

TRADE RELATIONS, TRANSITS AND AGREEMENTS PAPER

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India-Nepal Cooperation Broadening Measures' 1997

1. Due to geographical reasons and traditional linkages, trade and economic relations between India and Nepal are very close and unique.
2. The bilateral trade relations are centuries old, trade having been carried out traditionally on a barter basis. Till the 50s and 60s, trade with India constituted over 90% of Nepal's overall trade. With Nepal's gradual diversification of its trade, India's share in Nepal's trade has declined, for example from 82.2% in 1974-75 to 22.5% in 1989-90. Yet, India continues to be Nepal's predominant trade partner, India's share being significantly larger in Nepal's imports compared to its exports, as India serves as a convenient source of supply of most of daily use commodities, industrial inputs, and other items. India's share in Nepal's global trade was 28.5% in 1993-94 and 29.1% during the first 9 months of 1994-95.
3. According to HMGN sources, Nepal's (cif) imports from India, during the first nine months of 1994-95, were NRs 14864.2 million (equal to Indian Rs 922 crore) and exports to India were NRs 2519.4 million (equal to Indian Rs. 157 crore). However, according to DGCI&S figures, India's exports to Nepal in 1994-95 added upto Irs 309 crores and imports from Nepal Irs 98 crore. Given the open border between India and Nepal, neither of the two sets of the figures might be accurate; but on account of Nepal's data collection system in regard to the bilateral trade being more comprehensive, their figures may be nearer the mark. Nepalese trade with India is going up, showing 44.3% increase in 1993-94 and 20% during the first 9 months of 1994-95.

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4. Major Indian exports to Nepal include machinery, transport equipment, tobacco, rice, tea, coffee, cotton and cotton yarn, fabrics, coal, spices, sugar, miscellaneous processed goods, drugs and pharmaceuticals, and iron and steel. As regards imports from Nepal, hides and skins, leather, oil seeds, vegetable oils, essential oils, pulses, cereal preparations, readymade garments, and chemical constitute the bulk.

5. Details of Indo-Nepal trade, including commodity wise classifications, are provided in Annexure I to III.

6. As readily seen, the bilateral trade balance is greatly in favour of India. Among the several reasons for this are Nepal's underdeveloped industrial base, narrow range of exports, facility of easy import of daily use items from India, including imports of inputs for some of Nepal's major exports such readymade garments, and unauthorized trade through the long and open border. During the first 9 months of 1994-95, trade deficit with India was 46.3% of Nepal's global trade deficit.

7. Nepal's overall BOP position with India is far more healthy. In 1992-93, Nepal converted only Rs. 218.75 crore worth of hard currency for settling accounts, although it had incurred a trade deficit of Rs. 700 crores with India. This is on account of surplus generated by Nepal on service transfers, especially tourists from India. In 1993-94, Nepal even enjoyed a BOP surplus of Rs. 71 crores.

Treaty of Trade, Treaty of Transit and Agreement for Cooperation to Control Unauthorised Trade

8. Formal trade relations between the two countries were established in 1951 with the signing of the Treaty of Trade. It was modified and renewed in 1961 and 1971, and incorporated provisions regarding transit facilities extended by India for Nepal's trade with third countries, as well as on co-operation to control unauthorized trade — mainly smuggling of third country goods from Nepal into India. In 1978, instead of a single Treaty, three different agreements were signed as indicated in the heading above. These have since been modified; the currently valid Treaties/Agreements were signed on 6th December 1991. Some salient amendments to these

were subsequently effected through Exchange of Letters on 16th February 1993, in pursuance of the understandings agreed between Prime Ministers of the two countries.

9. Under the Treaty of Trade, both countries allow free trade between them in agreed primary products. Additionally, India provides, on a non-reciprocal basis, duty free access and without quantitative restrictions, to the Indian market for Nepalese manufactured articles which contain not less than 50% of “Nepalese labour content, Nepalese material content and the Indian material content”, barring a short negative list. In 1971, such facility was available for Nepalese manufactured items containing not less than 90% of Nepalese material or Nepalese / Indian material, but the provision has since been progressively relaxed in stages. Such imports from Nepal are now facilitated through a simple procedure of Certificate of Origin issued by his Majesty’s Government (HMG). In certain cases the requirement of the 50% may be reduced to 40%. Imports from Nepal remain subject to Indian Counter-Vailing Duty or “additional duty”, but CVD may be reduced for items manufactured in “small” units in Nepal.

