

**AN OUT-LOOK OF FOREIGN TRADE BETWEEN
NEPAL AND INDIA (1983/84- 2007/08)**



A Thesis

**Submitted to the Central Department of Economics,
Tribhuvan University, Kirtipur, Kathmandu, Nepal**

In partial Fulfillment of the Requirements

For the Degree of

MASTER of ARTS (M.A.)

In

ECONOMICS

Submitted by

FANINDRA PRASAD GAUTAM

Central Department of Economics

Tribhuvan University, Kirtipur,

Kathmandu, Nepal

December, 2008

Date: - 2065-08-20

RECOMMENDATION LETTER

This is to certify that Mr. Fanindra Prasad Gautam has prepared this dissertation on "An Out-look of Foreign Trade between Nepal and India (1983/84-2007/08)" under my guidance for the Degree of Master of Arts (M.A.) in Economics. I hereby recommend this dissertation for acceptance.

Date:- 5th Dec. 2008

Mr.Bharat Pokharel
(Supervisor)
Central Department of Economics
Tribhuvan University, Kirtipur
Kathmandu, Nepal.

Date:-2065-09-02

APPROVAL LETTER

This dissertation prepared by Mr. Fanindra Prasad Gautam entitled "**An Out- look of Foreign Trade between Nepal and India (1983/84-2007/08)**" has been accepted in partial fulfillment of the requirements for the Degree of Master of Arts (M.A.) in Economics.

Thesis committee

Prof. Dr. Madhavi Singh Shah

Head

.....

External Examiner

Prof. Dr. Kanhaiya Bhakta Mathema

.....

Thesis Supervisor

Bharat Pokharel

.....

17th December, 2008

ACKNOWLEDGEMENTS

This dissertation is prepared by the partial fulfillment of the requirements for the Master Degree of Arts (M.A.) in Economics.

I would like to express my sincere gratitude to my academic advisor Mr. **Bharat Pokharel** and external examiner **Prof. Dr. Kanhaiya Bhakta Mathema**, Central Department of Economics at Tribhuvan University for their invaluable guidance and suggestions. I gratefully acknowledge and appreciate to **Prof. Dr. Madhavi Singh Shah**, Chief of CEDECON, T.U, Kirtipur for her valuable presence and advices in my viva.

I got an unforgettable help from Mr. Astha Shrestha administrative staff of Nepal Rastra Bank who provided me books, data and papers needed for the study. So, I am very much indebted with him. I would also like to express my thanks to my colleague Mr. Purushottam Dhungel who helped me in English proof readings. I would also like to express my cordial thanks to Mr. Chuda Adhikari, Mr. Sanjit Khanal, Mr. Pitri Prasad Gautam, Mr. Abhinaya Niroula, Mr. Hari Prasad Dahal, Mrs. Devi Adhikari, Mrs. Sulochana Khanal, Mrs. Ramila Gautam and my dear kith and kins Prashant, Prajwol and Bigyan who helped me in many ways in preparing this dissertation at this volume.

I am thankful to my brothers/sisters for their financial support. Thanks go to the staffs of Trade Promotion Centre who gave me required information and data.

I want to appreciate my father Mr. Punya Prasad Gautam and mother Mrs. Netra Kumari Gautam who were the constant source of encouragement and inspiration in every stage of my life.

Finally, I would like to thank Mr. Dikhukpa Subas Rai and staffs of Valley Institute, Kirtipur, Kathmandu for their consistence help in data computation and words processing in computer.

17th December, 2008

Fanindra Prasad Guatam
Roll. No. 199/059
CEDECON,
T.U. Kirtipur, Kathmandu

CONTENTS

Approval Letter
Recommendation Letter
Acknowledgement Letter
Acronyms
List of contents:

	CHAPTER ONE	(1 to 7)
1.0	Background	1
1.1	Statement of the Problems	4
1.2	Objectives of the Study	6
1.3	Significance of the Study	6
1.4	Limitation of the Study	7
1.5	Organization of the Study	7

	CHAPTER TWO	
	LITERATURE REVIEW	(9 to 15)

	CHAPTER THREE	
	RESEARCH METHODOLOGY	(16 to 17)

3.0	Research Methodology	16
3.1	Research Design	16
3.2	Procedure of Data Compilation	16
3.3	Data Processing Procedures	17
3.4	Use of Statistical Tools	17
3.5	Percentage	17
3.6	Pie-chart	17

	CHAPTER FOUR	
	REVIEW OF TRADE AND TRANSIT TREATIES BETWEEN NEPAL AND	
	INDIA	(18 to 34)

4.0	Trade and Co-operation before 1951: An Overview	18
4.1	Indo-Nepal Treaty of Trade in 1950	19
4.2	The Treaty of Trade and Transit of 1960	20
4.3	Treat of Trade and Transit of 1971	21
4.4	The 1978 Treaties: Treaty of Transit and Co-operation	22
4.5	Impact Assessment of 1978 Treaty	23
4.6	Treaty of Trade in 1983	24

