TRADE IMBALANCES WITH INDIA*

1. Introduction

Nepal's close links with the Indian market and dependence on India for transit routes has resulted in Nepal and India having a special trading relationship. This relationship has resulted in many advantages for Nepal but has constrained Nepal's ability to pursue an independent trade policy.

In 1960/61 (the end of the First Plan), of the total volume of exports and imports, trade with India accounted for 94 percent and 99 percent respectively. By 1975/76, exports to India constituted 75 percent of total exports, and imports from India formed 62 percent of total imports. Further, in 1991/92, exports to India and imports from India formed 22 percent and 32 percent of the total respectively. This drop in India's share in Nepal's total trade has been attributed to the increase in aid-related imports and carpet and garment exports to third countries. The major commodities exported comprised of jute-goods, rice-bran oil, mustard and linseeds, pulses, and live animals, among others. The major imported commodities included cotton fabrics, cement, medicine, transport equipment and spare parts, machinery equipment and appliances, and electrical equipment, among others. Moreover, in 1991/92, the trade deficit with India was to the tune of Rs 10,247.0 million, a steep increase from Rs 333.4 million in 1975/76.

Nepal is regarded as an attractive tourist center. The number of Indian tourists (by air) in 1991 totalled 92,506, an increment of almost 55 percent compared to 1990. In real terms, the figure is much more than this since a large number of Indian tourists visit Nepal by road and there is free movement of labor between the two countries. However, very few studies on inter-country tourism between Nepal and India have been conducted.

Prior to March 23, 1989, the special relationship between Nepal and India was based on two treaties signed in March 1978. A transit treaty permitted Nepalese imports entering Calcutta by sea to pass through to Nepal at any one of the 15 points along the Nepalese-Indian border free from Indian taxes or import duties. A trade treaty, on the other hand, allowed bilateral trade to take place at twenty-one points along the common border. Manufactured exports from Nepal were duty-free as long as they met tough criteria on rules of origin while Indian manufactured exports were usually charged a low preferential tariff but did not need to satisfy rules of origin. The trade treaty provided Nepal with non-reciprocal preferential access to the Indian market for all manufactured articles containing at least 80 percent Nepalese or Indian materials. An agreement of cooperation to control unauthorized trade was signed at the same time.

Along with India's transport cost advantage, the above determinants have made India Nepal's principal trade partner. Since Nepal and India, while possessing low tariffs themselves, did not have a common tariff with respect to the rest of the world, it created incentives for smuggling. In the past, given India's high tariff structure and Nepal's need to keep a lower tariff structure in order

---

* A study conducted by Economic Development and Engineering Research Institute for Nepal Rastra Bank. Its summarized version appears here. The views and opinions expressed are the responsibility of the Institute itself.

to meet import demand at a lower cost, there was an incentive to smuggle third country goods from Nepal to India. The illegal activities themselves and their surveillance by the authorities necessitated resource costs. To curtail smuggling, the country devised a comprehensive structure of quantitative restrictions (QRs), import licenses, and administrative controls on third country imports, and maintained its tariff on many such products at a high level than desirable.

Due to divergences in views, the trade and transit treaties which expired on March 23, 1989 could not be renewed. Consequently, all trade over surface routes with India was limited to just two border points. Moreover, the special commodity arrangements on fuel and coal also expired.

Both Nepal and India applied Most Favoured Nation (MFN) tariffs on bilateral trade. Hence, Nepalese exports, which had been exempted from Indian tariffs, were subject to Indian MFN custom duties that ranged between 100 and 150 percent, successfully blocking the entry of Nepal's exports into India.

With the eradication of the duty-free status of Nepalese exports to India and the introduction of Indian MFN tariff, Nepal's exports to India almost vanished. Overall, it is estimated that Nepal lost about 5 percentage points of its GDP growth over a period of two years.

The foregoing measures were either nullified or made dormant with the signing of the joint communique by the two Prime Ministers on June 10, 1990. A salient feature of the agreement was that India would restore 22 border points for entry of goods into Nepal. Further, it would resume supplies of coal, coke, petroleum products, and preferential goods such as sugar and cement to Nepal.

Similarly, Nepal was to resume tariff preferences to Indian goods by, inter alia, exempting additional customs duty. It would also remove the restrictions on the flow of Indian currency between Nepal and India on the basis of reciprocity.

The foregoing paragraphs demonstrate that Nepal's economy is quite dependent on the Indian economy. The country has a special trade relationship with India. In recent years, there has been a considerable growth of imports from India. This tremendous growth in imports in comparison to exports has given rise to imbalances in trade as well as the balance of payments. As a result, the trade deficit figures have been soaring.

