

# Analyzing India-Nepal Economic Integration: Status, Challenges and Way Forward

**Pankaj Vashisht**

Discussion Paper # 290



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# Analyzing India-Nepal Economic Integration: Status, Challenges and Way Forward

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Pankaj Vashisht\*

**Abstract:** India and Nepal share unique relations. The citizens of both countries have freely interacted and assimilated with each other since time immemorial leading to deep social and economic integration. Though India has been leading trade and investment partner of Nepal, the economic relation between these two south Asian siblings continues to face challenges. While growing trade deficit has been a concern in Nepal for quite some time, there has also been concerns regarding eroding Indian Investment position in Nepal. Against this backdrop, this paper critically examines the India-Nepal trade and investment relations with an objective to identify the existing challenges and suggest possible measures to further strengthen economic ties. Based on extensive data analysis and key informant interviews, paper identifies high tariff and non-tariff barriers, poor of trade infrastructure, low investor confidence, etc. as major constraints and argues that both countries need to adopt a holistic approach encompassing trade liberalization, trade facilitation, infrastructure development and investment facilitation to correct the trade imbalance and further strengthen the economic relations.

**Keywords:** Trade, Investment, Trade barriers

**JEL Classification:** F13, F14, F15

## Introduction

India and Nepal share strong bilateral ties. The relations between these two South Asian siblings, though goes back to ancient times, were formalized, for the first time in 1950 with the ‘*Treaty of Peace and Friendship*’ which officially facilitated free movement of people across the border and allowed Nepalese and Indian citizens to “reside, own property and engage in economic activities in either country without any

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discrimination” (MEA 1950). The ‘*Treaty of Peace and Friendship*’ was followed by a ‘*Treaty of Trade and Transit in 1954*’. Both these treaties laid the foundation of a strong strategic and economic partnership. Over the next six decades, these bilateral treaties, especially the *treaty of trade and transit*, were revised several times to address the emerging concerns of both countries. These timely revisions reenergised the bilateral ties and led to a strong economic integration. The soundness of India-Nepal economic relation can be gauged from the fact that India has been the leading source of foreign direct investment for Nepal. Indian firms have invested 75.81 billion Nepalese rupees in Nepal, which accounts for more than one third of its total Foreign Direct Investment (FDI) stock. Similarly, barring few years, India has remained the leading trade partner of Nepal. The bilateral trade has increased to US\$10.5 billion which account for more than two third of Nepalese global trade.

However, India-Nepal economic relations continues to face challenge. Specifically, there has been concern regarding growing trade deficit since 2009 when *New Treaty of Trade* was signed. Despite enjoying duty free access to Indian market, Nepal has not been able to increase its exports to India, leading to high trade deficit which few Nepalese scholars have attributed to certain provisions of the Indo-Nepal trade treaty and high non-tariff barriers. Specifically, tariff rate quota on the imports of *vegetable ghee, acrylic yarn, copper products and zinc oxide* and duty-free reciprocal trade arrangement for selected agricultural products along with non-tariff barriers imposed on imports of pashmina, plastics, noodles, handicrafts, jewellery and agro products like beverages, cardamom, ginger and tea by India have been blamed for increasing trade deficit (Kharal 2021). Similarly, Indian investment position in Nepal has also eroded significantly in recent past. There have been few studies which have examined India Nepal economic relations (Sharan 2010, Mukherji 2011, Taneja *et al* 2011, Taneja *et al* 2020). However, none of these studies have dealt with the issue of trade deficit. Against this backdrop, this paper critically examines the India-Nepal economic relations with special emphasis on understanding the causes and possible remedies for growing trade deficit. Based on quantitative data analysis

and key informant interviews, it highlights that Nepal's trade deficit is not an India specific problem. Rather it is a structural problem as Nepal is a having trade deficit with all its leading trade partners. Our analysis suggests that Nepal's export basket has been shrinking which underlines the growing supply-side constraint. On the contrary, fueled by robust growth in remittances, imports have been growing leading to high trade deficit. Paper argues that taking regressive steps towards protectionism will not help Nepal. Instead, both countries need to take a holistic approach to boost Nepal's export potential. Paper recommends that India and Nepal should strive to remove existing trade barriers (both tariff and non-tariff) to fully harness the unrealized trade potential and integrate Nepal in to regional value chains. At the same time, efforts should be made to facilitate Indian investment in Nepal to augment its export capacity. Since hydropower, tourism and agro forestry have immense potential, these sectors should be the focus for investment promotion efforts. Paper argues that signing a bilateral investment promotion and protection treaty can help to restore the Indian investor's confidence in Nepal which evaporated during the times of political instability.

The paper is organized in five sections. After introduction, section 2 summarizes the data sources used in this paper while section 3 critically examines the trend, pattern, potential and existing constraints to bilateral trade. Section 4 deals Indian investment in Nepal. The last section presents policy recommendation/a roadmap for strengthening India-Nepal economic ties.

## **Data Sources**

Analysis in this paper is based on secondary data as well as primary research. Secondary data used in this paper has been compiled from two main sources. Statistics related to trade and trade barriers has been compiled from the Uncomtrade database while data on FDI has been collected from 'Survey Report on Foreign Direct Investment in Nepal', a publication compiled by Nepal Rashtra Bank. Apart from the secondary data, information used in this paper has also been collected through key informant interviews. A purposive sampling strategy was used to select

48 key informants to gather information on constraints to bilateral trade and investment (table 1). Out of the 48 key informants, we interviewed, 20 are leading traders and freight forwarders. Eighteen interviews were conducted with the managing directors/senior managers / representatives of Industry Association based, both in Nepal as well as India. Remaining 10 interviews were conducted with senior government officials from concerned ministries of both countries. Interviews were based on the semi structured questionnaire and were conducted in person during September to November 2022 in Kathmandu and New Delhi.

**Table 1: Summary of Key Informant Interviews**

Category	Method	Instrument	Number of Interviews
Traders / Freight Forwarders	In-Depth Interviews	Questionnaire	20
Managing Directors / Senior Managers / Industry Association representatives			18
Government Officials			10
Total			48

*Source:* Author’s Compilation.

## **Evolution of India Nepal Trade: Trend, Pattern and Concerns**

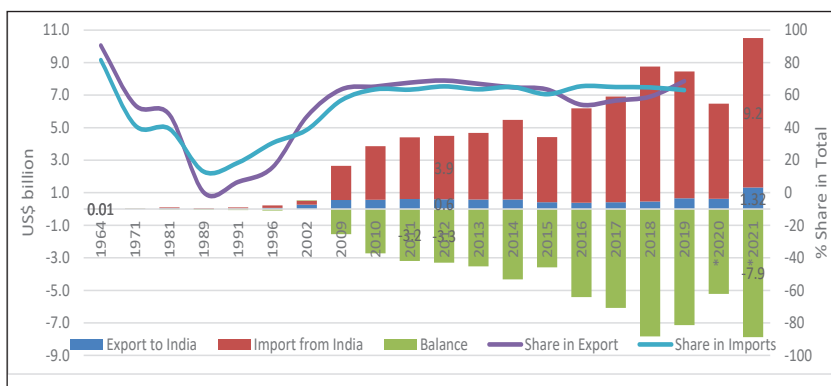
India-Nepal trade relations have been a roller coaster over years. With more than 98 per cent share, India was the leading trading partner of Nepal when both countries signed their first Treaty of Trade in 1950. In the subsequent years, however, Nepal followed a policy of trade diversification and aggressively established trade relations with other countries to reduce dependence on India. Consequently, the decades of 1950s and 1960s witnessed a sharp decline in India’s share in Nepal’s total foreign trade (Figure 1). In order to reset the trade ties, India and Nepal signed a new Treaty of Trade in 1971, which for the first time offered tariff and other concessions to Nepal on a non-reciprocal basis.



