CHAPTER ONE

INTRODUCTION

1.0 Background

It is obvious that Nepal is a least developed country in the world. The landlocked geographical complexion and least developed economic condition prove that Nepal is a dependent country in the world. But it is not economically a failure one. Because many important global agreements like WTO and SAFTA are signed by Nepal to present its approaches in global economy. Nepal has also promoted and enhanced the mutual trade and economic co-operation among contracting states by inter-alias. Being as a least developed country, Nepal must emphasize on foreign trade. It helps to earn foreign exchange in the form of foreign aid, remittances, foreign trade and tourism. But besides them foreign trade is considered as a major source of foreign exchange. It creates specialization in production and provides the benefits of specialization.

Generally, a country imports the goods that cannot be produced cheaply at home. All countries can not produce various kinds of goods efficiently. Each country has to depend on others for import and export of raw materials, manufactured goods, technology and so on. Thus, foreign exchange can only be earned from foreign trade which can be spent on the import of machinery and equipments. Foreign trade helps to accelerate the pace of economic growth. Hence, the economists have rightly referred to foreign trade as 'engine of growth'.

Nepal was ruled by the hereditary prime ministers of the Rana family for 104 years form (1946-1950) and the country remained in complete isolation. So, during this period Nepal's foreign trade was mainly confined to India. But after the advent of democracy in 1950, the country entered into a new era and established diplomatic relations with many countries. It turned Nepal to open market economy to diversify the foreign trade and economic relations.

Since 1950s, many efforts were carried out to diversity Nepal's foreign. The main thrust of the policy was towards import substituting industrialization. During this period, Nepal's foreign trade regime was in contradiction in this sense that it was more or less free with India and controlled with the rest of the world. The main objective of the policy was to protect domestic industries form imports of foreign goods. Similarly, the government had taken several measures such as export subsidy, dual exchange rate system and bonus voucher system in order to expand and diversify the export of Nepal. These measures helped Nepal to diversify the foreign trade to some extent. But when Nepal faced the balance of payment crisis in mid 1980s, it approached to IMF and World Bank for support to wake up from BOP crisis. Along with financial assistance the Structural Adjustment Program (SAP) and Structural Adjustment Loan (SAL) Programs were introduced. These carried packages of conditionality of Nepal return for the financial assistance. These institution pressurized Nepal to accelerate the economic reforms.

After the restoration of democracy in 1990, many processes of economic reforms were accelerated. Nepal started rationalization and simplification of its import tariff structure, bringing both tariff rates and tariff slabs lower. Similarly, additional duties were also eliminated. Export Duty Draw Back System and Bonded Were House System were also introduced. In 1992, new trade policy came into existence which made trade more or less free, replacing earlier import substituting industrialization.

Over the past years, Nepal had followed a liberal and open policy in all the sectors. Mainly in the trade sectors, all the trading partners were given equal chance to compete and sell their products in Nepalese market. No country is allowed to monopolize.

An assessment of trade policy of 1992 shows that Nepal has not achieved much: Nepal has performed poorly in export sectors. Only few items such as carpets, garments and Pasminas play a dominant part in overseas export, while primary and agricultural products played dominant role in export to India.

The history of foreign trade between Nepal and India is as old as the existence of these two countries. For a long time, India remained as a major trading partner of Nepal in term of present volume. The reasons behind this fact are Nepal's open boarder with India, existence of traditional, historical, cultural and religious ties with India. Being as the third largest country in the world, India can purchase goods produced in Nepal and also can sell the goods needed by it.

Since the historical periods, Nepal-India trade and economic relations is the product of the old age culture, geographical situation and economic ties which maintain trade relation between the two countries.

Nevertheless, the mutual understanding and proper communication have never been so easy between the two countries. The relation between the two countries from the past has often been uneasy because of constraint geographical position of Nepal.

However, Nepal is very hopeful with India. Nepal's main exports to India are agro products such as jute, rice, herbs, paddy, hand knitted woolen carpets, oil seeds, tea, tobacco, firewood, timber, readymade garments, animal ghee, spices, hides, skins and handicrafts product. The prime imports from India to Nepal are petroleum products, textiles, cements, mineral oil tea, medicinal and pharmaceutical products, packed food, beverage including tobacco, vehicles, machinery equipment, iron, steel, gems and jewelry, chemicals, engineering goods and computer software. In addition to these a large variety of manufactured products are also annually imported into the country. A large volume of luxurious and semi-luxurious are also imported to Nepal from India but these goods are extremely unnecessary and avoidable.

1.1 Statement of the Problems

Observing the development efforts of more than 5 decades of Nepalese economy, entire economic activities are very low and slow. Nepalese economy is basically subsistence economy. Due to over dependence on agriculture, most of the exportable commodities are confined to raw materials and primary products.

About 66 percent of the population is dependent on agriculture. Agriculture has been a major source of national income and a source of employment of people as well. Despite the high dependency on agriculture, the agriculture sector contributes 41 percent in total GDP. The reason behind this figure is that the non-agriculture sectors are not properly developed in Nepal. In Nepal, import is continuously increasing and the export is not satisfactorily increasing. The low production of exportable agricultural commodities, lack of quality testing, lack of production of goods having high value in small quantity and decline in the export of traditional agricultural commodities are some of the causes of low export. Due to this magnitude of trade, deficit is increasing every year in Nepal.

Another bitter aspect is that Nepal is facing a transit problem because of land-locked geographical position in Asia continent. Though the transit facility is indispensable for such land-locked countries like Nepal, but Nepal is not getting such a facility because of defective government policy and high interference of India. However, Nepal has conducted many trade and transit treaties with India.

Nepal has not been successful for both country wise and commodity wise trade diversification. Likewise, Nepal's import trade is highly concentrated to India by 50 percent. This figure approves that India is undoubtedly a major trading partner of Nepal. Many treaties have been assigned in different years regarding the diversification of trade between Nepal and India, but no fruitable achievement is found in favor of Nepal. Nepal's trade deficit with India was 75865.6 million rupees in the fiscal year 2006/07. This is the widest trade deficit of Nepal with India. Although Nepalese products are theoretically allowed unhinder entry into the Indian market as they held the certificate of origin issued by FNCCI but in this case India has created problems sometime by fixing quota system in certain items, debarring entry on quality inspection ground.

By all mean, the study of Nepal - India trade is very important focusing on its trend and composition during different periods. The trade treaties between the two countries should adhere to WTO's norms in their trading activities. Another strong potentiality in Nepalese trade is the establishment of SAFTA which assists a special concern to the LDCs like Nepal. But a question arises here is that what prospects does it hold for LDCs like Nepal and what are the challenges for LDCs being involved in such a huge area of SAFTA. One another pertinent question is that how does Nepal prepare for complying with WTO norms and SAFTA provisions. This dissertation tries to answer these questions to some extent.

Although the analysis is not entirely enough to answers these queries of this dissertation but the findings of the study certainly highlights the issues and problems somehow and provides some insights.

Nepalese foreign trade is considerably increasing but import dominating tendency over export is a major cause of being backward and having permanent deficit on foreign trade. Because of huge trade deficit, Nepal is quiet near to fall into debt trap.

Moreover, Nepal has taken the membership of WTO on 23rd April, 2004 as 147th rank but the membership has been really a great challenging job for Nepal. Till the end of 2007, no beneficial signals of its participation have been identified in favour of Nepal. In this context, Nepal's main interest is to create a large area of export sectors in global market in order to maximize benefits from WTO.

1.2 Objectives of the Study

The main objective of this study is to analyze the export, import trend and situation of foreign trade between Nepal and India from 1983 to 2008. This study also reviews the bilateral trade and transit treaties and keeps the significant account of facilities whether Nepal is getting these or not. However, the specific objectives of the study are given as follows:

i) To analyze the trend and composition of foreign trade of Nepal with India.

ii) To analyze the bilateral trade and transit treaties between the two countries.

iii) To estimate the determinants of Nepal's export to India and imports from India.

iv) To analyze the problems and prospects of expansion of Nepal-India trade and joint venture investments.

v) To suggest recommendation for further expansion of Nepal-India trade in a healthy manner.

1.3 Significance of the Study

Foreign trade is of special significance to both developed as well as developing countries. It is the basic means of economic development and plays a vital role for the economic development of LDCs like Nepal. At the present context, neither a nation can exist effectively itself nor any individual without depending upon another country. Nepal is a landlocked country surrounded by India in three boundaries such as east, west and south. So Nepal's foreign trade with India keeps an important role in economic history of Nepal. Nearly 50 percent of foreign trade of Nepal depend upon India. In the past the trade with India formed 95 percent of total trade. A small percentage of trade was with India. The trade with overseas countries was almost nil. But it is not beneficial to concentrate trade with only one country. A country can not get benefit form international trade by relying on only one country. Taking this into account, Nepal has been pursuing the policy of trade diversification from third plan (1965-70) onwards. Besides some bitter experiences Nepal is very optimistic with India. Being as a big country India Can purchases the goods produced in Nepal and can sell the goods needed by it. Another reality is that trade is not a mere exchange of goods that it takes place between economic at different stages of development but the transfer of knowledge and expertise too.

As we know that Nepal as a developing poor country is facing lots of problems on foreign trade. The landlocked geographical position of Nepal itself has strongly banned in transit concern. Taking this fact into account the study of foreign between India and Nepal is very important.

1.4 Limitation of the Study

The main limitations of the study can be listed as follows:

i) This study fully concentrated on foreign trade between Nepal and India only.

ii) The limitation of the study year starts form 1983/1984 A.D. to till 2007/2008 A.D.

iii) Simple statistical tools are applied for the study.

iv) The study goes on the basis of secondary data which are available form various agencies and organizations.

1.5 Organization of the Study

This study has been categorized into eight significant parts.

Part One, presents the introductory part of the study. Introduction chapter concentrates upon the general background of the study, statements of the problems, significance of the study, limitation of the study and organization of the study.

Part Two, Keeps concern with review of literature. This chapter includes meaning and nature of foreign trade.

Part Three, contains research methodology, this chapter deals with the sources of data, data processing and analysis, statistical tools and statistical procedures.

Part Four, belongs to the review of trade and transit treaties between Nepal and India. It also includes the trade and transit treaties form 1951 to 2008 and their impact assessments too.

Part Five, reports trend and determination of Nepal's foreign trade with India. This chapter includes the volume and composition of foreign trade from the first plan period to tenth plan periods and the determinants of Nepal's trade with India.

Part Six, deals with the major trade policies and inter regional trade. This chapter includes the major trade policies in different times and inter-regional trade.

Part Seven, Examines the problems and prospects of India-Nepal trade. This chapter includes trade imbalance, inadequate market, frequent revision in duties and rules, lack of understanding and good faith, problems of informal trade, problems related to transit, prospects, tourism, education and training, mineral exploration and exploitations, information and communication technology and Nepal-India Joint-venture initiatives.

Part Eight, Includes conclusions and recommendations derived from the study.

CHAPTER TWO

LITERATURE REVIEW

The general notion of foreign trade was originated with the beginning of human civilization. The economic history deals with idea of foreign trade by different economists in different time periods. The mercantilists emphasized on foreign trade as a basic mean of accumulating treasure which in turn was to increase the power of state. Among the mercantilists, Thomas Mun had written a book named "England's treasure by Foreign Trade" in 1630. In this book he says - foreign Trade is only an important mean of surplus creation. It enhances the state to be self-sufficient, reach and powerful. Foreign trade was quiet flourished in the period of mercantilism. They advocated the principle of balance of trade which basically requires the creation of surplus of exports over imports.

The classical economists were the followers of the doctrine of laissez-faire economy who used to believe in economic liberalism. This implies that classical economists highly believed on free trade. Adam smith, the forerunner of classical school, developed his analysis of wealth and its growth in real terms and pointed out the benefit of unrestricted trade. He pointed out that free trade guarantees extensive application of division of labor, which in turn increases labor productivity ultimately resulting in aggregate increase in wealth of country.

But after the worldwide depression in 1930 a kind of intervention was felt in trade sector also. So the world turned into protectionism. But after the end of the Second World War, several factors influenced the development of world trade patterns. Firstly, countries were divided into communist and non-communist nations. The communist group mainly consisting of the East European Nations and China built effective barriers to international trade. On the other hand, the capitalist countries took open and liberal trade policy. But after the failure of communism in the East Europe in 1990s, the whole world turned into economic liberalization and globalization, which uphold the free flow of goods and services form one country to another. Now most of the countries of the world have entered into WTO. This signifies that the world again turned into classical period. In present era foreign trade is considered as an engine of economic growth. Trade between Nepal and India plays a considerable role in the acceleration of Nepal's economic development. There are some useful books related to the field of Indo-Nepal trade, which cover the trend and structure of Indo-Nepal trade.

A study of CEDA titled Trade and Transit: Nepal's Problem with her Southern neighbor published in 1969 focuses on analyzing the contemporary trade situation between Indian and Nepal.

The study contains two papers by Pashupati Shamsher J.B. Rana and the other by Prakash Chandra Lohani. This study was made on the event of 1971 treaty of trade and transit. So the papers highlight the contemporary trade situation and some of the issues pointed out in the paper still exist after 35 years. "The Paper Indo-Nepalese Trade Today and its Policy Implication for Nepal" presented by Rana focuses on growing trade deficit with India and suggests reducing trade deficit with India. The paper concludes with the suggestion that the development of country through aid is not of long - term type. So trade rather than aid should be the strategy of Nepal. India should provide due facilities for trade and transit which would help both in the long run.

The paper "India-Nepal Trade Relations" by Lohani tries to explain the problems between the two countries considering them as a system and a part of the system he says, "I prefer to look at a problem as a system or a part of a system that is not in equilibrium." He points out that Nepal is in the least interest of India. India should help Nepal in the matter of trade and transit but not to challenge on Nepalese Nationalism.

N.P. Banskota in his book Indo-Nepal Trade and Economic Relations published in 1981, analyses the trend of Nepal's foreign trade and economic relations with India. Based on the data of the period 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 the growth in trade with overseas countries. He reviews different trade treaties in the framework of broad trade objective explaining Nepal's trade with overseas countries and also addressing the issues of unauthorized trade. Trade instability is pointed out as a main cause of low degree of Nepal's trade diversification. The paper also examines the different trade and transit treaty between Nepal and India and clarifies its impact in Indo-Nepal trade. The paper says that if the hypothesis that if India and Nepal were to prosper economically, it would require serious and continuous joint efforts. The paper points out that unit price charged on Nepalese product are generally over the price which India charges from other Asian countries. On the other hand, unit price paid to Nepal on imports have been almost equal to the unit price paid to the other countries. Finally, he gives some conclusions and suggestions about future economic ties of these two countries.

A study of Pushkar Raj Reejal "Nepal's Foreign Trade and Economic Development (1956/57-1979)" published by CEDA in 1982 has highlighted the contemporary trade situation between Nepal and India. The author compares the share of export-import and total trade with GDP for the period 1964/65 to 1978/79. He also explains various determinants of the geographic diversification of Nepal's export and import trade. The study is done on SITC classification in terms of ten categories for both exports and imports like food, manufactured goods, and chemicals and so on. Nepal's' position in world trade is also presented, which is very negligible.

P.P. Timilsina in his article "Nepal's Trade Scenario: Its Lapses and Success for Economic Development" published in the Economic Journal of

Nepal Volume- 8, No. 3 (1985) tries to analyze the contemporary trade situation in the form of composition, development and balance of payment with the help of secondary data. The tariff policies adopted in different time periods and how the policy makers are curious abut the use of tariff instrument to promote export trade and to protect domestic industries. However, the non-tariffs barriers like quota and licensing system are not proving worthy. He concludes that Nepal's foreign trade, instead of working as an engine of economic growth, is facing various problems like high import and import of non-essential goods. He also raises some issues like open border, smuggling and import payment.

Mahendra P. Lama in his book "The Economics of Indo-Nepalese co-operation published in 1985 seeks to analyze the dynamics of Indo-Nepalese co-operation in terms of aid, trade and foreign investment. The study covers in the period 1956-1982. He reviews different trade treaties between Nepal and India and analyzes their possible impact on Indo-Nepal trade. Similarly, he examines the magnitudes and composition of Indo-Nepalese trade between 1956 and 1982 and throws some light on major problems in the Indo-Nepal trade relations.

Kishor Dahal in his book "Indo-Nepal Trade Problems and Prospects" published in 1987 highlights all the important aspects of Indo-Nepal trade and gives some concrete suggestions with an action plan for the promotion and strengthening of trade relation between the two countries. He identifies some potential areas of joint ventures and deals with the policy and strategy adopted to attract the foreign investment in Nepal. The study is based on data from 1956 to 1984.

Hari Bansh Jha in his book "Strategy in Nepal's Foreign Trade" published in 1987 attempts to analyze the trade situation of Nepal from 1956/57 to 1985/86. The author analyzes the strategies adapted by Nepal Government to diversity the country's trade to the third countries. The author also explains various aspects of Indo-Nepal trade and transit. Also covered by the study are joint ventures, unauthorized trade, tariff and transit problem faced by Nepal. The book also attempts to analyze different issues such as composition of export and import trade, direction of trade and structure of trade and tariff rate.

Gajendra Mani Pradhan in his book "Transit of Land - Locked countries and Nepal" published in 1990 discusses the general characteristics of Land-Locked countries and historical antecedents of right for transit facilities for land - locked countries and Nepalese trade treaties with India and its problem. This book attempts to analyze the theoretical and practical aspects of land-locked countries in the context of international law. The author examines how the impediments of being land locked have affected the socio-economic set-up of Nepalese society. He also presents a special case of court decision on Nepal's export of turmeric and pulse (Dal) in transit through Calcutta. The court decision was in favor of Nepalese business, but it shows how Indian officials can create unnecessary problems if they are not satisfied.