2. Trade and Transit Treaty of 1991

On Dec. 6, 1991 Nepal and India signed two separate treaties on trade and transit and agreed on a "new arrangement" for cooperation in controlling unauthorized trade. The trade treaty would be valid for five years with renewal provision for the same period; the transit treaty would be valid for seven years. The new trade treaty included a host of new facilities and concessions for Nepalese exports to India. The facilities and concessions included reduction of Nepalese/Nepalese-Indian requirement for duty and quota-free entry of Nepalese manufactured goods to India from 65 percent to 55 percent and time-bound pro forma clearance for such Nepalese exports to India, through the Indian Embassy in Kathmandu with a four-month time limit. The validity period for such pro forma clearance was increased from two to five years to simplify the procedures for Nepalese exporters and an agreement was reached in principle to include Nepalese labor content in the 55 percent requirement for duty/quota-free entry, subject to a negative list of products that would be worked out by the two countries.

The new transit treaty also incorporated various simplifications in customs and other procedures to assist Nepalese importers and exporters, besides the provisions of the earlier treaty.

To promote cooperation in industrial development, special attention would be given for the establishment of the Nepal-India joint ventures. To meet this objective, there was a provision for accessibility to the Indian market free of basic customs duties and QRs which would be provided automatically for all products of such joint ventures which were cleared by the two countries. The government of India would also permit movement of capital for such approved joint ventures as per the terms agreed upon. Stress would be given to the establishment of sugar, paper, and cement industries.

There were numerous comments on the various issues of the Trade and Transit Agreements of 1991. From the Nepalese side, although there existed 91 Nepalese products that were allowed preferential entry into India, the actual figure turns out to be less than 25 products. The material content formula was not workable since it had worked only for three out of 91 items. This displays that the reduction of material content of Nepalese products was unable to slice Nepal's adverse trade deficit with India because of two factors, one relating to continuing procedural hindrances and the other relating to Nepal's underdeveloped industrial base. With regard to material content, though foreign raw material is allowed to the extent of 45 percent, when the cost of product is taken into account, effective rates turn out to be about 20-25 percent. Further, Nepal submitted nine pro forma forms to India, but received just one approval (as f Oct. 15, 1992). Nepalese exporters seem uncertain as to how many months it would take for processing forms even though it was mentioned in the Treaty that clearance would be given in four months.

In the process of implementation, however, exports to India are not growing because of the slow approval process and levy of customs duty in India on the items eligible for the preferential treatment. In addition, manufactured exports to India, according to the Treaty, are classified as: i) those containing 55 percent Nepalese raw materials, ii) those containing 80 percent Nepalese and Indian materials, iii) those complying with Indian small industry requirements, (iv) those meeting Nepalese and Indian material and labor requirements to the tune of at least 40 percent, and v) those fulfilling labor content requirement (which would be decided between the two countries in future). With each renewal of the Treaty, Indian criteria for preferential treatment seemed to be more and more complex while Nepal appeared to have opened up more and more. Under the present Treaty of Trade, Nepal has waived additional customs on all imports from India during the validity of the Treaty.

Customs duties on items eligible for preferential treatment also seem discretionary. Even a product like brick which uses 100 percent Nepalese raw materials is subject to 15 percent tariff duty in India. This brings out the fact that duties for preferential entry are levied on case-by-case basis. Access to the Indian market varies according to the type of products and competitive conditions in Indian industries. Though the Indian market is vast, experiences reveal that even with the preferential treaty, Nepalese manufactured products find it difficult to enter.

Because of the foregoing reasons, there has been an adverse trade situation with respect to India. Further, the country's trade deficit with India is more than half of the total trade deficit .

Both short and long term measures are required to deal with this situation. The short term measures include the following: i) a review and modification of the 91 items of the aforementioned list by a downward adjustment in third country material content; ii) in ideal situations, the substitution of the material content formula with the value-added system analogous to current practice adopted by Indian exporters; iii) identification of items for import from third countries on which India spends foreign currency and substitution of them by imports of products manufactured in Nepal from domestic plus imported material mix; and iv) provision of access to Indian markets for all Nepalese exports on a reciprocal basis, that is, Indian custom duties to be levied at par with HMG's customs duties on imports from India, subject to a negative list, if and when required.

The long term measures are: i) identification of comparative advantage areas for the development and creation of new exportable products imported into India; ii) free access to India of all products manufactured by Nepal-India joint venture undertakings; and iii) priority to service sector industries such as nursing homes, manpower training centers, tourism, and hydropower development.

3. Agreement of Oct. 20, 1992

An agreement was reached between the Prime Minister of India and the Prime Minister of Nepal during the former's visit to Kathmandu in October 1992. Some changes were then made in the Trade and Transit Treaty of Dec. 1991 in order to improve and simplify the regime for export of Nepalese goods to India. The salient features of the Agreement were: (i) the existing pro forma clearance system would be abolished and replaced by a system of Certificate of Origin to be issued by the government of Nepal; (ii) in determining the eligibility of a Nepalese product for access to the Indian market free of customs duties and QRs, Nepalese labor content would also be included; and (iii) if the total percentage of the three components, i.e., the Nepalese labor content, the Nepalese material content, and the Indian material content, exceeds 50 percent, the produce will have duty free and quota free access to the Indian market. The foregoing provisions would cover all Nepalese exports to India, except for a small negative list of items, for which this facility will not be available. Both sides agreed on procedures to ensure that the Certificate of Origin System would be efficiently and properly implemented. Further, Nepal could import goods from India by payment in freely convertible currency, in addition to the existing system of payment in Indian Rupees, for the import of such goods as the government of Nepal may choose. The Indian exporter would be entitled to all the export benefits made available by India for such exports in freely convertible currency.

