

Indo-Nepal Trade and Economic Relation

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Abstract:-Economic cooperation between Nepal and India is based on the movements of goods and services across Nepal-India border of about 1,600 km. The movement is free and spontaneous. This movement further accelerated by the movement of people for economic pursuits, social and marriage relations. The cultural ties and non-existence of visa system have created better environment for the conduction of free trade between the two countries. Indo-Nepal trade has its own importance for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her land-locked geographic characteristics. Trade statistics show an increasing trend of trade in both the exports and imports. However, it is noteworthy that the trade balance is not in favour of Nepal. As such, it does not present a convincing picture in the macro-economic performance of Nepal. Both the countries have realized the significance of bilateral trade. Trade with India is likely to play further a key role in trade and industrial fronts in the future as well. Trade and transit treaties held between the two countries are continuously reflecting the fact. And, these treaties have increasingly guided the trade direction, more specifically in the case of Nepal. Taking into account these factors, this study has made an attempt to analyze some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future.

Key Words: Economic cooperation, Trade, Export, Import.

Introduction:-India has been a key development partner of Nepal. The latter received strong support and solidarity from the people and Government of India in advancing its home-grown peace process as well as in the process of writing the Constitution through the elected Constituent Assembly. Following the massive earthquakes in Nepal in

April and May 2015, India promptly offered helping hands. The Government of India has also been substantially supporting Nepal's reconstruction efforts.

The Indian cooperation started in 1952 with the construction of an air-strip at Gaucharan. Since then, India has been assisting primarily in the areas of infrastructure development and capacity development of human resources in Nepal. Such assistance received from India has helped supplement the developmental efforts of Nepal. India's economic assistance to Nepal has grown manifold in the past few decades, particularly since the restoration of multiparty democracy in Nepal in 1990.

As agreed during the State Visit to India of then Prime Minister of Nepal Mr. Pushpa Kamal Dahal 'Prachanda' in September 2016, a Nepal-India Joint Oversight Mechanism has been constituted co-chaired by the Foreign Secretary of Nepal and the Indian Ambassador to Nepal to review the progress made and resolve issues in the implementation of the projects under India's economic and development cooperation. The Mechanism meets once every two months.

Economic relationship between Nepal and India is unique. There are historical, geographical, cultural, linguistic, ethnic, social and family links between people living in India and Nepal. Institutions relating to government and the economic activities are also more or less similar. Therefore, the trade and other related relationship between Nepal and India has its own significance. Trade relationship between these two countries often goes beyond the economic reason significantly influenced by the social-ethical norms and values. Research and studies reveal that both the countries have comparative cost advantages in trading amongst themselves for several reasons. Historic trade relation, geographical proximity, identical culture, similar agriculture productions are cited few examples quite repeatedly. Economical transport cost is seen as another important factor determining the volume of trade between these countries. In view of the rising energy costs, it often considered that the transport costs are likely to rise so that the transport cost advantage to both these countries trading with each other is likely to increase in future. This would further increase the potential for trade between these countries. Economic cooperation between Nepal and India is based on the movements of goods and services across Nepal-India border of about 1,600 km. The movement is free and spontaneous. This movement further accelerated by the movement of people for

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The conventional economic wisdom holds that trade is beneficial to growth of a country. Although one country may have a higher productivity in the production of all goods compared to another country, the relative productivities in producing different goods will differ. Trade is based on the relative comparative advantage and increases welfare in both countries. It has been increasingly stressed in recent years that welfare would only come from increased exports. Trade liberalization, in this direction, paints a picture suitable for export promotion. On the other hand, it is also argued that the participating countries should share the benefits of free trade. Trade liberalization as a policy focus predominantly on diminishing restrictions to the free international movement of goods and services. More, in particular, it includes the diminishing of import quota and the lowering of export taxes. These policies will result in a decrease of the price of importable, and in an increase in the price of exportable. If markets work as they are expected to work, these measures lead to increases in imports and exports. And, a balance trade scenario is obtained. Trade liberalization, more often, forms a part of structural adjustment program of a country. Economic reforms programs in many countries can be seen as a consequence of this program.

It is noteworthy to note that the South Asian economies (SAEs) launched comprehensive reform programs at the beginning of the 1990s. However, some attempts were made towards the opening up of trade and investment regimes in the 1980s. The reform initiatives included, among other things, reducing the level and dispersion of tariffs and quantitative restrictions and improving regulations on domestic and improving regulations on domestic and foreign investments. Nepal and India also stepped towards economic reform process during this period.

The new economic thinking involving speedy economic liberalization oriented toward free and competitive market in Nepal and India has, by and large, contributed in changing the scenario of Indo-Nepal trade relation. Steady move towards economic liberalization undertaken by the both countries brought fundamental changes in the pattern and direction of economic exchanges between them. As such; the traditional age-old relationships between these two neighboring countries assumed new dimensions with economic and trade liberalization regimes.

India started to deregulate her economy in the mid -1980s when the import restrictions on a number of goods were relaxed by expanding the positive OGL list, tariff rates on capital goods were brought down, and FDI policy was liberalized. In July 1991, the government initiated a comprehensive package of reforms covering trade, industrial and exchange rate policy regimes. The import licensing system has been dismantled. As non-tariff barriers (NTBs) were phased out from all tradeables except consumer goods in early years of 1990s. the quantitative restrictions on the remaining items have been phased out by March 2001, two years ahead of the original schedule. The QRs on imports of around 2300 items from SAARC countries had been removed unilaterally in 1998. The peak tariff rates have been brought down to a maximum of 50 per cent from up to 355 per cent and average weighted tariff rates have come down from 87 per cent to just 20 per cent by 2019.