Treaty offered duty free access to items manufactured in Nepal with 90 per cent Nepalese/Indian material content (Taneja 2011). Nonetheless, even this liberal treaty failed to arrest the slide and India-Nepal trade relations hit the turf in 1989 when India’s share in Nepal’s foreign trade declined to below 10 per cent (Figure 1).

The decades of 1990s witnessed some serious efforts from both countries to repair the trade ties. Between 1991 and 1996, trade treaty was frequently revised to expand the scope of the treaty and relax the domestic content requirement. In a major move to expand the scope of treaty, both countries agreed to provide duty free access on import of 14 agriculture products on reciprocal basis in 1991. During same year, India reduced Nepalese / Indian content requirement for availing duty-free access from 90 per cent to 80 per cent which was further reduced to 50 per cent in 1993 before being abolished in 1996 when India provided duty free access to all items manufactured in Nepal, accept three, on the basis of certificate of origin issued by Nepalese authority. These measures successfully rejuvenated Indo-Nepal trade. The total two-way trade which was below US\$ 51 million in 1989 increased to more than US\$ 512 million in 2002 when the 1996 trade treaty expired. This tenfold increase in trade re-established India as Nepal’s leading trade partner (Figure 1).

**Figure 1: Evolution of India Nepal Trade**



*Source:* Compiled from UNComtrade database.

A new treaty of trade was signed in 2002 with few modifications. The domestic content criterion was reintroduced and 30 per cent domestic value addition and change in product classification at four-digit level were made mandatory for Nepalese import to get preferential market access. Apart from this, tariff rate quota was also imposed on the imports of *vegetable ghee, acrylic yarn, copper products and zinc oxide*. During the seven years for which the 2002 trade treaty was in force, the India Nepal trade relations were further strengthened and India's share in Nepal's global trade increased from 43 per cent in 2002 to 58 per cent in 2009.

India-Nepal trade is presently governed by *the trade treaty of 2009*. As per this treaty, India and Nepal provide duty free access on imports of 16 agriculture products on a reciprocal basis. For manufactured products, India provides duty free quota free access to all goods manufactured in Nepal, except four items, subject to two domestic content criteria specified in treaty of 2002, while Nepal provides rebates on chargeable duty (Table 2). The applicable rate of rebate is 5 per cent if applicable tariff rate is below 30 per cent and 3 per cent if applicable rate in above 30 per cent.

**Table 2: Provisions of Indo-Nepal Trade Treaty 2009**

Group	Nepal's Commitment	India's Commitment
Agro	Duty Free Access on Reciprocal basis (16 products)	Duty Free Access on Reciprocal basis (16 products)
Manufactured	Rebate on chargeable duty based <ul style="list-style-type: none"> <li>• 5% on applicable tariff rate up to 30%</li> <li>• 3% on applicable tariff rate more than 30%</li> </ul>	Duty Free quota free access except four products subject to <ul style="list-style-type: none"> <li>• 30% domestic value addition</li> <li>• Change in product classification at 4-digit level of HS code</li> </ul>

*Source:* Author Compilation.

Since the signing of the 2009 treaty, India Nepal trade has witnessed a very healthy growth rate of around 18.3 per cent per annum. The total volume of bilateral trade has increased from US\$ 2.6 billion in 2009 to US\$ 8.5 billion in 2019.<sup>1</sup> However, the surge has been extremely lopsided. Increase in Indo-Nepal trade has primarily been driven by Nepal’s imports from India leading to a massive trade deficit (Figure 1). In 2009 Nepal imported goods worth US\$ 2.1 billion from India under 3639 tariff lines at 6-digit level (Figure 1 and Table 3). The imports were dominated by petroleum oil, flat and rolled iron, petroleum gas, semi-finished iron products, medicaments containing hormones, portland cement, light petroleum, motorcycles, cement, iron bar and roads, live goats and medicament (Annexure 1). These twelve products accounted for almost 42 per cent of Nepal’s import from India. Over the next ten years, Nepal’s imports from India grew at an average annual rate of 21.4 per cent to reach US\$ 7.14 billion in 2019 before declining to below US\$6 billion in 2020, owing to the covid induced restrictions. With return to normalcy, Nepal’s imports from India rebounded sharply in 2021 to breach the US\$ 9 billion mark. The increase in import has been accompanied by few noticeable changes in import profile. First, Nepal’s import from India has become more diversified (Table 3). The number of products imported at the 6-digit level of HS classification has increased from 3639 in 2009 to 4068 in 2019 and further to 4102 in 2021. Second, few products which were among the top imported items such as cement clinker and portland cement in 2009 has been replaced by agro products, specifically maize and rice.

**Table 3: India Nepal Trade Profile**

Year	Imports from India			Exports to India		
	2009	2019	2021	2009	2019	2021
Number of Items	3639	4068	4102	619	436	381
Share of Top 12 Commodities	41.8	42.2	42.5	50.9	74.5	85.9

*Source:* Compiled from UNComtrade database.

In contrast to imports, Nepal's exports to India have by and large remained stagnant. In 2009, Nepal exported goods worth US\$0.58 billion to India under 619 tariff lines. The exports were concentrated in a few items with flat rolled iron products, plastic products, non-alcoholic beverage, tea, sacks & bags, coloring matter, yarn, pebble & crushed stone, cardamoms and tube and pipes accounting for 51 per cent of total exports (Annexure 1). Over the next ten years, Nepal's exports to India witnessed an erratic trend (Figure 1). The volume of exports declined to US\$ 0.39 billion in 2016 before slowly increasing to US\$ 0.66 billion in 2019. On an average, Nepal's exports to India registered a negative growth of 2 per cent during 2009 and 2019. Nepal's exports to India have witnessed sudden jump in 2021 to reach US\$1.32 billion. Notably, the surge has been exclusively driven by increase in exports of soya oil and palm oil.

Unlike imports, Nepal's exports to India have become more concentrated over the year. The share of top 12 items in total exports to India has increased from 51 per cent in 2009 to a whopping 74 per cent in 2019 and further to 86 per cent in 2021. Moreover, the total number of items exported to India at 6-digit level has declined sharply during the same period (Table 3). Apart from these, change in composition of Nepal's exports to India also reflects a worrisome trend. Two products namely, refined palm oil and refined soya oil have gained massive share in total exports. The combined share of these two products in total exports to India has increased from 0 per cent 2009 to 39 per cent in 2019 and further to 63 per cent in 2021. Increase in palm and soya oil export can exclusively be attributed to Indian duty structure and its recent conflict with Malaysia. Till recently India was trying to shield domestic oil seed producers with very high custom duty on the imports of crude palm oil. It offered Nepalese entrepreneurs an opportunity to indulge in arbitrage trade without any real competitive advantage. However, with India reducing the tariff on the import of crude palm oil and its relation with Malaysia returning to normalcy, this opportunity may not last long.