4. Potential Exports and Export Performance

India is the major market of Nepal's export of agricultural and primary products. However, the export of industrial and mineral-based products is very limited. The principal industrial products that are exported to India are jute goods, rosin and turpentine, wooden parquet, oil-cake, leather, and catechu. Recent years have witnessed some new products on the export list: biscuits, noodles, brans, iron scrapes, stone and sand, potato, turmeric, rosin, fruits, cinamon, and cardamom. Emphasis should be accorded to export more of these products.

There were 10 major commodities exported to India in 1990/91 which accounted for 11 percent of the total exports and 51 percent of exports to India. These included, in order of value, jute goods, rice-bran oil, catechu, pulses, oil-cake, ginger, live animals, mustard and linseeds, salseed oil, and dried ginger. In terms of the SITC group, Group 0 has been dominating the list followed by group 6 and Group 2.

According to Table 3, during the last few years, there has been a decline in the exports of some products to India such as mustard and linseed, ghee, live animals, dried ginger, kutch (katha). There was also big drop in the export of raw jute to the value of Rs 5.4 million in 1990/91 from Rs 117.5 million in 1989/90. On the other hand, the export of rice-bran oil, oil cake, ginger, and jute goods have augmented. But, the export of timber, rice (husked), and maize has been discontinued.

Due to the almost absence of industrial units producing capital goods needed for the new investment, the domestic resources are not at all adequate in Nepal to support the development program. Thus, it is inevitable that the country has to import more and more capital and intermediate goods and also a wide range of technical and managerial services to generate and maintain fast growth. Nepal needs to import such crucial imports from India for economic growth.

India has agreed to the promotion of joint venture in Nepal in a number of fields, including a multi-million cement plant, paper and pulp industry, diesel pumping sets, magnesite, zinc, lead, iron and steel projects, light industries, industrial estates, polytechnique and regional training institutions, and railway lines. The method of financing the projects would be on a 50:50 equity participation between the two countries. Export to India by large industrial joint ventures has been considered with a view to reducing the trade deficit between the two countries.

Based on a study conducted by the Indian Insitute of Foreign Trade, the potential export items of Nepal include synthetic textiles, readymade garments, telecommunication equipment, agricultural tractors and parts, hydro-electrical equipment, drugs and medicines, leather goods, and sanitary goods.

The following industries, if developed properly, could augment Nepal's trade possibilities in the future and initiate the process of industrialization based on specialization: fertilizers, low shaft iron smelting, soap-stone, ceramics, fruit preservation and canning, breweries and soft drinks, paint and varnish, wooden parquets, glass and procelain products, woolen textiles, straw-board, paper and pulp, hydroelectric power, cement, mica, plywood and cardboard, drugs and pharmaceuticals, hotels, and ghee refining.

An important product that is being exported to India is fruit product. More of the fruit products could be exported if adequate measures are taken since Nepal is famous for citrus production. Moreover, selected sub-regions (particularly in the Hills) are appropriate for horticultural crops. A range of fruits are produced in the country but due to the dearth of transport, marketing, and storage facilities, their consumption is normally restricted to domestic markets and to very short seasons. Furthermore, due to limited orientation toward commercial horticulture, the quality is quite poor. The only fruits of general commercial importance are oranges and mangoes. There is always a surplus in the production of fruits such as mangoes, apples, and oranges. These fruits can be exported in larger quantities to India if proper arrangements including storage and distribution are made.

Market availability is not a serious hindrance for a number of fresh fruits such as grapes and citrus, and vegetables. In the Indian market, Nepal has a seasonality advantage in the summer months, where Indian fresh production is very limited (particularly in the Northern Plains). The country's domestic and tourist market is also growing, demanding a number of fruits and vegetables in fresh (for example, apples, peaches, grapes, walnuts, almond, tomatoes, cucumbers) and processed (for example, mango and pineapple slices, jam, peas) forms. At present, canned fruits, fruit juices, and vegetables are imported from India. High value foreign markets exist for shiitake (dried oak mushroom), and flower and vegetable seeds, for which some areas in Nepal are appropriate. These products, being labor intensive and demanding simple processing, can be stored and supplied to India and other profitable export markets.

Thus, the strategy for the development of horticultural production should take into account the expansion of area under existing fruits and vegetables and the expansion of area under new fruits and vegetables. Improvements in marketing infrastructure including the packing and grading of selected horticultural products and the organization of farmers are other elements to the horticultural development package.

Flowers could also be exported to the border states of UP and Bihar during the dry season when they are scarce.

