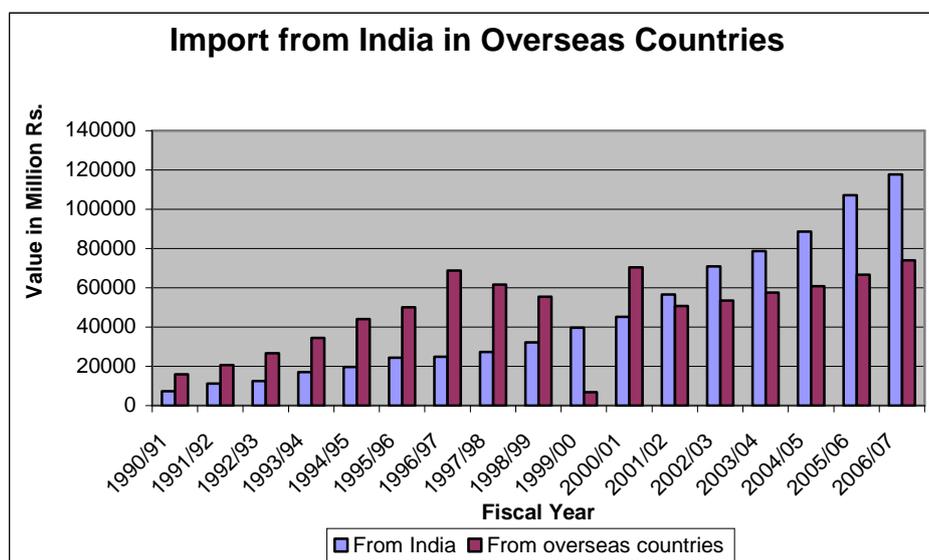
Figure No. 6.4

Table No. 6.11
Import from India and Overseas Countries
In Rs. Million

Fiscal Year	Total Imports	From India	% Total Imports	From overseas countries	% of total Imports
1990/91	23288.5	7323.1	31.5	15903.4	68.5
1991/92	31240.0	11245.5	35.2	20694.5	64.8
1992/93	39205.6	12542.1	32.0	26663.5	68.0
1993/94	51570.8	17035.4	33.0	34535.4	67.0
1994/95	63679.5	19615.9	30.8	44063.6	69.2
1995/96	74454.5	24398.6	32.8	50055.9	67.2
1996/97	93553.4	24853.3	26.6	68700.1	73.4
1997/98	89002.0	27331.0	30.7	61671.0	69.3
1998/99	57525.3	32119.7	36.7	55405.6	63.3
1999/00	108504.9	39660.1	39.1	6844.8	63.4
2000/01	115687.2	45211.0	52.7	70476.2	60.9
2001/02	107389.0	56622.1	57.0	50766.9	47.3
2002/03	104352.1	70924.2	57.8	53427.9	43.0
2003/04	136277.1	78739.5	59.8	57537.6	42.2
2004/05	149473.6	88675.5	59.3	60798.1	40.7
2005/06	173780.3	107143.1	61.5	66637.2	38.5
2006/07	191708.8	117740.4	61.4	73968.4	38.6

Source: (1) Economic Bulletin (various issues)
(2) Nepal and World A Statistical profiles 2006 (FNCCI)

Figure No. 6.5



The exports and imports table shows that India has become the major trade partner of Nepal since our study begins. So far the exports to India are concerned India has been a dominating importers of Nepalese products the percentage of exports

to India has been more than 50 percent after the fiscal year 2000/01 to the current time period.

On other hand, more than 50 percent of the goods imported to Nepal is from India. In the current fiscal year of 1990/91, the percentage share of Nepal's import was 31.5. In the succeeding period it was fluctuating tendency but after 2000/01, share of goods imported from India went on increasing rapidly. In the fiscal year 2006/07 it reached to 61.4 percent of the total import. This is also clearly depicted in the figure 6.5 above.

6.7 Determinants of Export and Import

Export and Import of the developing countries are affected by forces of demand and supply factors such as domestic price, the growth of gross domestic products, taxes, tariff, subsidies price in competitor countries.

Of the numerous studies that examine the relationship between developing country export and supply side variables, Balass (1978a, 1978b) and Tyler (1981) find a significant positive relationship between economic growth in developing countries and their supply of exports of manufactures. Elson (1973) and Teigeiro and Elson (1973) conclude that, during the post war period, exchange rate movement have been an important determinant of the supply of exports from Argentina and Colombia. Bhagwati (1978), Bergsten and Cline (1982), Cline (1978) and Krueger (1978a, 1978s) analyze the effect of different trade policies on the growth and export behaviour of developing countries. On other hand multicountry studies of aggregate import demand, Houthakker and Magee (1969), Taplin (1973) samuelson (1973), and Khan and Ross (1975) all use the wholesale price index as the domestic price variable. Goldstein and Khan (1976) and Heien (1968) are examples of the studies that use GDP deflator as the domestic price variable in total import function.

Nepal's export supply to India and import demand from India mainly depends up on the price of exports in foreign markets relative to the domestic price level gross domestic (output) products of Nepal, taxes tariffs etc.

6.7.1 Exports to India

The following regression equation is calculated with exports to India as dependent variable and other variable such as time variable, GDP of Nepal and Relative price.

1. Relation between Total Export to India and Time series: The estimating equation and result are:

$$\ln X_I = r_0 + r_1 t + e$$

Growth rate of total export to India = $\{\text{antilog } r_1 - 1\} \times 100$ percent.

The estimated results are:

$$\ln X_I = 3.0426 + 0.1206t$$

$$(0.0609) \quad (0.007153)$$

$$\text{Growth rate of } X_I = 32\%$$

$$\text{R Squared: } 0.96 \quad \text{t-stat: } 49.96, 16.86$$

$$\text{Adj. R Squared: } 0.95 \quad \text{F: } 248.41$$

One year change in the time period causes 0.12% change in total export to India. Value of t-stat justifies the significance of parameters. The values in parenthesis are standard errors of respective parameters. The value of R square show that 95 percent variation in total export to India is explained by time period. The value of t-stat is the statistical significance level of 5 percent of parameters. Similarly the value of F also justifies the 5 percent level of significance of regression line. The average annual growth rate of total export to India during the review period remained 32%.

2. Relation between Total Export to India and $\frac{WPI_I}{CPI_N}$ The estimating equation and result are:

Equation

$$\ln X_I = r_0 + r_1 \ln \frac{WPI_I}{CPI_N} + e$$

The estimated results are:

One percent change in relative price with India changes total export to India by 0.3% in same direction. This shows that 1% increased in relative price leads to increase 0.3% total export to India. This implies that less elasticity of export to India to the relative price with India. The values in parenthesis are standard errors of respective parameters. The value of R Square shows that only 7 percent variations in total export to India explained by Relative price with India. Thus it shows the lower goodness of fitness of the regression line.

3. Relation between Total Export to India and Total GDP of Nepal: The estimating equation and result are:

Equation

$$\ln X_I = r_0 + r_1 \ln GDP + e$$

The estimated results are:

In this double log linear regression equation, the result states that one percent increase in GDP causes 2.4 percent increase in total export to India. This implies higher elasticity of total to India to GDP. The value in parenthesis are standard errors of respective parameters. The value of R Square shows that 96 percent variation in total export is explained by GDP in this regression equation. This means higher goodness of fit of the estimated regression line. Values of t-stat are just enough to signify the statistical significance of parameters at 5 percent level of significance. And value of F also justifies the 5 percent level of significance of the regression line.

4. Relationship between Export to India and GDP of Nepal and Relative price with India: The estimating equation and result are

Equation

$$\ln X_I = X r_0 + r_1 \ln GDP + r_2 \frac{WPI_I}{CPI_N} + e$$

The estimated results are:

In the estimated regression line, the relationship between export to India and GDP of Nepal and relative price with India is presented. In this equation X_1 denotes the export to India is the dependent variable GDP and relative price are the independent variable. This estimate states that one percent change in GDP 2.4% change in export to India in same direction as relative price place constant. And 1 percent increased in relative price leads to increase 0.1% increase in total export to India as GDP placed constant. The values in parenthesis are standard errors of respective parameters. The value of R squared 0.96. This indicates that 96 percent variations to total export to India explain by GDP and relative price. This shows higher goodness of fitness of the regression line. The value t-stat of the coefficient of GDP is significant at 5% level. While the coefficient of relative price is significant at 1 percent level. Similarly the value of F justifies the 5percent level of significance of the regression line.