10. On its part, Nepal extends to imports from India 10% reduction in the rates of import duties (This has just been revised to 20% for import duty rates upto 40%). GOI also refunds to HMG the excise duties on the goods imported from India; these are offset against Nepal’s import duty leviable, so that only the difference is charged from the importers.

11. Under another provision of the Treaty, India allows and facilitates supply of certain essential commodities which are normally not exportable from India but are needed in Nepal. The list of such items for the current year includes baby food, milk products, cotton waste, cotton, cotton yarn, sugar, rectified spirit, and rice.

12. Trade transactions are in local currencies. However, India has agreed to payments in convertible currencies for export from India, along with the normal benefits for such exports.

13. Under the Treaty of Transit, India provides for Nepal's trade with third countries port facilities at Calcutta, including procedural and other concessions and the facility of 15 points of entry/ exit on Indo - Nepal border and as many transit routes to Calcutta. The international obligation is for one transit route to the sea. In addition, India has provided 2 entry/ exit points along Indo-Nepal border for bilateral trade and for Nepal-Nepal transit, and route by rail to Bangladesh through Radhikapur for Nepal's overseas trade via Bangladesh. Nepal's traffic through Indian territory is exempted from Indian customs duty and from all transit duties or other charges except for transportation.

14. There are separate arrangements for air-links; Royal Nepal Airlines flies to Calcutta, Delhi, Bombay, Patna and Varansi. Merchant ships sailing under the flag of Nepal are accorded MFN treatment at the Indian ports.

15. Under Agreement of Co-operation to control Unauthorised Trade, the two Governments are to cooperate with each other to prevent violation of laws of each other, inter-alia, in order to ensure that economic interests of the other party are not adversely affected such as through unauthorized trade across the border.

Consultations

16. Matters pertaining to trade, transit and control of unauthorized trade are reviewed periodically in the forum of the Inter-Governmental Committee constituted for this purpose. More important or policy issues, as well as trade promotion measures, are discussed in the Sub-Group on Trade within the framework of the Indo-Nepal Joint Commission. A High Level Task Force (HLTF) was set up in February 1991 to monitor the progress and implementation of projects being executed in Nepal with Indian cooperation. At business level, the Federation of Nepal's Chamber of Commerce and Industries has set up a Working Group with the PHD Chamber of Commerce and Industries and a Task Force with the Confederation of Indian Industries (CII) to provide interaction in mutually beneficial areas.

17. An important consultation meeting between the two sides in regard to trade and transit matters etc was held between Commerce Secretaries of the two countries, in August 1994, when a series of agreements were reached, aimed at further facilitating Nepal's trade and transit, as well as to intensify their cooperation to control unauthorized trade. Relevant matters of mutual interest were discussed further during the visit of the Nepal's Dy. Prime Minister from 6-10 February 1995, the visit of Nepal Commerce Secretary from February 28-March 1 1995 and that of Nepal's Prime Minister from April 10-14, 1995. During the latter, interalia, the following important points of agreements were reached, aimed at further facilities to Nepal for its third country trade.

- (i) Nepal's trade in transit to have the facility of the additional ports of kandla and Bombay and on the same terms as are available to Indian nationals, subject to the transit of goods taking place in customs sealed containers via shortest designated railway routes.
- (ii) Provisions of additional facilities for customs clearance at Raxaul for Nepal's trade in transit which is containerized under customs seal from/ to Kandla, Bombay and Calcutta.
- (iii) Both countries will seek to jointly identify Nepalese products where further improvements in their preferential access in the Indian market could be considered.
- (iv) As regards procedures for preferential access to the Indian market, these will be reviewed by the India-Nepal Inter-Governmental Committee on Trade and Commerce.