Another item that has export potential is silver jewellery. The component of silver is more in Nepalese silver jewellery than that in India jewellery. Handicraft and silver jewellery are manufactured in abundance in Nepal and could be exported to Bihar and UP. However, attention should be given to the quality of the finished product.

Maize products also have export potential. The various maize products are utilized as raw materials for manufacturing industries which bring in final products. Some of these final products in which maize products are employed as the raw material for their manufacture include confectionery and other products, textiles, paper, drugs and pharmaceuticals, and tooth paste.

Bristle, a by-product obtained from the pig/boar farming, also possesses export potential. Bristle is an intermediate product only which is ultimately produced in the form of different kinds of brushes. It is also utilized in the production of various kinds of industrial products such as industrial brushes used in jute industries, textile industries, etc. The Nepalese bristle is long, black in color, and is of high commercial value.

Since 1978/79, the export of bristle from Nepal has been minimal. This is primarily ascribed to the low demand of it in the international market. India was previously the traditional export market for both kinds of processed and unprocessed bristles. To fetch foreign currency, bristle has to be industrially used inside the country to produce the final product which has demand in the international market

Another category of products with export potential is that which India produces inefficiently and at exorbitant costs in relation to international standards because of protection and distorting regulations. These include light engineering goods and components.

Other products which have export potential are those which India imports on a large scale as exhibited in Table 4. These include the following: cereals, crude rubber, synthetic and regenerated fibers (man-made fibers), edible oils, chemical elements and compounds, dyeing, tanning and coloring material, plastic material, regenerated cellulose and artificial resins, paper, paper board and manufactures thereof, and pearls, precious and semi-precious stones, unworked and worked.

As regard diversification, between the First Plan (1956/57-1960/61) and the Fourth Plan (1970/71-1974/75), there was no noticeable change in trade diversification, both countrywise and commoditywise. In 1974/75, India's share in Nepal's total trade was more than 80 percent. Its share in Nepal's total export and total import was 84 percent and 81 percent, respectively. By 1979/80, its share in total trade declined to about 50 percent. Although it increased slightly to 52 percent in 1984/85, it plummeted considerably to 28 percent by 1991/92. This is depicted in Table 5.

With regard to commodities, the principal commodities exported to India comprised of timber, rice, mustard and linseeds, ghee, and dried ginger in 1974/75. These were the major exportable goods until the early 1980s when raw jute and jute goods were also added to the export list. By 1985/86, other products were added to the export list such as live animals, pulses, ginger, oilcake, and rice-bran oil, and this continued till the end of 1990/91.

Thus, even after the completion of the Seventh Plan (1985-90), Nepal's export trade has still been vulnerable. The data under study demonstrates that not a single commodity has been stable and perpetually exported for quite some time both to India as well as overseas countries. Previously, agricultural products were the major commodities being exported to India. But due to an increase in domestic consumption and a rise in the growth rate of population accompanied by a low yield per unit of land, exports of such commodities have been fluctuating. Consequently, Nepal's export to India is declining while import is taking an upward trend.

Hence, regarding commoditywise diversification, the government should endeavor to remove its dependence on a narrow range of agricultural exports to India and only garments and carpets to overseas countries by identifying the supply-side variables.

5. Marketing and Storage of Primary Commodities

The prevailing marketing practices and facilities lack integration and are underdeveloped and disorganized. The scarcity of marketing infrastructures such as transportation and communication have aggravated the farmer's marketing problems, especially with regard to exports.

The other problems of marketing of agricultural products can be summed up as follows: one, there exists no effective middlemen and agencies for the collection of farm surplus for export purposes; two, the exporters do not get timely and adequate information about the market, that is, demand pattern, supply pattern, price changes, user's preferences, trends of substitute, and future prospects, among others, of the product; three, there prevails no adequate industrial base for processing of agricultural products (that is, primary to semi-processed or processed products); four, no national laws have been promulgated for the operation and management of markets; and five, input distribution, credit supply, cooperative marketing, storage improvements, price reporting, and improvements of local market centers are handled by different agencies with little or no coordination.

Nepal does not possess sufficient storage facilities at various stages of marketing. Because of this, storage losses are estimated to be at least 15 percent of total production. For instance, during the harvest season, paddy, rice, and pulses are exported to India from illegal channels at a low price as the villagers and mill-owners do not possess sufficient storage facilities in the Terai.

In the Terai, the threshed paddy and wheat is normally stored on the farm in grain bins built of mud and bamboo and covered with thatch. The grain losses during farm storage in the Terai due to insects and moulds are estimated to be about five percent. Similar losses in the Hills are much higher and vary from 15 to 25 percent. The storage techniques in the Hills include placing the panicles or ear-tied bin bundles on raised platforms and covering them with straw or placing them in mud and bamboo bins. Amelioration of the existing methods can be achieved by constructing simple grain bins made of hollow bricks covered with lids and thatch roofs to provide shading of the walls. The hollow bricks and the thatch shade provide adequate insulation and shade in order to prevent high temperature build-up in the bins.