6.7.2 Import from India

The following regression equation is calculated to determine the Import from India. Import as the dependent variable and other variable such as time GDP of Nepal and relative price are the independent variables.

1. Relation between Total Import from India and Time Series. The estimating equation and result are:

Equation

$$\ln M_t = \alpha_0 + \alpha_1 \text{GDP}_t + \alpha_2 \text{Price}_t + e_t$$

$$\text{Growth rate of total import from India} = \sum (\text{anti log } S_1) Z1^* | 100 \text{ percent}$$

The estimated results are:

$$\ln M_I = 8.9687 + 0.1632t$$

(0.0464) (0.0045)

Growth rate: 45%

R Squared: 0.98 t-stat: 193.16, 36.04

Adj. R Squared: 0.97 F: 1298.66

One year change in time period causes 0.16% increase in total import from India value of t-stat justifies the significance of parameter. The value in parenthesis is standard errors of respective parameters. The value of R Squared shows that 98 percent variant in total import from India is explained by time period. The value of t and F-stat are significance at 5 percent significance level. The average growth rate of total import from India during the review period remained 45%.

2. Relation between Total Import from India and Relative price $\frac{WPI_I}{CPI_N}$ the estimating equation and result are:

Equation

$$\ln M_I = \alpha_0 + \alpha_1 \ln \frac{WPI_I}{CPI_N} + e$$

The estimated results are:

$$\ln M_I = 10.3618 + (-0.2477) \ln \frac{WPI_I}{CPI_N}$$

(0.2036) (0.1810)

R Squared: 0.19 t-stat: 50.87, 1.37

Adj. R Squared: 0.11 F: 1.87

In the double log linear regression equation one percent change in relative price with India total import results to decrease in 0.24 percent vice verse. This implies that less elasticity of total import from India to the relative price with India. The value in parenthesis is standard errors of respective parameters. The value of R Squared shows that only 19 percent variant in total import from India is explained by the relative price with India. Thus, it shows the lower goodness of fitness of the regression model.

3. Relation between Total Import from India and GDP of Nepal. The estimating equations and result are:

Equation

$$\ln M_I = \alpha_0 + \alpha_1 \ln GDP + e$$

The estimated results are:

$$\ln M_I = -9.4253 + (-1.5841) \ln GDP$$

(0.9870) (0.0786)

R Squared: 0.96 t-stat: -9.55, 20.14

Adj. R Squared: 0.95 F: 228.5

In this double log linear regression equation, the result states that one percent change in GDP results to 1.58 percent change in import from India negative direction i.e. 1 percent decrease in GDP of Nepal 1.58 percent increase in total import from India. The values in parenthesis are standard errors of respective parameters. The value of R Square show that 96 percent variation in total import from India is explained by GDP in this regression equation. This means that higher goodness of fitness of the estimated regression model. Value of t-stat is just enough to signify the statistical significance of parameters at 1 percent significance. And value of F is justifying the 1 percent level of significance of the regression model.

4. Relationship between Import from India and GDP of Nepal and Relative price with India.

Equation

$$\ln M_I = \alpha_0 + \alpha_1 \ln GDP + \alpha_2 \ln \frac{WPI_I}{CPI_N} + e$$

The estimated results are:

$$\ln M_I = -9.0177 + (-1.5502) \ln GDP + (-0.0593) \ln \frac{WPI_I}{CPI_N}$$

(0.9641) (0.0770) (0.03551)

R Squared: 0.97 t-stat: -9.35, 20.12, 1.67

Adj. R Squared: 0.96 F: 228.5

In the estimated regression line, the relationship between import from India and GDP of Nepal and relative price with India is presented. In this equation M_I

denotes the Import from India is the dependent variable, GDP and relative price are the explanatory variable. This estimated line states that one percent decrease in GDP of Nepal leads to increase 1.5 percent total import from India as relative price placed constant. And also that one percent change in relative price leads to change 0.05 percent import from India in negative direction as GDP placed constant. The value in parenthesis is standard errors of respective parameters. The value of R Squared shows that 97 percent variation in import from India is explained by GDP and Relative price with India. Thus, it shows that higher goodness of fitness of the regression line. The value of F and t-stat of the coefficient GDP and Relative price are significant at 5% level.

6.8 Causes leading to gap in Nepal's Trade with India

Nepal has been suffering from trade deficit since long time back. Exports are not accelerating at the speed which is needed for making foreign trade balance comfortable. It is because of the fact that the country has been facing several problems some causes leading to gap in Nepal's trade with India are discussed here.

6.8.1 Implementation of development project in the country

As a least development country, Nepal has no bear the loss in trade, because of the implementation of development project in the country. There is a need to import increase import in larger quantity of capital goods to support the development efforts of the country. The growth in public expenditure has created more employment and raised the income of the people. This situation has caused for more imports of both capital and consumer goods because the domestic industries have failed to meet the demand of such goods due to low industrial based and lack of enterpreurial skill in the country.

6.8.2 High volume low value exports

Nepalese exports are usually primary products which are in high volume but low values. This has made every export consignment expensive, as it requires high packing, freight and warehousing losts.

6.8.3 Population Growth

The stagnant food production along with the growth in population reduce major items of Nepal reduced the exportable surplus. Increasing population has caused for more imports of both primary and manufactured goods leading to an ever-increasing gap in the trade balance of Nepal.

6.8.4 Narrow Export Base

One of the foremost problems that Nepal has been facing in the export sector is its over dependency on a few export items. Because of that Nepal has not been able to take advantage of its potential access to the Indian market for manufactured goods. Therefore, serious attention needs to be given by the government as well as private sector of Nepal for identification of new exportable items with a view to increasing export volumes and earnings.

6.8.5 Lack of Skilled Manpower

In the process of production and export, skilled manpower has a great role to play. As regards production, skilled manpower is required to maintain quality standards, lower cost of production, increase efficiency etc. This is equally important for the export of agriculture products and manufactured goods. In Nepal, skilled manpower is not available according to requirement. This affects their export endeavor negatively.

6.8.6 Low Quality Export

Quality production is an essential factor in the international market to tackle with stiff competition. But in contrast to this, Nepalese productions are qualitatively low graded and the reason why Nepal couldn't stabilize the export markets of its traditional products was because of the lack of quality control and standardization. Actually the inability to enhance productivity and maintain quality of domestic production has contributed to the slow growth of exports. So our exporters should be conscious enough about export quality control.

6.8.7 Inadequacy of better raw materials

In order to expand and diversify exports it is essential to increase the share of manufactured goods in overall exports. For this purpose, better quality raw materials

and components are essential. The exporters of Nepal have been facing the problem of better quality raw materials.

6.8.8 High Cost of Production

The exporter of Nepal in general has been facing the problem of high cost. It may be because of the fact that production system is based on traditional technologies. Further all the required raw materials are not sufficiently available in the country and these are imported from foreign countries which, affected the cost of production. Hence, it appears difficult to export Nepalese products at competitive price in India. The small and medium sized exporters have been facing this problem due to their low level of production.

6.8.9 Insufficient Development of Infrastructure

Quality prices and time-schedule are the important factors which attract foreign buyers in an exporting country. Better communication facilities, good roads and better transport services are the pre-requisites for maintaining time schedule in the process of export. In Nepal, road network has not been well developed. The exports face problem in maintaining time schedule in export business.

6.8.10 Exchange Rate Policy

The existing exchange rate policy between India and Nepal is another crucial factor leading to trade gap. It is said that Nepal has to maintain fixed exchange rate with the Indian currency into an advantageous position, as Nepal's exports are always high priced and imports are much cheaper. The depreciation of Nepalese currency is supposed to make exports cheaper in international, but high cost on import of oil and raw materials has inflated the price of exports.