Annexure 1

Bilateral Trade Between India and Nepal (Rs. in Crores)

| Year | Exports to Nepal | Imports from Nepal | Total Trade | | Trade Balance | % share in Trade Total |
|----------------------|------------------|--------------------|-------------|---|---------------|------------------------|
| 1985-86 | 101.70 | 47.60 | 149.30 | + | 54.10 | 42.0 |
| 1986-87 | 102.84 | 59.98 | 162.72 | + | 42.86 | 40.0 |
| 1987-88 | 94.32 | 43.90 | 138.22 | + | 50.42 | 34.3 |
| 1988-89 | 113.26 | 34.60 | 147.88 | + | 78.66 | 25.8 |
| 1989-90 | 83.32 | 0.56 | 83.88 | + | 82.76 | 22.5 |
| 1990-91 | 86.62 | 81.49 | 168.11 | + | 5.13 | 30.8 |
| 1991-92 | 196.55 | 70.11 | 266.66 | + | 126.44 | 23.9 |
| 1992-93 | 210.48 | 71.75 | 282.23 | + | 138.73 | 23.1 |
| 1993-94 | 304.87 | 85.62 | 390.49 | + | 219.25 | 28.4 |
| 1994-95 | 308.59 | 97.79 | 406.38 | + | 210.80 | 29.1* |
| 1995-96 April-Jul | 185.85 | 25.74 | 211.59 | + | 160.11 | |

* in the first 9 months

Source DGCI&S, Calcutta
Indo-Nepal Trade

Value in Million Nepalese Rupees (NRs)

| Year | Nepal's Exports to India (FOB) | Nepal's Imports to India (CIF) | Trade Deficit |
|---------|--------------------------------|--------------------------------|---------------|
| 1985-86 | 1241.1 | 3870.9 | 2729.8 |
| 1986-87 | 1302.6 | 4662.0 | 2959.4 |
| 1987-88 | 1567.8 | 4595.0 | 3028.0 |
| 1988-89 | 1034.9 | 4238.7 | 3203.8 |
| 1989-90 | 1666.6 | 4646.3 | 3979.7 |
| 1990-91 | 1552.2 | 7323.1 | 5770.9 |
| 1991-92 | 1568.9 | 11,815.9 | 10,247.0 |
| 1992-93 | 1683.9 | 12,874.4 | 11,190.5 |
| 1993-94 | 2578.8 | 17,868.1 | 15,289.8 |
| 1994-95 | 2519.4 | 14,864.2 | 12,344.8 |

** first nine months

Source :HMGN

Annexure – II
Exports to Nepal

(April – March 1993-94 & 1994-95)
(Rs. in crores)

| Sl. No | Major Commodities | April – March 1994 | April – March 1995 | | Change |
|--------|--------------------------|--------------------|--------------------|-----|--------|
| | Total | 307.94 | 308.59 | (-) | 0.2 |
| (a) | Tea | 3.33 | 6.31 | (-) | 39 |
| (b) | Rice (non-basmati) | 10.20 | 0.00 | (-) | 100 |
| (c) | Tobacco (Unmanufactured) | 12.94 | 12.72 | (-) | 2 |
| (d) | Spices | 1.13 | 5.34 | (-) | 373 |
| (e) | Drugs & Pharma | 46.96 | 41.26 | (-) | 12 |
| (f) | Sugar & Molasses | 4.56 | 2.22 | (-) | 51 |
| (g) | GLS/GLSWR | 13.13 | 12.44 | (-) | 5 |
| (h) | Misc. processed items | 9.00 | 7.61 | (-) | 16 |
| (i) | Mach & Instruments | 30.84 | 47.59 | (-) | 54 |
| (j) | Fruits & Vegetables | 1.65 | 1.61 | (-) | 2 |
| (k) | Transport Equipment | 73.25 | 73.10 | (-) | Nil |
| (l) | Coal | 10.79 | 9.40 | (-) | 13 |
| (m) | Iron & Steel | 14.47 | 12.62 | (-) | 13 |
| (n) | Cotton Yarn Fab | 7.56 | 3.12 | (-) | 59 |
| (o) | Man Made Yarn & Fabrics | 7.43 | 7.67 | (-) | 3 |
| (p) | Cotton Raw Materials | 2.50 | 0.21 | (-) | 92 |
| (q) | Manf. Of Metals | 8.51 | 5.94 | (-) | 30 |
| (r) | Other Commodites | 2.77 | 13.64 | (-) | 392 |