Yadav Prasad Panta in his book 'Trade and Co-operation in South Asia' published in 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. Finally, he has put forth some suggestions with respect to trade strategies both in general and group of countries with caution for better preference on economic aspects in particular.

Bhubanesh Panta in his book "Trade and Development: Nepal's Experience" published in 1994 reviews Nepalese economy and foreign trade annually as well as plan wise up to eight five years plans. Narrating the trade treaties and trade policies he analyses Nepal-India trade under the circumstances of liberalization and privatization. There is an empirical study on import substitution and export promotion analysis for the period 1974/75 to

1989/90. For import substitution analysis he considers milk, tea, spices, jute, sugar, soap, cotton, textile and cement industries. He has computed three measures. (1) Chenery's measures (2) Fane Measure (3) Ranking with to variant.

For export promotion analysis, the models of Tyler, Kavoussi, Balassa are used. Among these measures, Ranking with to variant provides more appropriate measure because it avoids arising from aggregations and disaggregating of data.

S.R. Poudyal in his book "Foreign Trade, Aid and Economic Development of Nepal" published in 1998 focuses on deriving the estimates of various imposts structural parameters in the field of investment, saving, export and import. This book covers the structures of trade, diversification of exports and determinants of export and import for the period 1956/57 to 1982/83. On the basis of regression analysis the author says that the imports of primary products are influenced only by income whereas imports of investment goods are influenced by income, foreign aid and export earnings. Also discussed in the book are the growth and composition of foreign trade, direction of trade, determinants of trade pattern, commodity and geographic concentration of export and import.

A dissertation prepared by Santos Dahal, "A Study on Nepalese Foreign Trade and its Changing Scenario" in 2001 analyses the current status of Nepal's foreign trade. This study covers period from 1990 to 1998. This study mainly focuses on volume, composition and direction of Nepalese Foreign Trade. This study also examines the terms of trade i.e. the ratio of the index of export prices to the index of import prices. The study concludes that Nepal's trade deficit is increasing with both India and overseas counties and it may have long term effects on country's economy and such deficits are usually covered by the increased foreign loans and grants which may further deteriorate the economy.

Vijaya Khatri in his book "Indo-Nepal Post WTO Dimension" published in 2001, attempts to study Indo-Nepal economic relation during the period

1950 and 1997/98. The trade conducted between Nepal and India from 1950 to 2001 is reviewed and changing composition of Indo-Nepal trade has been examined. The author also touches the problems of open border and unauthorized trade, which is a headache for both India and Nepal. Also, details of investment policy of Nepal of 1992 and factors behind low investment in Nepal have been explained.

Supriya Shaha in her M.A. dissertation titled "The Study of Nepal's Foreign Trade 1956/66-1996/97" submitted in 2001 focuses on estimating the volume, composition and export and import instability with the help of different statistical tools for export and import and their categories, primary, manufactured, investment and consumer goods are shown in the highest fluctuation. Commodity and geographic concentration ratios are taken as main causes of export instability. Similarly, income and foreign aid are taken as main determinants of Nepal's import trade. The results of multiple regression analysis show that imports are explained by income and foreign aid.

In her analysis she shows functional relation of manufactured goods and investment and log linear model is used for the import of primary goods and consumer's goods. Her study shows that the import does not depend upon previous income but only on current income.

The cyclical income elasticity of demand for total import, import of primary, manufactured and consumer goods are shown significant at 1 percent level. The secular income elasticity for import of primary products, manufacturing products and consumer goods are significant at 10 percent, 15 percent and 1 percent respectively. In case of investment goods, secular income elasticity is greater than unity. Similarly, foreign aid elasticity for primary goods are not significant while for other categories significant at 1percent.

Mohan Raj Nirula in his M.A. dissertation "Nepal's Foreign Trade with India, Present Status and Prospects" submitted in 2004, discusses trade situation between Nepal and India from 1963/64 to 2003/04. He reviews different trade and transit treaties conducted between Nepal and India and it's impact on Indo-Nepal trade.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Source of Data Collection

The information and data collection are the basic foundation of research methodology. So, this study is also based on secondary data analysis. Data are collected by different statistical agencies such as Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), Trade Promotion Centre, National Planning Commission, Ministry of Finance and various types of books and booklets based on international trade. 'Quarterly Economic Bulletin' published from Nepal Rastra Bank has supported to get the essential information retarding Nepalese foreign trade with different countries and SITC classification of export and import of Nepalese foreign trade as well. Annual report of Nepal Rastra Bank, Statistical Year Book of Nepal, CBS current publications are the reliable sources to analyze data for this study.

3.1 Research Design

The descriptive and analytical research designs have been adopted to evaluate the actual performance of Indo-Nepal trade. This study aims to clarify the recent and descent existing records of import and export situation of foreign trade between India and Nepal.

3.2 Procedure of Data Compilation

The published data have been compiled to examine the actual trend and situation of Nepalese foreign trade with India. The customs office, NRB, Finance Ministry keep the statements and records of foreign trade and transactions. So, the relevant data provided by them may help to know or study the authentic records of past and present. The role of various government and semi government organizations such as Nepal Rastra Bank, Central Bureau of

Statistics, Trade Promotion Centre are considered as reliable means of data and information collection. This study also depends on them for proper data compilation.

3.3 Data Processing Procedures

A systematic presentation of the data according to the need to the study is known as the data processing procedures. Data can be arranged in the form of tabulation and graphical presentation as well. There, all kinds of available data from different sources are presented systematically to reflect actual situation of import and export of Nepalese foreign trade with India.

3.4 Use of Statistical Tools

Statistical tools are mainly concerned with scientific methods for collection, summarizing, presenting and analyzing data with the help of drawing valid conclusions. Some useful tools of statistics are included here to present a clear picture of foreign trade between Nepal and India.

3.5 Percentage

When ratios are multiplied by 100, they are expressed as percentage. Thus, the percentage method is used to compute the figures of data in terms of hundred. For example total volume of Nepal-India trade is taken as hundred percent and then broken down into the different sections. It helps to find out the real situation prevailing in the composition of trade and proposition can be made.

3.6 Pie-Charts

Pie-charts help to break-down the total composition and direction of trade into the different section and commodity in order to achieve the precise idea of the prevailing composition of trade. It also helps in comparison between the years covered.

CHAPTER FOUR

REVIEW OF TRADE AND TRANSIT TREATIES BETWEEN NEPAL AND INDIA

Nepal is a landlocked country, surrounded by China to the North and India to the east, west and south. So, foreign trade is subject to available transit facilities. Although Nepal can have access to the sea route though China but because of geographical difficulties and distance, route though China is not economically feasible. So the Indian sea route is only geographically and economically vi-able route.

Nepal has assigned in many trade and transit treaties with India since 1950's. Though the transit route is a legitimate right for land-locked countries like Nepal but also India has taken this as concession provided to Nepal. India has often created hurdles on mutual trade on one hand and unnecessary pretext in the name of foreign trade with Nepal.

4.0 Trade & Co-operation before 1951: An Overview

A trade and economic relation of Nepal with India is years of old. In the past trade with India formed 95 percent of total trade. India and Tibet an autonomous region of China were the major traditional trading partners of Nepal. Before 1950, Nepal's foreign trade was confined only to India. There was negligible trade transaction between Nepal and Tibet. Nepal's foreign trade with overseas countries started only from 1956 with the launching of First Five Year Plan. Nepal pursued trade diversification policy since early 1960's, which got momentum from Forth Five Year Plan (1970-75).

A systematic account of trade and commercial relation between Nepal and India can be found only after the seventeenth century A.D. Many trade treaties were conducted in different periods of time in order to facilitate Nepalese foreign trade with India. It had reflected close ties with major influence in the conduct of trade. The first trade treaty of Nepal had taken place with British-India as early as 1923.

According to article-5 of the treaty, Nepal availed the right to import all sorts of arms and amenities, machinery equipments belongs to war from India. But these things were completely prohibited to use against each other country. Article-5 of the treaty had made custom duties free on goods imported by the government of Nepal through British-India ports. But this treaty couldn't help in trade promotion. The rebate would be claimed only after goods had arrived at Katmandu with custom seals unbroken.

Before 19th century Nepal's imports from India consisted mainly of a few items like tobacco, spices, metal together with luxury goods like 'Malamal Dupatta'. Nepal's major exports were mainly consisted of agricultural products, forest products and also goods of Tibetan origin like woolen items and box musk.

4.1 Indo-Nepal Treaty of Trade in 1950

According to this treaty, Nepal was given the right to trade with overseas countries through Indian ports and territories. In accordance with article-2 of the treaty the government of India agreed to allow all goods imported at any Indian port and intended for re-export to Nepal to be transmitted to place or places as agreed without payment of any duty at Indian port. Nepal was also granted the right to move goods from one part of the country to another part through Indian territory in view of the absences of roads to permit its criss-cross of goods. Nepal had to follow a straight Indian tariff policy which denied Nepal to pursue its own policy. Such kind of provision had been incorporated by India due to the fear of third country's goods being switched from Nepal. It was according to the provision that the export and import duties of Nepal would be at the same level with those of India with regard to the third country's goods.

As soon as the treaty was signed in Nepal the demand for its revision was made. The treaty had laid many repressions on the Nepalese economy that it prohibited the Nepalese goods to be sold to third countries at the cheaper rate than in India. Nepalese goods could not compete with the Indian goods in Indian market because of lacking of sufficient capital, poor technology and less productivity. Consequently Nepal could not make a possible expansion of trade with Overseas Countries.

4.2 The Treaty of Trade and Transit of 1960.

The trade and transit treaty of 1960 laid down the duty and responsibility of contracting parties for the mutual trade promotion and expansion concerned to the origin of various goods in the two countries so that the available goods or commodities can be used by any one country out of two if needed for. This treaty had also provided freedom for transit and imposition of protective duties or quantitative visitations on the goods being produced by newly established industries. Besides them many features of this treaty can be analyzed below.

The treaty of 1660 had declared that the produced goods of either side could be flown freely without any restriction. Such a situation compelled Nepal to be dependent upon Indian economy. It was against the Nepalese interest but also Nepal had to make free trade condition because of helplessness situation, geographical constraint and poor economic realities. This treaty envisaged mutual duty free and license free access to the respective markets of either country for the goods originating in either country and intended for the consumption in the territory of the other.

Under the treaty of 1960 India opened its market for Nepalese commodities with free of duties and quantitative restriction. This treaty allowed for Nepal for levy revenue, protective duties or imposes quantitative restriction. It appeared that such a special right granted to Nepal on account of the disadvantages arising because of traditional commodity structure of trade and landlockedness condition of Nepal.

The 1960 treaty allowed Nepal to maintain its foreign exchange itself. So, Nepal introduced foreign trade licensing for the first time. Nepal brought out the schedule of foreign exchange to be retained on jute, oil seeds. Such a facility to exporter was not available in the past. Because of this effect imports from the overseas countries were also regulated systematically. As a matter of fact, the treaty was aimed at establishment of common market type of arrangement between India and Nepal.

4.3 Treaty of Trade and Transit of 1971

This new treaty of trade and transit was signed with a view of fortifying the traditional connection between the markets of the two countries to strengthen economic co-operation. Nepalese Forth Plan (1970-76) aimed at expanding and diversifying international trade, promotion of exports of manufactured, semi-processed and processed goods instead of exporting them in the form of raw materials. It was decided to double the export trade with the overseas countries by adopting the suitable policy in commodity diversification. In Article-4, India agreed to give special and favorable treatment to imports into India for industrial products which must contain not less than 90 percent of Nepalese or Nepal and India jointly manufactured materials in Nepal in respect of custom duties and quantitative restrictions. India prohibited imports of goods manufactured from third country materials. Article- 9 of the 1971 treaty defined traffic in transit was exempted from custom duty and all transit duties. According article-9 India agreed to provide at the points of entry or exit warehouse or sheds for the storage of transit cargo awaiting customs clearance before or onward. It decided to give separate sheds for storage transit on lease for 25 years. It has been an additional benefit to Nepal under 1971 treaty.

Under the 1971 treaty both countries decided according to preferential treatment to each other with respect to custom duties and changes of any kind of imposed in connection with import and export. Under this treaty Nepal couldn't protect its industries. If Nepal established new industries and raised the rate of tariff to protect them, India could refuse its markets in the pretence of providing preferential treatment to Nepal. India used to treat in accordance with its practice allowing the same type of treatment to third countries. Such a dual behaviour from India's side to Nepal was not the good symptom of mutual co-operation regarding foreign trade between two counties. Rishikesh Saha in one of his scholarly writing had mentioned that "the only gains to Nepal in 1971 treaty are increment in warehouse space under Indian supervision at the Calcutta port together with the facilities for operating barges and trucking the commercial goods from ports area to their destination to Nepal with the help of sealed container trucks.

4.4 The 1978 Treaties: Treaty of Transit and Agreement of Co-operation

The treaties held in 1978 had declared to remove the misunderstandings in economic relation between the two countries and brought their transit agreement about in conformity with international conventions. A set of treaties were signed in 1978 between India and Nepal. The agreement of co-operation had been designed to control the unauthorized trade prevailing in two countries. The treaty of transit laid down the procedures that Nepal had to follow mainly the traffic in transit through Indian territory. This included the movement of bulk cargo both by railways and road ways.

The agreement of co-operation of controlling unauthorized trade and difficulties regarding boarder policy by security and custom offices were necessary to simplify due to the long and open boarder circumstance between the two countries. It confirmed the right of both countries to pursue an independent foreign policy. It made a compulsion to both countries that the economic interest of either county should not be affected adversely by means of unauthorized trade. The two countries had agreed to consult each other from time to time for the betterment of effective and harmonious implementation of treaties and agreements.

It was agreed in the treaty that in every six months an inter-government officials meeting should be conducted alternatively either in Kathmandu or in New Delhi with a view of promoting a closer economic co-operation between the two countries. This newly made treaty had come into existence since 25th march 1978 and had been extended upto 1989 after its expiry in 1983.

4.5 Impact Assessment of 1978 Treaty

The treaty of 1978 could not solve the entire transit problems of Nepal. The major complaint for Nepal was about heavy demurrage at Calcutta port. It was varied from Rupee 1 million to Rs. 6 million, which was primarily caused by Indian railway wagon. Some valuable imports were also laid scattered due to the lack of warehouse. On 25th march, 1978 Indian custom authorities started levying at 5 percent auxiliary on Nepalese goods exported to India even these goods contained over 80 percent Nepalese or Indian raw materials. This was the contrary to the spirit of 1978 agreement.

One of the important achievements of the treaty was that India agreed to provide an overland route for Nepal's trade with Bangladesh. The opportunity provided to Nepal made an easy step to conduct trade with the third counties through Bangladesh. The transit treaty also provided for Nepal's transit cargo at the Calcutta port and Haldia to remain the cargo free of charge for 7 days instead of 3 days than the previous treaty. Next achievement of this treaty was that Indian government agreed to promote Nepal's industrial development through grant, on non-reciprocal basis, in respect of custom duty and quantitative restriction to import of industrial products of Nepal. The provided products should not contain less than 80 percent of Nepalese and Indian raw materials. The previous agreement provided this facility only for those Nepali products which contained not less than 90 percent. The treaty identified 64 industrial products of Nepal. Out of them only 23 items grouped for preferential treatment in India.

This treaty also could not prove its effectiveness regarding the expansion of Nepalese trade. No noticeable change was realized in the share of export and import to India. In 1978/79 India's share in total trade was almost 58 percent and it declined slightly till the end of 1983/84.

Timber, mustard, line-seeds, ghee and dried ginger were exported in 19778/79. Few items like raw jute products were added to export list. In 1985/86, others products were also added to export list such as live animals, pulses, ginger oil, cake and rice barn oil. It was continued till the end of 1990/91.

Thus, even with implementation of trade treaty, Nepal's export remained fluctuating. The data shows that not a single commodity had been stable and perpetually exported for few periods both to India as well as to overseas countries. Previously agricultural products were the major commodities being exported to India. Due to the increase in domestic consumption and rise in growth rate of population accompanied low yield for per unit of land. Export of such commodity was fluctuating.

4.6 Treaty of Trade in 1983

This treaty was held in New Delhi on 17th march 1983. It was the sixth inter-governmental committee meeting. Both Countries had made an agreement to extend the treaty of trade for next five years.

According to this new provision, India gave permission to import some additional goods with duty free. The number of goods at this time increased from twenty six to thirty six including sugar, lime, cattle, and poultry feed and leather goods.

On the issue of transit treaty, an important discussion was held about the insurance premium on Nepalese transit Cargo. The new provision promoted the scope of insurance for transit Cargo including Nepalese companies. The railway transit transshipments were increased upto the city Gonda from Katihar of India. These two places had connected far western and eastern part of Nepal. In this treaty Nepal agreed to extend railway line from Raxul to Birganj. It facilited Nepal to conduct direct movement of transit Cargo. A part from the above, the new treaty also provided some crucial facilities to Nepal on non-reciprocal basis. According to the particular agreement India provided free access to its market for all manufactured articles of Nepal which contained at least 80percent of Nepalese or Nepal India jointly produced raw materials.

As many as 66 Nepalese industrial products were not subjected to quantitative restriction and they received preferential treatment in the Indian market. Out of these 66 items, 19 items were fitted to under go the pro-forma formalities for entering Indian markets.

4.7 Treaty of Trade and Transit 1991

On December 6, 1991, Nepal and India signed two separate treaties on trade and transit and new type of arrangement for mutual co-operation in controlling unauthorized trade. The treaty of trade was to be valid for five years, where as the transit treaty for given years.

Treaty of Trade- The following objectives were expected to fulfill in the treaty of 1991:

1. To fortify the traditional connection between two countries.
2. To strengthen economic co-operation.
3. To develop their economy for mutual benefits.
4. To share scientific and technical knowledge and to encourage collaboration of economic development.