6.8.11 Subsidy on Petroleum Products

Nepal Government is providing the subsidy on petroleum product which leads to increase the trade gap between Nepal and India. The price of the petroleum product increase 100 percent within a year in the world market but Nepal government does not adjust the price of the petroleum which is the vary serious problem in our country now-a-days.

6.8.12 External Factors

India being a relatively more developed country has already attained almost self-sufficiency in food production. It has been endowed with much wider and richer resources and has already made a significant stride in infrastructure, scientific and industrial development. It has become a big power in the region because of its size, military set up and political system. As Indian is restructuring its economy by liberalization the commodities and services provided by India is more competitive in the Nepalese market compared with other countries goods in terms of price, quantity and easy availability. Due to massive foreign investment, industrial production in Indian is increasing and such products are in accordance with our need. As a result import from India is going up and these increasing imports have become a major reason for trade deficit between two countries.

International trade has become a source of anxiety for Nepal unless serious attempts are made to identify new exportable products, develop specific market riches and support market research the trade deficit can deteriorate further endangering the stability of Nepalese economy.

CHAPTER VII

SUMMARY OF FINDINGS AND RECOMMENDATIONS

7.1 Summary of the Findings

The analysis of Nepal's foreign trade trend and structure with India has shown that till now, our trade is not moving toward right direction. It is still missing its right track. This study provides a clear view regarding the history, trade agreement, trend, volume and direction of trade between Nepal and India, Bilateral trade between India and Nepal as well as trade composition and determinants of exports and Imports. The following information summarizes the picture of Indo-Nepal trade situation in brief.

India is extending economic and technical support to Nepal for almost for decades since 1951. India was the most important donor to Nepal in the early decades after the independence of India. The signing of the India-Nepal treaty of peace and friendship in 1950 established the framework for the unique ties between the two countries. Since the early fifties, India has contributed significantly to the economic development of Nepal. Exports to India mainly consisted of food grains, raw jute, wool, cotton, hides and skins, musks, medicinal herbs, etc. Imports from India used to consist of mainly the agricultural products such as wheat, rice gram and pulses, iron, besides others. Thus, India has been a major trade partner of Nepal since a long time back. Popular and cultural ties of India with Nepal have consistently been close and have reflected in trade terms continuously.

Trade between Nepal and India is guided by the Nepal-India Trade Treaty first signed in 1991 and later modified in 1996. The treaty was further renewed on March 3, 2002. Unlike the treaty signed in 1996 several new restrictions were introduced such as stricter Rules of Origin (RoO) and incorporation of safeguard clauses. The new Rules of Origin (RoO) encompass: (a) Value addition (domestic content) requirements of 30 percent of ex-factory prices (from March 2003), and changes in tariff heading (CTH) at the four-digit level of the harmonized system code. For manufactured exports of Nepal, that can not satisfy the CTH criteria, the new Rules of Origin demand that these products have undergone sufficient manufacturing process within Nepal, determined on a case-by-case basis. Moreover, four Nepalese item would now be permitted to enter free of basis customs duty into the Indian market on a fixed quota basis.

Export and import, between Nepal and India has increased from the year 1996/97 on ward of course, it may be due to the outcome of favourable provision in the Indo-Nepal trade treaty of 1996. The share of India in the total export of Nepal was 32.1 percent in 1996/97. The trend escalated gradually in the successive years and approached to 46.8 percent 2001/01, which hyper jumped up to 59.6 percent in 2001/02. The share of India in total import of Nepal was 26.6 percent in 1996/97, which gradually increased revealing 52.2 percent in 2000/01. Treaty of trade has indeed played a crucial role in foreign trade structure of Nepal.

Composition of trade indicates the pattern of export and import in the initial stage of development, where as in the advanced stage the majority of produced goods can be found in the composition of trade so the composition of foreign trade also determines the level of the development of a country. In this study composition of Nepal-India analyzed on the basis of SITC.

Composition of Nepal export to India has been changed. In the past primary commodities constituted that principle export to India, but at percent manufactured products have replaced them. Exports of primary products such as Food and Live Animals, Tobacco and Beverage etc. show the trend towards India. The share of food and animals in total exports to India constituted 50 percent in fiscal year 1990/91 but it confined only to 14.68 percent in the fiscal year 2006/07 observation made on the manufactured items exported to India shows manufactured goods classified mainly by materials (group 6) occupy the major portion of imported commodities from India (Table No. 6.4, 6.5, 6.6 & 6.7).

Changing pattern of Nepal-India trade shows that exports of primary product is decreasing from the 76.6 percent in the fiscal year 1990/91 to 28.17 percent in the fiscal year 2006/07. After 1995/96, total export and import of manufactured product is increasing. In the fiscal year 1990/91 share of manufactured products imported from India was 70.8 percent, till then it showed fluctuating tendency and reached only 57.0 percent in the fiscal year 2006/07. Similarly, imports of primary were 29.2 in fiscal year 1990/91 and it is 42.95 percent in the fiscal year 2006/07 (Table No. 6.8).

The trade balance of Nepal remains unfavourable with increasing deficit with India during the study period. The trade balance with India was Rs. 5770.9 million in fiscal year 1990/91, and it reached Rs. 75865.6 million in the fiscal year 2006/07. The

main reason for the growing trade deficit is the prevalence of import over export. To solve the overriding problems, Nepal needs to have adequate market penetration and import substitution policies (Table No. 6.9).

Comparative study of Nepal India-trade clarifies the percentage share of the Nepalese trade held by India and countries other than India. In the fiscal year 1990/91 the share of total export was 21.0 percent and 79.0 percent to India and overseas countries. This came to be 68.8 percent for India and 31.2 percent for overseas countries. This indicates India is the key partner from Nepal's perspective in trading relationship (Table No. 6.10 & 6.11).

The empirical study of determinants of exports and imports helped to reach the conclusion that the GDP, time period and relative price are the main determinants of total export and import. GDP plays the dominant role in total export and import from India. The result states that one percent increase in GDP causes 2.4 percent increase in total export to India on other hand one percent decrease in GDP causes 1.6 percent increases total import from India. In this study conclude that relative price have less significance role as compare to GDP and time variable. The average annual growth rate of total export to India during the review period remained 32% whereas average annual growth rate of import from India is 45% during the study period.

Causes of leading to gap in Nepal's Trade with India are another query of the study. Like other LDCs. Nepal is facing the high trade deficit. It cannot uplift the economic situation automatically. India is a great growing economic powerhouse of the world and this can be of great helps in its development. The main causes to gap in Nepal's trade with India are: High volume low value of export, low quality of export, high cost of production, lack of skilled manpower, subsidy on petroleum product, insufficient development of infrastructure etc.

7.2 Recommendations

Gradual increment of trade deficit problem shows the fact that Nepalese trade is dominated by imports. It also indicates that there are various barriers on Nepalese trade. Although Nepalese government has introduced different policies and measures with regular modification, Nepalese trade cannot take positive direction. However there is future potential to expand export trade. Therefore, government should take immediate action. This study has some suggestions for the promotion and expansion

of Nepal's foreign trade especially exports with India and consequent economic growth of the country. The following measures should be considered.

-) Areas of comparative advantage should be identified and environment for investment should be created in those sectors. Moreover, import trade should be developed as the component of industrial development.
-) Our trade sector is handicapped by lack of potential exportable products. But only an assessment of export potentials and selection of appropriate export commodities is not sufficient to promote our foreign trade, it requires to launch comprehensive product development programmes, assess product suitability, acceptability and appropriate product adaptation most effectively and efficiently to foreign markets.
-) Government should have the strategies to promote domestic industries that to be exercised by imposing quantitative restriction on imported items, developing of infant industries and expanding domestic markets for domestic manufactures by protecting them from external competition.
-) Government role should be defined as catalytic in practice not only on paper. Government should be empowered and attract the private sector involvement by making environment friendly policies which is lacking up to now.
-) To improve balance trade position, Nepal should increase exports and reduce imports. Exports can be encouraged by improving the quality of products reducing cost of production generating exports surplus encouraging research and development.
-) India is more developed than Nepal. In Nepal, the industrial sector is in infant stage. If the country wants to increase the export of products to India. She has to use superior technology not developed in India. Otherwise it is difficult to get India market for those goods that have used the technology available in India.
-) India, major trading partner and a developed nation of SAARC region should help by providing trade and transit facilities.
-) Open market policy will be beneficial for the country as it increases the access of Nepalese products in India, only when Nepalese products should be able to

provide opportunities not to taste international products in the country but also to give the taste to others in the same proportion in the country is a courageous attempt.

