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Nepal's Policy Options in Liberalization

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INTRODUCTION

South Asia, as a region is still to emerge as a major trading block in the world scenario. However, the South Asian Preferential Trading Arrangements (SAPTA) has been signed at the Seventh SAARC summit held in Dacca in April 1993. Inspite of its geographical contiguity and socio-cultural commonalities, the history of intraregional relations have been marked more by conflicts than cooperation. Countries in the region differ widely in their political philosophy and models of development followed by them. Evolution of a trading block or a common market presupposes some uniformity in the approach to development and management of the national economics. Today, when the issues of cooperation in trade and commerce are being negotiated within the South Asian Association for Regional Cooperation, the history of Nepal-India relationship, as presented in the paper highlights the problems involved. It is argued that despite a series of policies and measures undertaken by Nepal to accelerate the growth of exports and to diversity her trade, Nepal's achievements have been modest. Among various causes retarding the growth of Nepal's external sector, her landlocked situation and open border relationship with India have played a major role. A unique feature of Nepal-India cooperation in contrast to other regional groupings is the free movement of both goods and factors of production. While theoretically this may benefit Nepal by opening up the Indian market, Nepal so far has benefitted little from this arrangement. As such caution is advised in the choice of policies and pattern of development Nepal adopts.

The paper is divided in four sections. The first section presents background information and setting against which Nepal's trade and exchange rate policies have to be viewed. The second section summarized Nepal - India trade and transit relationships during last forty years. Policies followed by Nepal, their achievements and failures are presented in the third section. The final section highlights the current situation and the policy options open to Nepal.

HISTORY AND THE SETTING

The role of the external sector in Nepal's Economy has been increasing steadily in the last few decades. Entrepot trade between India and China has always an important economic activity throughout Nepal's history, but her external sector has expanded fast, and acquired much greater importance in the national economy in the last three decades. Her imports have increased from about 11 percent in 1974/75 to more than 25 percent of GDP in 1991/92. Growth of exports, however, has been slower and erratic. Exports were only slightly more than 10 percent of GDP in 1991/92. Consequently, the trade deficit has gone up to more than 10 percent of GDP (Table 1).

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Nepal's structure of trade has also undergone substantial changes. Primary goods export as percent of total exports have declined from an overwhelming 87 percent in 1975/76 to just about 19 percent 1991/92. This, however, must be attributed to both expansion in the exports of non-primary goods and decline in the volume of exports of primary goods, particularly to India. The structure of imports have also changed in favor of primary products.

Country-wise direction of trade has also changed dramatically. Third country share (i.e. countries other than India) in total exports increased from 16 percent in 1974/75 to just about 89 percent in 1991/92. Similarly third country share in total imports has crossed 60 percent. Although during India-Nepal trade crisis it had reached 74 percent, it is coming down and may be expected to stabilize around 50 percent with normalization of relationship with India (Table 1).

Services have consistently played a positive role in Nepal's balance of payments. Tourism is a major income earner under services. Net private transfers have been positive over the years. Miscellaneous capital inflows have also turned positive in recent years. This item, however has been very erratic primarily because of the unrecorded transactions on Nepal - India account (Table 2).

Nepal's external economic relationships and related policies have been shaped throughout her landlocked geography and historical and cultural ties with India. Specific features of this relationship are characterized by the predominating role India Plays in both trade and flow of services. Nepal borders India on the south, east and west while the Himalayan heights and the Tibetean plateau form her northern borders. The border with India is 500 miles long and virtually open. The northern borders are mostly snow capped and negotiable only through a few passes.

Although Nepal was never incorporated formally in the British Empire, in practice it was a semi-colony, whose relationship with the outside world was controlled by the British rulers in India. Internal affairs, if it did not impinge on British interests, were left to the Nepalese rulers. The Treaty of Sugauli (1816) between Nepal and British India by which British India Army was allowed to recruit Gorkha soldiers from Nepal (Hussain, 1970) and the 1923 Treaty of Trade and Commerce which secured the Nepalese market for British goods were twin pillars of the semi-colonial status of Nepal vis-a-vis British India. (Chaturvedi, 1990, 30-33).