Excluding special crops such as jute, the majority of storage facilities in Nepal is utilized for foodgrains and, to a lesser extent, for oilseeds and pulses. The private sector, sajha cooperatives, and the Nepal Food Corporation (NFC) are in charge of the grain storage facilities. However, there is lack of information on private sector grain storage.

An important cause for setting up cold storage facilities in Nepal is due to excessive production of perishable goods in certain parts of the country. These facilities are required for preservation of the surplus goods of the season to adjust supply during off-season in the market. In some places where there is lack of cold storage facilities, traders and wholesalers supply some of the surplus perishable goods to India where they are stored and ultimately supplied back to Nepal at a higher cost during the peak season.

Potatoes and fruits are seasonal and perishable goods by nature. These goods generally constitute high percentage of water with some other organic chemical components. Moreover, potato is grown in abundance in many hilly districts of the country. There is an excess of production over consumption. Nevertheless, farmers encounter huge losses due the dearth of cold storage facilities.

Adequate cold storage units are needed in Nepal also for the export of fruits. But, it has been revealed that there is limited application of cold-storage techniques for preservation of these fruits. Before actual storage, the fruits may be subjected to various types of treatment such as de-greening, cleaning, hydro-cooling, immersion in hot water, irradiation, and waxing to prolong fruit life.

There exist hardly any transportation and storage facilities for native fruits in order to market them, both in Nepal and India. Even in the wholesale market in Kalimati there is virtually no cold storage facilities to keep the vegetables and fruits fresh. Some of the vegetables that are imported from India are perished on the way and heavy losses are incurred.

At present, the total capacity of twelve cold storage units in different locations of the country is to the tune of 12,600 mt. However, the cold storage plants should possess, in aggregate, a capacity of at least 76,000 mt. The cold storage facilities are located in Dhankuta, Biratnagar, Janakpur, Kathmandu, Bhaktapur, Hetauda, Chitwan, Parwanipur, Kalaiya, Birgunj, Bhairahawa and Nepalgunj.

Rent charges for cold storage is higher in Nepal than in India. For instance, the rental charge for cold storage for one quintal of potato is Rs 36.40 in West Bengal, while it is Rs 94.00 in Birganj.

A comparative evaluation of cold storage facilities in Nepal and India discloses that concessions provided in Nepal are limited. The undergoing comparison exemplifies this:

- i) The interest rate charged in Nepal for cold storage construction is 19 percent whereas it is 13 percent in India.
- ii) Due to lack of technical manpower, salary of skilled manpower in the cold storage of Nepal is higher than that in India.
- iii) The maintenance cost and price of spare parts in Nepal is higher than in India.
- iv) In Nepal loanable fund for cold storage is meager, and interest rate is higher, whereas in India facilities are more and loanable fund is bigger.
- v) There is no multi-dimentional cold storage in Nepal which can preserve various commodities simultaneously.
- vi) Rent price is higher for short-period commodity preservation in Nepal, whereas in India there is concession for short period preservation.

Certain guidelines can be spelled out for the development of cold storage in Nepal:

- i) Cold storage should be treated as an industry.
- ii) Farmers and community participation should be enhanced.
- iii) Feasibility studies should be conducted on behalf of the government to facilitate cold storage in different climate conditions.
- iv) Technical manpower should be trained, developed, and supplied.
- v) Construction of infrastructural facilities should be given top priority.
- vi) There should be a provision of loan and foreign exchange facilities.
- vii) Provisions of custom duties and electricity concessions should also exist.
- viii) Sufficient information about the benefits of cold storage should be provided and publicized; further, stress should be given to create awareness with reference to the benefits of cold storage facilities.
- ix) Many factors need to be considered before selecting the location for cold storage plant: a) it should be close to the marketing center; b) it should be near the raw material centers; c) infrastructures such as electricity and roads should be available; and d) construction materials and labor should be sufficiently available.

6. Smuggling in Nepal-India Border

In Nepal, there exists no authentic data, except the occasional newspaper reports, to demonstrate the volume and extent of smuggling. Moreover, it is quite difficult to fix up the value range since the values fluctuate frequently depending on the risks.

Various types of smuggling or methods of evasion of import duties can be distinguished in the Nepalese case. First, imports may not be recorded by customs officials. This can arise either because they are moved covertly with or without the complicity of customs officials through the official ports of entry. Second, goods may come through the customs post, but are falsely declared as to value. When tariffs are high, there is an incentive to under-invoice imports so as to reduce their dutiable value. Third, goods may come through the customs post but be falsely declared with regard to their nature (e.g., automobiles declared as tractors) or to their quality (e.g., silk goods declared as cotton goods) so as to lower the applicable duty. Fourth, goods may come through the customs post properly declared, but the duties actually assessed are below those that are legally applicable. The probability of success in using these various forms of evasion depends on the degree of complicity or the gullibility of the customs service. But, it should be stressed that when duties are high, custom officials are poorly paid, and traditions of honesty do not pervade government officialdom, this complicity may not be difficult to obtain.