The treaty of 1991 was just renewal of 1978 trade treaty. All the 12 articles in this treaty were similar to that of 1978. Some additional provisions made to access Nepalese products into Indian market. According to new provision India agreed to provide access to its markets on a case-to-case basis, free of 'basic and auxiliary' custom duty and quantitative restriction for all manufactured articles of Nepal. It contained not less than 55 percent of Nepalese materials or, Nepalese-Indian materials.

It was also necessary to provide preferential treatment, expeditious clearance into the Indian market for other manufactured articles in which the values of Nepalese articles over Indian materials was maintained 40 percent space of ex-factory price including labour added.

One new paragraph was also included in the protocol with reference to Article- 6 of this treaty which mentioned the following facts:

'His majesty's government of Nepal with a view to continuing preference given to export will waive additional custom duty on all Indian export during the validity of the treaty'.

Pro-forma clearance system for the preferential export of Nepalese manufactured items to India was also replaced by internationally accepted practice of the certificate of origin to be issued by Nepalese government.

4.8 Impact Assessment of Trade and Transit Treaty 1991

The new treaty included a host of new facilities and concession for Nepalese exports to India. These facilities included reduction of Nepalese requirement for duty and quota free entry of all manufactured goods of Nepal to Indian markets from 65 percent to 55 percent. Along with this reduction a time bound pro-forma clearance was also maintained for Nepalese export items through Indian Embassy situated in Kathmandu for four months time limit. The validity period for such pro-forma clearance was increased from two to five years to simplify the procedures for Nepalese export and an agreement in principle to induce Nepalese labour content to 55 percent requirement for duty free/quota free entry, subject to a negative list of products that would be worked out by the two countries.

The new transit treaty also incorporate various simplifications in custom and other procedures to assist Nepalese importers and exporters. Under the old practice the duplicate and triplicate copies of the Custom Transit Declaration (CTD) of the Nepalese export were sent by post of concerned Indian authority which took time to reach them causing delay. Now second and third copies of CTDs were managed to handover the exporter and authorized agent. Similarly, the provision for containerized Cargo had been given for seven days free.

Although there were numerous comments on the various aspects of the Trade and Transit agreement of 1991 but there were 91 Nepalese products which were identified for preferential entry into Indian markets. The number of of products was less than 25 though it was identified as 91 products in the beginning.

The materials content formulas were not workable since it had worked only for three out of 91 items. It displayed the reduction of materials content of Nepalese product were unable to reduce Nepal's adverse trade deficit with India. The two factors were the main for this case. The first one was related on continuing procedural hindrance and another was related to Nepal's underdeveloped industrial base with regard to material content. The foreign raw materials were allowed to be the extent of 45percent. The effective rates of cost of production fixed about 20-25 percent.

In the beginning of implementation process it was not so satisfactory. Export to India could not grow higher because of slow approval process and levy of custom duty.

One of the items was only determined for preferential treatment. The preferential criterion issued by India was also more complex so that Nepal could not forward its export activities spontaneously. Nepal waived additional customs on all import items from India during validity period of the treaty.

Altogether 33 items were exported to India from Nepal in 1991/92. Five years later 37 items were remained more or less constant. Some items like maize, Wheat-flour, seed, oil, iron and potatoes were increased to be export at this period and some new item like seed, oil, turpentine, marble slabs, readymade garments, handicraft, cattle feed, brooms were introduced into export basket. Some items like pulses, cardamom, twine, hides and skin and ginger were also kept in priority for export.

`In 1991/92 altogether 31 items were fixed for imports to Nepal from India. After three years back the reported number reached upto 58 items. The two items such as dried chilies and eggs were continually imported till five years.

Rice, sanitary bitumen, tires and tubes, consumer goods, fertilizers, sugar, wire were the important additional items in list. Similarly vehicles, electrical equipment, machinery equipment, baby foods, milk products were the major import items to Nepal. These items had a great value added and very important for development work. Important of capital goods like machinery, spares and equipment had dropped from 11 percent to 6 percent from the beginning to the last session.

4.9 Trade Treaty of 1996

The commercial secretaries of Nepal and India signed and exchanged the letters of agreement with the expiry of trade treaty of 1991 along with some amendments of ariticle-5 of the protocol. The renewal of the agreement was to control the unauthorized trade with amendments of Article-3. It simplified the implementation procedures for Nepalese containerized transit cargo on December 3rd, 1996.

According to this treaty, a new provision was made for automatic renewal of the treaty for about five years for further period. The treaty also included the provision of canceling it if any party sought to cancel but with the 3 months prior notice must forward.

An important part of this treaty was that India agreed to provide free access to Nepalese manufactured goods in its broad market without charging any custom duties and quantitative restriction.

All the terms and condition for raw materials and labor contents were totally removed at this treaty and certificate of origin must introduce.

However, the following three sensitive items were banned in entry to Indian markets.

1. Alcoholics liquor/beverages and their concentrates except industrial sprits.
2. Perfumes and cosmetics, with non-Nepalese/non-Indian brand name.
3. Cigarettes and Tobacco.

On the other hand at least four items were kept in negative list in the treaty of 1996. These items were as follows:

1. Soft drinks with Non-Nepalese/Non-Indian brand names.
2. Precious stones.
3. Synthetic/branded yarn and fabrics.
4. Zip fasteners.

Indian issued countervailing duty being levied at statutory rates on Nepalese's industrial products in India. It agreed to apply same effective rate of countervailing duty equivalent to effective rate of excise duty applicable on products of similar Indian Industries. There by qualifying Nepalese products as well as for receiving all the exemptions, rebates and concussion in Indian excise duty applicable to similar Indian products.

A new provision added in treaty was that export of consignment from Nepal accompanied by certificate of origin would hence forth normally, not be subject to any detention/delays at Indian custom border check-post and other place encounter. Simplified procedures for Nepalese containerized cargo were implemented in this treaty. The major achievements of this treaty are mentioned as follows:

1. Provision of automatic renewal of treaty for five years period at a time and provision for amendments and modification upon mutual trade are included in the treaty.
2. 50 percent removal provision of Nepalese/Indian materials content for preferential entry items from Nepal to India.
3. 7 to 3 items were kept in negative list for preferential treatment.
4. India allowed of importing Nepalese beer items on the preferential basis with agreement.
5. Effective rate of countervailing duty equivalent to effective rate of excise duty was made applicable on products of similar Indian Industries.
6. A provision of responsible-export and import of goods from other countries with manufacturing activity was made easier inside the country without any material content requirement.

4.9.1 Trade and Transit Treaty of 1999

It was the renewed treaty of 1991 because eleven articles were included as same as in the previous treaty. Although some new provisions were mentioned in the treaty of 1996. They are presented as follows:

1. A provision of automatic renewal of the treaty made for years for further periods, until or unless if any party intended to cancel it, a prior written notice must be given before six months.

2. The treaty had contained the provisions for amendments and modification upon mutual consent with a provision of automatic renewal. Uncertainties and apprehensions on the continuation for transit facilities at every time of expiry of the treaty have been removed for ever.
3. A provision of submitting original copy of Custom Transit Declaration (CTD) at Indian custom point was mentioned in the treaty while importing goods from India to Nepal.
4. An option of transportation facility was given to Nepalese importer and exporter for carrying out goods through trucks, marine containers or rail wagons from India to Nepal. Only specified goods were allowed to transport through marine, containers, trucks and rails wagons.

4.9.2 Trade and Transit Treaty of 2002

With the expiry of trade treaty in 1996, India refused to be review the treaty and raised some issues to be reviewed in 2001. The issues raised by India were changed in the protocol of Origin in five products such as vegetable ghee acrylic yarn, steel, pipe, copper wire and Zinc Oxide. India claimed that access export of these products to India has affected their concerned industries and such products have fallen under the surge net.

After rounds of talks in diplomatic level and special request in higher political level, India ultimately agreed to renew the treaty on March 2, 2002. The renew of treaty was also effective for another five years. This treaty was just renewal of 1996 treaty and articles of this treaty were same as 1995 treaty with some changes in previous protocol with the addition of a fuel protocols.

Although Nepalese authorities were successful to renew the treaty without any major alternative in the main articles, this agreement modified protocol-5 and added new protocol-9. This revised protocol has three special changes:

1. The provision of value addition for all 184 items identified as exportable from Nepal to India. According to the revised treaty, all Nepalese manufactured products using the Nepalese or Indian raw materials are needed to add value of 25 percent for the first year 30percent for subsequent for years. The value addition would make Nepalese product eligible for duty free access to Indian market.
2. Indian imposed annual quantitative retraction for four Nepalese products such as vegetable ghee, Acrylic yarn, copper wire and zinc oxide.
3. Both countries agreed to safeguard their domestic industries. So, they made especial protocol for protecting their domestic industries. Any party of them can formulate necessary laws and regulation to safe guard their industries.

According to this treaty, India gave permission of entry of Nepalese manufactured goods with free of custom on fixed quota basis.

Table No. 4.1

S.N.	Nepalese articles	Quantity in Mt. Per year
1	Vegetables ghee	100,000
2.	Acrylic yarn	10,000
3.	Copper Products	15,000
4.	Zinc Oxide	2,500

1. The four commodities mentioned above in the table were in excess of fixed quota system while importing to Nepal under the permission of MFN rates of duty. No concession further given in any other preferential arrangement.
2. Imports above commodities from India got permission thorough Land Custom Station (LCS) at Kakarbhitta/Naxalbari, Biratnagar/ Jogba

ny, Birganj/Raxual, Bhirahawa/Nautanwa, Nepalgunj/Nepalgunj Road and Mahendranagar/Bandbara.

3. The detailed administration arrangements for operation of fixed quota identifying the agencies for allocation and mentioning of export and import of fixed quota will be finalized by both governments.

4.9.3 Impact Assessment of 2002 Treaty

According to the views of most of the economic business and industrialist the provision of value addition and quantitative restriction imposed by India is against the sprit of liberal trade and fundamental principle of WTO.

The renewed treaty had made the provision for Nepalese products with the third country's materials which had maximum ceiling of 25 percent value addition for first year and ceiling of 30 percent there after. This type of provision mentioned in the treaty was almost impossible to export the manufactured goods to India by using the raw materials of third country because access of such products used to be given of care by case basis after satisfying itself. Such items have under gone as sufficient manufacturing process within India.

The average annual growth of export to India was recorded Rs. 3213.7 million during the 8th plan (1992-97) period against Rs. 1149.8 million during the 7th yearly plan (1985-90) period. However, share of export decreased by 16.2 percent against 25percent in comparison to previous plan period.

4.9.4 Trade Situation in 2002/03

The record of total export during the period of 2000/01 and 2002/03 was recorded as Rs. 4694.8 million. The total export was Rs. 27956.2 million recorded in the end of 2001/01.

According to Nepal Rasta Bank Research Department centre, export and import situation of foreign trade was recorded as Rs. 26430.0 million and Rs.

70,924.2 million respectively. It shows that there was a great trade deficit because trade balance was Rs. -44494.2 million. It was due to imposition of quantitative restriction and provision of value addition for Nepalese manufactured articles such as vegetable ghee, Acrylic yarn, copper wire, zinc oxide. Because of this reason export of these items decreased tremendously. For example share of export of vegetable ghee occupied 25 percent of total export to India in 2000/02 which decreased to 14.4 percent of total export. On the import side, import from India increased from Rs. 6622.1 to Rs. 70924.2 million in 2001/02. This figure shows a huge trade deficit of Nepalese foreign trade with India.

4.9.5 Trade in 2003/04

According to the data basis study of trade promotion centre, actual shape of Nepalese export to India was 59 percent in 2001/02. But in 2002/03 export increased by 5 percent again. Special attention was given for manufactured goods which played a main role in export activities in 2003/04. Export increased by 7 percent at this period. But in case of fuels and lubricant import was decreased than the year of 2001/02. The transaction of such goods was Rs. 5.2 million in 2001/02 but it increased by more than double and reached upto Rs. 14.5 million in 2003/04. The import structure of Nepal to India remained around 59 percent during the period from 2001/02 to 2003/04. Imports of net classified goods remained highly increasing position which took place from one million to three hundred forty two million during the period 2002/04. The causes of extreme fluctuation in export- import activities of Nepal to India were mainly seen because of poor technology and high rate of cost of produced goods. Another bitter fact was the imposition of quantitative restriction and provision of value addition for four Nepalese manufactured articles such as vegetable ghee, acrylic, yarn, copper wire and zinc oxide.

Total export increased from Rs. 44930.6 million to Rs. 46944.8 million in 2001/02. Export to India only decreased to Rs. 26430 million in 2002/03 against Rs. 27956.2 million in 2001/02. Similarly, the actual total export increased from Rs. 44930.6 million in 2002/03 to Rs. 53910.7 million. However, export to India increased to Rs. 124352 million in 2002/03 against Rs. 136277.1 million in 2003/04.

CHAPTER FIVE

TREND AND DETERMINANTS OF NEPALESE FOREIGN TRADE WITH INDIA

5.0 Volume and Composition of Foreign Trade

Before 1950, Nepal remained in complete isolation from the outside world, during this period; Nepal's foreign trade was confined only to India. There were small business transaction between trade centers of Nepal and Tibet. After the advent of democracy in 1950, Nepal opened the doors for outside world and diplomatic relations were established with many countries. Till the beginning of first five years plan (1956-61) almost 98 percent of Nepal's trade was confined to India, a small percentage of trade was with Tibet, an autonomous state of china and trade with overseas countries was almost nil. When Nepal adopted planned economic development with launching of First Five Yearly Plan in 1956, various development projects were initiated in order to fulfill the targets. Due to this reason, imports of several types of goods increased from India.

5.1 First Plan Period (1956-61)

As shown in table 5.1 in fiscal year 1956/57 Nepal' share in total export to India was 97.8 percent which decreased slightly to 95.9 percent in fiscal years 1957/58. But export of Nepal increased to 99 percent again in fiscal year 1958/59 and remained the same percentage till the end of First Five Yearly Plan. Likewise, import from India to Nepal was 94 percent till the end of fiscal year 1958/59 and decreased to 93.9 percent in fiscal year 1959/60, 94.2 percent import remained at the ending years of First Five Yearly Plan.

During first plan period, export-import situation of the two countries remained satisfactory. The trade deficit was negligible. The prime export items of Nepal to India were primary products which constituted almost 95 percent of total export whereas manufacturing items constituted only by 5 percent of total export.

5.2 Second Plan Period (1962-65)

The main goal of trade policy during this period was to increase the volume of trade and diversifying its composition. However no significant progress was recorded in diversification of trade. 98 percent of foreign trade was confined only to India at this plan period. The volume of export to India was recorded is Rs.433.2 million in 1964/65 as it was Rs. 286 million in earlier year.

During the second plan period share of total products decreased to 87 percent in 1964/65 where as it was recorded 96.73 percent in earlier year. In previous year 1960/61 total imports from India to Nepal was around 70 percent.

5.3 Third plan Period (1965- 70)

The following policies were largely focused upon foreign trade in third plan period of Nepal.

a) Increasing export by cent- percent within next five years, special focus is given to those goods like paddy, jute and oil seeds.

b) Reducing the volume of import mainly of consumer goods and encouraging domestic production of such type of goods.

c) Diversification of trade with third countries by means of treaty and with LDCs by other measures. All sorts of efforts were carried on export promotion import and substitution. However, the policies couldn't achieve their desired goal. The completion of 5 percent exports only recorded at import from India, which was extremely huge by 92 percent as per the standard International Trade Classification (SITC), the commodity structure of export of Nepal grouped as 0,1,2, 3, 7 and 9 also went under various changes. Primary products accounted for 85.86 percent against 93.58 percent in 1956/57. The fall in this group was compensated by manufacturing 13. 68 percent in 1969/70 which was just 4.96 percent in earlier year 1956/70. The prime exports items to India were rice, oil seeds, timber, and metallic items like iron, steel and textile. Similarly minerals, fuels, coal; lubricant, iron, steel and metallic goods were the major imports from Indian side.

5.4 Fourth Plan Period (1970-75)

The major target of this plan period was to promote the manufactured goods along with the traditional items. The significant stress was given on the export of semi- processed and processed goods rather than raw materials. Share of exports decreased to 81.9 percent at the beginning years of fourth plan 1970/71 as it was 94.7 percent in fiscal year 1969/70. The trend of export was not smooth and continuous. The trend of export was fluctuating. Similarly, share of import also decreased from 88.2 percent in 1969/70 to 81.3 percent in 1973/74 expenditure except the fiscal year 1971/72.

The major exportable item was rice in 1974/75. Few prominent exportable items to overseas countries were raw jute and jute products. At the end of the plan period export of rice to India and jute to overseas country accounted for two-third of export earnings. Imports were also more heterogonous, covering a large range of manufactured goods and raw materials. They were usually high in 1974/75 because of a cash import programme of cement, fertilizer and other basic products. The import of petroleum-products and fertilizer were largely increased at this time. Average export was increased from Rs. 430 million to Rs 483.7 million during the fourth plan period. In case of oversea countries, average export was increased from Rs. 20.2 million to Rs 141.7 million.

5.5 Fifth Plan Period (1975-80)

Fifth plan mainly focused in diversification of trade both for country wise and commodity wise. In fiscal year 1976/77 Nepalese share in export to India was 75.4 percent of total export. It decreased to 47.6 percent in fiscal year 1977/78 and increased to 50.1 percent against in fiscal year 1987/79. It happened so because of withdrawal of EEE scheme. Similarly, the volume of export to India decreased during the whole plan period. The declining trend was recorded because of sharp declination in export of rice stagnant production situation in growing demand at home country. The structure or size of export was 10500 Mt. in 1975/76 but export of rice declined to 13000 Mt. in fiscal year in 19779/80 as it was recorded 68000 Mt. in 19778/79. The extreme fall of export in 1979/80 was the reason of crops failure situation because of an adverse weather condition. Major export items from Nepal to India were rice, timber, mustard linseeds, dried ginger and ghee. Export of rice remains very low as 0.5 percent in 1997/80 but it was recorded 55.4 percent in 1975/76.