The 1950 Treaty of Peace and Friendship between India and Nepal was a natural corollary of this relationship after India gained independence in 1947. Article six in this treaty binds the two countries.. "to give to the nationals of the other, in its territory, national treatment with regard to participation in industrial and economic development of such territory and to the grant of concessions and contracts relating to such development". Article 7 specifies further that they will grant... "on a reciprocal basis, to the nationals of one country in the territories of the other same privileges in the matter of residence, ownership of property, participation in trade and commerce, movement and privileges of a similar nature". Letters exchanged with the Treaty, however; allows Nepal to protect Nepalese nationals "from unrestricted competition" for some time and with mutual agreement. Thus, independent India was able to get concessions from

Nepal, which the British colonial rulers had not been able to obtain, inspite of their persistent attempts in the past (Chhaturvedi, 1990).

In addition there are other restrictions on Nepal's military activities. Article 5 combined with second point in the Letter Exchanged allows Nepal to import arms and ammunition only with assistance of and agreement with India. The Letter further states that "Neither Government shall tolerate any threat to the security of the other by a foreign aggressor. To deal with any such threat, the two governments shall consult with each other and advise effective counter measures". It also binds Nepal to give government or nationals of India first preference in seeking foreign assistance in regard to the development of the natural resources. This Treaty is supposed to be everlasting unless terminated by one year's notice by either of the parties.

Thus, Nepal-India relationship is multidimensional and the economic context of these relationships are very much conditioned by India's underlying security concerns and Nepal's persistent efforts to establish her own independent national identity. Attempts to free the Nepalese economy from the predominating effect of Indian economy have been one very important facet of these efforts. Nepal is a small country with a limited national resource base, and degree of its openness to external factors naturally will be much more than that of India, which has a vast domestic market, large natural resource base and developed industrial infrastructure. Conflicts in economic relations have occured fundamentally because Nepal has attempted to open up her economy to the world beyond India and followed more liberal trade and exchange rate policies than those of India, while maintaining a 500 mile open border with her (Table 3).

Neither India nor Nepal seem to be willing to consider regulation of the open border. Indians do not want to regulate the Nepal-India border because of the costs involved and also because with a regulated border, India's free access to Nepalese northern borders may be restricted. Nepal wanted to keep the border open, because the rudimentary nature of her internal transport network and her landlocked situation made her dependent on Indian transport network even for Nepal to Nepal movement. Moreover, the age old tradition of free movement across the border makes it a culturally unpalatable idea for the people to have the border regulated. Finally, it is beyond the capacity of Nepal to police such a long border without Government of India's cooperation. Nepal's trade and exchange rate regimes, its achievement and failures need to be viewed in the context of this open border and a series of trade and transit treaties with India.

REVIEW OF TRADE COMMERCE AND TRANSIT TREATIES WITH INDIA

The 1950 Treaty of Trade and Commerce concluded concurrently with the Treaty of Peace and Friendship, while providing transit facilities for Nepal's trade with third countries, ensured conformity in Nepal's tariff policies with that of India, entrusted management of Nepal's foreign exchange earnings to the Reserve Bank of India and collection of duties on third country imports to Indian customs. The Government of Nepal also agreed to levy export duties on Nepalese manufactures which were exported to India on par with the excise duties payable for corresponding Indian goods (Lama. 1985, p.6).

Thus, although the 1950 Treaty of Trade and Commerce carried elements of a custom's union it was unequal and reinforced India's pre-dominance in Nepal's economy. Management of Nepalese foreign exchange by the Reserve Bank of India according to its own rules and regulations caused much inconvenience to Nepalese citizens. Establishment of the Nepal Rastra Bank, regularization of Indian currency-Nepalese currency transactions and control over her own foreign exchange reserves undertaken by Nepal in 1957, were the first tentative steps towards independent economic management in Nepal. In 1957, Nepal also obtained the right to levy duties on her own exports. Import duties were still levied and collected by India. (Lama, 1985/9) all available statistics indicate overwhelming dominance of India in Nepal's external economic relations in this period (Reejal, 1982: 28-29).

The 1960 Treaty of Trade and Transit envisaged development of a "common market" between the two countries. Its objectives were to "expand the exchange of goods" between the two countries, "encourage collaboration in economic development and facilitate trade with third countries". This treaty was more elaborate on provisions of transit to Nepal and her trade with third countries. Specific provision for avoiding "diversion of commercial traffic or deflection of trade" was also included. Article II exempted "goods originating in either country and intended for consumption in the territory of the other", from all duties and "quantitative restrictions". However, both sides could "maintain or introduce such goods as were necessary for the purpose of protecting public morals and safeguarding national treasures" and Nepal was allowed to impose duties on Indian imports to protect her infant industries.