Many Indian and Nepalese citizens are responsible, either directly or indirectly, for the growth of smuggling. This illegal activity has been conducted through the hands of the menial laborers that include coolies, conductors, taxi-drivers, and rickshawallas. Earlier, these people smuggled watches, pens, mixed fiber, synthetic fabric, stainless steel utensils, films and cameras, and other items and raw materials banned in India in huge quantities. In other words, the trade flow from Nepal to India comprised generally of luxury items from third countries, while raw materials such as iron, steel, and Indian-made manufactured goods crossed from India into Nepal. A group of unprincipled traders benefitted from this. Smuggling became a two-way traffic.

The effect of smuggling on the economy has been deleterious. It has a demoralizing impact on the government and has given rise to extensive corruption, black marketing, and other such social evils because the massive profits permit significant bribe offers and the temptations to accept the same are hard to resist by the officials concerned. The lure of profits takes them to any degree even below their social status. The under-invoicing and over-invoicing techniques have also made it difficult to collect data on BOP between the two countries.

Various techniques have been devised by the smugglers to move the smuggled goods to and from India and Nepal. Earlier, most of the smuggled goods were brought in tiffin carriers, boxes, bedding and bags. There were instances when goods were concealed below the riksha seats and specially-designed underwears. The innovations in this respect defy vigilance as the techniques utilized once were barely repeated. The smugglers moved according to the pre-determined plan, routes, and timings so that all those involved operated effectively The different places and faulty addresses made it difficult to detect and arrest the culprits. The dual citizenship of most smugglers created grave problems for the administration. On the Indian side they are Indians and across the border they are Nepalese citizens.

Excluding the economic factors of smuggling, there was the administrative inefficiency and weakness which have played instrumental roles by letting the smugglers go free. Due to the laxity of officials at the check-post and inadequacy of the preventive machinery on the open border, the goods could easily sneak into either side.

According to a survey, the amount and types of commodities smuggled vary from season to season and from year to year. The survey findings revealed that some agricultural products such as mustard seeds and oil, sugarcane, and sugar are occasionally smuggled when their supply falls short in India and the trend reverses when the supply rises in India. Each day, and particularly on saturdays, many persons in the border region regularly visit Indian markets and make the household purchases such as sarees, soap, cooking utensils, pressure-cookers and bring them to Nepal without paying any customs duty. The vendors in Raxaul are understood to deliver such goods as refrigerators, washing machines, television sets, and decks to Birgunj with a nominal extra cost which is much less than the amount to be paid as a customs duty. Apart from this, as a regular phenomenon, the businessmen, on average, pay customs duty only on 70 percent of the goods imported from India. Similarly, imported goods from overseas such as watches, zippers, cotton pants, and jackets are said to have been regularly smuggled out of Nepal through the Indian visitors.

Because of the open border between Nepal and India, in order to control smuggling, both the Nepalese and Indian custom officials have to meet, discuss, and sit together to devise measures to control illegal trade and implement them effectively.

7. Suggestions

In the above light, few suggestions as noted below could be put forward to reduce the huge trade imbalance with India.

i) In the short term the greatest potential for exports to India will continue to be agricultural and processed goods. However, promotion of manufactured exports to India will depend on concessions which could be provided under the Trade Treaty between the two countries.

ii) Due to the dominance of a few exportable commodities there is a need to identify commodities with export potential by providing technical and material support. This study recommends that maize products, bristle products, flowers, and silver jewellery, inter alia, should be given priority. Further, the production of some new items in the current export list such as biscuits, noodles, and iron scrapes should be boosted. Moreover, projects could be devised to produce those goods which India makes inefficiently and at a higher cost by international standards such as light engineering goods and components.

iii) In the long term, there should be free access to India of all products manufactured by Nepal-India joint venture undertakings.

iv) The element of confidence in the government's policy for the exporter is crucial. A major risk in export incentives is that government policies do not have continuity and would change, and export profitability could also be adversely affected. To reduce uncertainty, the government must convince exporters that policies will not be capricious, will have continuity in the implementation, and will not be concentrated on ad hoc considerations alone.

v) The possibility of setting up of a joint Nepalese-Indian Transit Transport corporation may be probed into, perhaps by a transformation of the existing Nepal Transit and Warehouse Corporation. A profit-making joint venture may be more effective than other forms of organization in managing, maintaining, and improving facilities and installations in the port of Calcutta and at the customs points on either side of the frontier. It may also promote its own transit document and generally assist in the improvement procedures, documentation, and the transmission of documents.

vi) Major reforms recently initiated in India offer an important opportunity for Nepal to reform its own trade policy. The export/import documentation and procedures that are still complex involving too many steps and authorizations should be made simpler.

vii) Priority should be accorded to the development of a market system which supplies production inputs for purchase by the farmers at required times at fair prices and which can provide outlets for sale of farm produce at remunerative prices.