5.6 Sixth Plan Period (1980- 85)

The basic objectives of sixth plan period regarding foreign trade was to maintain the principle of diversification on the basis of economic gain and loss. For this purpose, efforts were made to procure the country's imports from cheaper sources, and export will be directed to those countries where the prices are must favorable on the basis of International Trade Situation.

During the first year of the plan period total export was record as Rs. 1608.7 million. It was attributed to amelioration in agricultural production rises in handicrafts and carpet, export because of increased demand and price. During 1981/82 and 1982/83 export fell considerably. The responsible factors behinds such happening were recession in world market, wide- spread drought and removal of exchange incentives to oversea market.

Similarly, Share of export to India was recorded 61.7 percent in F.Y. 1980/87 which increased marginally for first two years of plan period and then decreased significantly. Share of export was recorded 58.5 percent till the end of the plan period.

On the import side it showed increasing trend during the plan period. Volume of import was recorded Rs. 77.41.9 million in 1980/81. High rate of increment in import caused by a huge trade deficit during the first plan period. The BOP deficit during 1983/84 and 1984/85 was primary caused by a large commercial imports from India. In one hand exchange rate of Nepalese rupee vis- a- vis the Indian rupee had remained visually unchanged. On the other hand the exchange rate of Nepalese rupee against all other currencies had been fairly unstable. Further more when India did not require any licensing procedures for imports. Imports from other countries were subject to licensing and rationing arrangement currencies and licensing system seemed to lead towards substantial increment in commercial imports from India and ultimately to the BOP deficits during these years.

As per SITC classification, major export items to India were primary products which constituted almost 95 percent of total exports. The proportion of manufacturing items in the share of export seemed very poor except in F.Y. 1982/83. The prime exports to India were timber, rice, raw jute, and jute products which constituted almost 50 percent of total export.

Average annual export to India increased from Rs. 668.5 million to 119.9 million during this plan period against previous plan.

5.7 Seventh Plan Period (1985-90)

The major objectives of seventh plan period with respect to foreign trade were as follows:

i. To improve BOP situation gradually through the expansion and development of export sector.

ii. To continue, the necessary process of infrastructure development of manufacturing goods in own nation which we are dependent upon other countries.

iii. To maximize the benefit from foreign trade by making effective transit system with less expenses.

iv. To achieve the goal of the above objectives the following policies should be implemented seriously.

v. Expansion and diversification of export oriented trade with a systematic program on the basis of periodic evaluation of merging trends.

vi. Enhancement of private sectors' participation in the export sectors.

vii. Stress should be given on essential products mainly daily consuming goods.

According to the basis of data analysis, total export soared from Rs. 2740.6 million in F.Y. 1984/85 to Rs. 3078.8 million in F.Y. 1984/85 to Rs. 3078.8 million in 1985/86. Although total export rose, export to India declined by 23 Percent owing to considerable loss in the export of rice, herbs, raw jute and many other goods manufactured by jute. Export to India increased by 5 percent and amount to Rs. 1302.6 million in 1986/87. Overseas export also decreased by 80.1 percent and reached upto Rs. 1688.8 million. A huge reduction occurred because of the reduction in raw jute, pulse, hides and skins and ready made garments.

In 1987/88, total export reached upto Rs. 4114.6 million. 38 percent increment in export was recorded in 4987/88. This increase was due to certain policy measure, such as provision of Open General License (OGL) in the import of raw wool, simplification in the import of cotton fabrics through the introduction of bonded warehouse system. This state of affairs eased the supply of raw materials for major export goods such as carpets and readymade garments. However, export to India was decreased tremendously to Rs. 1034.9 million in 1988/89 against Rs. 1567.8 million in 1989/90. The drastic fall of export to India had occurred due to the fifteenth month long trade impasse between the two countries on March, 1989. India imposed high tariff on Nepalese export there after.

Observing trend of trade from import side, the volume of import from India showed increasing trend than the year 1988/89.

According to SITC classification, major export items to India were primary products, which constituted around 80 Percent of the total. The major export items in this period were some traditional items like rice, mustard and linseeds, jute and jute products. Few new items like pulses, live animals, oil cake, rice barn oil were also added in export. But share of rice decreased tremendously in 1984/85.Such a rapid decrease in rice came to zero in 1987/88.

5.8 Trade between 1990/91 and 1991/92

This period was full of political occurrence. Most of the communist countries of East Europe failed in their prevailing economic system. So, they entered into the open and liberal economic system. Nepal was also affected by such a global change. After the restoration of democracy in 1990, Nepal entered into open market economy. With the initiation of economic liberalization, Nepal simplified various procedures for mutual trade relation among the different countries.

Total export in 1990/91 was Rs. 7387.5 million but reached Rs. 13939.4 million in 1991/92. Export increased by 88.7 percent in 1991/92. Behind such a massive change was the up surging in export activities to the overseas countries. The factors contributing to the high growth in overseas export were the devaluation of Nepalese currency vis-à-vis convertible currencies, partial convertibility of Nepalese redacting of trade tariff. India's share in total export decreased to 11 percent in 1991/92 from 21 percent than the year in 1990/91. The reasons of such happening were the permutation of a liberal market. Oriented policy and revaluation of Nepalese currency vis-a-vis Indian rupees.

Similarly import from India increased by 38 percent in 1991/92 which was Rs. 11815.9 million in totals but it was only Rs. 7323.1 million in fiscal year 1990/91. It was attributed to the relatively low cost of Indian goods coupled with huge imports of chemical fertilizer, rice, transportation equipments and their spare parts. Many other exportable items were the primary products which constituted around 80 percent. The major export items at this period were like mustard and linseeds ghee, ginger, pulses, live animals, rice, Sal seed and jute products which constituted around 50 percent of total export.

5.9 Eighth Plan Period (1992-97)

After the restoration of multiparty system, there was the absence of economic planning for two years. There were remarkable changes in government policy and programs in this plan. The government put emphasis on private sector, open trade and liberalization. The main objectives of this plan were as follows:

a. To attain dynamic growth in trade sector through contribution directly to the national economy by generating income and employment opportunities.

b. To minimize trade deficit through curtailing import.

c. To expand the foreign trade effectively through the diversification of trade parameters and commodities as well.

d. Many policies were formulated to achieve the above goals. Some of the above points emphasized on the production of polyester yarn which was also included into export basket in a large amount.

The average annual growth of export to India was recorded Rs. 3212.7 million at the end of Eight plan' period which was just Rs. 1149.8 million recorded in 7^{th} Plan period. However, the share of export decreased to 16.2 percent in 8^{th} Plan period whereas it was 25.5 percent in the earlier period.

5.9.1 Ninth Plan Period (1997-2002)

The Ninth Plan had started from 1997. In this plan period, export trade was widely expanded by diversifying the foreign trade on the basis of comparative advantage and comparative capacity, During the first year of the Ninth plan period the volume of export to India was Rs. 8794.4 million recorded. It increased by 68.5 percent and reached Rs. 27956.2 million at the end of first year of this plan. In 1997/98 the share of export remained 31.96 percent and 59.55 percent remained in the following year 2001/02. It shows that the trend of export was quiet satisfactory.

In case of import from India to Nepal was also remained in increasing trend. It was 30.71 percent in 1997/98 but the figure reached to 52.73 percent in 2001/02. The large increment in the volume of export was the result of trade treaty of 1996 which supported Nepalese manufactured goods to Indian exportable items and quantitative restriction on import just through the replacing of tariff structure.

According to trade data during the eighth plan total share of export to India was only 9.39 percent which increased marginally and reached up to 23.09 percent. It reveals that India is the best and close export trade destination of Nepal. Similarly share of total import to India in 1995/96 was 32.7 percent against 31.99 percent in 1994/95.

The overall volume of export to India during the eighth plan period remained in increasing trend. The sum of Rs. 1621.7 million was recorded as total export to India in 1921/93. This trend increased marginally and reached Rs. 3682.6 million till the end of 1995/96. Similarly, the sum of Rs. 5226.2 million was recorded in the fiscal year 1996/97. The basic reason behind this increasment was due to the effective trade treaty held in 1996. According to this treaty, India had provided free access to its market for all Nepalese manufactured articles without any obstacles. The condition issued on raw materials and labour content were also removed all for the first time.

According to SITC classification, exports items from Nepal side were mainly primary products. The interesting fact was that the shares of primary products were in declining order where as manufactured goods were in increasing order. In the end of final year of this plan, 43.74 percent of total export was recorded. Mainly the major export items were jute products live animals, rice barn oil and pulses. Few manufactured items like noodles, cattle feed, toothpaste and market with free access without any hurdles. The conditions of raw materials and labor contents were also removed totally and made easier environment for Nepalese export. Due to this liberal trade treaty, many joint venture companies related to export base established in Nepal.

During this plan period, few new commodities like soap, vegetable ghee, Pasmina, thread, copper wire, iron rod and M.S. Pipe were prepared and entered into export basket of Nepal.

5.9.2 Trade Position in 2003/04

There was no significant improvement in export activities to India. Total import was higher than export by four times. Total import from India to Nepal was recorded Rs. 68739.50 million where as export to India was Rs. 17815.70 million only. The major commodities like petroleum products, electrical goods, transport equipments, medicine, agriculture tools and spare parts, chemical and fertilizer were imported from India to Nepal. The major exportable commodities to India were rice, maize, mustard and linseeds, herbs, ghee, dried ginger, rice bran oil, vegetable Ghee, Noodle, cardamom M.S. Pipe, Plastic Utensils, Textiles and Ayurvedic medicine. Import of selected commodities from India was more than twenty one. Exports of major commodities to India were more than thirty five. India had imposed quantitative restriction for four Nepalese commodities like vegetable Ghee, Acrylic yarn, copper wire, Zinc Oxide. This was the main reason of decreasing in total export to India. The trade deficit in 2003/04 was Rs. 60923.8 million.

5.9.3 Tenth Plan Period (2002-2007)

The tenth plan had targeted the annual growth rate at 3.1 percent and annual import growth rate at 2.6 percent to achieve general growth rate. In the period, the annual growth rate of commodities was 5.3 percent per annum at prevailing price. In the fiscal year 2001/02, the export reduced by 0.2 percent at the constant price of the fiscal year. Hence the export growth rate has been less than the target. After the accession of Nepal into WTO, quota system for readymade garments has been cancelled. As a result, garment export has decreased; Export has increased by 6.4 percent, 8 percent, 8.9 percent, 2.6 percent and 5.9 percent in the five consecutive years. But the export to India decreased by 5.5 percent in first five years whereas it increased by 16.5 percent 26.5 percent, 4.6 percent and 2.9 percent in the last four consecutive. In other countries, the export increased by 23.8 percent in the first year but it decreased by 1.6 percent, 14.5 percent, 1.4 percent and 3.1 percent in the last four consecutively.

Import has increased by 12.3 percent per year at current price. Hence the import rate has been higher than the target, especially from India. From India Import growth rate has been 25.3 percent and 9.9 percent in the five consecutive years. From other countries, the import growth rate has been 5.2 percent in five consecutive years.

On the base year calculation of 2001/02, the share of India is 54.8 percent and of other countries is 45.2 percent in the total trade. The share with India has increased to 63.2 percent in the fiscal year 2006/07.

The following tables present the major commodities of export and import to and from India in last seven years.

Table No. 5.1

Exports of Selected Commodities to India
In Million Rupees

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
								I Qtr	II Qtr
A Major Items	**22,860.9**	**24,310.5**	**21,351.5**	**26,133.7**	**31,842.7**	**31,091.0**	**34,007.7**	**9,149.7**	**8497.1**
1. Aluminum Section	207.9	219.8	255.1	381.1	879.2	893.7	831.5	156.8	177.1
2. Batica Hair Oil	80.2	211.4	386.7	524.6	232.3	6.2	7.5	0.0	0.0
3. Biscuits	38.7	26.0	25.1	15.5	8.8	6.0	0.7	0.0	0.0
4. Brans	58.9	41.2	62.8	40.5	57.1	105.9	121.3	72.3	43.7
5. Brooms	65.5	56.7	102.7	65.9	81.5	69.7	43.9	0.2	17.9
6. Cardamom	298.2	359.9	469.6	451.0	607.0	608.1	848.1	222.5	349.6
7. Catechu	150.0	180.4	145.4	162.5	438.7	382.4	542.8	112.0	126.0
8. Cattle feed	1958.5	215.0	405.9	550.9	547.4	454.6	80.3	24.6	57.5
9. Chemicals	77.3	87.3	148.5	610.0	1,407.5	1,057.5	911.5	178.4	6.5
10. Cinnamon	0.1	8.9	4.7	6.3	9.2	29.1	16.0	3.0	4.1
11. Copper Wire Rod	2081.6	2620.5	356.6	200.8	530.1	305.8	206.0	139.7	189.9
12. Dried Ginger	61.0	80.5	108.4	78.0	80.1	62.2	49.6	9.0	9.7
13. Fruits	4.6	6.1	2.4	0.9	1.8	1.2	0.1	1.9	0.1
14. G.I. pipe	328.7	165.9	357.2	556.3	424.0	519.3	127.8	1.8	145.5
15. Ghee(Vegetable)	3560.3	7,081.4	3,812.3	2,959.0	4,635.9	3,861.7	4,136.5	753.8	723.3
16. Ghee(Clarified)	470.7	60.0	54.6	76.5	83.1	103.0	81.4	12.4	20.1
17. Ginger	161.8	207.9	315.4	287.1	161.0	275.2	541.3	100.0	235.2
18. Handicraft Goods	29.2	31.8	44.8	27.4	104.7	32.9	17.9	7.2	4.9
19 Herbs	71.5	84.1	333.9	91.5	132.4	133.5	140.3	17.9	31.4
20. Juice	303.5	452.9	600.1	786.8	1,092.3	1,139.6	1,591.3	498.5	380.5
21. Jute Goods	1294.2	1630.1	1,899.0	1,882.6	2,693.5	2,636.8	2,756.8	753.7	664.6
a) Hessian	50.5	44.7	44.2	143.5	186.1	464.5	375.1	245.4	77.2
b) Sackings	540.4	609.2	855.9	1,056.5	1,456.2	1,265.4	1,408.6	236.6	378.8
c) Twines	703.3	76.2	998.9	682.6	1,051.2	906.9	973.1	271.7	208.6
22. Live Animals	45.8	56.2	62.5	55.1	56.0	58.0	20.0	0.0	44.7
23. M.S. Pipe	353.1	410.4	548.2	851.8	316.6	105.7	761.9	262.8	286.0
24 Marble Slab	33.9	23.0	28.6	36.9	62.7	41.9	113.2	31.1	64.1
25. Medicine (Ayurvedic)	487.4	583.4	743.1	289.9	205.6	301.1	145.5	48.6	36.8
26. Mustard & Linseed	37.9	10.2	46.7	37.6	44.3	47.5	23.3	9.0	28.9
27. Noodles	136.0	227.0	309.7	259.7	369.3	414.7	237.4	105.9	143.0
28. Oil Cakes	212.8	302.6	311.1	324.1	317.1	291.6	318.1	89.5	97.6
29.Paper	224.1	251.5	363.6	266.3	169.7	95.5	131.6	20.3	40.8
30. Particle Board	254.4	243.1	243.8	283.5	335.3	227.5	206.8	24.6	35.5
31 Pashmina	2728.5	637.3	475.6	427.7	341.5	21.7	48.3	0.6	0.0
32 Plastic Utensils	693.9	770.9	807.7	1,192.4	1,361.6	808.3	415.1	87.9	108.8
33. Polyster Yarn	773.6	1070.4	656.9	1,114.5	1,896.3	3,476.3	2,240.4	444.6	935.7
34. Pulses	713.5	1005.7	880.4	579.1	667.1	643.2	306.9	25.5	109.1
35. Raw Jute	113.6	8.3	0.0	0.9	0.0	0.5	1.6	0.0	31.1
36. Readymade Garment	192.1	213.5	399.2	626.7	365.9	1,137.3	765.0	217.5	109.2
37. Rice bran Oil	124.7	90.6	210.0	194.7	199.0	112.6	178.3	61.4	37.9
38. Rosin	224.1	233.7	221.6	173.6	256.6	346.5	577.4	70.9	75.5
39. Shoes and Sandles	105.1	98.0	108.2	107.7	235.9	237.8	244.4	50.9	154.0
40 Skin	50.5	157.8	248.5	332.3	338.6	334.8	363.1	106.7	89.8
41. Soap	950.6	528.9	469.2	539.6	368.0	363.6	502.7	114.1	107.4
42. Stone and Sand	74.7	104.6	189.5	209.1	249.1	321.3	248.3	18.7	47.9
43 Turpentine	25.1	40.5	24.7	19.3	52.7	105.1	154.9	15.0	14.5
44. Textiles	449.3	562.5	878.2	1,780.5	2,996.6	2,154.6	3,056.9	745.8	460.2
45.Thread	1656.9	846.9	1,235.2	1,637.4	2,213.7	1,898.3	4,055.9	1,190.1	648.7
46.Tooth Paste	2033.4	1606.7	1,002.8	1,478.8	1,283.0	730.8	663.4	25.0	7.7
47. Turmeric	3.5	4.2	0.0	0.0	0.1	1.0	9.1	0.0	0.0
48. Vegetable	17.2	25.7	43.0	18.1	30.5	27.3	11.0	2.1	13.4
49. Wire	248.8	252.2	150.9	710.9	1,221.4	1,504.1	1,610.7	359.0	240.5
50. Zinc Oxide	285.7	103.6	52.8	45.0	1.0	0.0	0.0	0.0	0.0
51. Zinc Sheet	72.0	13.3	970.6	2,785.3	1,663.2	2,409.0	3,579.9	1,202.7	676.1
B. Others	**3169.3**	**3645.7**	**5,078.5**	**4,643.4**	**7,092.2**	**9,623.7**	**7,867.1**	**998.7**	**1408.8**
Total (A+B)	**26030.2**	**27,956.2**	**26,430.0**	**30,777.1**	**38,916.9**	**40,714.7**	**41,874.8**	**10,148.4**	**9905.9**