4.7	Treaty of Trade and Transit 1991	25
4.8	Impact Assessment of Trade and Transit Treaty 1991	26
4.9	Trade Treaty of 1996	28
4.9.1	Trade and Transit Treaty of 1996	30
4.9.2	Trade and Transit Treaty of 1996	31
4.9.3	Impact Assessment of Trade and Transit Treaty of 1996	33
4.9.4	Trade Situation in 2002/03	33
4.9.5	Trade in 2003/04	34

CHAPTER FIVE

TRENDS AND DETERMINANTS OF NEPAL'S FOREIGN TRADE WITH

INDIA

(35 to 55)

5.0	Volume and Composition of Foreign Trade	35
5.1	First Plan Period (1956-61)	35
5.2	Second Plan Period (1962-65)	36
5.3	Third Plan Period (1965-70)	36
5.4	Fourth Plan Period (1970-75)	37
5.5	Fifth Plan Period (1975-80)	38
5.6	Sixth Plan Period (1980-85)	38
5.7	Seventh Plan Period (1985-90)	39
5.8	Trade between 1990/91 and 1992	41
5.9	Eighth Plan Period (1992-97)	42
5.9.1	Ninth Plan Period (1997-2002)	43
5.9.2	Trade Position in 2003/04	44
5.9.3	Tenth Plan Period (2002-2007)	45
5.9.4	External Sector; Mainly Concerned with India	48
	Framework	48
	a Trade	49
	b Exports	50
	c Imports	51
	d Trade balance	53
5.9.5	Challenge on Nepalese Foreign Trade	53

CHAPTER SIX

MAJOR TRADE POLICIES AND INTER-REGIONAL TRADE (56 to 75)

6.0	Major Trade Policies	56
6.1	Export Exchange Entitlement Scheme	56
6.2	Dual Exchange Rate System	57
6.3	Single Exchange Rate System	58
6.4	Trade Policy of 1982	58
6.5	The Ninth-Point Program	59
6.6	Development of Nepalese Currencies in 1985	59
6.7	Open General License System	59
6.8	New Trade Policy of 1992	60
a	Objectives	60
b	Basic Policy	61
c	Export Policy	62
d	Export Strategy	63
e	Deemed Export	65
f	Import Policy	65
g	Import Strategy	66
h	Import Licensing Arrangement	66
i	Foreign Exchange Arrangement	67
6.9	System of General Licensing	67
6.9.1	Reduction in Tariff	68
6.9.2	Import Cash Margin Rates left to the Direction of Commercial Banks	68
6.9.3	Reforms in Export	68
6.9.4	Loan in Convertible Currencies to Export	68
6.9.5	Inter Regional Trade	69
6.9.6	SAFTA at Short glance	72
6.9.7	Challenges and Threats	73
6.9.8	Role of SAFTA in Nepalese Economy	74

CHAPTER SEVEN

PROBLEMS AND PROSPECTS OF INDO-NEPAL TRADE (16 to 86)

7.0	Introduction	76
7.1	Trade Imbalance	76

7.2	Inadequate Market	77
7.3	Frequent Revision in Duties and Rules	77
7.4	Lack of Understanding and Good Faith	78
7.5	Problems of Informal Trade	78
7.6	Problems Related to Transit	78
7.7	Inadequate Infrastructure Facilities	80
7.8	Difficulties On Transit Formality	80
7.9	The Requirements of Sealing Goods	80
7.9.1	The Rail Transit	81
7.9.2	Insurance Policy	81
7.9.3	Recent Problems of Trade and Transit between Nepal and India	82
7.9.4	Prospects between Nepal-India Trade Relation	83
a	Hydroelectricity Power	84
b	Tourism	84
c	Education and Training	85
d	Mineral Exploration Exploitation	86
e	Nepal-India Joint-Venture Initiatives	86

CHAPTER EIGHT
CONCLUSION AND RECOMMENDATION (76 to 86)

8.1	Conclusion	87
8.2	Suggestions	89

LIST OF TABLES

Chapter	Topics of table	Table No.	Page No.
Four	Nepalese Articles	4.1	32
Five	Export of Selected Commodities to India	5.1	46
"	Imports of Selected Commodities from India	5.2	47
"	Foreign Trade Situation	5.3	52
Six	Nepal's Export to SAARC Member Countries	6.1	71
"	Nepal's Imports from SAARC Member Countries	6.2	71

List of Pie-Charts

Chapter	Topic of Pie-chars	Figure No.	Page No.
Five	Total Foreign Trade	1	49
"	Total Export	2	50
"	Total Imports	3	51
"	Trade Imbalance	4	53