viii) The following elements should be included in the market development strategy: a) systematic development of rural markets for greater and more effective participation by the private and public sectors; b) provision of necessary infrastructures and other steps to lower the cost of marketing; c) provision of direct procurement and distribution credit and development of market infrastructure where the private sector cannot perform these roles; d) promotion of export markets; and e) development of the transportation network.

ix) Emphasis should be given to the establishment of more cold-storage plants in different parts of the country.

x) there should be a change in the structure of the patrolling units so that more honest and efficient young persons are recruited for arresting the culprits of illegal trade transactions.

xi) In order to liquidate smuggling in Nepal, steps that are required to be implemented should relate to enforcement of law, detention of smugglers, action under the process of law, strengthening the machinery for enforcement, and plugging the loose-ends of law.

xii) Places which are of interest to the Indian tourists, such as Pasupatinath and Lumbini, should be accorded priority in terms of cleanliness and other facilities. Nepal should strongly penetrate into Indian markets, particularly Delhi, Bombay, Calcutta, and Madras, so as to increase the inflow of Indian tourists.

Table 1: Total Exports, Imports, and Trade Deficit

(In Million Rupees)

Fiscal Year	Exports	Imports	Trade Deficit
1975/76	1,185.8	1,981.7	795.9
1976/77	1,164.7	2,008.0	843.3
1977/78	1,046.2	2,469.6	1,423.4
1978/79	1,296.8	2,884.7	1,587.9
1979/80	1,150.5	3,480.1	2,329.6
1980/81	1,608.6	4,428.2	2,819.6
1981/82	1,491.5	4,930.3	3,438.8
1982/83	1,132.0	6,314.0	5,182.0
1983/84	1,703.9	6,514.3	4,810.4
1984/85	2,740.6	7,742.1	5,001.5
1985/86	3,078.0	9,341.2	6,263.2
1986/87	2,991.4	10,905.2	7,913.8
1987/88	4,114.6	13,869.6	9,755.0
1988/89	4,195.3	16,263.7	12,068.4
1989/90	5,235.5	18,401.5	13,166.0
1990/91	7,387.5	23,226.7	15,839.0
1991/92	13,939.4	32,951.3	19,011.9

Sources: (1) Nepal Rastra Bank.
(2) Trade promotion Center.
(3) Ministry of Finance.

Table 2: Nepal's Trade with India

(In Million Rupees)

Fiscal Year	Exports	Imports	Trade Deficit
1975/76	893.7	1,227.1	333.4
1976/77	779.6	1,343.5	563.9
1977/78	498.1	1,534.1	1,036.0
1978/79	650.1	1,581.7	931.5
1979/80	520.9	1,786.4	1,265.5
1980/81	992.4	2,179.0	1,186.6
1981/82	994.4	2,280.9	1,286.5
1982/83	843.2	2,499.6	1,656.4
1983/84	1,160.7	3,058.0	1,897.3
1984/85	1,601.7	3,895.8	2,294.1
1985/86	1,241.1	3,970.9	2,729.8
1986/87	1,302.6	4,262.0	2,959.4
1987/88	1,567.8	4,595.8	3,028.0
1988/89	1,034.9	4,238.7	3,203.8
1989/90	666.6	4,646.3	3,979.7
1990/91	1,552.0	7,323.1	5,770.9
1991/92	1,568.9	11,815.9	10,247.0

Sources: (1) Nepal Rastra Bank.
(2) Trade promotion Center.
(3) Ministry of Finance.

Table 3: Export of Major Commodities to India
(In Million Rupees)

Commodities	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Timber	54.1	103.4	146.7	176.7	136.1	226.2	87.2	28.8	7.9	25.7	-	-	-	-	-	-
Rice	495.4	343.0	46.5	13.3	2.9	117.6	136.5	11.3	75.7	250.0	93.2	14.4	-	-	-	-
Maize	-	1.4	4.7	4.9	2.7	24.5	26.1	0.3	0.4	10.9	-	-	-	1.3	0.1	5.6
Mustard & Linseeds	40.3	31.1	4.5	-	-	-	-	-	75.5	25.7	58.2	103.1	141.3	50.8	3.7	44.7
Herbs	2.8	6.3	6.5	5.2	13.5	16.5	6.4	5.9	8.0	27.9	16.6	8.1	16.4	13.7	4.5	12.2
Ghee	60.5	35.8	33.2	46.0	21.2	54.0	26.2	36.8	45.8	39.4	47.1	46.6	46.7	49.9	7.8	11.5
Dried ginger	15.0	27.3	16.1	14.2	8.6	10.8	15.3	19.3	37.1	38.7	30.3	35.2	37.3	30.3	9.9	20.8
Pulses	-	-	-	-	-	-	-	-	-	-	21.1	34.3	123.1	51.8	2.7	74.4
Kutch	-	-	-	-	-	-	-	-	-	-	83.6	108.7	105.4	43.6	-	5.8
Live animals	-	-	-	-	-	-	-	-	-	-	103.8	116.2	162.5	126.1	73.1	60.9
Ginger	-	-	-	-	-	-	-	-	-	-	14.0	22.3	34.1	30.5	29.2	61.4
Oil cake	-	-	-	-	-	-	-	-	-	-	51.1	57.6	57.5	49.0	22.6	71.4
Catechu	-	-	-	-	-	-	-	-	-	-	9.2	11.2	9.0	3.3	11.0	87.5
Rice bran oil	-	-	-	-	-	-	-	-	-	-	30.9	44.0	79.0	53.2	5.1	136.4
Raw jute	-	-	-	2.1	12.9	46.4	43.4	85.5	36.5	43.9	2.3	14.5	44.1	36.5	117.5	5.4
Jute goods	-	-	-	8.2	8.3	10.3	81.0	179.7	212.1	260.0	167.4	164.0	188.7	134.0	4.5	272.3