*Based on customs data

#Includes P.P. fabric from 2004/05 onwards

Table No. 5.2

Imports of Selected Commodities from India
In Million Rupees

	2000/01	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	
								I Qtr	II Qtr
A. Major items	**44474.1**	**45,507.7**	**58,373.4**	**63,325.5**	**72,840.9**	**81,273.7**	**87,265.4**	**23,383.5**	**23,614.2**
1. Agri. Equip. & Parts	749.1	350.8	689.9	497.5	431.3	671.6	1,073.1	376.1	517.6
2. Aluminum ingot, Billet &	496.2	261.7	304.6	539.9	443.2	259.9	424.6	131.2	120.5
Rod	486.6	399.2	508.8	428.3	49.7	571.9	357.8	23.8	115.5
3. Baby food & Milk product	86.3	128.7	54.3	169.7	275.6	155.6	399.8	42.9	24.6
4. Bitumen	317.1	301.7	304.5	331.3	338.3	319.3	318.8	68.5	65.5
5. Books & Magazine	2,184.9	2,749.8	2,934.7	2,318.9	2,457.4	1,933.6	2,327.9	469.0	432.1
6. Cement	353.2	92.4	183.5	563.0	778.1	1,052.3	624.0	128.3	70.2
7. Chemical Fertilizer	1,859.4	1,041.6	1,906.6	2,563.6	2,395.2	3,281.4	2,567.5	648.0	505.9
8. Chemicals	500.9	633.6	695.4	782.7	1,401.8	1,193.5	940.8	133.1	185.2
9. Coal	816.8	1,148.7	1,392.8	3,332.9	4,084.5	797.7	2,079.6	587.4	198.3
10. Cold rolled Sheet in Coil	27.9	44.3	47.0	41.6	47.8	60.6	53.2	15.3	11.0
11. Cooking Stove and Parts	120.0	133.0	4.9.7	422.6	512.2	881.5	520.3	156.7	106.8
12. Cosmetics	288.5	282.9	199.3	225.0	207.4	317.2	157.2	75.5	34.4
13. Cumin seeds and Peppers	34.2	80.4	79.2	72.5	129.8	110.7	128.6	16.1	44.3
14. Dry Cell Battery	559.8	800.6	997.5	1,106.3	1,237.1	1,561.3	2,360.1	651.7	752.9
15. Electrical Equipment	43.6	60.4	111.2	124.6	242.4	216.2	291.5	79.7	71.7
16. Enamel & Other Paints	175.0	216.2	284.5	336.8	380.0	759.9	493.9	260.4	203.2
17. Fruits	342.7	315.9	439.8	449.6	617.0	454.9	481.9	140.2	163.0
18. Glass Sheet & Glass Wares	780.7	928.4	2,639.2	2,059.9	568.6	1,144.8	2,052.7	645.7	1157.7
19 Hot rolled Sheet in Coil	50.5	59.2	62.6	58.8	1.0	61.8	170.9	69.0	127.4
20. Incense Sticks	176.1	122.54	145.8	144.6	149.0	283.6	452.6	199.2	140.9
21. Insecticides	304.0	337.5	404.0	403.4	346.0	512.1	187.6	54.9	45.2
22. Live Animals	2,604.3	3,177.2	3,573.2	4,201.5	3,393.8	3,883.4	4,384.2	1653.7	1,843.0
23. M.S. Billet	719.7	834.1	939.3	1,339.3	1,536.9	1,065.2	1,418.7	227.7	411.7
24.M.S. Wire Rod	2689.1	2,980.4	3,225.7	3,340.9	3,435.8	4,389.0	4,442.4	1,538.6	114.4
25. Medicine	140.9	154.6	122.2	101.9	84.6	66.1	12.2	2.0	4.4
26. Molasses Sugar	2,200.9	1,773.4	2,571.8	3,295.3	3,955.6	3,509.4	3,530.5	1,040.5	1263.7
27. Other Machinery & Parts	101.5	59.9	68.4	90.0	163.7	381.5	246.2	69.4	58.9
28. Other Stationary Goods	514.1	469.0	431.2	410.1	741.6	603.2	806.9	148.1	169.2
29. Paper	10,231.2	13,906.1	18,811.6	20,169.5	26,053.5	33,657.2	33,548.7	7,587.0	8687.4
30. Petroleum Products	108.0	101.9	128.4	129.8	367.6	261.3	246.3	244.9	337.5
31. Pipe & Pipe Fitting s	181.8	76.5	126.5	187.1	495.7	268.2	84.2	13.1	32.4
32. Plastic Utensils	72.6	111.7	128.6	92.1	144.2	504.2	477.7	177.1	92.6
33. Radio, T.V. Deck & Parts	61.3	66.2	91.4	96.1	140.0	113.3	68.8	14.6	17.2
34. Raw Cotton	542.4	422.4	444.7	489.4	809.93	1,083.4	727.8	422.8	163.6
35. Ready made Garments	427.1	226.4	744.9	555.5	655.0	2,309.8	1,505.0	420.3	62.2
36. Rice	274.6	381.8	713.3	607.3	113.0	238.1	302.3	5.7	54.0
37 Salt	98.1	128.4	126.7	128.4	296.9	222.6	214.3	49.1	41.3
38. Sanitary ware	52.0	48.0	87.7	74.1	93.8	78.2	106.8	20.1	32.9
39. Shoes &Sandles	667.3	10.7	212.2	6.0	482.2	20.2	2.6	0.0	0.1
40. Steel sheet	5.9	196.5	119.5	12.8	60.4	226.0	17.4	5.8	1.8
41. Sugar	100.7	53.1	39.5	36.0	31.4	17.9	19.0	7.2	6.0
42. Tea	4,213.0	3,232.7	4,186.1	3,275.6	2,094.7	2,051.7	1,723.2	339.2	329.1
43. Textiles	1,633.2	757.0	1,10.5.8	1,003.9	2,820.8	2,166.9	3,158.8	926.7	769.8
44. Thread	584.7	597.2	534.3	659.9	569.7	599.6	644.2	176.2	171.6
45. Tobacco	147.7	175.8	252.2	246.1	374.2	30.9	345.34	107.3	95.5
46. Tire, Tubes and Flapes	589.2	685.2	772.8	738.4	899.7	1,139.6	834.5	250.8	300.5
47. Vegetables	4,635.4	4,259.1	3,857.8	4,948.2	5,357.1	5,213.7	9,794.5	2,941.7	2,384.9
48. Vehicles & Spare Parts	123.9	133.0	162.7	116.8	73.3	298.8	138.3	24.2	43.6
49. Wire Products	**10226.8**	**11,114.4**	**12,550.8**	**15,414.0**	**15,834.6**	**25,869.4**	**30,475.0**	**8,146.9**	**7214**
B. Others									
Total (A+B)	**54,700.9**	**56,622.1**	**70,924.2**	**78,739.5**	**88,675.5**	**107,143.1**	**117,740.4**	**31,530.4**	**30828.2**

* Based on customs data

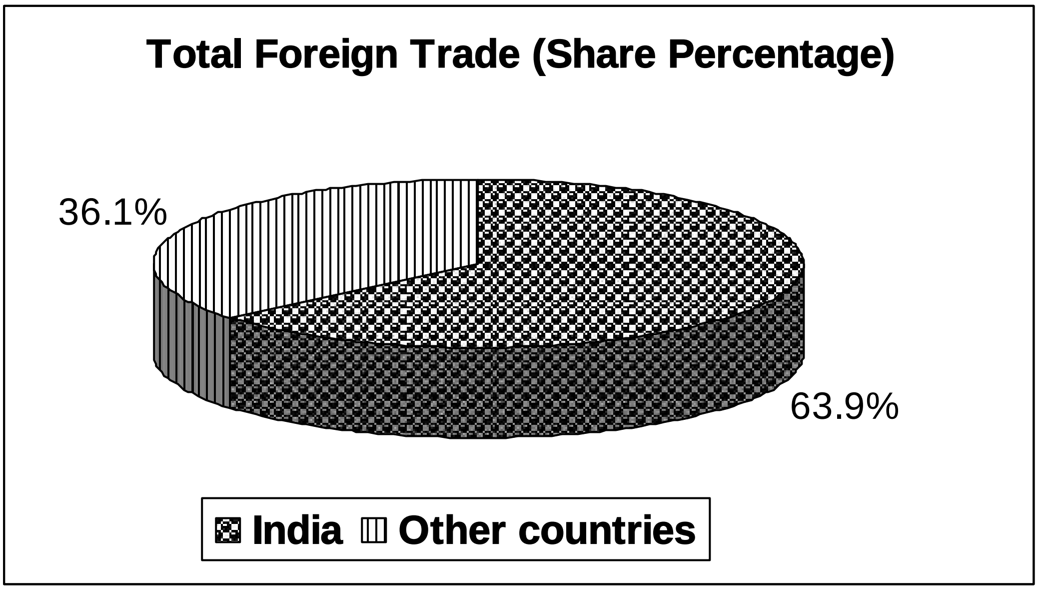
SOURCE: NEPAL RASTRA BANK QUARTERLY ECONOMIC BULLETIN VOL 42 MID JANUARY 2008

5.9.4 External Sector mainly concerned with India

Framework

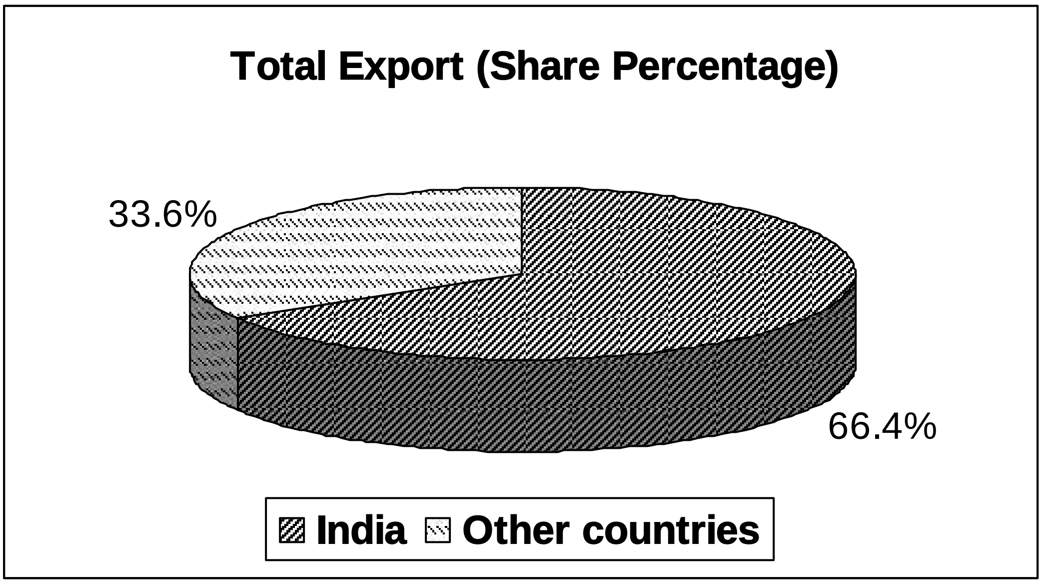
In recent years, despite deficit in international trade of both goods and services, the overall current account has maintained surplus primarily because of huge surplus in net transfers due mainly to remittance inflows and foreign grants and pensions. Also, as the capital account has registered surplus, overall balance of payments (BOP) has remained in surplus and the level of foreign exchange reserves has further increased. However, as Nepal is incurring a huge deficit in the goods trade under the current account, there is a need to attract investment in this sector as that has the potential of competitively substituting imports and strengthening exports in sustainable manner. Nepal has maintained a fixed exchange rate of Nepalese rupee vis-à-vis the Indian rupee for the management of external sector. Though there have been debates time and again on the topic of fixed exchange rate of Nepalese rupee vis-à-vis the Indian rupee, the reasoning that Nepal is benefiting from the pegged exchange rate regime because of its high degree of economic ties with India has been gaining importance. The fixed exchange rate with India has helped in minimizing the risk that could emerge from the large volume of current and capital account transactions with India arising from close economic ties, free labor mobility and prevalence of informal family relationship between India and Nepal. Besides, the direct effect of Indian inflation, which has been relatively low over the years, upon Nepalese inflation has helped maintain price stability. The fixed exchange rate has acted as an anchor for maintaining price stability thereby helping in the maintenance of monetary stability and exercising control in inflationary expectations.

a. Trade **Fig. 1.**



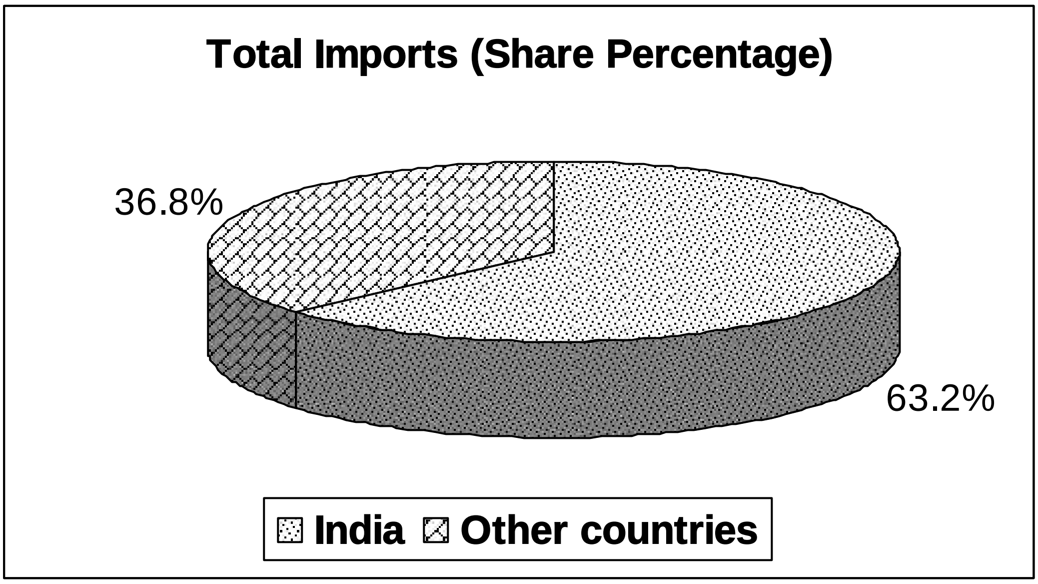
While exports declined, imports increased in the first eight months FY 2007/08. The rise in imports led to expansion of total foreign trade by 37.7 percent to Rs 180.78 billion. Total foreign trade had decreased by 2.6 percent to Rs 154.68 billion in the same period last year. In the review period, total exports decreased by 2.6 percent while total imports went up by 23.6 percent. The share of export and import in total trade remained 21.6 percent and 78.4 percent respectively. The share of export was 25.9 percent while that of import was 74.1 percent in the same period last year. Rise in imports together with the decline in exports widened the trade deficit. Trade deficit that had increased by just 2 percent last year expanded by 37.7 percent in the first eight months of FY 2007/08. Country-wise, the share of India in total trade stood 63.9 percent while that of other countries remained 36.1 percent.

b. Exports **Fig. 2.**



Total exports declined by 2.6 percent in the first eight months of FY 2007/08 Though exports to other countries increased by 7.2 percent, decline in exports to India by 6.9 percent resulted in a fall in total exports, In the first eight months of the previous year, total exports had declined by 6.6 percent of which exports to India and other countries has declined by 6.4 percent and 7.0 percent respectively. The share of India and other countries in total exports were 66.4 percent and 33.6 percent respectively in the first eight months of FY 2007/08 compared to 69.4 percent and 30.6 percent respectively in the same period last year. The decline in exports to India is attributed mainly to fall in the export of vegetable ghee, textiles, chemicals, wire and thread. However, exports to other countries went up due mainly to rise in export of pulses and herbs under the major commodities' categories and plants, packing materials of paper, stationery and button under other commodities' category.

c. Imports **Fig.3.**



Total imports increased by 23.6 percent in the first eight months of FY 200/08 compared to a decline of 1.1 percent in the same period last year. Of the total imports, imports from India went up by 24.4 percent and from other countries by 22.4 percent. Though imports from India had increased by 2.3 percent, imports from other countries had declined by6.4 percent in the same period last year. Import of mainly M.S. billet, vehicles and spare parts, petroleum products, hot rolled sheet in coil and medicine from India, and gold, telecommunication equipment and parts, transport equipment and parts, other machinery and parts, and electrical goods from other countries increased significantly in the review period.