-) Although establishment of exports processing zones (EPZ) major custom points has been announced in various plans, it has not been implemented yet. The process of setting up export processing zones should be accelerated.
-) With the accession of Nepal into WTO, it has a must for the country to make foreign trade more simple, reliable and cost effective. In this regard, there should be reform in the area of laws, rules and regulation as soon as possible.
-) To expand trade regular meeting, seminars workshop with the participation of the all stakeholder should be conducted.
-) The opened boarder should be effectively regulated to control unauthorized trade.
-) Nepal India Joint Venture should be encouraged. There is a greater possibility to establish joint venture in the field of hydropower.

Overall, Nepalese foreign trade situation suggests that though Nepalese trade has been facing too barriers, it have some potential too. To reduce gradual trade deficit government must immediately take action towards the direction of expanding export.

Major Policy Prescriptions

-) Setting up of a Research and Policy Group to improve trade Composition and Trade Imbalance between Nepal and India.
-) Strengthening Cooperation between the Chambers of Commerce and Industry Associations. Collaborative Research study on Learning the Lesson from India on WTO Negotiations and Implementation of WTO Agreement.
-) Increasing the scope of Joint Ventures.
-) Setting up of R & D facilities in Nepal with India Assistance specifically for Quality Improvement, Designing. Innovation and Product Development.
-) Constitution of a joint Task Force for Simplification of Administrative procedures.

REFERENCES

- Baskota, N.P. (1981). *Indo Trade and Economic Relation*, B.R. Publishing Corporation, Delhi.
- Dahal, R. (1992). **Foreign Trade and Economic Development of Nepal**, Unpublished M.A. Dissertation Submitted T.U., Kathmandu.
- FNCCI Reports, FNCCI, Kathmandu.
- Garanja, M.B. (1999). **Export Performance of Nepal**, Unpublished Ph.D. Dissertation Submitted T.U., Kathmandu.
- GoN, MoF: *Economic Survey*, (Various Issues) GoN, MoF, Kathmandu.
- Government of Nepal, MoF Department of Customs: Foreign Trade Statics (Various Issues), DC, Kathmandu.
- Gurarati, D.N. (2003). *Basic Econometrics*. Fourth Edition. McGraw Hill.
- International Monetary Fund: *International Financial Statistics Year Book* (Various Issues) IMF, Washington, DC, U.S.A.
- Kafle, S.D. (2006). *Effectiveness of Trade Policy in Nepal*. *The Economic Journal of Nepal*, Vol 29, No. 1 PP. 13-29, CEDECON, T.U., Kathmandu Nepal.
- Karmachraya, B.K. (2004). *Performance of Nepal's Export Trade*, Nepalese Economic Toward Building a Strong Economic Nation State, ed. By Madan K. Dahal: PP. 365-386. CEDECON and New Hira Book Enterprises, Kathmandu, Nepal.
- Katti, V. (2001). *INDO-NEPAL TRADE: Post-WTO Dimension*, Kalinga Publication, Delhi.
- Lama, M.P. (1985). *The Economic of Indo-Nepalese Cooperation; A Study on Trade Aid and Private Foreign Investment*, M.N. Publishers and Distributors, New Delhi.
- Monga, G.S. (1975). *Mathematics and Statistics for Economics*, Third Revised and Enlarged Edition, Vikash Publishing House Pvt. Ltd. India PP. 540-541.
- National Planning Commission. Various Plans, GoN, NPC, Kathmandu.
- National Planning Commission. Various Plans, GoN, NPC, Kathmandu.

- Nepal Rastra Bank: *Economic Review* (Various Issues), Kathmandu.
- Nepal Rastra Bank: *Quarterly Economic Bulletin*. (Various Issues) Kathmandu.
- Pant, Y.P. (1991). *Trade and Cooperation in South Asia, Nepalese Perspectives*, Vikas Publishing House Pvt. Ltd. New Delhi.
- Panta, B. (1994). *Trade and Economic Development: Nepal's Experiences*, Oxford and IBH publishing Co-Pvt. Ltd., New Delhi.
- Poudel, S.R. (1988). *Foreign Trade, Aid and Development in Nepal*, Common Wealth Publishers, New Delhi (India).
- Pyakuryal, B; Dahal, M & Adhakari, D. (2005). *Partnership in Economic Development An Enquiry into the India Aid policy to Nepal*. PP 41-44. B.P. Koirala India Nepal Foundation Embassy of India Lainchour, Kahtmandu.
- Rana, P.S. & Lohani, P.C. (1969). *Trade and Transist: Nepal's Problems with Southern Neighbor*, CEDA, Kathmandu.
- Rana, P.S.B.J. and Lohani, P.C. (1969). **Trade and Transits: Nepal's Problem with the Southern Neighbor**, Center for Economic Development and Administration, T.U., Kathmandu.
- Sharma, S. (1999). *Nepal Foreign Trade: Trends and Issues*, Center for Policy Studies, Kathmandu.
- Shrestha, O.L. (1975). **Some Aspects of Landlocked Nepal Trade Relation, with India 1960/64-1969/70**, Unpublished Ph.D. Dissertation Submitted to T.U., Kathmandu.
- Thapa, R.B. (1986). **Historical Background of Nepalese and Its Diversification (1961/62-1982/83)**, Unpublished Ph.D. Dissertation Submitted to T.U., Kathmandu.
- Trade Promotion Center: *Nepal's Trade and Transits Agreements* (Various Issues), Kathmandu.

Appendix- I

Nepal's Trade & Transit Agreement

TREATY OF TRADE BETWEEN HIS MAJESTY'S GOVERNMENT OF NEPAL AND THE GOVERNMENT OF INDIA

His Majesty's Government of Nepal and the Government of India (hereinafter referred to as the Contracting Parties),

Being conscious of the need to fortify the traditional connection between the markets of the two countries,

Being animated by the desire to strengthen economic co-operation between them,

Impelled by the urge to develop their economies for their several and mutual benefit, and

Convinced of the benefits of mutual sharing of scientific and technical knowledge and experience to promote mutual trade,

Have resolved to conclude a Treaty of trade in order to expand trade between their respective territories and encourage collaboration in economic development, and

Have for this purpose appointed as their Plenipotentiaries the following persons, namely,

Shri Gopal Man Shrestha
Minister of Commerce
For His Majesty's Government of Nepal.

Shri P. Chidambaram
Minister of State of Commerce
For the Government of India

Who, having exchanged their full power and found them good and in due form, have agreed as follows:

Article I

The Contracting Parties shall explore and undertake all measures, including technical co-operation, to promote, facilitate, expand and diversify trade between their two countries.

Article II

The Contracting Parties shall endeavor to grant maximum facilities and to undertake all necessary measures for the free and unhampered flow of goods, needed by one country from the other, to and from their respective territories.

Article III

Both the Contracting Parties shall accord unconditionally to each other treatment no less favorable than that accorded to any third country with respect to (a) customs duties and charges of any kind imposed on or in connection with importation and exportation and (b) import regulations including quantitative restrictions.

Article IV

The Contracting Parties agree, on a reciprocal basis, to exempt from basic customs duty as well as from quantitative restrictions the import of such primary products as may be mutually agreed upon, from each other.

Article V

Notwithstanding the provisions of Article III and subject to such exceptions as may be made after consultation with His Majesty's Government of Nepal, the Government of India agree to promote the industrial development of Nepal through the grant on the basis of non-reciprocity of specially favorable treatment to imports into India of industrial products manufactured in Nepal in respect of customs duty and quantitative restrictions normally applicable to them.