Trade with third countries was to be regulated by their respective laws, rules and regulations. Article VI secured for Nepal complete independence of and control over its foreign exchange account. However, both sides were obliged "to prevent infringement and circumvention" of the foreign exchange, rules, regulations and laws of other country. The Treaty was for five years from the date of signature and extendable for another five years with mutual consent and necessary modifications. Periodic consultations were envisaged for sorting out differences.

Implementation of the Treaty encountered several problems arising out of developing nature of both the economies and Nepal's attempts to follow an independent external trade and payments policy from that followed by India. The questions of adequate storage facilities in Calcutta, delays in movement of goods to and from third countries and general bureaucratic intervention in smooth transit facilities were the main complaints voiced by Nepal. India, on the other hand, was dissatisfied with the policies such as Bonus Voucher Scheme and Gift Parcel Scheme undertaken by Nepal to promote third country trade. Further the phrase "goods originating in each other" were interpreted differently by Nepal and India. India interpreted this clause to mean goods containing 100 percent Nepalese raw materials while Nepal maintained that goods imported by Nepal from India contained unspecified amounts of third country raw materials.

Nepal had to introduce export promotion schemes to divert her exports to countries other than India because: all Nepalese exports had so far been destined to India and some times reexported from India e.g. medical herbs, raw skin and hides etc.: Nepal had neither an export infrastructure of its own, nor a class of entrepreneurs linked to the international market and to foster such a class Nepal had to offer special facilities; Nepal had no resources to subsidise her exports as India did; India had a quota system on most of the development goods such as cement, iron and steel and necessary consumer goods such as sugar, milk powder, because of which, Nepal had to face shortages in these commodities. Nepal's reserve of Indian currency grew contineously during the early sixties which could not be used to import development and basic consumer goods needed by her, and Nepal had to generate her own convertible currency reserves for such imports; and most consumer and developmental goods were cheaper in the international market than in India (Table 4).

However, the schemes were often mis-utilised by the business interests to import large amounts of luxury goods from third countries with the objective of re-exporting them to India (Poudyal, 1988: 107-125). India lodged strong protests against the gift parcel scheme, and it was withdrawn in 1969.

In the 1971 Treaty of Trade and Transit, the concept of "common market" between the two countries was abandoned. The provision of free entry of Nepalese manufactured goods into India was greatly diluted. Now such entry was to be restricted only to those goods which contained not less than 90 percent of Nepalese or Nepalese and Indian materials. In case of other manufactured goods in which the value of Nepalese materials and labor added in Nepal was at least 50 percent of the ex-factory price, the access to the Indian market was to be decided case by case by the Government of India. Pending mutual agreement sixteen agro-industrial products such as matches, strawboard and handicrafts were exempt from basic custom duties and quantitative restrictions. Concessions in excise duty available to small units in India also to be granted to products imported from similar units in Nepal. The Treaty permitted His Majesty's Government of Nepal to impose duties on Indian products on Most Favored Nation basis. Transit facilities and procedures were elaborated in some more detail. While the Government of India agreed to lease facilities at the Calcutta port, procedural details laid down greatly restricted freedom of transit for Nepal (Pradhan, 1990:160-175)

Transit routes were specified from Calcutta to 22 railway heads in India across the Nepal border. Provisions were also made for the transport of goods between Calcutta /and Nepal by road. Additional space was provided to Nepal at the Calcutta port and customs procedure were simplified. Freedom of transit, however, was conditioned on taking all indispensable measures to ensure that such freedom in anyway did not infringes on India's legitimate interests of any kind. Elaborate procedures were prescribed for clearing goods in transit. Several restrictions were accepted by Nepal for preventing deflection of trade. Nepal agreed not to issue licenses for third country imports on the basis of the foreign exchange to be arranged by importer himself. Evidence of foreign exchange authorization from Nepal Rastra Bank was required by Indian customs for release of goods at transit points. Varied interpretations of these restrictive clauses subsequently resulted in unnecessary delays making transit system more restrictive and costly for Nepal.