Exports to Nepal
(April – July 1994-95 & 1995-96)
(Rs. in crores)

| Sl. No | Major Commodities | April – July 1994 | April – July 1995 | | Change |
|--------|--|-------------------|-------------------|-----|--------|
| | Total | 122.17 | 185.85 | (-) | 52.12 |
| (a) | Tea | 4.57 | 0.38 | (-) | 91.68 |
| (b) | Rice (non-basmati) | - | 17.56 | (-) | 100.00 |
| (c) | Tobacco (Unmanufactured) | 5.53 | 8.01 | (-) | 44.84 |
| (d) | Spices | 3.36 | 2.71 | (-) | 19.34 |
| (e) | Drugs & Pharma | 17.60 | - | (-) | 19.37 |
| (f) | Sugar & Molasses | 2.19 | 21.01 | (-) | 100.00 |
| (g) | GLS/GLSWR | 6.17 | 7.15 | (-) | 15.88 |
| (h) | Misc. processed items | 2.58 | 4.39 | (-) | 70.15 |
| (i) | Mach & Instruments | 19.32 | 31.53 | (-) | 63.19 |
| (j) | Primary and Semi finished iron & steel | 4.42 | 18.53 | (-) | 31.92 |
| (k) | Transport Equipment | 29.04 | 25.57 | (-) | 11.94 |
| (l) | Coal | 3.29 | 5.25 | (-) | 59.57 |
| (m) | Cotton Yarn Fab | 1.26 | 0.91 | (-) | 27.77 |
| (n) | Man Made Yarn & Fabrics | 3.17 | 9.50 | (-) | 199.68 |
| (o) | Manf. Of Metals | 3.14 | 4.51 | (-) | 43.63 |
| (p) | Oil Meals | 0.33 | 0.52 | (-) | 57.57 |
| (q) | Aluminium | 0.65 | 2.15 | (-) | 230.76 |
| (r) | Paper products & Paper | 3.78 | 6.85 | (-) | 81.21 |
| (s) | Other commodities | 0.67 | 2.30 | (-) | 243.28 |

Annexure – III
Imports from Nepal
(April – March 1993-94 & 1994-95)
(Rs. in Crores)

| Sl. No | Major Commodities | April – March 1994 | April – March 1995 | | %Change |
|--------|----------------------------|--------------------|--------------------|-----|---------|
| | Total | 90.68 | 97.79 | (-) | 11 |
| (a) | Cereal preparations | 1.73 | 2.27 | (-) | 31 |
| (b) | Pulses | 3.79 | 10.29 | (-) | 172 |
| (c) | Spices | 12.80 | 10.58 | (-) | 17 |
| (d) | Oil seeds | 4.52 | 3.76 | (-) | 30 |
| (e) | Jute raw | 5.41 | 5.64 | (-) | 4 |
| (f) | Text, Yarn and Fabrics | 17.34 | 21.01 | (-) | 71 |
| (g) | Leather | 6.52 | 3.31 | (-) | 49 |
| (h) | Essential oils & cosmetics | 6.55 | 6.30 | (-) | 4 |
| (i) | Transport Equipment | 0.02 | 2.20 | (-) | 109 |
| (j) | Other commodities | 18.05 | 20.34 | (-) | 13 |

Imports from Nepal
(April – March 1994-95 & 1995-96)
(Rs. in Crores)

| Sl. No | Major Commodities | April – July 1994 | April – July 1995 | | %Change |
|--------|----------------------------|-------------------|-------------------|-----|---------|
| | Total | 32.09 | 25.74 | (-) | 21.73 |
| (a) | Pulses | 3.55 | 4.21 | (-) | 18.59 |
| (b) | Spices | 1.73 | 1.59 | (-) | 8.09 |
| (c) | Raw hides and skins | 1.91 | 0.14 | (-) | 92.67 |
| (d) | Jute raw | 2.67 | 4.85 | (-) | 81.64 |
| (e) | Text, Yarn and Fabrics | 8.08 | 5.55 | (-) | 31.31 |
| (f) | Leather | 1.18 | 1.03 | (-) | 12.71 |
| (g) | Essential oils & cosmetics | 3.28 | 0.05 | (-) | 98.47 |
| (h) | Other commodities | 5.05 | 5.30 | (-) | 6.19 |