Article VI

With a view to facilitating greater interchange of goods between the two countries, His Majesty's Government shall endeavor to exempt, wholly or partially, imports from India from customs duty and quantitative restrictions to the maximum extent compatible with their development needs and protection of their industries.

Article VII

Payments for transactions between the two countries will continue to be made in accordance with their respective foreign exchange laws, rules and regulations. The Contracting Parties agree to consult each other in the event of either of them experiencing difficulties in their mutual transactions with a view to resolving such difficulties.

Article VIII

The Contracting Parties agree to co-operate effectively with each other to prevent infringement and circumvention of the laws, rules and regulations of either country in regard to matters relating to foreign exchange and foreign trade.

Article IX

Notwithstanding the foregoing provisions either Contracting Party may maintain or introduce such restrictions as are necessary for the purpose of:

- a. Protecting public morals,
- b. Protecting human, animal and plant life,
- c. Safeguarding national treasures,
- d. Safeguarding the implementation of laws relating to the import and export of gold and silver bullion, and
- e. Safeguarding such other interests as may be mutually agreed upon.

Article X

Nothing in this treaty shall prevent either Contracting Party from taking any measures which may be necessary for the protection of its essential security interests or in pursuance of general international conventions, whether already in existence or concluded hereafter, to which it is a party relating to transit, export or import of particular kinds of articles such as narcotics and psychotropic substances or in pursuance of general conventions intended to prevent infringement of industrial, literary or artistic property or relating to false marks, false indications of origin or other methods of unfair competition.

Article XI

In order to facilitate effective and harmonious implementation of this Treaty, the Contracting Parties shall consult each other regularly.

Article XII

"This Treaty shall remain in force up to December 5, 2001 and shall be automatically extended for further periods of five (5) years at a time, unless either of parties gives to the other a written notice, three months in advance, of its intention to terminate the Treaty.

This Treaty may be amended or modified by mutual consent of the parties."

Done in duplicate in Nepali, Hindi and English languages, all the texts being equally authentic, at New Delhi on 6th December 1991. In case of doubt, the English text will prevail.

(Shri Gopal Man Shrestha)
Minster of Commerce
for His Majesty's
Government of Nepal

(Shri P. Chidambaram)
Minister of State for Commerce
for the Government of India

* Modified by the Letters of Exchange between His Majesty's Government of Nepal and Government of India at Kathmandu on Dec 3, 1996.

PROTOCOL TO THE TREATY OF TRADE

I. With Reference to Article I

1. It is understood that the trade between the two Contracting Parties shall be conducted through the mutually agreed routes as are mentioned in the Annexure A. Such mutually agreed routes would be subject to joint review as and when required.
2. It further understood that the exports to and imports from each other of goods, which are not subject to prohibitions or duties on exportation or importation, should continue to move through the traditional routes on the common border.

II. With Reference to Article II

1. It is understood that all goods of Indian or Nepalese origin shall be allowed to move unhampered to Nepal or India respectively without being subjected to any quantitative restrictions, licensing or permit system with the following exception:
 - a. goods restricted for export to third countries,
 - b. goods subject to control on price for distribution or movement within the domestic market, and
 - c. goods prohibited for export to each other's territories to prevent deflection to third countries.
2. In order to facilitate the smooth flow of goods across the border, the list of commodities subject to restrictions/prohibitions on exports to each other's territories shall be immediately communicated through diplomatic channels as and when such restriction/prohibitions are imposed or relaxed.
3. It is further understood that when notifications regarding restrictions on exports to each other are issued, adequate provisions will be made therein to allow the export to each other of the goods which are already covered by Letter of Credit or goods which are already in transit and/or booked through the railways or other public sector transport undertakings or goods which have already arrived at the border customs posts on the day of the notification.
4. In respect of goods falling under prohibited or restricted categories as mentioned in para 1 above and where needed by one contracting Party, the other shall authorize exports of such goods subject to specific annual quota allocations. Specific request list of such goods shall be furnished to each other by the end of November and specific quota allocations for the following calendar year shall be made by the end of December with due regard to the supply availability and the overall need of the other Contracting Party. The quota list may be jointly reviewed as and when necessary.
5. The Contracting Parties shall take appropriate measures and co-operate with each other to prevent unauthorized import in excess of the quota of goods the export of which is prohibited or restricted from the territory of the other Contracting Party.

III. With Reference to Article III

1. The Government of India will allow to His Majesty's Government of Nepal payment of the excise and other duties collected by the Government of India on goods produced in India and exported to Nepal provided that:

- i. Such payment shall not exceed the import duties and like charges levied by His Majesty's Government of Nepal on similar goods imported from any other country, and
- ii. His Majesty's Government of Nepal shall not collect from the importer of the said Indian goods so much of the import duty and like charges as is equal to the payment allowed by the Government of India.

IV. With Reference to Article IV

1. The following primary products would be eligible for preferential treatment:

1. Agriculture, horticulture and forest produce and minerals which have not undergone any processing.
2. Rice, Pulses and flour,
3. Timber,
4. Jaggery (gur and shakhar)
5. Animals, birds and fish,
6. Bees, bees-wax and honey,
7. Raw wool, goat hair, and bones as are used in the manufacture of bone meal,
8. Milk, home made products of milk and eggs,
9. Ghani-produced oil and oilcakes,
10. Ayurvedic and herbal medicines,
11. Articles produced by village artisans as are mainly used in villages,
12. Akara,
13. Yak tail,
14. Any other primary products which may be mutually agreed upon.

2. It is understood that in the matter of internal taxes or charges the movement of primary products of either Contracting Party to any market destinations in the territory of the other shall be accorded treatment no less favorable than that accorded to the movement of its own primary products within its territory.

3. It is also understood that the aforesaid provisions will not preclude a Contracting Party from taking any measure, which it may deem necessary on the exportation of primary products to the other.

V. With Reference to Article V

1. The Government of India will provide preferential access to the Indian market free of customs duties normally applicable and quantitative restrictions, except as mentioned elsewhere, for all articles manufactured in Nepal, provided they fulfill the qualifying criteria given below:

a) the articles are manufactured in Nepal wholly from Nepalese materials on Indian materials or Nepalese and Indian materials; or

b) (i) the articles involve a manufacturing process in Nepal that brings about a change in classification, at four digit level, or the Harmonized Commodities Description and Coding System, different from those, in which all the third country origin materials used in its manufacture are classified; and the manufacturing process is not limited to insufficient working or processing as indicated in [Annexure "B"](#), and

b) (ii) From 6th March 2002 to 5th March 2002, the total value of materials, parts or produce originating from non-Contracting Parties or of undetermined origin used does not exceed 75% (seventy five percent) of the ex-factory price of the articles produced, and the final process of manufacturing is performed within the territory of Nepal. From 6th March 2003 onwards, the total value of materials, parts or produce originating from non-Contracting Parties or of undetermined origin used does not exceed 70% (seventy percent) or the ex-factory price of the articles produced, and the final process of manufacturing is performed within the territory of Nepal.

Note:

The value of materials, parts or produce originating from non-Contracting Parties shall be the CIF value at the time of importation of materials, parts or produce, at the point of entry in Nepal, where this can be proven, or the earliest ascertainable price paid for the materials, parts or produce of undetermined origin in the territory of the Contracting Party where the working or processing takes place.

c) For Nepalese articles not fulfilling the conditions given in sub-para-1 (b) (i) above, but fulfilling the condition at sub-para-1 (b) (ii) above, preferential access may be given by the Government of India, on a case by case basis, after satisfying itself that such article has undergone a sufficient manufacturing process within Nepal.

d) However, the import of Nepalese manufactured articles described in [Annexure "C"](#) which fulfill the criteria in sub-para-1 (a) or (b) (i) & (ii) above will be governed by the terms specified in this Annexure.

e) In the case of other articles manufactured in Nepal which do not fulfill the qualifying criteria specified in sub-para-1 (a) or (b) (i) & (ii) above, the Government of India will provide normal access to the Indian market consistent with its MFN treatment.