During the seventies Nepal's third country trade expanded rapidly and Export Earning Entitlements (EEE) became a persistent irritant in Nepal-India relations. EEE had also created distortions in the Nepalese investment patterns by encouraging smuggling to and from India and introducing multiple exchange rates on account of the varying rates of profit on items of exports and imports. But this system was as much as response of Nepal to ease the supply shortages created by strictly regulated nature of the Indian economy and the overvalued Indian currency as an attempt to take advantage of the huge market for foreign goods in India. A natural response for India would have been to seal her borders with Nepal. Given the huge cost of such endeavor, and India's perception of Himalayas as its northern border for security purposes, India applied consistent pressure on Nepal to get rid of this system. Because of the distortions introduced in the investment patterns and reasonable cushion of convertible exchange reserves built by Nepal by that time, the system was replaced by a dual exchange rate system in 1978 (Table 4).

Separate treaties on Trade and Transit were signed in 1978 after a long stalemate on account of Nepal's demand for separate treaties on Trade and Transit and India's allegations of trade deflection. An Agreement on Cooperation in Controlling Unauthorized Trade on the border was also signed. The requirement imposed by the 1971 Treaty that the Nepalese manufactured goods had to contain 90 percent Nepalese or Nepalese plus Indian raw material for "customs duty and quantitative restriction free" entry into India was now reduced to 80 percent. Other manufactured goods in which value of Nepalese and Indian materials and labor added was at least 50 percent of the ex-factory price were to be considered by Government of India on case by case basis for preferential treatment in the Indian market. Separate applications had to be made for each commodity for getting this preferential treatment as earlier.

The treaty of Transit and the annexed protocol laid down the procedures to be followed for Nepal's traffic in transit through India. The Treaty was to be effective for seven years i. e. until 1985. Storage space at Calcutta was expanded. Containerized movement of goods by road were also allowed. But transit routes from Calcutta to Nepalese border areas were now reduced to 13. Provisions of duty insurance, import licensing, documentation requirements etc. were specified in further details. Duty insurance policy introduced under which Nepalese importers and exporters had to buy a insurance policy for amounts equal to Indian customs duty to be assigned to the collector of customs. Alternatively, a guarantee by an established Indian undertaking, usually the banks, could be submitted to the collector of customs and this also involved the premium cost. Thus duty insurance premium on Nepalese transit goods was reduced, but the insurance premium on Nepalese exports and imports still amounted up to 30 percent of the import or export costs (Pradhan, 1990: 198-199).

The Treaty of Trade and Commerce and Memorandum on Unauthorized Trade were renewed for an period of another five year in March 1983. Ten more Nepalese products, in addition to 26 products, specified earlier, were added to the list of goods entitled to unrestricted entry into India. Nepal agreed to adopt vigilance and promote contacts between the border authorities of the two countries to stop smuggling and unauthorized trade.

In 1983 the Treaty of Trade and Commerce was extended to 1988 by mutual agreement. The Treaty of Transit expired in March 1985. Nepal requested for a seven year extension India proposed ad-hoc extension up to December 31, 1985 (Upadhaya, 1991). The arrangement for trade and transit were left undisturbed until March 1989 by the Government of India, although no agreement on transit seems to have been signed in that period.

The Treaty of Trade expired in 1988 and a new Treaty of Trade and an agreement on checking Unauthorized Trade were finalized and initialled by two sides in October, 1988, awaiting final signatures. The Government of India issued a letter to the Commerce Secretary of the His Majesty's Government of Nepal stating that the Treaty of Trade and the Agreement on Checking Unauthorized Trade... "would have deemed to expire in March 1989" as the Treaty of Transit was also due to expire on that date. India wanted to negotiate a new unified Treaty on Trade and Transit and a new Agreement of Cooperation to control unauthorized trade. The reasons for this kind of stand-off were mainly political and a discussion of details is beyond the scope of this paper (Upadhaya, 1991 and Muni, 1992).

India stopped all entry points except four (two on India-Nepal border and one each for Nepal's trade with Bhutan and Bangladesh) on its borders for transit of goods to and form Nepal. India-Nepal trade was virtually stopped. Even supply of essential commodities such as petrol, kerosene, coal and dry milk were stopped. According to Muni the Indian side maintained that Nepal; should not discriminate against Indian goods in matters of levying duties; it should renegotiate a single treaty of Trade and Transit with India; and it should comply with the letter and spirit of the 1950 Treaty of Peace and Friendship and other arrangements governing bilateral relations. Particularly India contended that Nepal should grant equal treatment to Indian nationals on par with Nepalese nationals on matters of employment, trade, industry and commerce, that Nepal had no right to import arms from China without consulting India, and that Nepal should give preference to Indians even in international commercial bids.