Foreign Trade Situation

Table No. 5.3 (First Eight Months)

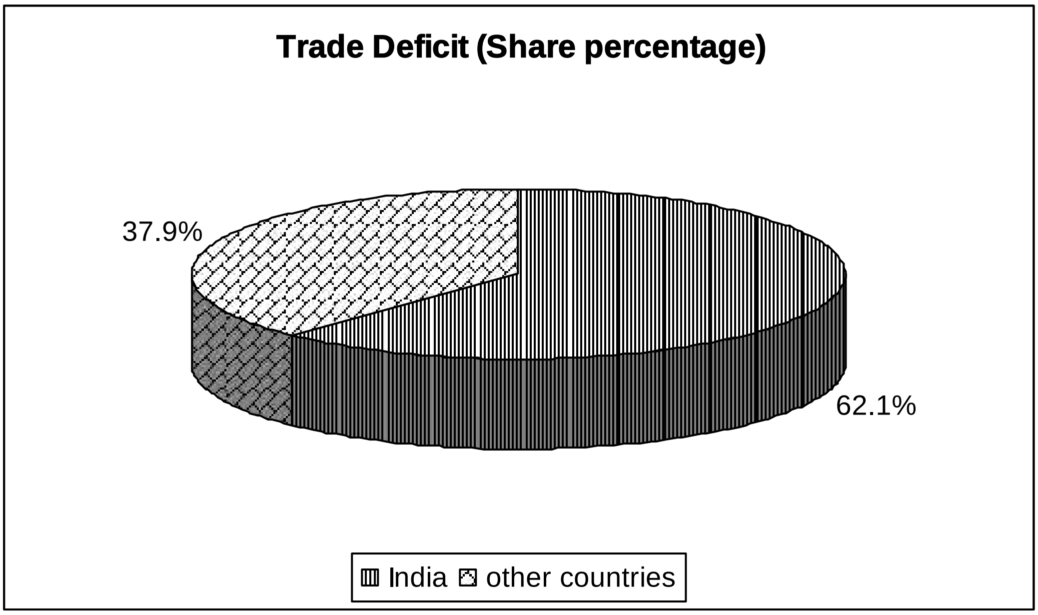
Details	**Percentage change**		
	2005/06	2006/07	2007/08
Exports: FOB	13.3	-6.6	-2.6
India	20.5	-6.4	-6.9
Other countries	-0.1	-7.0	7.2
Imports: CIF	26.3	-1.1	23.6
India#	31.7	2.3	24.4
Other countries	18.7	-6.4	22.4
Trade Balance	35.3	2.0	37.7
India	41.2	8.6	43.9
Other countries	28.5	-6.2	28.6
Total Trade	22.5	-2.6	16.9
India	28.2	-0.3	15.7
-Other countries	13.9	-6.6	19.0
Share in total trade (percentage)			
-India	63.1	64.6	63.9
Other countries	36.9	35.4	36.1
Share in exports (percentage)			
-India	69.3	69.4	66.4
Other countries	30.7	30.6	33.6
Share in imports (percentage)			
-India	60.8	62.9	62.2
Other countries	39.2	37.1	36.8
Share in trade balance (Percentage)			
-India	55.8	59.4	62.1
Other countries	44.2	40.6	37.9
Total Trade	22.5	-2.6	16.9

** Provisional # Import of Petroleum products shifted to India from other countries since FY 1999/00.*

Source: Nepal Rastra Bank.

d. Trade Balance

Fig. 4.



Trade deficit increased by 37.7 percent to Rs. 102.85 billion in the first eight months of FY 2007/08. Such deficit had risen only by 2 percent to Rs 74.71 billion in the same period last year. In the review period of FY 2007/08, trade deficit with India went up by 42.9 percent to Rs. 63.83 billion while such deficit with other countries increased by 28.6 percent to Rs 39.02 billion. Trade deficit with India and other countries were Rs. 44.36 billion and Rs. 30.34 billion respectively in the same period last year. The share of trade deficit with India and stood at 62.1 percent and with other countries 37.9 percent in the review period. Such deficit was 59.4 percent and 40.6 percent with India and other countries respectively in the same period last year.

5.9.5 Challenges on Nepalese Foreign Trade

The foreign trade of Nepal is getting concentrated towards India. This is also a natural phenomenon as India is not only an immediate neighbor of Nepal but also a merging economy in the world. However, given the increasing effect of globalization and considering Nepal's entry into the World Trade Organization together with her acceptance of other regional and international trade treaties and agreements, large trade concentration towards a single country could be a serious challenge in strengthening external stability. Given this fact, it is necessary that Nepal increase her exports of agricultural and herbal products and handicrafts that possess comparative advantage in the world market and diversity exports both countrywise and commodity-wise.

Sustainable balance in current account is inevitable for external sector stability. As Nepal has been experiencing deficit in its services trade in the last few years, it is necessary to focus on service exports. One of the best ways in this regard is the promotion of agro tourism, which will prove very useful for sustainable development of tourism industry. Agro tourism provides good opportunity for visitors to get acquainted with the agricultural occupations, local products, traditional cuisine and rural lifestyle as well as the cultural, environmental and the authentic features of the locality. Moreover, it helps to develop intimacy with rural people engaged in traditional rural activities. Developing agro tourism in the nearby villages along with the popular trekking routes of Nepal could help a lot in strengthening economic conditions of local people of those areas. For this rural areas should be the focus of agro tourism.

Nepal has been using Kolkata Port of India as the only transit for its trade with third countries. Phulbari Banglabandh Route opened through Bangladesh for transit has not been effectively utilized because of the various infrastructure related problems. Nepal had requested India for an alternate transit route first in 1995 and officially in September 2004. The private sector has often raised the insure that the use of Jawaharlala Nehre port of Mumbai could greatly facilitate trade with Europe and America. While trading through this route, transport cost could be less by 40 percent compared to Kolkata Port, delivery time of goods to USA could come down by 20 days and as Jawaharlal Nehru post is operated by private sector it is very efficient compared to Kolkata Port. Though Indian government has principally agreed for allowing the use of Jawaharlal Nehru Port, it had asked Nepal to submit report about modalities of its use. So, Nepal needs to conduct a detailed study at the earliest regarding the volume of export traffic, economic benefits and possible modalities for cargo movement using this port.

As per the agreement reached in Hong Kong ministerial conference of WTO, it is necessary to initiate measures for duty free access. The conference had passed a commitment of providing duty free access to 97 percent of al products of least developed countries. Under this, a country providing duty free access to LDCs could keep only 3 percent of imported products on sensitive list. As readymade garment is considered as sensitive item in most of developed and developing countries, there is high possibility of its import being discouraged. Diplomacy needs to be initiated for brining readymade garments produced in Nepal within 97 percent.

In order to protect domestic agricultural crops against the infection of diseases from the imported agro products and seeds, Nepal has established plant quarantine centers at several parts of the country which include three at boarder points with Tibet, one at Tribhuvan International Airport (TIA) and eleven at border points with Inida. Plant quarantine center is responsible for photo sanitary inspection of imported as well as exportable plant and plant products and approving their import/export. However, these centers have not been able to function as per their objective. Exports of all plant related products to India are required to obtain Photo Sanitary Certificate. "Plant Protection Act-2007" has a provision requiring the quarantine test of imported plant, plant related products, insects to be used against crop diseases and soil for plantation. Hence, to increase quality and to enforce proper health regulation in imported products, effectiveness of quarantine check posts need to be enhanced.

CHAPTER SIX

MAJOR TRADE POLICIES AND INTER REGIONAL TRADE

6.0 Major trade policy:

The major trade policies adopted in this chapter are as follows:

6.1 Export Exchange Entitlement (EEE) Scheme

EEE scheme was introduced in 1962. It avoids the repercussion of over valued Indian exchange rate and diversity export away from Indian market to overseas market. It provided bonus for overseas exporters in the form of convertible foreign exchange. The exporters were originally allowed to foreign exchange earning. 60 percent of their exchange could be spent on goods of their choice and remaining 40 percent was to be spent on imports of developing goods approved by ministry of finance.

Prior to 1964, only one entitlement ratio existed ranging between 60 to 85 percent of exporter's exchange earnings. In 1964 major modification were introduced. The entitlement ratios were related to commodities exported instead of foreign exchange in the past. A distinction between traders an industrialist was established and different ratios were allocated to each group to provide more incentives to the industrialists.

In 1971 the distinction between traders and industrialist was removed. In April 1975 the number of entitlement ratios was reduced from 9 to 3. Hence EEE scheme has greatly contributed to an increase in export to overseas countries. In 1960/61 export to overseas was recorded as Rs. 0.5 million or, 0.2 percent of total export but it went up Rs. 548.1 million or 52.4 percent in fiscal year in 1977/78.

During the operational period of the schemes, some traditional commodities like jute, hides and skins, herbs and bristle were the major export.

Similarly rice, tobacco, cardamom, handicraft, dry ginger, tea and carpets were also exported successfully. Altogether fifty countries were the major destination for these export commodities at this period. These schemes had been highly successful in fostering and providing a real boost to the jute export. Many jute oriented export industries were established in Nepal because of this achievements.

Though the schemes were important but there were the problems of transit, defection of trade and growing impact of luxury goods with India. So after practicing it for about 16 years, it went to abolish entirely in 1978.

6.2 Dual Exchange Rate System

After the abolishment of EEE scheme, Dual Exchange Rate (DER) system came into existence. It was introduced in 1978 for the first time. The main aim of this scheme was to diversify trade with the restriction of import of luxury goods. Generally two exchange rates prevailed under this scheme. The first basic exchange rate maintained as Rs. 11.90 for per US dollar and the second exchange rate was Rs. 15.90 for per US dollar. Export and import of certain goods like petroleum products, chemical, fertilizer and machinery were transacted in a basic exchange rate. Because, these goods are important for industrial and agricultural developments purpose.

Under the Dual Exchange Rate system, there was sizeable increase in the share of export towards the overseas countries. The share of export towards the overseas countries was recorded 33.1 percent in 1976/77 but it went up 54.7 percent in the end of fiscal year 1976/77. But the trend could not continue and came to shrink persistently as 25.5 percent of total export in fiscal year 1982/83. However, there tendencies helped in diversification of trade to some extent. It remained into existence since 1961 and lasted in 1980. Under EEE and DER schemes special incentives were given to overseas exporters.

6.3 Single Exchange Rate System

This scheme was introduced in 1981 in which all sort of transactions was to be conducted at a uniform rate of Rs. 13.00 per US dollar. As like as previous scheme there was not any such attractive incentives under this scheme. Because of landlocked situation of Nepal, most of the exporters had to encounter with a heavy transportation cost in foreign trade towards overseas countries. Nepalese exporters realized that such a scheme given to Nepal can not be so much profitable which was determined at 10 percent of FOB. Similarly, port to India was also slightly decreased from Rs. 994.4 million to Rs. 843.2 million in the year between 1981/82 and 1982/83 from Rs. 497.1 million to Rs. 288.8 million in 1982/83.

6.4 Trade Policy of 1982

A new trade policy was introduced in June 1982. The objectives of the policy were as follows:

- to expand the scope of foreign trade and increase the level of foreign exchange earning to satisfy the highly growing import needs and external debts.
- To generate employment opportunities by enhancing the production, productivity and qualitative standards of exportable goods.
- To establish a wide international market for indigenous products instead of confining them in domestic market.
- To fulfill the above objectives, some of the major policies pursued as follows:
- Formulating the liberal policy towards the import of capital goods, construction materials, industrial raw materials, production of inputs and articles of daily consumption.
- Manufacturing and protecting the industrial and agricultural commodities in own country for foreign consumption.

- Exemption of local tax and no restriction on the entry of import goods into the country.
- Simplifying all kind of administrative procedures.

6.5 The Ninth-Point Program

In consonance with the objectives of new trade policy the government brought ninth point program on 1st November, 1983. The main components of this program were as follows:

- Constitution of 14 member exports products and export promotion council under the chairmanship of prime minister.
- Provision of 15 percent of export earning in exchange for convertible currency for the import of raw materials and capital necessary to manufacture industrial products.
- Minimizing the custom duties on exportable items up to one percent.
- Provision of duty free made on imports of raw material and inputs used by industries.

6.6 Development of Nepalese Currencies in 1985

On November, 1985 Nepalese currency was devaluated by 14.7 percent against US dollar and Indian rupee. Consequently the exchange rate of Indian rupee is 100 rose from NC Rs. 145 to 170.

But this type of measure could not create a healthy economic environment. The trade scenario was not bright as trade deficit soared from Rs. 5001.5 million in 1984/85 to Rs. 6263.2 million in 1985/86 and Rs. 7931.8 million in 1989/90.

6.7 The Open General License (OGL) System

OGL system was introduced on March 1989 to faceplate import of industrial raw materials and essential goods. Under OGL system special priorities focused on the import of essential goods like petroleum products, coal, medicine and raw materials. These goods are considered best for export based industries in Nepal like raw wool, cotton yarn, cotton fabric, transport equipment and household gadgets. But after the National People Movement (NPM) "Jana Andolan" of April 1990 removed the Panchayat System and restored multiparty democracy on a west minister type system in Nepal. Since that time the interim government of Nepal included all sorts of import items under OGL list except raw wool, cotton yarn, petroleum products, and coal and news printers.

6.8 New Trade Policy of 1992

This trade policy was introduced in 1992. It promoted in diversification and expansions of Nepalese trade among the different countries. The new trade policy made an environment of more or less free trade just replacing the earlier policy of import subtotaling industry with a view of export led economic growth strategy. The major strategies of New Trade Policy can be studied with the following titles.

a) Objectives

- To enhance the contribution of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere.
- To diversify trade with the identification of developing and producing new exportable products through the promotion of backward linkages for making export trade more competitive and sustainable.
- To expand trade on a sustainable basis through gradual reduction in trade imbalances.
- To coordinate trade with other sectors by expanding employment oriented trade.

b) Basic Policy

- The role of public sector will be minimized and used as a catalyst to expand the role of private sector in trade.
- A liberal and dynamic trade policy will be purposed with the view to improve balance of payments situation by promoting exports to increase foreign exchange earnings.
- Production of quality goods and services will be increased for internal consumption and exports through effective and appropriate utilization of economic resources.
- Special efforts will be made to promote and diversify trades both in the range of commodities and destinations.
- Liberal procedures will be adopted for encouraging interactions between trade and industry for sustained export promotion and for fulfillments of internal demand through increased domestic production. Emphasis will be given on modernized management and technology on the promotion of markets. Attraction will be given for direct foreign investment in order to identify and develop new types of products as well as raising the production and quality of the traditional products.
- The public sector trading corporation will be gradually privatized taking them into consideration for the development and efficiency of the private sector.
- In support of above policy measures necessary steps as pre conditions relating to foreign exchange, monetary and fiscal policies will be taken up towards full convertibility of the Nepalese currency in trade and service sectors. For this purposes major changes will be made in the administrative procedures to make them simple, transparent and dynamic.

- Taxation system will be simplified by introduction of necessary changes in order to foster competition in trade.
- Emphasis will be laid on institutional development and information network as well as on monitoring system and quality improvement for the promotion of foreign trade.
- The existing trade treaties and agreement with various countries and international agencies will be effectively implemented and some new agreements can be added if considered necessary for the promotion of international trade.

C) Export Policy

- The production and quality of exportable products will be raised to make them competitive in the international market.
- Necessary efforts will be made to increase and diversify exportable goods and services with the view of increasing foreign exchange earnings.
- Exports will be promoted by raising the production and quality of traditional as well as new products. Similarly, more emphasis will be placed in exports of profitable but processed and finished products, New markets will be identified for the export promotion of these products.
- Foreign exchange will be increased with the help of identification and increment of new type of products which may help in employment creation.
- Service oriented activities will be promoted to increase foreign exchange earnings.
- Priority will be given to the export of hydro-electricity on a profitable basis.

- For the effective utilization of man power emphasis will be given to the development of appropriate and potential skills to promote service sector as well as export of skilled manpower in an organized way.
- Appropriate monitory, foreign exchange and fiscal policies will be formulated and necessary changes will be made in the administrative procedures to make them liberal, simple and dynamic in order to implement the above policies in an efficient, smooth and transparent basis.

d) Export Strategy

- License will not be required for the export products other than banned or quantitative restricted items as listed in Annexure no. 1. In case quantitatively restricted products export license will be made in consultation with the private sector. Quantitative restriction in the export of such products will be gradually removed through the appropriate taxation measures.
- An effective improvement will be made in the existing transit transport network and infrastructure. Administrative procedures will be made transparent, smooth and efficient.
- The duty drawback scheme for import duty paid on import of raw materials and intermediate goods required for the production of exportable products will be implemented effectively. In this context duty on import of raw materials will be fully exempted taking into consideration needs or the bonded warehousing system will be introduced for the storage of such materials.
- Export will be free from charges except the survive charge. However, the provision of Point-4 mentioned above will be application in respect of essential export products.
- Export Promotion Zone (EPZ) will be established for export trade. No duty will be levied on raw materials and auxiliary imports used by

industries established in such an EPZ. Those industries exporting more than 90 percent of their production will be granted similar facilities as given to the industries established in EPZ.

- As a preparatory step towards convertibility of the Nepalese currency in the trade and services. Exports will have to sell in the stipulated percentage of the amount of foreign exchange earned through exports of goods and services of commercial bank at a rate fixed by the market mechanism and the remaining balance to Nepal Rastra Bank at an exchange rate fixed by the government. No license will be required and no quantitative restrictions will be imposed on the imports of raw materials required for export oriented and import substituting industries. Export valuation system will be gradually abolished after the full convertibility of the Nepalese currency.
- Quality will be tasted from time to time in order to improve the standard of exportable products and necessary information will be made available for this purpose.
- Simple and convenient procedures relating to pre and post shipment credits will be adopted on a priority basis.
- Income tax on income from export to India on the basis of letter of credit or agreed banking document will also be free from income tax.
- Emphasis will be given on the development of packaging technology to maintain the quality and standard of exportable products.
- Nepalese mission abroad will be grated up towards export promotion activities and trade mission will be opened and institutionalized on the basis of feasibility.
- No quantitative restriction will be imposed on the exportable products carried by tourists while returning from Nepal.

- Export procedures and documentation will be formulated and will be short and simple.
- An annual indicative export plan and program on the basis of feasibility study will be formulated with the cooperation of private section to promote exports.
- Necessary information and training relating to technology, marketing and exports procedures required for export promotion will be provided on an institutionalized basis and arrangements will also be made for the participation in national and international trade fairs for market promotion.
- Regular monitoring will be made to avoid distortions in export and imports. Strong actions will be taken in case of misuse of facilities.