2. Import of articles in accordance with the para?a above shall be allowed by the Indian customs authorities on the basis of a Certificate of Origin to be issued by the agency designated for this purpose by His Majesty's Government of Nepal in the format prescribed at [Annexure "D"](#) for each consignment of articles exported from Nepal to India. Information regarding the basis of calculation for grant of such Certificates of Origin to the manufacturing facilities in Nepal will be provided to the Government of India on an annual basis. The modalities for this will be worked out within three months from the signing of the Protocol. Preferential facility shall not be available for the articles listed at [Annexure "E"](#).

3. On the basis of a Certificate issued, for each consignment of articles manufactured in the small-scale units in Nepal, by His Majesty's Government of Nepal, that the relevant conditions applicable to the articles manufactured in Excise Duty rates are fulfilled for such a parity, Government of India will extend parity in the levy of Additional Duty on such Nepalese articles equal to the treatment provided in the levy of effective Excise Duty on similar Indian articles under the Indian Customs and Central Excise Tariff. However, this facility will be applicable only to articles manufactured in Nepal in such small scale units which qualify as small scale units under the Nepalese Industrial Policy as on 5 December, 2001.

4. The "Additional Duty" rates equal to the effective Indian excise duty rates applicable to similar Indian products under the Indian Customs & Central Excise Tariff will continue to be levied on the imports into India of products manufactured in the medium and large scale units in Nepal.

4.1 In regard to additional duty collected by the Government of India in respect of manufactured articles other than those manufactured in "small" units. Wherever it is established that the cost of production of an article is higher in Nepal than the cost of production in a corresponding unit in India, a sum representing such difference in the cost of production, but not exceeding 25 per cent of the "additional duty" collected by the Government of India, will be paid to His Majesty's Government of Nepal provided His Majesty's Government of Nepal have given assistance to the same extent to the (manufacturers) exporters.

5. Export of consignments from Nepal accompanied by the Certificate of Origin will normally not be subjected to any detention/delays at the Indian customs border check posts and other places en route. However, in case of reasonable doubt about the authenticity of Certificate of Origin, the Indian Customs Authority may seek a clarification from the certifying agency which will furnish the same within a period of thirty days. Meanwhile, the subject consignment will be allowed entry into India on provisional basis against a bond i.e. a legally binding undertaking as required. After examining the information so provided by the certifying agency, the Indian Customs Authority would take appropriate action to finalise the provisional assessment. Whenever considered necessary, request for a joint visit of the manufacturing facility may be made by the Indian Customs Authority which would be facilitated by the concerned Nepalese authority within a period of thirty days.

6. Where for social and economic reasons, the import of an item into India is permitted only through public sector agencies or where the import of an item is prohibited under the Indian Trade control regulations, the Government of India will consider any request of His Majesty's Government of Nepal for relaxation and may permit the import of such an item from Nepal in such a manner as may be found to be suitable.

7. For the purpose of calculation of import duties customs valuation procedures, as prescribed under the prevailing customs law, will be followed.

VI. With Reference to Article VI

His Majesty's Government of Nepal, with a view to continuing preferences given to Indian exports, will waive additional customs duty on all Indian exports during the validity of the treaty.

VII. With reference to Article IX

In the event of imports under the Treaty, in such a manner or in such quantities as to cause or threaten to cause injury to the domestic industry or a significant segment of it relating to the article, the importing country may request for consultations in the Joint Committee set up by the two Governments for this purpose with a view to taking appropriate measures. If the consultations in the Joint Committee fail to resolve the issue within a period of sixty days from the date of such request, then the requesting Government shall be free to take appropriate remedial measures. The India-Nepal Inter-Governmental Committee (IGC) will review such measures.

"Injury" means significant damage to the domestic producers, of like or similar products resulting from a substantial increase of imports under the Treaty in situations which cause substantial losses in terms of earnings, production or employment unsustainable in short term. The examination of the impact on the domestic industry concerned shall also include an evaluation of other relevant economic factors and indices having a bearing on the state of domestic industry of that product.

"Threat of injury" means a situation in which a substantial increase of imports under the Treaty is of a nature so as to cause injury to the domestic producers, and that such injury, although not yet existing is clearly imminent. A determination of threat of injury shall be based on facts and not on mere allegation, conjecture, or remote or hypothetical possibility.

ANNEXURE "A"

AGREED ROUTES FOR MUTUAL TRADE

1. Pashupatinagar/Sukhia Pokhari
2. Kakarbhitta/Naxalbari
3. Bhadrapur/Galgalia
4. Biratnagar/Jogbani
5. Setobandha/Bhimnagar
6. Rajbiraj/Kunauli
7. Siraha, Janakpur/Jayanagar
8. Jaleswar/Bhitamore (Sursand)
9. Malangawa/Sonabarsa
10. Gaur/Bairgania
11. Birgunj/Raxaul
12. Bhairahawa/Nautanwa
13. Taulihawa/Khunwa

14. Krishnanagar/Barhni
15. Koilabas/Jarwa
16. Nepalgunj/Nepalgunj Road
17. Rajapur/Katerniyaghat
18. Prithvipur/Sati (Kailali)/Tikonja
19. Dhangadhi/Gauriphanta
20. Mahendranagar/Banbasa
21. Mahakali/Jhulaghat (Pithoragarh)
22. Darchula/Dharchula

ANNEXURE "B"

ILLUSTRATIVE LIST OF INSUFFICIENT WORKING OR PROCESSING

The following shall be considered as insufficient working or processing to confer the status of originating or manufactured or produced or made in Nepal, to an article, whether or not there is a change in heading classification at four digit level, of the Harmonized Commodities Description and Coding System, different from those in which all the third country origin materials used in its manufacture are classified:-

- a) Operations to ensure the preservation of articles in good condition during transport and storage (e.g., ventilation, spreading out, drawing, chilling, placing in salt, sulphur-dioxide or other aqueous solutions, removal of damaged parts and like operations);
- b) Operations consisting of removal of dust, sifting or screening, sorting, classifying, matching (including the making up of sets), washing, painting, cutting up;
- c) Changes of packing and breaking up and assembly of consignments;
- d) Slicing, cutting, slitting, re-packing, placing in bottles or flasks or bags or boxes or other containers, fixing on cards or boards, etc., and all other packing or re-packing operations;
- e) The affixing of marks, labels or other like distinguishing signs on articles or their packaging;
- f) Mixing of articles, whether or not of different kinds, where one or more components of the mixture do not meet the conditions laid down in para-a (b) of Protocol to the Article V of the Treaty to enable them to be considered as manufactured or produced or made in Nepal;
- g) Assembly of parts of an articles to constitute a complete article;
- h) A combination of two or more operations specified in a) to g) above

ANNEXURE "C"

Nepalese manufactured articles allowed entry into India free of customs duties on a fixed quota basis

S.No.	Nepalese article	Quantity in MT per year
1.	Vegetable fats (Vanaspati)	100,000 (One hundred thousand)
2.	Acrylic Yarn	10,000 (Ten thousand)
3.	Copper products under Chapters 74 & Heading 85.44 of the H.S. Code	7,500 (Seven thousand five hundred)
4.	Zinc Oxide	2,500 (Two thousand five hundred)

a)Imports into India of the above four commodities for quantities in excess of the fixed quota mentioned above will be permitted under normal MFN rates of duty, not withstanding any concession in any other preferential arrangement.

b)Imports into India of the above commodities will be permitted through the land Customs Stations (LCS) at Kakarbhitta/Naxalbari, Biratnagar/Jogbani, Birganj/Raxaul, Bhairahawa/Nautanwa, Nepalgunj/Nepalgunj Road and Mahendranagar/Banbasa.

c)The detailed administrative arrangements for operationalisation of the fixed quota i.e. identifying the agencies for allocation and monitoring of exports and imports of fixed quota will be finalised by both the Governments.