Nepal, on the other hand, maintained that: India was imposing economic blockade on Nepal, that it would not negotiate an unified Trade and Transit Treaty and would trade with India on the principles of *most favored nation*, and that it did not want any *special relationship* with India as imposed by the 1950 Treaty of Peace and Friendship.

Inspite of the series of high-level meetings, the stand off continued due to unexplained reasons.

The Panchayat System in Nepal collapsed in April 1990, and a more India-friendly coalition of Nepali Congress and the United Left Front of the communist parties came to power. The *status-quo-ante* of April 1, 1987 was restored in all aspects of bilateral relations by a Joint Communique of the Nepalese and Indian Primeminister in June 1990. "mutual respect for each other's security concerns" was agreed upon between the two countries. Nepal also agreed to withdraw the registration requirements imposed on foreigners, including Indian nationals, working in the Kathmandu valley.

India had persisted in calling this a *work permit system* imposed by Nepal on the people of Indian origin which was clearly not the case.

The 1989-90 crisis clearly proved that Nepal-India trade and transit relations are conditioned by India's overwhelming security concerns and an attempt to maintain free entry and employment of Indian nationals is in Nepal. Nepalese people, on the other hand, are concerned about being overwhelmed by the inflow of foreigners into Nepal and India's intervention in Nepal's internal affairs. Moreover Nepal has wanted to follow a more liberal external policies than those followed by India. This has created constraints in Nepal - India relations, a wish for establishing an independent identity and independent policy framework for Nepal is common to all Nepalese.

With the installation of a democratically elected Nepali Congress government in Nepal, the environment of India-Nepal dialogue improved significantly at the Government to Government level. Separate treaties on Trade and Transit and an Agreement to Control of Unauthorized Trade were concluded in December 1991. The preferential treatment to trade in primary products originating in the two countries were restored on reciprocal basis. Fourteen primary products were specified for preferential treatment to enter each other's territory. The concessions with respect to basic and auxiliary customs duty and quantitative restrictions granted to Nepalese manufactured articles which contained not less than 80 percent of Nepalese and Indian materials and excise rebate granted on par with products of similar *small* units in India, were restored. Concessions on import duties on other manufactures which contained not less than 40 percent Nepalese and Indian materials and labor were also restored. Except for already identified products, the eligibility for concessions were to be decided by the Government of India case by case on the basis of proforma submission by Nepalese exporters, as specified under the 1978 Indo-Nepal Treaty of Trade. The protocol to the Treaty of Trade specified mutually agreed routes through which Nepal-India trade was to move.

The Transit Treaty with 7 years validity, once again specified 15 transit routes allowed for Nepal's third country trade. Procedural details were laid down as in the 1978 Treaty of Transit.

The Agreement of Cooperation on Unauthorized Trade lays that each contracting party shall prohibit and cooperate with the other to prevent:

- Re-exports from its territory to third countries both goods imported from the other and products which contain materials imported from the other exceeding 50 percent of ex-factory value of such products;

- Re-exports of third country goods or goods containing more than 50 percent third country imports to the territory of the other.

Other clauses bind the contracting parties to take prohibitive actions for preventing such deflection of trade, to compile and exchange information on such movement of goods, to cooperate in prevention of unauthorized trade, and to maintain smooth and uninterrupted movement of goods across their territories.

Some of the clauses of the Trade Treaty have been modified by a Joint Communique of the two Primeministers in October 1992, as :

- The proforma clearance system by which Government of India was to decide for preferential treatment case by case was replaced by a system of certificate of origin to be issued by His Majesty's Government of Nepal,
- In order to determine the eligibility of a Nepalese product's access to the Indian market, free of custom's duty and quantitative restrictions, Nepalese labor content will be included, and
- Nepalese products with more than 50 percent Nepalese and Indian material content and labor will be eligible for duty and quota free access to the Indian market.