## **Decoding Deficit**

Trade deficit with India has been a concern in Nepal. Few Nepalese scholars have argued that trade imbalance with India is linked with two specific provisions of the Indo-Nepal trade treaty-tariff rate quota on four products and duty-free reciprocal trade arrangement for selected agricultural products. However, none of these two arguments withstand scrutiny. India had imposed tariff rate quota on four products and some of these products, specifically vegetable fat and zinc oxide were being exported from Nepal to India in significant amount till 2002. The exports of these two products from Nepal to India have indeed declined to zero after the revision of the treaty in 2002. However, this decline has nothing to do with imposition of tariff rate quota. Rather the decline in the export of zinc oxide can be attributed to the imposition of anti-dumping duty in 2002. A case was filed against certain Nepalese exporters of zinc oxide in early 2001 and after detail investigation; the Director General of Anti-Dumping and Allied Duties had imposed anti-dumping duty on import of zinc oxide from Nepal in 2002 which reduced the import to zero (MOC 2002).

Vegetable fat was the leading export item from Nepal to India till 2001. However, Nepal was not producing vegetable fat. Rather, Nepalese traders were buying vegetable fat from third country and re-exporting to India without any value addition. In 2002, the domestic content criterion was reintroduced which discouraged third country exports without value addition leading to decline in vegetable fat export from Nepal to India. The tariff rate quota is also applicable on acrylic yarn and copper products. However, Nepal has never been able to fully utilize the allocated quota. The quota utilisation rate for these two items has remained well below 70 per cent throughout the last one decade (Table 4). Given this, quota restrictions don't seem to be the reason for widening trade imbalance.

**Table 4: Tariff Rate Quota Utilization Rate**

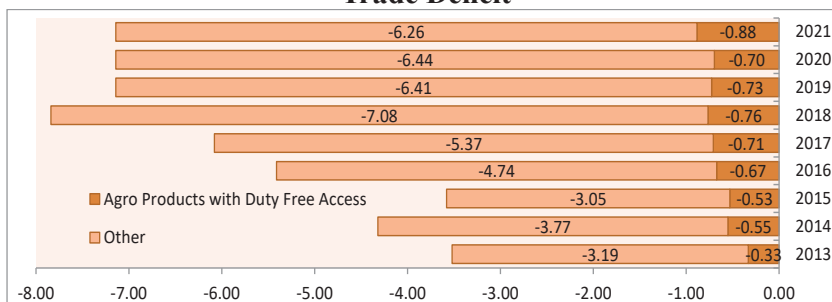
	Zinc Oxide	Vegetable Fat	Acrylic Yarn	Copper Products
2009-10	0	0	39	29
2010-11	0	0	23	23
2011-12	0	0	46	22
2012-13	0	0	37	24
2013-14	0	0	40	21
2014-15	0	0	60	24
2015-16	0	0	47	22
2016-17	0	0	50	19
2017-18	0	0	45	15
2018-19	0	0	60	16
2019-20	0	0	69	12
2020-21	0	0	47	6

*Source:* Calculated from UNCOMTRADE.

Apart from tariff rate quota, reciprocal duty-free trade arrangement for selected agro products has also been highlighted as another reason for the high trade deficit. Kharal (2021) has argued that reciprocal trade arrangement for agro products has resulted in high trade deficit as Nepal has not been able to compete with subsidized agro products imports from India. However, even this argument is far from reality because of several reasons. First and foremost, it is important to note that though India has duty free access to Nepalese market for certain agricultural products, Nepal has been charging agriculture reform tax on the imports of these products at a rate ranging between 5 to 9 per cent which effectively negates the notion of duty-free market access. Second, the trade deficit on the account of agricultural products for which reciprocal trade preference is available under Indo-Nepal trade treaty accounts for just a fraction of total trade imbalance. Data for the last few years suggest that the trade deficit on the account of agricultural products subject to duty free access has contributed only 10 to 17 per cent to the overall trade deficit. Remaining 83 to 90 per cent of trade deficit is accounted for the

goods for which Nepal has been enjoying duty free market access on a non-reciprocal basis (Figure 2).

**Figure 2: Contribution of Agro and Non-Agro Products to Trade Deficit**



**Source:** Calculated from UNCOMTRADE database, Values in US\$ billion

Third and most importantly, Indian agro exports to Nepal are not driven by subsidies rather the surge is primarily driven by demand supply mismatch of selected agro products in Nepal. India’s agricultural exports to Nepal are mainly concentrated in six items, which accounts for around 80 per cent of total agricultural exports and for most of these items Nepal has been facing demand supply mismatch (Table 5). Rice alone accounts for more than 40 per cent of agro exports to Nepal. An analysis of domestic demand and domestic supply of rice in Nepal shows that demand for rice in Nepal is much higher than the domestic production. The domestic demand for rice in Nepal is estimated to be around 4.1 million tons for which 6.6 million tons of paddy is required (Choudhry et al 2022). However, Nepal has been producing less than 5.6 million tonnes of paddy which is sufficient to produce only 3.3 million tonnes of rice, around 0.8 million tonnes less than domestic demand. This demand supply gap largely explains Nepal’s rice imports from India and other countries. Similarly, the exports of two other agro products, maize and oilcake, which account for around 14 and 9 per cent of total agro exports to Nepal, have also been driven by

demand supply dynamics. Given the phenomenal increase in the number of livestock, especially the fowl and buffalos in Nepal, has inflated the demand for animal feed. However, the production of maize and oil seeds, required for production of animal feed, has not kept pace with growing demand, resulting in imports from India. The stagnant or even declining agricultural production in Nepal is linked to the wide spread farmland abandonment. Studies have shown that owing to various factors such as urbanization, population growth, poor access to physical services and labour shortage (due to outmigration), 9,706,000 hectares, accounting for 23.9 per cent of the total arable farmland in Nepal, was abandoned during the period of 2001 to 2010 alone (Chaudhary 2020).

**Table 5: Composition of Agro Products exports to Nepal**

HS Code	Products	Share in Import in Agro Export	
		2019	2021
100630	Basmati Rice	29.9	27.4
100610	Rice	10.5	17.1
100590	Maize	14.9	13.5
230400	Oil Cake	9.9	8.5
100199	Wheat	7.4	6.3
070190	Potatoes	6.9	3.6
070310	Onion	2.7	3.9
	Others	17.8	19.5

**Source:** Calculated from UNCOMTRADE.

Above analysis indicates that blaming certain provision of India Nepal trade treaty for rising Nepal's trade deficit with India is far from reality. Rather growing supply side constrain seem to be the plausible explanation. In order to further probe the reason for high trade deficit, we analyze Nepal's trade with countries other than india. Results reported in table 6 clearly shows that Nepal's trade with the rest of the world exactly mirrors its trade with India. Its exports to the rest of the world have remained stagnant while imports have zoomed, leading to more



than three-fold increase in deficit (Table 6). In 2009, Nepal imported goods worth US\$1.6 billion from the rest of the world under 3107 tariff lines at six-digit level. Over the next ten years, Nepal's imports from the rest of the world grew to US\$4.55 billion.<sup>2</sup> Moreover, imports become more diversified as the number of products imported at six-digit level increased significantly (Table 7). In contrast, the volume as well as profile of Nepal's exports to the rest of the world remained virtually constant. In 2009, Nepal exported goods worth US\$ 0.32 billion to the rest of the world. The exports were confined in just 731 tariff lines at six-digit level. Instead of increasing, over the next ten years, Nepal's exports to the rest of world declined to US\$ 0.30 billion in 2019 and the number of products exported remained almost the same.