E) Deemed Export

If any producer earns foreign exchange by selling one's own products to projects run under bilateral or multilateral aid or if such finished or, semi finished products are sold to EPS, such a sale duty, sales tax and excise duty levied on such sales will be refunded and income generated from such sales will be exempted from income tax. In addition, foreign exchange earned from such sale can be sold at the rate fixed by the market mechanism after submitting the stipulated percentage amount to Nepal Rastra Bank at the rate fixed by the government.

f) Import Policy

Imports will be planned as a medium of export development and also to be the supply of materials required for the country through the optimum utilization of available resources. In this context, quantitative restriction will be replaced as to encourage competition in production. Similarly, imports will gradually be tied with exports.

h) Import Strategy

- Import will gradually be tied with exports with a view to creating a well organized and sustained foreign trade sector by narrowing the gap between exports and imports.
- The existing import licensing and control system will be simplified. Quantitative restriction on imports will be replaced gradually through the tariff media.
- Imports of all products other than banned or quantitatively restricted items as listed in Annexure no 2 will be made free.
- An annual indicative plan will be formulated to manage imports through action to allocate required foreign exchange for it, and to monitor its utilization.
- Import procedures and documentation will be made short and simple.
- Special efforts will be made to reduce transit lost, and also to minimize pilferage and demurrage.
- Imports of all goods except some limitation items will be allowed through purchases of foreign exchange at the rate fixed by the market mechanism in order to make Nepalese currency fully convertible and gradually tie up exports and imports.
- Necessary vigilance will be made to prevent deflection in foreign trade.

h) Import Licensing Arrangement

As distortion can be minimized by regulating imports through various policy measures than be made under full control of the government, some items are restricted while some other placed under the action system requiring licenses, and the imports of the remaining items are made free, in the process of making imports of raw materials, consumer goods, industrial machinery have been made free.

- Import license will be required for the import of quantitative restricted products, products in excess of the number of quantity fixed under the personal effects and the products under the auction system for the commercial purposes.

- Imports of all products mentioned above are made free.

I) Foreign Exchange Arrangement

The foreign exchange required imports purposes will be made available as follows:

- Nepal Rastra Bank will make foreign exchange available at the rate fixed by the government for import of goods as per notification will be made available by Nepal Rastra Bank. In the process of increasing convertibility percentage of foreign exchange, those goods which are under the auction will be gradually allowed to be improved. Such type of goods will be gradually reduced or increased under the purview of market mechanism.

- Foreign exchange will be made available for Commercial Bansk at the rate fixed by the market mechanism industrial raw materials, spare parts services and payments of foreign loan and interest of the non government sector. Nepal Rastra Bank will not make a separate foreign exchange provision for this purpose.

6.9 System of Open General License (OGL)

Prior to this policy government controlled all imports especially from overseas through quantitative restriction. The main aim of this policy was to protect domestic industries. But from July 1993 imports were kept under the open General License (OGL) system except the few banned commodities.

6.9.1 Reduction in Tariff

Prior to this reform, Nepal had imposed high tariff on trade which was as high as 300 percent. Under this policy, Nepal reduced high tariff rate and brought down to 80 percent. Moreover, such rates were applied on few commodities like luxury vehicle and luxury goods. Similarly, number of taxation were also decreased to 6 categories like 5 percent, 10 percent, 20 percent, 30 percent and 80 percent.

6.9.2 Import Cash Margin Rates Left to the Direction of Commercial Bank

Prior to this policy, the task of fixing import cash margin was done by the central bank. The work of fixing import cash margin was abolished in case of commercial bank, but commercial banks were allowed to fix the margin rate by themselves. The aim was taken to make import free from central bank. Similarly, import was needed to deposit two percent of the letter of credit at central bank. This provision had been effective since 1993. On July 12, 1995 the deposit requirement was raised to 10 percent of the import value. The system of mandatory deposit on the letter of credit was introduced for monitoring purpose.

6.9.3 Reforms in Export

In the past the government had taken boosting measure such as export subsidy, dual exchange rate system and bonus system. However, these measures could not focus on export diversification effectively in Nepal. With the implementation of SAP, these measures were with drawn and new measure like duty drew back system introduced. This system was considered best for expansion of export of garment and carpet.

6.9.4 Loans in Convertible Currencies to Export

According to this provision the industrial producer, firms or companies were allowed to obtain loans in convertible foreign currencies for the import of necessary raw materials. This provision was effective from June 17, 1993. The main aim of this provision was to promote the imports of raw wool for carpet industries with a view to boost both the productions as well as export of carpet.

6.9.5 Inter Regional Trade

South Asian Region is not well developed in comparison to other regions of the world. More than 20 percent of the global population lives in South Asian countries. Most of the people at this region have fallen into the category of poor people as defined by "United Nations". Per capita income of Nepalese people is very low. Even Nepalese people earn less than 1 US dollar per day.

In order to improve Socio-economic status of such people, the concept of SAARC came into existence in 1982. The main objective of SARRC is to create strong neighborhood economic relation along the member countries. Such a relation may help to minimize the burden of isolation and payment crisis and maximized the benefit, of enlarged size of income, output employment, trade, investment, and finance and technology transfer.

SARRC has almost completed two decades. But it has made very limited progress since its formal establishment in 1985. The first twelve years of its existence, hardcore economic issues were kept out side of economic cooperation. Trade among SARRC countries play a critical role for economic upliftment of member countries. But in terms of value inter regional trade among SARRC countries are very low and slow. It constitutes 3 percent of total trade before analyzing the free trade area in these regions. Thus it is desirable to look through bilateral trade in the region. Bilateral trade of Nepal with India is relatively larger in comparison to other member countries of SARRC. Growing economic power of India may help in bilateral trade relation with its neighboring member countries. Trade with India keeps the significance for promoting inters regional trade. But in the later years Nepal is bearing a heavy trade deficit with India which has created a serious effect in Nepalese economy.

From the table given below, trade with India plays a dominant role for inter regional trade. Although the member countries of SARRC have reduced tariff and modified their tariff structure as a part of economic reforms and liberalization process.

The concept of free trade came into existence when all the foreign ministries of member countries signed on April, 1993. The basic features of SAPTA are as follows:

1. SAPTA is an agreement which provides as a framework of rules for gradual liberalization of inter regional trade among SARRC nations.
2. It aims to promote inter regional trade and economic cooperation through exchange of concession.
3. SAPTA grants special treatment to LDC members of their export promotion, joint ventures, duty free access, removal of para-tariff barrier and special rules of origin allowing favorable as 10 percent for products originated in LDCs.
4. It allows safe-guard measures to all contracting parties in case of sever economic and balance of payment difficulties.

Initially, more than 226 products were conversed under SAPTA. However, the second round of trade negotiation was more substantial as it covered around 1868 tariff lines and third round of trade negotiation concluded in 1998. Further more it expanded the scope of concession by including 3456 tariff lines. At the end of three rounds, 5550 tariff lines have been included in tariff concession. In order to accelerate trade economic co-operation through SAARC trade under SAPTA, twenty first sessions of SAARC council ministers meeting held on 18 to 19 March 1990 in Srilanka.

Formally it approved the downward revision of the rules of origin criteria as applicable under the SAPTA agreement. AS a result, the domestic content requirement of the exportable products from the member countries of SAARC had been increased from 50 percent to 30 percent.

The following tables show the export-Import situation of Nepal to SAARC member countries.

Table No.5.4

NEPAL'S EXPORT TO SAARC MEMBER COUTRIES

Direction	F.Y. 2004/05	% in Total	F.Y. 20005/06	% in Total	F.Y. 2006/07	% in Total
India	38916900	98.3	40714700	98.4	41874800	97.7
Bangladesh	290877	0.7	234323	0.6	521499	1.2
Bhutan	149568	0.4	238275	0.6	310958	0.7
Maldives	537	0.0	47	0.0	1028	0.0
Pakistan	229368	0.6	186228	0.5	126944	0.3
Sri Lanka	5612	0.0	2207	0.0	3123	0.0
Afghanistan	5899	0.0	457	0.0	12461	0.0
Total	39598661	100.0	41376237	100.0	42850813	100
Total Exports	58443821		59776874		59073097	
% in Total Exports		67.8		69.2		72.5

Note: Trade with India for the F.Y 2006/07 is provisional

Source: Nepal Rastra Bank and Trade and Export Promotion Centre

Table No. 5.5

NEPAL'S IMPORTS FROM SAARC MEMBER COUNTRIES

Direction	F.Y. 2004/05	% in Total	F.Y. 20005/06	% in Total	F.Y. 2006/07	% in Total
India	88675500	99.5	107143100	99.6	117740400	99.5
Bangladesh	205707	0.2	104646	0.1	286477	0.2
Bhutan	31636	0.0	127301	0.1	119478	0.1
Maldives	120	0.0	45	0.0	106	0.0
Pakistan	166847	0.2	191380	0.2	171455	0.1
Sri Lanka	33859	0.0	52019	0.0	46192	0.0
Afghanistan	74	0.0	221	0.0	6184	0.0
Total	89113743	100.0	107618712	100.0	118370292	100.0
Total Exports	148294229		160677924		197676512	
% in Total Exports		60.1		67.0		59.9

Note: Trade with India for the F.Y 2006/07 is provisional

Source: Nepal Rastra Bank and Trade and Export Promotion Centre

It has been cleared that Nepalese foreign trade is highly concentrated to India only. Both the import and export activities of Nepal with India is higher than other SAAR member countries. Nepal can not extends its market and get benefit from trade if it focuses only to Indian foreign trade. So, strategic and diplomatic relation with India is a most important subject which may help Nepal to open transit points through India to other SAARC member countries.

6.9.6 SAFTA AT A SHORT GLANCE

The SAFTA agreement focuses on Trade Liberalization Program, Rules of Origin, Institutional Arrangements, Consultants and Dispute Settlement Procedures, Safeguard Measure and any other instrument that may be agreed upon. Nepal had taken an initiative role in establishment of SAFTA. It is the country that proposed during the 9th SAARC summit held in Male in 1997 that South Asian Nations should make the concept of Free Trade Area by 2001, but various reasons including unnecessary delays in holding SAARC summit couldn't give the priority in time. So, that the concept of SAFTA had not been materialized immediately.

However, during the 12th summit held in Islamabad from January 4 to 6 of 2004, the SAFTA was ratified. It is of course a milestone in the history of SAARC.

The least developed countries will be given gestation period for the SAFTA preparation. During the period the countries will have to take necessary measures in trade activities. Before implementation of SAFTA, the concerned countries will have to improve their competitive strength by upgrading production technology so that specialized goods and services are produced at competitive prices. SAFTA will be implemented in two phases. In first phase, India, Pakistan, and Sri Lanka took part since first January, 2006 for their trade activities.

In 2nd phase Nepal, Bhutan, Bangladesh and Maldives will enter into the SAFTA framework. It will start since 1st January, 2009. After the full implementation of SAFTA, the member countries will have to leave 0 to 3 percent import duties. According to this provision, India, Pakistan and Sri Lanka will have to lower the custom duties down by 20 percent during the tow years of implementation. The remaining countries will have to reduce custom duties by 30 percent. According to this provision, Indian and Pakistan will lower down their custom duties from zero to five percent level by the end of 2013 and Sri Lanka by the end of 2014. The remaining those countries will reduce their custom duties by the end of 2016.

6.9.7 Challenges and Threats

Commitment to free trade area offer both opportunities and challenges to all the members of the group. Disparities among South Asian Economics seem to get benefit relatively developed partners at the cost of backward ones. Developing countries will gradually benefit as they transform their production resources towards such sectors having comparative advantage for them. Both the advantages and disadvantages of SAFTA can be observed through the following basis.

1. SAFTA can promote to expand the inter- regional trade. The contracting states may enjoy with comparative advantages. They can do specialization in respective production area which may create competitive market and economy of scale.
2. Expansion of SAFTA helps to share its trade activities in world trade volume but this share is negligible at the recent movement.
3. SAFTA can increase the bargaining capacity of South Asian States in the name of trade in international market. It connects economic negotiation with international market. Such kind of states can jointly raise their voices if any unfavorable treatment is done by the developed nations in global front.
4. Joint marketing strategies for south Asian products consist to occupy a large international market.
5. SAFTA helps in specialization of production and expansion of trade by utilizing produced commodities and available natural resources in this region.

6. Rapid growth of inter regional trade will boost up the economy of contracting states. It develops infrastructure and minimize transportation and transit cost.

The cost of joining into SAFTA seem to be difficult for poor economic based countries because large countries can have a huge market area after joining in to SAFTA. They will have the biggest share in enlarged market. Inadequate development of infrastructure in small countries may require a long time to transform their resources to the production field. Such countries will have to face tough competition in manufacturing goods mainly with the biggest partner countries. Least developed countries focuses on export of primary and agricultural products which don't get significant benefit from SAFTA. So, SAFTA is still not in favour of LDCs.

6.9.8 Role of SAFTA in Nepalese Economy

Before analyzing the role of SAFTA on Nepalese economy it is necessary to focus Nepal's trade with SAARC countries. Nepal has formal bilateral trade agreement with SAARC countries except Maldives and Afghanistan. Trade with India is based on preferential treatment. For the remaining countries trade goes thorough the principle of most favored nations treatment. Nepal has been a major trade partner of India in South Asia by means of both export and import. But Nepal is facing a huge trade deficit with India. Trade imbalance with India has always been unfavorable to Nepal. Similarly, Bangladesh is the 2nd larget trade partner, followed by Pakistan and Sri Lanka respectively. In the recent years trade is growing slowly with Bhutan and Maldives. But trade with Afghanistan is almost nil.

India is a big market in comparison to other member countries of SAARC. So, there is free access for trading activities. Nepal has also to compete there with other nations of SAARC. For this, Nepal must produce specialized goods by adopting modern technology and skilled labour force at competitive price. The country will have to struggle hard to attract foreign investments also. But Nepal's present stage of industries is not enough to survive in SAFTA. The industrial base of the country must be improved for SAFTA entrance. Likewise, a suitable and conductive trade environment is necessary to create for foreign direct investment in Nepal.

Nepal has both opportunities and challenges for export promotion. It has to focus seriously on quality products with the help of modern technology. Those products produced by Nepal must compete successfully in SAFTA to achieve its desired benefits. In this context, Nepal needs to grab this opportunity. For this, it is necessary to identify, develop and produce such type of exportable commodities that have potential markets in SAARC countries at competitive price. Nepal's role in SAFTA is considered as a milestone. However, Nepal's competitiveness is being low and slow because of the following reasons, they are as follows:

1. Rugged terrain, entitling high transportation cost.
2. Unskilled labor force, offsetting low labor cost by lower labor productivity.
3. High cost of infrastructure, higher per unit electricity cost than the South Asian Countries, excessive use of gasoline and irregular supply of water are the major obstacles faced by Nepalese economy.
4. Labor market rigidities.
5. Low inflows of FDI, which is the carrier of technology and skill.
6. Cumbersome custom clearance procedures.

Nepal should address these issues to increase and enhance productivity and competitiveness of exportable items. To achieve competitive and comparative advantages from SAFTA, Nepal should maintain its strategy broad and faster through resource and labor intensive products. An adequate attention should be given to produce and export labor intensive products.

CHAPTER SEVEN

PROBLEMS AND PROSPECTS OF INDO-NEPAL TRADE

7.0 Introduction

The history of trade relation between Nepal and India is old and very close. This trade relation has major influence in economic development of both countries. Since the past, Nepal has been a prime trading partner of India. The bilateral trade between these two countries is found satisfactory. Being as a big country India can purchase the goods produced in Nepal and can also sell the goods needed by Nepal. But it is not quiet beneficial to concentrate in trade flow and structure between these two countries. In the past, contents of domestic materials and labor were seen major problems by both countries in their own prospective. After the singing of trade treaty in 1996, much of the problems seemed to resolve. Furthermore the agreement on the control of unauthorized trade has been contributing in controlling informal trade due to the positive impact of 1996 trade treaty export of manufacturing articles such as vegetable ghee, acrylic yarn, copper wire, and zinc oxide to India were increased tremendously.

But the provision of value addition was again realized to protect the domestic industries after renewal of trade 2001. Six rounds of talks held in recoating mutual consent. It does seem that certain problems and issues exist still there which could not be resolved easily. The matters of Indo-Nepal trade has not been isolated yet because of social, political, ideological and economic factors. The following problems are identified in Indo-Nepal trade which can be considered to review for further bi-lateral trade.

7.1 Trade Imbalance

It has been observed that Nepal possesses limited exportable commodities in comparison to India. Nepal is predominantly an agricultural country. Agriculture practice in Nepal is still primarily subsistence oriented.

There is less commercialization in agriculture. Even though the prime exports to India are primary products. Similarly, Nepal imports manufacture goods and industrial products from India. Import is higher than export in Nepal. Nepal is facing a huge trade deficit with India in recent years. The widening trade deficit with India has created an unhealthy trade relation which is not a good sign on Nepalese foreign trade.

7.2 Inadequate Market

The major problems of unfavorable balance of trade of Nepal are an inadequate market in India, quantitative restriction and disqualification of Nepalese products. The prominent factors behind these problems are inability to compete in Indian market on the ground of quality and lack of enough price supply capacity. It has been cleared that unless and until the sizeable export of manufactured goods do not occupy a reliable market in proportional form the trade deficit with India can not be reduce at once.

7.3 Frequent Revision in Duties and Rules

The rules and regulation play a significant role in foreign trade management. So, the procedures, rules and duties should be checked and revised through the annual government budget. The provision of trade and transit treaties should be amended from time to time. Such type of changes and modification may remove confusion and create better environment among the business communities. When India allowed free access of all commodities to Indian markets in accordance with 1996 Trade Treaty, Nepal flourished the bi-lateral trade tremendously. After the renewal of the treaty in 2002, the provision of few items made banned so that export of these items sharply decreased in the year. So, trade is also governed to a large extent by the appropriate regulations and concerned administrative procedures. The entry and exist of market and the volume of trade rely on smoothly thorough the transparent and simplified administrative procedures.