ANNEXURE "D"

CERTIFICATE OF ORIGIN FOR EXPORTS FREE OF CUSTOM DUTIES UNDER THE TREATY OF TRADE BETWEEN HIS MAJESTY'S GOVERNMENT OF NEPAL AND THE GOVERNMENT OF INDIA

Reference No. _____

1. Articles consigned from (Exporter's business name, address)
2. Articles consigned to (Consignee's name, address)
3. Means of transport and route
4. Item Number (HS Tariff Line)
5. Marks and number of package
6. Description of Articles
7. Gross weight or other quantity
8. Number and data of Invoice together with value
9. Ex-Factory price⁰ of the articles manufactured in Nepal:

⁰ *Ex-factory price' means the price of the product at the time of clearance from the factory gate.*

10. (i) Whether articles are manufactured in Nepal under Para 1 (a) of the Protocol to Article V of the Treaty of Trade (Yes/No):

(ii) If articles are manufactured in Nepal under Para 1 (b) (i) & (ii) of the Protocol to Article V of the Treaty of Trade:

(A) Value of materials, parts or produce of undetermined origin:-

11. Percentage of the value of col. 10 (ii) (A) & (B) to the value of col. 9:

12. Declaration by the exporter:

The undersigned hereby declares that the details furnished above are correct, that the articles are produced in Nepal and that they comply with the Rules of Origin specified in the Treaty of Trade between His Majesty's Government of Nepal and the Government of India.

(Place & Date, Signature of authorised signatory).

13. Certification:

It is certified that the articles herein referred to are eligible for preferential treatment as per provisions of the Treaty of Trade between His Majesty's Government of Nepal and the Government of India. It is further certified that:

1. The articles have been manufactured in Nepal at a factory situated at _____ (name of the place/district) by M/s _____ (name of the company).

2. The articles involve manufacturing activity in Nepal and that the manufacturing activity satisfies the criteria given in the Protocol to Article V of the Treaty of Trade

3. The articles in question are not products of third country origin*.

For His Majesty's Government of Nepal
(Place and Date, Signature & Stamp of certifying authority)

** For the purpose of the above item No. 4, the articles which have undergone a manufacturing process in Nepal as defined in the Protocol to Article V of the Treaty will not be treated as product of third country origin.*

14. For Official use of Indian Customs

The consignment has been examined and allowed to be imported into India as it complies with the provisions as stipulated under Article V of the Treaty of Trade between His Majesty's Government of Nepal and the Government of India.

Signature & Seal of the
Certifying authority

Dated:

Place:

ANNEXURE "E"

MFN LIST OF ARTICLES WHICH WILL NOT BE ALLOWED PREFERENTIAL ENTRY FROM NEPAL TO INDIA ON THE BASIS OF CERTIFICATE OF ORIGIN TO BE GIVEN BY AGENCY DESIGNATED BY HIS MAJESTY'S GOVERNMENT OF NEPAL

1. Alcoholic Liquors/Beverages (*) and their concentrates except industrial spirits,
2. Perfumes and Cosmetics with non-Nepalese/non-Indian Brand names,
3. Cigarettes and Tobacco

Note: Government of India may, in consultation with HMGN, modify the above list.

(*) Nepalese beers can be imported into India on payment of the applicable liquor excise duty equal to the effective excise duty as levied in India on Indian beers under the relevant rules and regulations of India.

Letters exchanged between the Government of India and His Majesty's Government of Nepal on 2nd March, 2002.

New Delhi
2nd March, 2002

Excellency,

I write to acknowledge the receipt of your letter of today's date which reads as follows :-

"Consequent upon the understandings reached between the Commerce Secretaries of the Government of India and His Majesty's Government of Nepal during their meetings in Delhi from 27th February to 2nd March 2002, it has been agreed to extend the validity of all the twelve Articles of the India-Nepal Treaty of Trade, and Protocols to Articles I, II, III, IV and VI in their present form for a period of five years with effect from 6th March 2002. The revised Protocol to Article V and the new Protocol to Article IX of the Treaty annexed to this letter will also be valid for the same period. However, there will be a transition period up to 16th April 2002 to complete the administrative arrangements to change over to the Certificate of Origin requirement as prescribed in [Annexure -"D"](#) of the revised Protocol to Article V of the Treaty. The existing Certificate of Origin shall also be applicable during this transition period. Any imports from Nepal into India of items under fixed quota as prescribed in [Annexure -'C'](#) of the revised Protocol to the Article V of the Treaty with

effect from 6th March 2002, shall be through the designated Land Customs Stations and shall be counted towards the quota for the first year.

2. This letter and your Excellency's confirmation shall constitute an Agreement between our two Governments.

3. I shall be grateful if you could kindly confirm that the foregoing correctly sets out the understanding reached between our two Governments."

4. I confirm that the foregoing correctly sets out the understanding reached between us.

5. Please accept, Excellency, the assurances of my highest consideration.

B.P.Acharya,
Secretary,
Ministry of Industry, Commerce and Supplies,
His Majesty's Government of Nepal.

H.E. Mr. Dipak Chatterjee
Commerce Secretary
Government of India

New Delhi
2nd March, 2002

Excellency,

Consequent upon the understandings reached between the Commerce Secretaries of the Government of India and His Majesty's Government of Nepal during their meetings in Delhi from 27th February to 2nd March 2002, it has been agreed to extend the validity of all the twelve Articles of the India-Nepal Treaty of Trade, and Protocols to Articles I, II, III, IV and VI in their present form for a period of five years with effect from 6th March 2002. The revised Protocol to Article V and the new Protocol to Article IX of the Treaty annexed to this letter will also be valid for the same period. However, there will be a transition period up to 16th April 2002 to complete the administrative arrangements to change over to the Certificate of Origin requirement as prescribed in [Annexure -"D"](#) of the revised Protocol to Article V of the Treaty. The existing Certificate of Origin shall also be applicable during this transition period. Any imports from Nepal into India of items under fixed quota as prescribed in [Annexure-'C'](#) of the revised Protocol to the Article V of the Treaty with effect from 6th March 2002, shall be through the designated Land Customs Stations and shall be counted towards the quota for the first year.

2. This letter and your Excellency's confirmation shall constitute an Agreement between our two Governments.

3. I shall be grateful if you could kindly confirm that the foregoing correctly sets out the understanding reached between our two Governments.

4. Please accept, Excellency, the assurances of my highest consideration.

Dipak Chatterjee
Commerce Secretary
Government of India

H.E. Mr. B.P.Acharya,
Secretary, Ministry of Industry, Commerce and Supplies,
Government of Nepal.

Appendix - III

Log Regression Model Data Summary

Period	In total Export	In total Export to India	In total Import	In total Import from India	In GDP of Nepal	In CPI of Nepal	In WPI of India	$\frac{WPI_I}{CPI_N}$
1990	3.8685	3.1909	4.3660	3.8647	5.0146	1.6263	1.6758	0.0492
1991	4.1364	3.1614	4.5043	4.0510	5.0805	1.6893	1.7292	0.0414
1992	4.2372	3.2099	4.5933	4.0984	5.1746	1.7582	1.7810	0.0212
1993	4.2854	3.3818	4.7124	4.2314	5.2340	1.7896	1.8122	0.0212
1994	4.2464	3.4947	4.8040	4.2926	5.2993	1.8248	1.8555	0.0294
1995	4.2984	3.5661	4.8719	4.3874	5.3408	1.8567	1.8949	0.0374
1996	4.3548	3.7181	4.9711	4.3954	5.3960	1.8949	1.9138	0.0170
1997	4.4395	3.9442	4.9494	4.4367	5.4480	1.9117	1.9330	0.0212
1998	4.5523	4.0979	4.9421	4.5068	5.4783	1.9581	1.9576	0.0000
1999	4.6974	4.3267	5.0354	4.5984	5.5341	1.9894	1.9727	-0.0177
2000*	4.7454	4.4154	5.0633	4.6552	5.5792	2.0000	2.0000	0.0000
2001	4.6715	4.4464	5.0310	4.7530	5.6136	2.0116	2.0204	0.0086
2002	4.6983	4.4220	5.0947	4.8508	5.6256	2.0245	2.0314	0.0086
2003	4.7316	4.4882	5.1344	4.8962	5.6579	2.0453	2.0550	0.0086
2004	7.7686	4.59013	5.1746	4.9478	5.6945	2.0607	2.0817	0.0170
2005	4.7798	4.6098	5.2400	5.0300	5.6955	2.0896	2.1017	0.0128
2006	4.7839	4.6220	5.2826	5.0709	5.7075	2.1212	2.1219	0.0043

*Base year

Appendix- IV
Top 10 Trading Countries with Nepal

Export		Import	
S.N.	Country	S.N.	Country
1.	India	1.	India
2.	USA	2.	China P.R*
3.	Germany	3.	Indonesia
4.	United Kingdome	4.	Singapore
5.	France	5.	USA
6.	Hong Kong	6.	UAE
7.	Italy	7.	Thailand
8.	Canada	8.	Japan
9.	Japan	9.	Malaysia
10.	Bangladesh	10.	Germany

Note: P.R* including Tibet.