**Table 6: Nepal's Global Trade Excluding India**

Year	Trade With Rest of World			Export Imports Ratio	
	Exports ROW	Imports ROW	Balance	ROW	India
2009	0.32	1.62	-1.30	19.92	26.40
2010	0.30	1.86	-1.56	16.29	17.54
2011	0.29	2.16	-1.87	13.55	16.38
2012	0.27	2.08	-1.81	12.94	15.28
2013	0.29	2.35	-2.06	12.15	14.09
2014	0.32	2.65	-2.34	11.93	11.84
2015	0.24	2.60	-2.36	9.26	10.46
2016	0.33	3.06	-2.73	10.92	6.78
2017	0.32	3.52	-3.20	9.11	6.44
2018	0.32	4.53	-4.21	7.05	5.55
2019	0.30	4.55	-4.25	6.60	8.48

*Source:* Calculated from UNCOMTRADE.

At a bilateral level, Nepal has trade relations with more than hundred countries. However, 95 per cent of its trade is with 26

countries (Annexure 3). An analysis of Nepal’s bilateral trade with all these countries shows that Nepal’s problem of trade deficit is universal which has aggravated over the time. Out of 26 leading trade partners, Nepal had trade surplus with just four countries namely USA, Germany, Bangladesh and Italy in 2009. However, trade surplus, even with these countries has vanished over the last one decade. In 2019, Nepal reported trade deficit with all leading trade partners (Annexure 3). Notably, Nepal’s export import ratio has witnessed a sharp decline with all leading trade partners which underlines its dwindling export competitiveness. Notably, excluding a handful of developed countries, Nepal’s export import ratio has been extremely low. For example, Nepal’s export to import ratio with China, its second largest trade partner, has declined to below 1. It implies that for each 100-dollar worth of goods imported from China, Nepal is exporting goods worth less than a dollar to China. In comparison to this, Nepal’s export to import ratio with India has been much higher. It indicates that duty free access to the Indian market is helping Nepal.

**Table 7: Nepal’s Trade profile with Rest of World**

	Imports		Exports	
	2009	2019	2009	2019
Number of items	3107	3734	731	749
Share of top 12 items	33.6	27.38	68.7	59.8
HHI	0.018	0.010	0.105	0.064

*Source:* Calculation based on UNCOMTRADE data.

## **Unrealised Trade Potential**

Trade partners need to exploit their unrealised trade potential to improve trade integration. There are several methodological approaches which can be used to identify the items which have unrealized trade potential between two trading partners. One such approach is known as trade possibility approach. Considering the supply capability of the exporting

country and demand of the importing country, this approach defines trade possibility in items which two trade partners can import from each other rather than importing from a third country. Additional trade potential for any items, according to this approach, can be defined as  $\text{Min}(\text{SE}, \text{MI}) - \text{ET}$ , where SE stands for global export of supplier country, MI stands for global imports of the receiver country and ET stands for existing trade between the supplier and receiver (Mukherji 2011). We use this approach to identify the unrealised trade potential between India and Nepal which may not have been realised due to tariff and non-tariff barriers. One limitation of this approach is that it overlooks the cost competitiveness. In order to overcome this, we compare the unit value to the supplier's global exports with the unit value to the receiver's global import and dropped all products for which the supplier's average unit value of export is significantly higher than the unit value of receiver's global import. The analysis was done at a six-digit level of classification of the Harmonized System (HS) and results are reported in Table 8.

**Table 8: Additional Trade Potential between India and Nepal**

Ser. No.	Group	India's Export to Nepal		Nepal's Export to India
		Value, US\$ million	Average Tariff	Value, US\$ million
1	Total	1885	9.13	69.3
1.1	Group A	15	75	
1.2	Group B	90	30.30	
1.3	Group C	276	20.10	
1.4	Group D	270	14.29	
1.5	Group E	1234	Below 10	

*Source:* Calculation based on UNCOMTRADE data.

Results show that there exists additional trade potential of around US\$ 2 billion<sup>3</sup> between India and Nepal. However, the potential is mostly consisted of India's exports to Nepal. According to our analysis, India, in 2019, had an additional export potential of US\$ 1.88 billion to

**Table 9: India's Additional Export Potential to Nepal: Top 20 items, 2019**

H.S. Code	Product	India's Global Exports		Nepal Import 2019			Export Potential	Nepal's Tariff	Unit value Ratio
		Value	Unit Value	Total	Unit Value	From India			
90411	Pepper of the genus piper	41.27	3.32	52.25	3.73	0.31	40.96	5	0.89
210690	Food preparations	358.21	3.82	65.63	3.86	27.11	38.52	22.14	0.99
390120	Ethylene polymers in primary forms	504.46	1.11	62.44	1.14	24.50	37.94	6	0.98
847130	Automatic data processing machines	35.26	29.05	50.14	247.98	0.27	35.00	0	0.12
851770	Telephone sets and other apparatus	293.55	215.81	34.19	215.81	0.30	33.90	0	1.00
851769	Communication apparatus	45.156	13.10	26.95	70.47	0.73	26.22	0	0.19
901890	Medical, surgical Instruments	292.42	0.40	33.42	1.24	8.71	24.71	5	0.32
880330	Aircraft and spacecraft parts	1200.00	136.38	24.44	409.30	0.11	24.32	6	0.33
610990	T-shirts	657.94	1.09	24.98	1.39	0.86	24.12	20	0.78

*Table 9 Continued...*

Table 9 Continued...

390210	Propylene and polymers	549.36	1.19	65.47	1.19	41.71	23.76	6	1.00
730890	Iron or steel structures	489.34	1.38	41.60	1.81	19.29	22.31	20	0.76
621040	Men and Boys' Garments	27.58	45.20	21.61	45.20	0.16	21.45	20	1.00
852990	Reception & transmission apparatus	139.81	115.50	21.96	115.50	0.89	21.07	2.5	1.00
550330	Fibers; synthetic staple fibers	34.35	1.93	20.28	2.16	0.24	20.03	5	0.90
640299	Footwear	149.66	1.37	20.30	1.45	0.46	19.84	20	0.95
720839	Iron or non-alloy steel in coils	1500.00	0.53	171.56	0.54	152.50	19.05	5	0.98
847420	Machines for crushing or grinding	137.63	756.12	90.96	934.13	72.77	18.19	5	0.81
850421	Electrical transformers, liquid die	89.167	106.69	21.18	554.21	3.19	17.99	15	0.19
852910	Reception and transmission apparatus	20.78	77.31	17.28	77.31	0.81	16.47	6	1.00
220830	Whiskies	109.97	12.52	19.28	16.07	2.98	16.30		0.78

**Source:** Calculated from UNCOMTRADE data base,

**Note:** Values are in US\$ million, Unit value is in US\$

**Table 10: India's Import Potential from Nepal: Top 20 items, 2019**

H.S. Code	Description	Nepal Export			India's Imports from World		Export Potential	Unit Value Ratio
		Total	Unit Value	To India	India imports world	Unit Value		
		1	2	3	4	5		
550951	Yarn, not sewing thread	31.85	2.28	14.88	31.21	2.08	16.34	1.09
550921	Yarn, not sewing thread	21.16	1.92	15.11	114.73	1.79	6.05	1.07
620442	Dresses; women's or girl's	5.82	4.85	0.01	4.52	8.31	4.51	0.58
620462	Trousers, bib and brace	4.28	2.85	0.00	50.28	7.62	4.28	0.37
620432	Jackets and blazers	8.92	3.72	0.00	3.50	11.90	3.50	0.31
830629	Statuettes and other ornaments	2.96	5.53	0.18	4.36	5.12	2.78	1.08
711311	Jewellery of silver	1.81	214.08	0.00	75.32	973.60	1.81	0.22
920600	Musical instruments; percussion	1.64	3.09	0.00	3.53	15.81	1.64	0.20
847910	Machinery and mechanical appliances	1.31	2260.91	0.00	63.02	9212.47	1.31	0.25
90240	Tea, black; (fermented)	22.13	2.01	20.86	51.84	2.59	1.28	0.78

*Table 10 Continued...*

Table 10 Continued...