The concessions granted to Nepalese primary products in respect of entry to the Indian market are reciprocal and to manufactures non-reciprocal. Nepal is to exempt Indian imports from duties to the maximum extent and "will waive additional customs duty on all Indian exports" during the validity of the Treaty. Both parties shall accord unconditionally to each other treatment *no less favorable* than accorded to any third country with respect to customs duties and any other charges on exports and imports, and import regulations including quantitative restrictions.

POLICY INITITATIVES, ACHIEVEMENT AND FAILURES

Since 1957 when Nepal established her own Central Bank, regularized the exchange rate transactions between Nepalese Currency and the Indian Currency, gained control over her foreign exchange earnings and holdings, and initiated her own trade and tariff policy, distinct from that of India, Nepal's trade and exchange policies have been directed to achieving growth of exports and country and commodity-wise diversification of trade (Pant and Pant, 1990, Pant, 1991). However, until about the late sixties the gains were moderate. In 1969/70 Nepal's trade was still overwhelmingly India-oriented. Between 1956/57 and 1959/60 third country share in the total exports averaged 2 percent and in imports 4 percent. Imports from both India and overseas grew steadily during the sixties while growth of exports to overseas was negligible. However, between 1960/61 and 1969/70 average share of third countries in Nepalese exports remained around one percent and in imports about 5 to 6 percent (Reejal, 1982 : 28-29).

Nepal introduced the Export Earning Entitlements Scheme in 1962 and the Gift Parcel Scheme in 1967. Third country share in exports and imports started to increase. Nevertheless, in 1974/75, Nepal sent only 16 percent of her exports to third countries and imported 19 percent of her requirements from countries other than India. These figures jumped to 52 percent and 38 percent respectively for exports and import in 1977/78. By that time Nepal had built a convertible foreign exchange reserves to finance 9.9 months of her import needs (Table 4) Inspite of the predominance of Indian capital in trade, Nepal had promoted its own exporter class and established access to major world markets in developed countries, such as Japan, USA and EEC. She had also been able to divert her own exports such as jute and jute goods, medicinal herbs and handicrafts away from India, from where they had often been re-exported to overseas destinations as Indian products. Structure of her overseas exports, however, was changing only slowly, and raw-materials and unprocessed goods continued to predominate exports (Table 1).

Nevertheless, high margin of profit on trading under EEE led to the distortions in resource allocation and private investment in industrial and agricultural sectors lagged far behind. The pattern of trade did not reflect Nepal's comparative advantage, rather it reflected the premium rates commanded by various goods in the curb market in India. The incentives to exporters fluctuated widely depending on the opportunities for deflection of trade to India. The magnitude of trade deflection was perceived to be growing to India's great consternation and the EEE became a major irritant in Nepal-India relations. The multiplier effect in Nepal of such trading activities was also claimed to be zero by several Nepalese intellectuals (Acharya, 1969, Rana, 1972).

In March 1978, the EEE was abolished and a Dual Exchange Rate System was introduced. Under this system, the basic exchange rate of Nepalese currency vis-a-vis US Dollar was fixed at Rs. 12. Only imports of certain developmental goods and petroleum products, chemicals, fertilizer, certain raw materials and machineries were entitled to receive foreign exchange at this rate. Payments for other importer and receipts from exports were to be converted at Rs. 16 per US dollar. Quantitative restrictions on imports were abolised. But this system could not sustained as it encouraged heavy imports both from overseas and from India while exports to third countries could not grow concurrently. Growth of exports to third countries between 1979/80 and 1982/83 was negative throughout (Table 5). Imports both from India and overseas grew rapidly. Exports to India fluctuated widely with positive and negative swings. It was clear that under the dual exchange rate system premium on overseas imports were much higher than on exports.

The dual exchange rate system was replaced by a single exchange rate at Rs. 13.20 per US dollar in September 1981. A small subsidy of 10 percent of FOB value for exportable items on other than leather and leather goods was introduced. On December 1982 the Nepalese Rupee was devalued by 7.7 percent vis-a-vis US dollar. Inspite of the devaluation, the Nepalese Rupee continued to be overvalued and overseas exports continued to decline. Even exports to India declined in 1982/83. (Table 5)

Exports to India were very erratic. Between 1975/76 and 1977/78 Nepal was facing shortage in Indian currency and she had to exchange NRs. 12.9 million of her subsidized dollar with India to pay for Indian imports. The shortage continued during the subsequent years and between 1978/79 and 1979/80 Nepal had to exchange additional dollars worth NRs. 1496 million for Indian currency (Paudyal, 1983). In June 1983 the fixed exchange rate system was replaced by a system based on a trade weighted basket with the US dollar as the intervention-currency.