The partial convertibility of rupee on the trade account was announced in the 1992-93 budgets that was subsequently broadened to full convertibility on current account by August 1994. The Capital Issues Control Act was repealed and the Securities and Exchange Board of India (SEBI) was set up as a watchdog for regulating the functioning of the capital market. SEBI has focused on the regulatory reform of the capital market as well as on market modernization. Online trading and

dematerialized trading have been introduced. Companies have been allowed to buy back their own shares subject to the regulations laid down by SEBI. In September 1992, the government announced guidelines for investments by foreign institutional investors (FIIs) in the Indian capital market. FIIs are now welcome to invest in all types of securities traded on the primary and secondary market with full repatriation benefits and without restrictions on either volume of trading or lock-in-period. In January 1993, a package of financial sector reform was announced that included permission to new private sector banks including foreign joint ventures. The government has also established a policy regime for the functioning of private non-banking finance companies (NBFCs) and agencies for rating their credit worthiness.

Nepal opened up its economy in the early 1990s with the adoption of economic reform package. The reform measures have since covered almost all sectors of the economy including trade and investment, fiscal and monetary policies, financial and capital markets and other economic and social sectors. The import licensing system and quantitative restrictions were eliminated and tariff rates and structure were reduced and rationalized to make the trade sector competitive. The trade weighted nominal rate of protection declined from about 80 per cent in the early 1980s to about 31 per cent in 1994. Similarly, the average rate of protection has declined from about 111 per cent in 1989 to 16 per cent in 1992. In a similar manner, the number of slabs subject to protection fell from more than 100 in the 1980s to 5 in 2016. Additional measures initiated to promote international trade include the introduction of a bonded warehouse, duty-drawback scheme, initiation of the multi-modal facility (dry port) and an export-processing zone.

The partnership with India in the areas of trade and transit is a matter of utmost importance to Nepal. India is Nepal's largest trading partner. India has provided transit facility to Nepal for the third country trade. Both public and private sectors of India have invested in Nepal. The trade statistics reveals phenomenal increase in the volume of bilateral trade over the years between the two countries. However, Nepal has escalating trade deficit with India. Nepal and India have concluded bilateral Treaty of Transit, Treaty of Trade and the Agreement of Cooperation to Control Unauthorized Trade.

A new bilateral trade treaty signed with India in 1996 supported the trade reform program of Nepal. The treaty allows Nepal to export

manufactured products to India free of customs duty and quantitative restrictions. Similarly, in order to improve the environment for investment, the Industrial Enterprise Act, 1992 and the Foreign Investment and Technology Transfer Act (1992) were enacted in line with the open, liberal and market-oriented policy. These Acts have further improved investment incentives. No license is required for the establishment, expansion and modernization of industries except for a few related with defense, public health and environment. In short, the environment was made more conducive to larger inflows of foreign direct investment (FDI).

Financial sector reforms have also been carried out to support the trade and industrial reforms. Interest rates were deregulated and joint-venture banks were allowed to open up. Nepal also included full convertibility of the Nepalese rupees on the current account. The overvalued Nepalese currency was also corrected to improve export competitiveness of the trade and industrial sectors. HMG/N has been committed towards trade liberalization through simplification of trade and tax procedures, and also through revising custom tariffs to encourage exports and ultimately attract more foreign investments.

Furthermore, various sectoral strategies have been introduced to attract investment. The Hydropower Policy 1992 has opened up new avenues to develop the hydropower of the country by motivating national and foreign private investors in this sector. The liberalized aviation policy has contributed tourism industry significantly. Road, airport construction and telecommunication services have also been opened to the private sector in order to attract more domestic as well as foreign investments and to improve service delivery.

The Nepalese financial system is in the midst of great changes along with Nepal's preparation for entry into World Trade Organization (WTO). Nepal Rastra Bank (the central bank) has given priority to the financial sector reform by developing and updating necessary policies and guidelines for further consolidation of the financial system. Nepal Rastra Bank Act 2002, formulation Financial Institutions Act, Financial Intermediary Act, Debt Recovery Act, management transfer of the two largest banks, i.e. Nepal Bank Ltd. And Rastriya Banijya Bank, proposals for restructuring of the Agricultural Development Bank and Nepal Industrial Development Cooperation (NIDC) can be seen as the major initiatives undertaken in respect to the financial sector reform process.

With the growing global integration, there are benefits and advantages to the domestic economy reflected in greater competition with the lower cost and higher quality goods as well as the opportunity for reaching the potential inherent in the country's comparative advantage. To capture those benefits and advantages of global trade, Nepal has commenced the accession process for membership in the World Trade Organization (WTO).

Conclusion:-India's trade and economic co-operation with Nepal has been governed by several treaties that have been renewed and modified over the years. However, past treaties have been limited to tariff and other duty concessions. Such benefits have been transitory in nature and have not contributed to either growth of Nepal's economy or to sustainable trade between the two countries. During 2010 and 2017 Nepal grew at an average annual growth rate of 4.32% largely because of manufacturing which grew at a rate of 0.9% during this period. This can best be illustrated by examining Nepal's exports of four major products viz., vegetable ghee, copper products, acrylic yarn and zinc oxide. In the 1996 trade treaty, India allowed duty free access to Nepal's exports. In 2001-02, these four commodities accounted for 29.7 per cent of India's imports from Nepal. By 2007-08, there was a sharp decline in the share of these four products to only 12.4 per cent. Nepal's trade with India in these products thrived because it was able to benefit from the low duties that Nepal imposed on the raw material import compared to the prevailing tariffs on these products in India. Nepal was able to import the raw material at lower costs, process the products and export it to India.

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