711319	Jewellery of precious metal	1.17	19771.95	0.00	536.92	67135.43	1.17	0.29
741810	Copper table	1.34	3.83	0.19	1.36	12.68	1.15	0.30
240399	Tobacco	1.04	3.47	0.00	10.72	5.10	1.04	0.68
620520	Shirts; men's or boys	1.04	3.83	0.00	88.12	6.78	1.04	0.57
621410	Shawls, scarves, mufflers	6.99	12.06	0.14	1.13	23.19	0.99	0.52
620332	Jackets and blazers for men's or boys	0.95	3.65	0.00	4.27	10.69	0.95	0.34
410621	Tanned or crust hides and skins	0.86	3.24	0.00	21.90	4.06	0.86	0.80
410419	Tanned or crust hides and skins	2.02	1.44	1.26	61.38	1.46	0.76	0.99
730890	Iron or steel; structures and parts	0.78	1.05	0.02	390.37	2.30	0.76	0.46
611012	Jerseys, pullovers, cardigans, wais	10.48	21.28	0.00	0.74	46.48	0.74	0.46

*Source:* Calculated from UNCOMTRADE data base,

*Note:* Values are in US\$ million, Unit value is in US\$

Nepal. Table 9 presents the top 20 items for which India have the highest additional export potential to Nepal. Some of the important products include food preparation, ethylene polymer, automatic data processing units, telephone sets, communication apparatus, medical instruments, aircraft parts, T-shirts, propylene etc. Notably, there are 331 products at six-digit HS level which have an additional export potential of more than US\$ 1 million.

Nepal's supply constraint also reflects in its additional export potential. Our estimates suggest that Nepal only has an additional export potential of less than US\$70 million. Table 10 presents the top 20 items with highest export potential from Nepal to India. Some of the important products include yarn, women's garments, trousers, silver jewellery, musical instruments, tea, machinery and mechanical appliances.

## **Constraints to Trade**

There are several binding constraints to trade between India and Nepal as both, tariff and non-tariff, barriers have remained high. Apart from these, stakeholders also recognize high transaction costs both in terms of time and money as a significant constraint to trade. The primary factors responsible for high trade transaction costs include poor connectivity and lack of quality infrastructure at border crossing points. According to our key informants, some of the leading constraints to India-Nepal trade are as follow.

**High Tariff barriers:** Nepal has duty free access to the Indian market. However, India continues to face high tariff rates in Nepal. As per our analysis India's export potential to Nepal is high in 331 items at six-digit level of HS Code and for several of these products, Nepal has very high tariff rates. Our analysis shows that items having more than 52 per cent of additional export potential attract a tariff rate of above 14 per cent (Table 8).

**Levy of the Agricultural Reform Fee:** While the Bilateral Trade Treaty of 2009 provides duty free access to for selected agriculture products on reciprocal bases, the Government of Nepal levies Agriculture Reform



Fee at the rate of 5 to 9 per cent on import of these products from India. The agriculture reform fee very much negates the advantage of duty-free market access and works as a significant constraint to agro exports from India.

**Non-Tariff Measures/ Barriers:** Given the reduction in tariff barriers all over the world, non-tariff measures (NTM) have emerged as a matter of concern. According to the World Trade Organization (WTO), non-tariff measures such as Sanitary & Phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures have become more prominent concerns for global trade. However, not all NTMs have protectionist intent. Instead, several SPS and TBT measures intend to protect humans, animals and plants from diseases and toxic contamination. Nonetheless, given the difference in standards across countries, these measures do distort trade and affect developing countries more as they are at lower thresholds of health and safety standards. Like other countries, India-Nepal trade is also subject to several NTMs. Table 11 shows the prevalence of NTMs in India and Nepal. As expected, the incidence of NTMs in India is higher as compared to Nepal. At aggregate level, more than 51 per cent of products imported to India are subject to one or more types of NTMs, while the corresponding figure for Nepal is less than 21 per cent. The incidence of NTMs is higher in the case animal, vegetable and food products in India. Since Nepal has export potential in these products, inability to meet Indian /international standards is affecting its export to India as well as other countries. Nepal on the other hand has higher incidence of NTMs in the case of chemical products.

**Table 11: Prevalence of NTM's In India and Nepal**

Sectors	Nepal				India			
	1 type	2 types	3+ types	No NTMs	1 type	2 types	3+ types	No NTMs
Animal	7.46	2.19		90.35	22.81	16.67	2.19	58.33
Vegetable	3.65	12.96	0.33	83.06	13.29	60.47	8.31	17.94
Food Products	8.81	7.77	0.52	82.9	47.15	45.6	2.59	4.66

*Table 11 Continued...*

Table 11 Continued...

Minerals	1.89	0.94		97.17	24.53	2.83		72.64
Fuels			80.95	19.05	11.9			88.1
Chemicals	40.81	3.93		55.26	25.6	10.01	0.38	64.01
Plastic or Rubber	0.47			99.53	16.59			83.41
Hides and Skins				100	30.43			69.57
Wood				100	8.86	0.42		90.72
Textiles and Clothing	0.62			99.38	1.25	85.89	12.11	0.75
Footwear				100	24.49			75.51
Stone and Glass	0.51			99.49	20.41			79.59
Metals	0.35			99.65	15.49	2.46		82.04
Mach and Elec	65.28			34.72	13.39	1.3	0.13	85.18
Transportation	3.05			96.95	4.58	52.67	2.29	40.46
Miscellaneous	0.28			99.72	8.01			91.99
All Import Products	<b>17.52</b>	<b>1.8</b>	<b>0.71</b>	<b>79.97</b>	<b>15.46</b>	<b>23.2</b>	<b>2.75</b>	<b>58.59</b>

Source: UNCTAD and World Bank, extracted from WITS database.

**Physical Barriers / Poor Border Infrastructure:** Land Custom Stations (LCS) facilitates the cross-border movement of goods and passengers. A well functional LCS with all the infrastructural facilities reduces the transaction time / cost and thus directly provides a boost to cross border trade. A LCS needs several infrastructural facilities for smooth functioning. These facilities can broadly be clubbed into three categories; basic utilities, cargo handling facilities and facilities required for digitization of trade processes. India has 27 trading points with Nepal along the Indo-Nepal border. However, infrastructure facilities at most of these LCS have remained extremely poor. Absence of basic facilities such as cold storage, warehouses, testing labs, EDI at most LCS have acted as a major obstacle to trade (CUTS 2016). Indian

government has been trying to improve infrastructure facilities at the border by constructing integrated check posts (ICP). These initiatives have improved infrastructure facilities at a few border points. However, according to our key informants, improvement has remained restricted to three newly constructed ICP, Jogbani, Raxual, Panitanki. According to our interaction with traders and custom officials, remaining LCS continues to face huge infrastructure deficit. Infrastructure facility on the Nepal side have remained poor at most LCS, hampering the overall trade facilitation. According to traders, absence cold storage and testing facilities at most of the LCS on India-Nepal border are the biggest constraint to trade.