However, imports from overseas continued to grow and the trade balance continued to deteriorate. Although annual accrual to convertible foreign exchange reserves continued to be positive, the overall balance of payment started to deteriorate. Nepal faced balance of payments deficits in 1984/85 despite substantial growth in exports and heavy inflow of official capital. Consequently the Nepalese currency was devalued by 14.7 percent both against US dollar and the Indian rupee in November 1985 (Table 6).

Quantitative restrictions on imports were sought to be eased through an auction system since 1985/86. Import licenses for items to be imported under this system were grouped into three catagories: Industrial raw materials and construction material; semi luxury items; and luxury items. The list of goods underwent several changes between 1986 and 1992. According to the final change in 1990/91, the goods importable under the auction system were classified in two categories: industrial raw materials medicine, baby food and other essential commodities; and other consumption goods.

However, The break down in trade and transit arrangements between Nepal and India in March 1989, put Nepal's foreign trade and economy in turmoil. India's unilateral abrogation of treaties, pushed Nepal to initiate emergency measures to fulfill her import needs and to encourage exports to overseas. Incentives in the form of reduction of export duties to 0.5 percent of the f.o.b. value of exports and subsidies at various rates were announced. Open General Licensing (OGL) was introduced to facilitate the import of raw materials and essential commodities. Some consumer goods were also incorporated in this arrangement.

With the change of government in Nepal in April 1990, the trade and transit relationship between India and Nepal were normalized as discussed above. Trading patterns reverted to pre-crisis years. Preferential treatment accorded to Nepal's exports of primary goods and specified manufacturers to India were restored. Nepal has, on her part, revised all customs duties and surcharges to conform to the treaty requirements of preferential treatment to Indian imports (Table 9).

CURRENT SCANARIO AND THE POLICY OPTIONS

Nepal's policy options are limited by her landlocked situation and her prior commitments to India. With the new policy of liberalization in India, Nepal can perhaps follow a more open door policy. However, what is in India's best interest may not be in the best interest of Nepal. For example, His Majesty's Government chose to devalue the NRS by almost 21 percent against US Dollar because of the devaluation of Indian currency by 21.3 percent in July 1991. Nepalese Rupees rate against Indian Rupees was slightly adjusted upwards from NRS 1.68 per IRS to NRS 1.65. Because India move to partial convertibility in March 1992, Nepal also moved to partial convertibility. Further, in anticipation of India moving to unified rate Nepal also moved to unified exchange rate system for convertible currencies in February, 1993. IRS - NRS exchange rate, however, is fixed and Indian Rupee is still freely convertible within Nepal. To eliminate the discrepancy in cross exchange rates the Nepalese currency was revalued against Indian currency by 3 percent.

Except for the categories of goods, currently six, which are restricted for imports in India, no license is required for imports. Foreign exchange for imports of the restricted category of goods are allocated by auction. The imports of petroleum products, fertilizers and essential medicines were allowed at official rate of exchange prior to February, 1993. Currently all exchange transactions are at open market rates.

Partial convertibility was a backward step for Nepal imposed by her geo-political situation. It is only another form of a dual currency exchange system with slight variations from what Nepal had experimented with between 1978 and 1981. Further, the auction system operational for twelve categories of restricted commodities because their entry in the India was restricted also introduced multiple exchange rates in the system. There was a high difference between buying and selling rates of convertible currencies as the buying rate was the weighted average of the market and official rates in 75:25 proportion, while the selling rate was 100 percent market rate under the partial convertibility system. This introduced incentives to curb market operations in foreign exchange dealings and anti-export bias in the system (ISD, 1992) Currently list of restricted goods have been reduced to six in accordance with the list of restricted goods in India.

After 40 years of efforts to chart out an independent external economic policy from that followed by India, the Nepalese economy seems to have moved only inches away from India. The efforts to diversify trade from India have apparently been successful, as India's share in Nepal's exports and imports are much lower than what used to be in 1969/70. But a more indepth analysis would reveal that even her overseas exports and imports were dependent on India,. Exports seem to have remote relationship with GDP or exchange rates (ISD, 1992). Rather Indian currency reserves are positively correlated with volume of overseas imports.