Source: Nepal And The World A Statistical Profile (FNCCI), 2007

Appendix- V

Major Items of Export to India

S.N.	Major Commodity	S.N.	Major Commodity
1.	Banaspati Ghee	35.	Brans
2.	Other Threads	36.	Marble Slab
3.	Textiles (Cotton, Synthetic & Other)	37.	Herbs
4.	Ployster Yarn	38.	Ghee
5.	GI Sheet	39.	Cattle Feed
6.	Other Wire	40.	Vehicles Parts
7.	Juice	41.	Bags
8.	Sacks	42.	Dried Ginger
9.	Twines	43.	Pashmina Goods
10.	Chemicals	44.	Brooms
11.	Cardamom	45.	Veneer Sheet
12.	Readymade garments	46.	Linseed
13.	MS Pipes	47.	Live Animal
14.	Tooth Paste	48.	Handicraft Goods
15.	Rosin	49.	Cinamon
16.	Catechu	50.	Chyawanpras
17.	Ginger	51.	Vegetables
18.	Toilet Soap	52.	Turmeric
19.	Plkastics Utensils	53.	Hair Oil
20.	Hessian	54.	Kachha
21.	Hide & Skins	55.	Beer
22.	Oil Cakes	56.	Wheat Flour
23.	Pulses	57.	Raw Jute
24.	Hazmola	58.	Bristle
25.	Stone & Sand	59.	Biscuits
26.	Shoes & Sandles	60.	Iron Scraps
27.	Noodles	61.	Vegetable Seeds
28.	Particle Board	62.	Fruits
29.	Copper Wire & Roa	63.	Yak's Tail
30.	Rice Bran Oil	64.	Jute Cuttings
31.	Tarperntine	65.	Linseed Oil
32.	Herbal Medicines	66.	Mustard Seed
33.	Writing & Printing Papers	67.	Cotton Seeds
34.	GI Pipes	68.	Salseed Oil
		 Miscellaneous

Source: Nepal And The World A Statistical Profile (FNCCI), 2007

Appendix - VI

Major Items of Export to Countries other than India

S.N.	Major Commodity
1.	Woollen Carpet
2.	Readymade Garments
3.	Pashmina Goods
4.	Pulses
5.	Gold and Silver Ornaments
6.	Hide & Skin
7.	Nepalese Paper and Paper Product
8.	Metal Handicrafts Goods
9.	Cardamom
10.	Tea
11.	Readymade Leather Goods
12.	Wooden Handicraft Goods
13.	Herbs
14.	Perfume Oil
15.	Nigerseeds
16.	Kachha
17.	Miscellaneous

Source: Nepal And The World A Statistical Profile (FNCCI), 2007

Appendix -VII

Major Items of Import from India

S.N.	Major Commodity	S.N.	Major Commodity
1.	Diesel	32.	Other Thread
2.	Kerosene	33.	Lubricating Oil
3.	Transport Vehicle & Spare Parts	34.	Books & Magazines
4.	Petrol	35.	Other Textile
5.	Medicine	36.	Salt
6.	Other Mach Equip & Spare Parts	37.	Enamel & Other Paints
7.	L.P. Gas	38.	Pipe & Pipe Fittings
8.	Chemicals	39.	Other Stationery Goods
9.	Electrical Equipment & Goods	40.	Sanitary Wires
10.	Cement	41.	Live Animals
11.	Synthetic Thread	42.	Incense Sticks
12.	Rice	43.	Cumin Seed & Peppers
13.	Agriculture Equipment & Parts	44.	Wire Products (nail, nut & bolt etc)
14.	Coal	45.	Dry Cell Battery
15.	Cotton Textile	46.	Hand Tools
16.	Vegetable	47.	Wheat
17.	Writing & Printing Paper	48.	Shoes & Sandals
18.	Readymade garments	49.	Plastic Utensils
19.	Other Petroleum Product	50.	Cotton
20.	Tobacco	51.	Pulses
21.	Cotton Thread	52.	Coffee
22.	Chemical Fertilizer	53.	Cooking Stove & Parts
23.	Cosmetic Goods	54.	Button & Fastner
24.	Synthetic Textile	55.	Aluminium Utensils
25.	Fruits	56.	Tea
26.	Glass Sheet & Glasswares	57.	Sugar
27.	Radio, Television, Deck & Parts	58.	Mosses Sugar
28.	Insecticides	59.	Pan Leaves
29.	Bitumen	60.	Chewing Tobacco
30.	Baby Food & Other Milk Products	61.	Bidi Leaves
31.	Tyre, Tube, Flapes	62.	Miscellaneous

Source: Nepal And The World A Statistical Profile (FNCCI), 2007

Appendix - VIII
Major Items Imports from Countries other than India

S.N.	Major Commodity	S.N.	Major Commodity
1.	Crude Palm Oil	46.	Shoes & Sandals
2.	Gold	47.	Watch & Bands
3.	Polythene granuals	48.	Storage Battery
4.	Electrical Equipment & Goods	49.	Umbrella & Parts
5.	Computer and Parts	50.	X-ray Film
6.	Transport Vehicle & Parts	51.	Cloves
7.	Telecommunication Equip. & Parts	52.	Sugar
8.	Zine Ingot	53.	Coal
9.	Textile Dyes	54.	Bitumen
10.	Other Machineries & Parts	55.	Crude Coconut Oil
11.	Crude Soyabean Oil	56.	Office Equipment & Stationery
12.	Copper Wire Rod Scrapes & Sheet	57.	Tyre, Tube & Stationery
13.	Medicine	58.	Papers
14.	Aircraft and Parts	59.	Powder Milk
15.	Betelnut	60.	Steel Sheet
16.	Raw Wool	61.	Coconut Oil
17.	MS Billet	62.	Fastner
18.	Television, Deck & Parts	63.	Rice
19.	Medical Equipment & Tools	64.	Agriculture Equipments & Tools
20.	Cotton Textile	65.	Bags
21.	Writing & Printing Paper	66.	Raw Silk
22.	Other Textile	67.	Musical Instruments
23.	Edible Oil	68.	Button
24.	Chemical Fertilizers	69.	Door Locks
25.	Synthetic Thread	70.	Insecticides
26.	Synthetic Garments	71.	Toys
27.	Readymade Garments	72.	Cotton Thread
28.	Other Thread	73.	Ciagrette Paper
29.	Lubricants	74.	GI Plain Sheet
30.	Cosmetic Goods	75.	Raw Cotton
31.	Other Stationeries	76.	Flash Light
32.	Palm Oil (Inedible)	77.	Date
33.	Soft Drink Concentrate	78.	Vaccum flask
34.	Tello	79.	Nutmeg
35.	MS Wire Rod	80.	Steel Seed
36.	Small Cardamom	81.	Silver
37.	Pipe and Pipe Fittings	82.	Cumin Seed
38.	Other Petroleum Products	83.	Tent
39.	Camera	84.	GI Wire
40.	Synthetic & Natural Rubber	85.	Cement
41.	Glassware	86.	Diesel
42.	Drycell Battery	87.	Petrol
43.	Parafin Wax	88.	Kerosen
44.	Synthetic Carpet	89.	Miscellaneous
45.	PVC Compound	90.	

Source: Nepal And The World A Statistical Profile (FNCCI), 2007