## **Indian FDI in Nepal**

India has been a major source of foreign direct investment for Nepal. The first formal record of Indian foreign direct investment (FDI) in Nepal dates back to 1951-52 when the Nepal Commercial Corporation was established as a joint venture with Indian investment (Mukherji 2011). Since then, Indian investors have consistently invested in Nepal, making major contributions to the Nepalese economy, both in terms of job creation and revenue generation. However, like trade, India-Nepal investment relation have also witnessed significant ups and down. India was sole foreign investor in Nepal till 1980. Nevertheless, situation started changing after 1981 when Nepal introduced acts and policies to govern foreign investment which stimulated FDI inflows from other countries. Consequently, India's share in total FDI stock of Nepal started declining. However, it was the anti-India sentiments during the period of political unrest in Nepal which dealt a massive blow to Indian investment. During 1996 to 2007, several leading Indian firms operating in Nepal were targeted. In the absence of any formal investment protection treaty, these incidents sparked fear among Indian investors and Indian firms almost stopped making fresh investments in Nepal. Consequently, the share of India in total FDI stock of Nepal decline to below 20 per cent in 2016 (table 12).

With return of normalcy, Indian FDI in Nepal has witnessed significant upturn. During last few years, Indian FDI in Nepal has

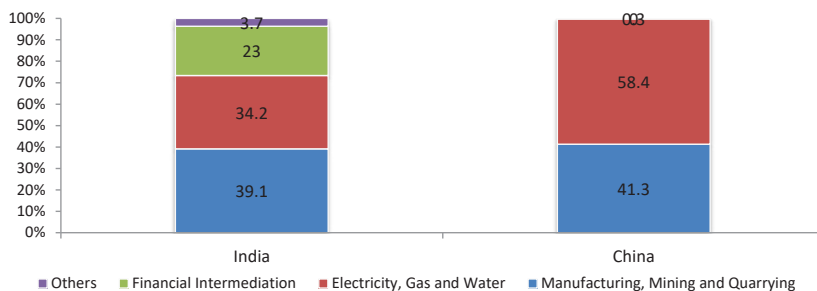
outpaced FDI from other countries leading to a significant jump in Indian share in total FDI stock in Nepal. According to a recent report by Nepal Rashtra Bank, cumulative Indian FDI in Nepal is estimated to be 75,814.20 million Nepalese rupees which accounts for 33.26 per cent of total FDI stock in Nepal. Indian FDI in Nepal has been quite diversified. Around 39 per cent of Indian FDI in Nepal has gone into manufacturing and mining, another 34 per cent has gone into utilities, mostly hydropower and 23 per cent of FDI has gone into services sector. Remaining FDI has gone into the agriculture sector. It is interesting to note that Chinese firms, a late entrant, have made very aggressive investments in Nepal, especially in hydropower sector (Figure 3).

**Table 12: Cumulative Indian and Chinese FDI Stock in Nepal**

Year	India		China		Total
	Value	Share	Value	Share	Value
2016	32,868.40	19.49	17,128.00	10.16	1,68,611.00
2019	56,054.60	30.64	27,560.20	15.07	1,82,919.60
2020	62,447.20	31.46	30,971.50	15.60	1,98,520.80
2021	75,814.20	33.26	33,001.00	14.48	2,27,946.90

*Source:* Nepal Rashtra Bank (2021).

**Figure 3: Composition of Indian and Chinese FDI in Nepal**



*Source:* Nepal Rashtra Bank (2021).

## **Investment Potential and Binding Constraints**

Though we have witnessed an upturn in Indian FDI in Nepal during last five years, the investment potential has not been fully realised. According to our key informants, there are several sectors which offers great investment complementarities with hydropower sector being at the top of the list. Nepal is endowed with huge hydropower potential. It has proven hydropower potential of 100000 MW. India on the other hand has huge demand for green energy. Given this complementarity, hydropower sector has long been identified as an area for investment cooperation between India and Nepal. Several public as well as private Indian firms have also shown interest in Nepal's hydropower sector. However, owing to several political and economic factors, actual investment has remained disappointing.

Tourism is another key sector that offers great opportunities. Nepal's geographical location combined with unique cultural heritage makes Nepal a formidable tourist destination. It offers great opportunities for investors in the tourism sector, ranging from adventure tourism to religious tourism. Similarly, the richness in biodiversity makes Nepal a very attractive destination for investment in agro and forestry-based industries. Though entire agro forestry sector, including food processing, is promising, the traditional medicine segment tops the list. Given the growing global acceptance of traditional medicine and related products, their demand has been increasing exponentially. The global market for herbal medicine has already reached US\$185 billion and almost 10 per cent of it is being produced in India. Some of the Indian firms have emerged as leading producers of traditional medicine. Since, Nepal has the favorable topography and climate to produce herbs used in traditional medicine, this sector presents a huge potential for investment cooperation. Apart from these sectors, Information Communication Technology (ICT), infrastructure, construction, education, health etc. are other sectors which have great investment potential in Nepal.

Despite huge potential, Indian investment in sectors mentioned above has remained extremely low due to variety of policy-related obstacles. According to our interaction with Indian investors, lack

of coordination among the various FDI governing authorities in Nepal, difficulties in land acquisition, disruptive activities by labour unions, tax concerns, such as a lack of tax rebates on profits that are reinvested, infringement of copyright, trademark, patent and insufficient infrastructure are some of the leading constraints to FDI in Nepal. Some Indian companies, have recently withdrawn their investments from Nepal, claiming excessive administrative burdens as the reason. Apart from these general constraints, some sectors specific challenges such as high capacity and energy royalty levied on hydropower projects have also been a significant constraint to Indian private investment in Nepal. On top of that there is perception among Indian investors that Nepalese policy makers prefer Chinese FDI over Indian FDI in key sectors with high investment potential.

## **Conclusion and Way Forward**

India and Nepal have shared very strong cultural and commercial relations since antiquity. The relations between two the neighbors were formalised in the 1950s with a treaty of trade and friendship. Since then, trade and other treaties have been periodically revised to address the emerging challenges and concerns of both countries. These treaties and their timely revisions have firmly cemented India-Nepal relations. Soundness of India Nepal relation can be gauged from the fact that India has been a significant development partner of Nepal. Over the years, India has actively contributed to the development of Nepal through financial and technical assistance. India has also been the leading source of foreign direct investment as well as leading trade partner of Nepal. However, trade relations between these two south Asian neighbors have remained lopsided. Despite India giving duty free access to Nepal on a non-reciprocal basis, Nepal has not been able to increase its exports to India leading to increase in trade deficit.