7.4 Lack of Understanding and Good Faith

Smooth and continuous trade flow require a certain degree of good faith and mutual understanding. Similarly, it also depends upon mutual co operations. In case of bi-later trade between Nepal and India, there are still such lacking. It has been observed that bi-lateral trade between Nepal an India go through the mutual cooperation, mutual understanding and proper implementation of trade an transit treaties. But in the renewal period of 2002 trade treaty, many lickings were found which had adversely affected in trade relation between the two countries.

7.5 Problems of Informal Trade

Nepal and India share more than 1600km open boarder. Export and import activities are operated through 22 official transit points. Due to the reason of open boarder, it is frequently reported that goods or articles are imported and exported through 51 unofficial transit points. Though there is no precise estimate of its volume, it may constitute a large volume too. It is further noted that the growth of such illicit activities have been facilated a complete freedom of currency movement between the two countries. Undoubtedly, unofficial trade activities have been affected in collection of government revenue for both countries. Many agreements have been carried out to control the unauthorized trade but they are not working effectively. Thus, unauthorized trade has been a major common problem for both Nepal and India.

7.6 Problems Related to Transit

The landlocked position of Nepal is also hindering in foreign trade. Due to this Nepal's policy of making country wise and commodity wise diversification of foreign trade has not been materialized. Nepal has to cross 2000 km area of India to get entry into international markets. This increases the cost of production due to the increase in transport costs and intermediate goods in export. Consequently, the Nepalese goods loose competitiveness in international markets. Besides, this hinders the free flow of raw materials to the country. Nepalese industries have been overly dependent on Indian markets. So, India is practically a single transit country of Nepal. Hence, the major problems of transit mostly concerned to India rather than China and other countries.

7.7 Inadequate Infrastructure Facilities

Nepal has enormous export potential. But the country is facing problem on infrastructure development. Nepal is a landlocked country. It is surrounding by India in three sides and by Chine in one side. Therefore, Nepal has to depend either to India or to China for its foreign trade linkage. The nearest point to reach sea form Nepal is 2900 km. It has been an abatable to pursue an independent trade policy. It is difficult for free trade with overseas countries. Nepal's only trade route has been Calcutta port. It is not economically viable. Those land facilities provided to Nepal by India is inadequate to handle because of largely increased traffic. Due to such inadequate facilities, Nepalese traders are often bearing problems of delay, loss and demurrage change.

7.8 Difficulties on Transit Formality

Long and complicated transit route provided by India has created several problems in export import activities of Nepal. India has formally separated transit points for transportation. But such formalities do not work practically in reality. These formalities conducted by India with respect to Nepal generally do not occur in other transit case.

7.9 The Requirements of Sealing Goods

Those goods imported from third countries to Nepal must carry the requirement for sealing goods in transit. But in the recent treaties, many reforms have been carried out. According to this improvement bulk cargo such as boulders, fertilizers, cement, vegetable and fruits have been permitted in open truck system.

(Protocol to treaty of transit, Article II, Para 44, sub –Para C)

7.9.1 The Rail Transit

Train or (Rail) is the cheapest means of transportation. Due to mountainous topography railway service is limited to very few places of Terai region Nepal. Government Railway (NGR) covering from Amlekhganj to Raksaul with 48 km was constructed in 1929. But after the construction of roads from Hetauda to Birjunj, the railway was found uneconomical and completely closed. Janakpur-Jayanagar Railway (NJJR) was constructed in 1934. It has length of 52 km and 2'6 gauze. If Nepal attempted to enlarge the railway services with the assistance of India, It may help to reduce trade deficit with India. Nepal is facing many obstacles while importing those goods from third countries. Nepal has already discussed about the reconstruction of dry ports in Biratnagar, Birgunj and Bhairawa. But except Birgunj, India has not given a serous attention on remaining two places. The dry port of Birngunj is the biggest in South Asian countries which links Nepal with Indian network. If Nepal focused on railway service connection with India with many places of Terai region, it can have enough benefits from foreign trade. If those dry ports mentioned above are fully operated, the transportation cost would be reduced by 30 percent.

7.9.2 Insurance Policy

According to this policy, those goods imported from third countries should be covered by insurance. This policy has been assigned in custom collector center at Calcutta of India. The policy compelled to those Nepalese traders to insure with Indian company. Memorandum to the protocol of the treaty of transit in 1999 says:

The sensitive items as specified by Indian government from time to time with prior intimation to Nepal government shall be covered by insurance policy or bank guarantee and or such legally binding the satisfaction of the commissioner of custom, Calcutta.

7.9.3 Recent problems of trade and transit between Nepal and India

The recent problems identified so far between Nepal and India regarding trade and transit are as follows:

- As against the spirit of free trade regime India has recently imposed quota ceiling for four Nepalese products. Such as zinc oxide, acrylic yarn, copper wire and vegetable ghee. Due to the quota ceiling export of these items have been decreased.

  Due to the drastic fall on the export of Nepalese commodities to Indian market, the trade deficit has been widening with India.
- The unhindered trading arrangements that existed between the two countries were adversely affected by SAD, anti dumping duties, and introduction of canalized buying arrangements by government of India duties have been withdrawn but there is no certainty that these things will not be introduced again.
- The trading in agriculture between the traders in the boarding region which was in practice from the time immemorial has put a serious set back by the imposition quarantine charges on the entry of Nepalese agricultural products to India. As Nepalese farmers are exporting agro products in minimum quantity so as these products are not in a position to bear the burden to high quarantine cost. The result is that the traditionally exported agricultural products are not any more viable to penetrate into market.
- Nepalese exporters have to pay additional duties and fees during to the course of exports.
- India has made barrier on export of Nepalese tea on ground of quality testing. India has listed Nepalese tea as a sensitive item and has made a provision to check quality. As against the sprit of trade and transit of 2002, India has levied tariff and non tariff barrier for all the items, which do not fall in negative list. According to the provision of this

treaty, India should give national treatment for all Nepalese products which have fallen on negative list.

- According to the provision of drug and cosmetic act of India, each item of foodstuff and chemical used in manufacturing have to consign at Calcutta for lab test.
- Few advantages on woolen garments and other garment products had been declared. But the annual budget of 2003 had introduced 10 percent excise duty on this product like Pashmina shawls and readymade garments. These products were subjected to countervailing duty.
- Nepalese exports are not getting excise duty refund on imported items.

7.9.4 Prospects between Nepal India Trade Relations

Nepal and India share common feature in many respects particularly on social and economic sectors. However, India remains more advanced than Nepal in some of specific sectors such as commercial and industrial, information and communication and education sectors. On the other hand Nepal stands as a unique country in Natural beauty. Nepal is a replica of heart touching beauty. It has inherent features like geographical diversity, unique natural beauty and immense bio-diversity. Many study and research show that Nepal possesses several mines and mineral with huge water resources. Due to the lack of capital, skilled manpower and effective government policy the available resources have not been utilized so far. Nepal is still facing the problems of adequate capital for investment on such a sector where the beneficial out comes will go higher.

Similarly the desired level of entrepreneurship and skill reckless and quick yielding business mind and corrupted bureaucracy are other major problems that Nepal is facing till now. Against the background, India can co operates in many respects to Nepal. Both countries can share their ideas on mutual benefits so that the investment on potential areas may give the fruitful outcomes. Some key areas identified so far are mentioned below.

a. Hydroelectricity Power

Nepal has abundant hydro electricity potential. The theoretical hydropower potential of the country is 83000 MW. Of this 44000 MW is economically feasible. Out of potentiality only 335.20 MW has been exploited by the end of F.Y. 2002/2003. This is only 0.39 percent of total capacity. Hydropower generation can be seen as one of the most significant potential areas to co-operate an also to invest in case of Nepal for not only meeting domestic needs but also generation of power for India.

In this respect, a power trade agreement was signed on 5th June, 1997 between Nepal an India.

Obviously, hydropower generation is one of the prominent area for the potential export trade. Many such projects but not enough have been initiated with the participation of private sectors since the promulgation of electricity act of 1992. Some of the medium size hydropower projects are already, in advance stage. They are like khimti-I (60MW) Upper Bhote Koshi (36MW), Upper Marsyangdi (43 MW), Chilime (20MW), Indrawati (5 MW),

Other major projects on which preliminary studies have been undertaken are upper Arun (335 MW) and Pancheshwor (6480 MW). Other feasible projects in these sectors are Arun III, Kali Gandaki II, Budhi Gandaki, Dudh Koshi, Kabeli, Rahunghat and Naumure. Such a huge potentiality of hydropower in Nepal needs to attract foreign investment for proper utilization of water resources.

b. Tourism

Nepal is called tourists' paradise or Sangrila. It is a country with live culture, snow-capped mountains, unique beauty of nature and hospitable people. It is compared with Switzerland of Europe and Kashmir of Asia in terms of natural beauty. Hence, the prospect of tourism industry is immense in Nepal. Thus, tourism should be developed as an employment generating industry. This industry in Nepal has a huge potentiality and comparative advantage. Tourism helps to create employment opportunities. It provides direct as well as indirect employment. It is one of the major sources of foreign exchange earning in Nepal. With the help of tourism many persons are now engaged in travel trade such as hotel, lodge, traveling and guide. Being as a close neighboring country, India can also get benefits from tourism development in Nepal. India can invest in tourism sector in Nepal. Foreign exchange earnings in FY 2006/2007 had increased by 6.0 percent totaling Rs. 10.13 billion in Nepal.

c. Education and Training

Education and training are the prime aspects in any trade activities in recent years. So, the model of trade is changing. Trade also depends on efficient manpower. Education and training prepare such manpower that can easily handle risk and benefit both. India is widely popular in education and training sectors in the world. There are lots of well known popular school, college and university. India has invested large amount of money in such sectors. Being a close neighboring country, India can invest in Nepal in education and training sectors. Nepal can have mutual benefit through jointly invested education and training. Till a decade back, India has dramatically improved in science and technology which may contribute in Nepal also. The human development report of United Nations. Development Program (UNDP) has recognized Bangalore of India as one of the leading hubs of technological innovations, better than many cities in USA, Europe and South East Asia. Evidently, Bangalore has scored 13 out of the 16 points as the global hub of technological innovation. Among the 46 cities identified in the report, Bangalore has secured a joint fourth slot along with San Francisco and Austin in USA and Taipei in Taiwan. Bangalore is ahead of New York, Montreal, Cambridge, Dublin, Tokyo, Paris, Melbourne, Chicago, Hong Kong, Kuala Lumpur and Singapore, among others. So, Nepal can achieve several benefits through education and training prospective of India.

d. Mineral Exploration Exploitation

Nepal is a mountainous country. So there is a great prospect of developing mineral resources. But they have been exploited very little so far. It is estimated that the mineral resources contribute only about 0.65 percent to GDP. The development of mineral helps to increase exports, earn foreign exchange and correct unfavorable balance of trade. Nepal is importing large amount of petroleum products which is one of the causes of growing trade deficit. So, India can co-operate in Mineral exploration and exploitation.

e. Nepal-India Joint–Venture Initiatives

The numbers of joint ventures initiatives have been increasing in Nepal as a consequence of the policy change in the pattern of investment and ownership after the several trade treaties signed with India. It has created a favorable environment mutual trade promotion between the two countries. It has extended close economic linkages between the two countries. More than 265 Indian joint ventures companies have been acting in Nepal. Over 100 such joint venture companies are working in Nepal. They contribute 36 to 40 percent of total direct foreign investments in Nepal. A number of Indian companies including Dabur Hindustan Lever, UTL and Colgate have been established in Nepal. These industries/companies are based on manufacturing items and services. The main objective of such manufactured items is to export finished products to Indian market.

CHAPTER EIGHT

CONCLUSION AND RECOMMENDATIONS

8.1 Conclusion

Nepal is a landlocked and least developed country in the world. Although the country is rich in natural beauty and various natural resources but also the country is roaming in vicious circle of poverty because of economic backwardness and inadequate technology. It is far behind in technology even in the comparison of south Asian countries. That is why; foreign trade in Nepal is an important means of reviving the economic backwardness to the economic prosperity. Many economists suggest to carrying out foreign trade or achieving foreign exchange. Foreign trade is considered as an engine of growth. It helps in achieving high rate of economic growth, technology transfer and employment creation.

However, Nepal's foreign trade has always been import dominating. The balance of trade has always been adverse to Nepal except for few initial years in 1950s. Nepal is facing a huge trade deficit with India, Nepal's export to India is still dominated by traditional commodities. Nevertheless, Nepal has adopted several trade policies and signed in many bilateral and multilateral trade treaties. Nepal government has to launch effective trade policies to promote national export trade in proper direction. The recent situation of Nepalese foreign trade is not running in a right track. It is creeping under many problems. Most of the problems are mentioned in earlier chapters but few major problems on Nepalese foreign trade are mentioned as follows:

1. Export performance of Nepal is very poor and limited to few items only. Due to the heavy dominance of import over export, trade deficit of Nepal with India has been widening.
2. Nepal hardly exports primary products to Indian market. But Nepal has been a large market of India for selling those kind of manufactured

products exported to Nepal from India. Such a massive domination over the Nepalese market has often created a huge trade deficit with India.

3. Agricultural sector, which is the backbone of Nepalese economy, has poor performance. Similarly, industrial sector is still at infant stage and the contribution of industrial sector to total GDP of Nepal is very low.
4. Landlocked ness is another bottle neck in trade diversification. Though the transit facility is fundamental right of land locked country. India has taken it as concession provided to Nepal.
5. The rules of origin criteria have been a major bone of contention in unilateral free trade regime extended by India to Nepal for a long period of time. Few confusions and disputes are still there though it is simplified later.
6. Nepalese imports are still facing difficulties to get the duty refund on imported items from India.
7. Although, India itself is a member of WTO, quota system has been imposed on few Nepalese products, which is quiet against the spirit of WTO regime.
8. The policies are generally formulated in ad-hoc manner and changed them frequently. This results into great uncertainty among the entrepreneurs about forthcoming policies.
9. Frequent changes in trade and transit also create uncertain economic environment.
10. The fanfare and generation of great hope of exporting electricity power after signing the Mahakali Treaty and hydroelectricity power purchase agreement lost their significance because of non implementation.

8.2 Suggestions

Foreign trade plays a great role in improving national economy. It is the major source of foreign exchange earning. Though any country may or may not get any economic benefit or loss from foreign trade but none of the countries can exist without performing it. The study of foreign trade is basically presented here under the little of "An Out-look of Foreign Trade between Nepal and India". The over all study made on this title through reliable secondary data and authentic information may lead us to impart the following suggestions in brief.

1. The treaty should be based on international law and convention. India should provide the transit facilities to Nepal according to international convention recognizing that it is a land locked country and has no option to sea access except via India.
2. There should be the guarantee of treaty. In the absence of guarantee of treaty, Nepal is facing lots of difficulties. As we had seen that, when India declared the ending of transit treaty in 1988, Nepalese economy was badly affected.
3. India has to stop thinking to make Nepal as its monopoly market.
4. Transit facilities should include all the modes of transport like railways, water ways and air transport.
5. Both countries should get rid of suspicion phobia to resolve problem of the nature, regular bi-lateral interaction at intellectual and expert level which may deserve consideration for further enhancing the liberal co-operation based on complementary. This is a must particular in context of fast changing scenario of WTO.
6. Giving due consideration to small exporters Nepal India ground realities, quarantine fee procedure should be made viable from Nepalese quarantine officials.
7. Reduction of cost to encourage format trade has proved to be the effective instrument for discouraging informal unauthorized trade and

attracting investment. So, trade facilitation should be made continuous processes.

8. Import of some traditional items from India should be reduced by increasing their production in own country.
9. Nepal should emphasize on export oriented industries.
10. The possibility of creating a custom union between India and Nepal should be examined thoroughly. This would involve the substitution of single custom territory for two custom territories of India and Nepal. So that, harassment of export in the name of quality testing should be avoided at all cost.
11. The open boarder should be effectively regulated to control unauthorized trade.
12. To reduce imports, domestic industries should be encouraged to produce consumer goods. By leaving heavy tax on luxury goods, we can reduce the import of such items.
13. Nepal India joint venture should be encouraged. There is greater possibility to establish joint venture in the field of hydropower.

These measures if taken sincerely by trade policy makers while performing foreign trade of Nepal with India, we may possibly make a dent to provide some sort of panacea for alleviating a huge trade deficit crisis of Nepal with India.

ACRONYMS

BOP	**Balance of Payment**
CBS	**Central Bureau of Statistics**
CEDA	**Centre for Economic Development and Administration**
CID	**Cost Insurance Declaration**
DER	**Duel exchange Rate**
EEE	**Export Exchange Entitlement**
EPZ	**Export Promotion Zone**
FNCCI	**Federation of Nepal Chambers of Commerce and Industries**
FOB	**Free on Board**
FEA	**Foreign Exchange Arrangement**
GDP	**Gross Domestic Products**
IC	**Indian Currency**
ICT	**Information and Communication Technology**
ILA	**Import Licensing Arrangement**
IMF	**International Monetary Fund**
LDCs	**Least Developed Countries**
Mill.	**Million**
Mt.	**Metric Tone**
MW	**Mega Watt**
NC	**Nepalese Currency**
NEFAS	**Nepal Foundation for Advanced Studies**
NPM	**National People Movement**
NRB	**Nepal Rastra Bank**

NG	**Nepal Government**
NGR	**Nepal Government Railway**
OGL	**Open General License**
PPA	**Plant Protection Act**
PSC	**Photo Sanitary Certificate**
RBI	**Reserve Bank of India**
SARRC	**South Asian Association for Regional Cooperation**
SAL	**Structural Adjustment Loan**
SAP	**Structural Adjustment Program**
SAPTA	**South Asian Preferential Trade Agreement**
SAFTA	**South Asia Free Trade Agreement**
UTL	**United Telecom**
WB	**World Bank**
WTO	**World Trade Organization**

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