Sources: 1) Nepal Rastra Bank.
2) Ministry of Finance.

Table 4: Principal Imports of India
(Value in Rs Crore-IC)

		1980/81	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
1.	Food and live animals chiefly for food (excluding raw cashew) of which	380	854	679	NA	NA	NA	NA
I.1	Cereals and Cereal preparations	100	110	87	66	774	378	182
II.	Raw materials and intermediate manufactures	9,760	13,966	12,169	NA	NA	NA	NA
II.1	Cashewnuts (unprocessed)	9	24	71	64	61	77	134
II.2	Crude rubber (including synthetic and r eclaimed)	32	101	107	120	173	172	226
II.3	Fibers of which	164	259	224	NA	NA	NA	NA
II.3.1	Synthetic and regenerated fibers (man-made fibers)	97	69	59	30	33	65	56
II.3.2	Raw wool	43	98	82	132	157	172	132
II.3.3	Raw cotton	-	13	#	1	99	9	1
II.3.4	Raw jute	1	6	3	3	6	11	20
II.4	Petroleum oil and lubricants	5,264	4,989	2,811	4,043	4,358	6,274	10,816
II.5	Animal and vegetable oils and fats of which	709	770	656	NA	NA	NA	NA
II.5.1	Edible oils	677	735	626	969	730	211	326
II.6	Fertilizers and chemical products of which	1,490	3,256	2,982	NA	NA	NA	NA
II.6.1	Fertilizers and fertilizer material	818	1,436	921	508	934	1,777	1,766
II.6.2	Chemical elements and compounds	358	1,089	1,145	1,082	1,894	2,135	2,289
II.6.3	Dyeing, tanning, and coloring material	21	56	66	89	92	146	168
II.6.4	Medical and pharmaceutical products	85	177	214	168	236	272	468
II.6.5	Plastic material, regenerated cellulose, and artificial resins	121	322	434	567	809	996	1,095
II.7	Pulp and waste paper	18	246	244	239	260	304	458
II.8	Paper, paper board, and manufactures thereof	198	226	217	270	305	358	456
II.9	Non-metallic mineral manufactures of which:	555	1,201	1,618	NA	NA	NA	NA
II.9.1	Pearls, precious and semi-precious stones, unworked or worked	417	1,100	1,489	2,018	3,176	4,242	3,738
II.10	Iron and steel	852	1,395	1,556	1,320	1,933	2,305	2,113
II.11	Non-ferrous metals	477	542	517	639	776	1,253	1,102
III.	Capital goods	1,910	4,285	6,488	6,566	6,956	8,831	10,466
III.1	Manufactures of metals	90	202	209	161	193	271	302
III.2	Non-electrical machinery, apparatus, and appliances	1089	2,593	4,263	2,826	2,872	3,532	4,240
III.3	Electrical machinery, apparatus, and appliances	260	923	1,212	1,093	1,563	1,921	1,702
III.4	Transport equipment	472	569	804	760	753	1,526	1,670
IV.	Others (unclassified)	499	533	760	NA	NA	NA	NA
	Total	12,549	19,658	20,096	22,244	28,235	35,416	43,193

NA = Not Available,
v# - Negligible.
Source: Economic Survey of India (various issues).

Table 5: India's Share in Nepal's Trade

(In Percent)

Fiscal Year	Exports	Imports	Total Trade
1975/76	75.4	61.9	67.0
1976/77	66.9	66.9	66.9
1977/78	47.6	62.1	57.8
1978/79	50.1	54.8	53.4
1979/80	45.3	51.3	49.8
1980/81	61.7	49.2	52.5
1981/82	66.7	46.3	51.0
1982/83	74.5	39.6	44.9
1983/84	68.1	46.9	51.7
1984/85	58.4	50.3	52.4
1985/86	40.3	42.5	42.0
1986/87	43.5	39.1	40.0
1987/88	38.1	33.1	34.3
1988/89	24.7	26.1	25.8
1989/90	12.7	25.2	22.7
1990/91	21.0	32.0	29.0
1991/92	11.3	35.9	28.5

Sources:
(1) Nepal Rastra Bank.
(2) Trade promotion Center.
(3) Ministry of Finance.