Rising trade deficit has been a cause of concern in Nepal and few scholars have tried to blame certain provisions of India-Nepal trade treaty for rising trade deficit. However, these assertions are far from reality. Nepal's trade deficit is not an India specific problem rather it is a structural problem as Nepal is having big trade deficit with all leading

trade partner. Nepal's growing trade deficit reflects the chronic supply constraint which Nepal economy has been grappling with. Given this, taking regressive steps towards protectionism will not help Nepal. Instead, both countries need to adopt a holistic approach encompassing trade liberalization, trade facilitation and investment facilitation to correct the trade imbalance and further strengthen the economic relations. Both countries need to address existing trade barriers; especially NTMs and trade related poor infrastructure in Nepal to harness the existing trade potential and integrate Nepal in to regional value chains. Efforts are also needed to boost cross border investment flow which holds the key for addressing the supply constraints in Nepal. Specifically, following measures should be considered to strengthen the economic relation between India and Nepal

***Gradual reduction of Tariff:*** India-Nepal trade treaty is among the oldest trade treaties in the world. However, despite several revisions, the treaty has largely remained non reciprocal in nature. India has extended duty free access to Nepalese products, while Nepal has maintained standard tariffs on Indian imports. This one-sided duty-free access was designed to support industrialization in Nepal, which has remained elusive. Given the noticeable economic progress, Nepal is set to graduate from Least Developed Country (LDC) to developing country status in the next few years. With graduation, Nepal will lose the preferential market access in other countries, which according to WTO estimates will lead to significant increase in tariff rate Nepalese exporters face (WTO 2021). In that situation, Nepal will have to negotiate trade deals to secure market access and these deals will involve tariff reduction. Keeping this in mind, India and Nepal should formulate and incorporate a slow and gradual tariff liberalisation programme for Nepal in the trade treaty. Apart from preparing Nepal for facing impending international competition, gradual removal of tariffs can also pave the way for Nepal's integration in regional value chains.

***Address Non-Tariff Barriers:*** Non-Tariff measures such as Sanitary & Phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures have emerged as a cause of concern. Despite not having protectionist

intent, these measures do affect trade negatively by increasing the compliance cost. India Nepal trade is also subject to several NTMs. A sizable proportion of agriculture, animal, food, chemical, textile imports are subject to NTMs, both in Nepal and India. The incidence of NTMs is certainly higher in the case of India. Mutual Recognition Agreements (MRAs) can help to mitigate the negative impact of NTMs. However, given the gap in standards, regulations and SPS measures between India and Nepal, MRAs at present are not feasible. The SPS and TBT requirements for food, animal, clothing and textile are more stringent in India (ADB 2019). For example, in the case of agriculture and food products, the Indian standard requires restricted presence of melanne, steviol glycoside, agaric acid as well as strict labeling requirements. However, these parameters are not covered by Nepalese foods standards. Similarly, several TBT measures which India imposes such as technical specification for wires, regulation to control hazardous waste, etc. don't have any corresponding mandatory technical regulations in Nepal. In the case of clothing, a pre-shipment certificate for no use of hazardous dye is required for exporting to India. However, Nepal does not have testing facility for the same. Given these gaps in standards, regulations and testing infrastructure, India and Nepal should make urgent efforts to harmonize standards and regulations. Development assistance channel should be used to improve standards, build capacity and improve trade related testing infrastructure in Nepal. Both countries should then make efforts to establish MRAs.

***Remove Tariff Rate Quota:*** India has imposed tariff rate quota on the imports of vegetable ghee, acrylic yarn, copper products and zinc oxide from Nepal. However, the imports of these products from Nepal have remained well below the prescribed quota. Given this, India can consider removing the tariff rate quota restrictions on these products.

**Remove Agriculture reform fee:** The Nepalese policy of Agricultural Reform Tax on the imports of certain agriculture products negates the notion of duty-free market access and therefore should be withdrawn.

**Augmenting Infrastructure at LCS:** Land Custom Stations (LCSs) facilitate cross border movement of goods. Most LCSs on India Nepal



border, except few recently developed Integrated Check Posts (ICPs), are plugged with infrastructure deficit. Absence of storage facilities along with poor testing infrastructure has been hindering trade integration, especially the trade in perishable agricultural goods. Therefore, improving availability and quality of infrastructure need to be prioritize in a systematic manner. The LCSs with high and diversified trade potential should be given preference for infrastructure up-gradation.

***Trade Facilitation and Digital Connectivity:*** The simplification, modernization and harmonisation of export and import processes are important areas of trade reforms. Poor data sharing, duplicative procedures, and lack of inter-agency coordination often leads to delay and product deterioration. Interoperability at the border can effectively address these issues. India and Nepal both have established single window system. In order to establish integrated border management system, both countries should explore the possibility of cross border single window interoperability. Apart from this, India should explore the areas where it can provide technical and financial assistance to Nepal for implementation of trade facilitation as Nepal trade facilitation implementation is still in nascent stage.

***Investment Facilitation:*** Measures mentioned above can boost India-Nepal trade and can help Nepal to realize existing trade potential. However, these measures will not be able to address the concern of trade deficit fully as Nepal at present has very limited export capacity. Given this, efforts are needed to boot export capacity. Nepal has tremendous potential of exporting hydropower to India. However, this potential has yet not been fully utilized. Similarly, Nepal has potential in agro, food processing, ayurveda products. However, Indian investment in these sectors is constrained by several factors. Lack of coordination among the various FDI governing authorities, difficulties in land acquisition, disruptive activities by labour unions, tax concerns, such as a lack of tax rebates on profits that are reinvested, corruption, infringement of copyright, trademark, patent and insufficient infrastructure are some of the major constraints' Indian investors face in Nepal. Both governments should work together to address these concerns. During the period of

political instability, Indian firms were targeted in Nepal which has shaken the confidence of Indian investors. In order to restore Indian investors' confidence, both governments should consider signing a separate bilateral investment protection and promotion treaty or consider expanding scope of the trade treaty to include a chapter on investment protection and promotion. Apart from this, Nepal government should make the private investment in high potential sector economically viable and attractive. For example, Nepal has huge potential in hydropower sector. However, Nepal government's policy of charging high electricity royalty and capacity royalty from export-oriented hydropower projects make investment in hydropower sector less attractive for private player and therefore needs to be rationalized.

***Establish Joint Mechanism to expedite investment and addressing trade disputes:*** Investor as well as traders from both sides face issues frequently. There has been instance when local custom officials have refused to clear import consignment without any valid reason. At present solving these types of minor but important issues take a lot of time. In order to minimise the negative impact of such issue on trade and investment, better communication between stakeholders is required. India and Nepal should consider establishing a joint mechanism, connecting the public and private stakeholders to periodically take stoke and solve the emerging trade and investment related issues.

## **Endnotes**

- <sup>1</sup> Covid pandemic induced restrictions adversely affected the India-Nepal trade and two-way trade declined to below US\$7 billion in 2020. With return of normalcy, the trade volume rebound sharply to breach US\$10.5 mark in 2021.
- <sup>2</sup> Nepal's trade data is available till 2019 only. Therefore, the analysis of Nepal's trade with rest of the world has been restricted to 2019.
- <sup>3</sup> Main purpose of this approach is to identify the items which have trade potential and not the value of trade.

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## Annexures

### Annexure 1: Nepal's Top 12 Traded Commodities with India

	Year 2009			Year 2019			Year 2021		
	HS Code	Product	Share	HS Code	Product	Share	HS Code	Product	Share
<b>Import From India</b>	271019	Petroleum oils	16.29	271019	Petroleum oils	15.12	271019	Petroleum oils	12.29
	720918	Products of iron	4.5	720719	Products of iron	5.63	720719	Products of iron	6.25
	271119	Petroleum gases	3.42	271011	Light petroleum	3.92	271119	Petroleum gases	4.38
	720719	Products of iron	2.89	271119	Petroleum gases	3.24	271011	Light petroleum	4.07
	300339	Medicaments	2.81	871120	Motorcycles	2.63	871120	Motorcycles	2.83
	252329	Portland cement	2.18	100630	Milled rice	2.44	100630	milled rice	2.80
	271011	Light petroleum oils	2.12	300490	Medicaments	1.98	720839	Products of iron	2.13
	871120	Motorcycles	2	720839	Products of iron	1.93	100610	Rice in the husk	1.74
	252310	Cement clinkers	1.86	721391	Bars & rods	1.58	300490	Medicaments	1.69
	721391	Bars & rods, hot-rolled	1.41	271600	Electrical energy	1.49	721391	Bars & rods	1.55
	10420	Live goats	1.24	100590	Maize	1.22	851712	Telephones	1.39
	300490	Medicaments	1.15	851712	Telephones	1.06	100590	Maize	1.39

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<b>Export To India</b>	721049	Flat-rolled products of iron	7.48	151190	Palm oil	30.32	150790	Soya bean oil	45.13
	392690	Articles of plastics	6.68	150790	Soya bean oil	8.47	151190	Palm oil	17.93
	721041	Flat-rolled products of iron	6.63	220290	Non-alcoholic beverages	6.25	531010	Woven fabrics of jute	3.69
	220290	Non-alcoholic beverages	5.24	392690	Articles of plastics	5.05	90830	Cardamoms	3.625
	90240	Tea, black	3.59	531010	Woven fabrics of jute	4.81	220290	Non-alcoholic beverages	3.240
	630510	Sacks & bags	3.55	90830	Cardamoms	3.98	151219	Sunflower seed	2.743
	320300	Coloring matter	3.53	630510	Sacks & bags	3.64	392690	Articles of plastics	2.166
	550921	Yarn other than thread	3.41	550932	Yarn other than thread	2.64	550921	Yarn other than thread	1.928
	251710	Pebbles/gravel	3.26	90240	Tea, black	2.5	230690	Oil-cake	1.590
	721720	Wire of iron	2.73	550921	Yarn other than thread	2.45	90240	Tea, black	1.555
	90830	Cardamoms	2.62	550951	Yarn other than thread	2.22	630510	Sacks & bags	1.273
730690	Tubes & pipes	2.23	721720	Wire of iron	2.18	140490	Vegetable products	1.057	

**Source:** Calculated from UNCOMTRADE.

## Annexure 2: Nepal's Top 12 Traded Commodities with Rest of World

	Year 2009			Year 2019		
	HS Code	Product	Share	HS Code	Product	Share
<b>Exports</b>	71340	Lentils, dried, shelled, whether/no	22.18	570110	Carpets & other textile floor cover	21.57
	570110	Carpets & other textile floor cover	21.25	550951	Yarn other than sewing thread, of p	5.66
	621420	Shawls, scarves, mufflers, mantilla	6.49	560290	Felt	5.31
	100190	Wheat other than durum wheat	4.84	621420	Shawls, scarves, mufflers	4.83
	630520	Sacks & bags	2.77	71340	Lentils, dried, shelled	4.03
	620520	Men's/boys' shirts	2.37	230910	Dog/cat food	3.52
	121190	Plants & parts of plants, incl. see	2.32	611012	Jerseys, pullovers, cardigans	3.49
	970110	Paintings, drawings & pastels, exec	1.97	620432	Women's/girls' jackets & blazers	2.97
	711311	Articles of jewellery & parts there	1.34	621410	Shawls, scarves, mufflers, mantilla	2.28
	620332	Men's/boys' jackets & blazers (excl	1.09	121190	Plants & parts of plants	2.20
	611012	Jerseys, pullovers, cardigans, wais	1.05	550921	Yarn other than sewing thread	2.02
	151620	Vegetable fats & oils & fractions t	1.04	970110	Paintings, drawings & pastels	1.97

*Continued...*

Continued...

<b>Imports</b>	710813	Gold	9.33	710813	Gold	5.12
	150710	Soya bean oil, crude	5.72	151110	Palm oil, crude	3.74
	80290	Nuts	3.49	150710	Soya bean oil, crude, whether/ not d	2.91
	842951	Self-propelled front-end shovel	2.24	270119	Coal other than anthracite & bitumen	2.89
	151110	Palm oil, crude	2.14	851712	Telephones for cellular networks	2.44
	120510	Low erucic acid rape/colza seeds	1.80	310210	Urea	2.02
	851712	Telephones for cellular networks	1.78	880240	Aeroplanes & other aircraft	1.92
	721391	Bars & rods, hot-rolled	1.64	151211	Sunflower seed/ safflower oil, crude	1.64
	390120	Polyethylene having a sp.gr. of 0.9	1.49	710692	Silver	1.59
	880240	Aeroplanes & other aircraft, of an	1.38	120100	Soya beans, whether/not broken	1.56
	851769	Other apparatus for transmission/re	1.36	310530	Diammonium hydrogen orthophosphate	1.55
	390210	Polypropylene, in primary forms	1.27	71310	Peas	1.23

*Source:* Calculated from UNCOMTRADE.

**Annexure 3: Nepal's exports as ratio to Its Imports  
from leading trade partners**

Sr. No	Partner	Share in Trade	Exports Import Ratio					
		2019	2009	2011	2013	2015	2017	2019
1	India	63.51	26.40	16.38	14.09	10.46	6.44	8.48
2	China	14.74	5.66	1.48	3.35	1.25	1.76	0.93
3	Indonesia	1.97	0.01	0.02	0.06	0.05	0.04	0.44
4	United Arab Emirates	1.95	16.70	1.81	1.04	0.63	4.62	1.26
5	United States	1.93	128.27	114.13	121.58	73.30	100.87	62.35
6	Canada	1.01	85.79	77.55	27.72	11.71	9.54	5.93
7	Thailand	0.84	0.33	2.16	4.49	2.06	0.40	0.48
8	Malaysia	0.76	1.66	1.92	4.32	4.99	2.96	1.67
9	Switzerland	0.75	12.51	7.90	15.97	2.73	8.05	4.08
10	Germany	0.72	124.11	143.72	85.11	30.13	56.08	42.20
11	Argentina	0.70	0.04	0.13	0.11	0.00	0.02	0.01
12	Ukraine	0.66	0.64	11.45	1.96	0.14	0.13	0.19
13	France	0.66	47.90	94.73	72.77	13.50	7.13	15.86
14	Korea, Rep.	0.64	1.90	1.45	2.57	1.40	1.67	2.90
15	Saudi Arabia	0.59	1.30	0.20	0.13	0.11	0.22	0.14
16	Japan	0.56	9.37	17.99	18.64	15.99	17.36	14.42
17	Australia	0.52	18.96	22.95	22.09	13.91	12.73	10.00
18	Bangladesh	0.48	1127.11	134.32	106.27	27.56	25.14	23.27
19	United Kingdom	0.41	22.00	67.32	109.12	110.25	102.83	69.88
20	Italy	0.37	186.02	74.16	39.79	58.41	84.56	22.37
21	Singapore	0.36	7.23	9.91	3.14	4.27	4.27	2.04
22	Hong Kong, China	0.27	18.82	32.15	178.00	57.94	6.16	8.82
23	Other Asia, nes	0.25	3.14	4.43	6.13	6.20	4.04	3.40
24	Russian Federation	0.16	5.08	19.33	4.02	0.48	15.41	9.17
25	Netherlands	0.14	32.87	46.65	30.76	27.80	22.54	25.57
26	Sweden	0.04	3.66	45.56	34.31	20.19	21.03	25.77

Source: Calculated from UNCOMTRADE.





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