Currently Nepal is facing persistent balance of trade (BOT) and balance of payments (BOP) deficit with India. Both these deficits have been widening rapidly in the last three years (Table 7). One major cause of this increasing gap between imports and exports vis-a-vis imports from third countries. Effective exchange rate of Nepalese Rupee vis-a-vis Indian Rupee has appreciated by 14.5 percent between 1980 and 1991 (Table 10), while NRS exchange rate vis-a-vis US Dollar depreciated by 118 percent. With last two appreciations of Nepalese Rupee vis-a-vis Indian Rupee amounting cumulatively to 4.8 percent, from NC 186=IC 100 to NC 160= IC 100, the situation has deteriorated further. In addition, the distinct concessions granted to Indian imports with respect to customs duty has further aggravated the problem (Table 9).

Exports to third countries have also been increasing. However, the growth has been concentrated in carpets and garments. An analysis of the cost structure of both these industries reveal that they have large foreign material content. Particularly garment industry is largely based on Indian textile imports and operated in Nepal just to take advantage of the import quota granted to Nepal by USA and EEC countries. Any increase in textile import quota to India by these countries might cause a collapse of this industry in Nepal. Nepal had free access to EEC and USA for garment exports until 1986. Because this facility was misutilised by unscrupulous elements to export Indian garment manufactures as Nepalese product, a quota was introduced for Nepal as well. Moreover an increase in overseas exports of garments automatically causes increase in textile imports from India (Table 11).

In addition, in the garment industry the labor content is 70 percent Indian. Thus, Indian capital, labor and materials are used to manufacture garments in Nepal for exports to advanced industrial countries with quota arrangements. Any attempt by Nepal to increase Nepalese labor content in these industries or other employment invites strong protest from India. Income and employment multiplier effect of this industry is largely exported to India.

The arrangement for free flow of labor between India and Nepal embodied in the 1950 Treaty of Peace and Friendship which impinges on the right of Nepalese nationals to preferential treatment in employment, trade and commerce, has direct relationship to increasing trade and balance of payments deficit with India. While the two way flow of people between India and Nepal has been a historical tradition, the issue of which country has benefitted more or disproportionately from this free flow has been controversial (NCP, 1983). Even today, there are no statistics to evaluate mutual benefits from this kind of open border.

Free flow of labor is felt to be depressing the Nepalese labor market, at least in the Terai areas and large cities. It is often contended that the efficiency of imported labor in the industrial field is much higher because of better training and work attitudes of the workers, e.g. willingness to work long hours. If the national goal is to improve the living standard of the Nepalese population, how far this can be achieved by allowing labor market to be depressed by free flow of cheap labor, is a question which needs to be explored in detail.

Composition wise also, Nepal's trade with India has not changed much in the last 2 decades. While Nepal's imports of textile and other manufactured items from India is expanding rapidly, Nepal's exports of manufactured goods to India have been erratic and reached just about 16 percent of total exports. In contrast, proportion of manufactured articles in Nepal's exports to overseas has gone up to 88 percent in 1991/92 from 30 percent in 1974/75.

The net inflow of goods and labor and payments on accounts of invisible is felt to be increasing. This is not reflected well in service and transfer categories in the balance of payments statistics. Transfers net in BOP statistics reflect mostly transactions undertaken through banking channels. Border transactions are allocated to different headings on the basis of a 20 year old survey, and therefore, not realistic. Miscellaneous capital inflow may be assumed to reflect such border transactions and unauthorized trade to a large extent.

Inspite of the huge inflow of capital under miscellaneous and exchange of dollars worth Rs. 3 billion for Indian currency in between 1990/91 and 1991/92, Indian currency reserves declined by more than 24 million dollars (Table 4).

Trade deficit with third countries declined by more than NRS 1.7 billion in 1991/92 compared to the preceding year. This was most probably the effect of devaluation of the Nepalese Rupee vis-a-vis convertible currencies, as well as the liberalization of trade and exchange regime in India. Alignment of Nepalese and Indian rules on third country imports, have also helped to reduce the premium on import for deflection to India.

A major policy option for Nepal is to unify the exchange rate system and to float Nepalese Rupees vis-a-vis the Indian Rupees (ISD, 1992). As discussed above, compared to 1980, the Nepalese currency has effectively appreciated against the Indian currency and depreciated against the US dollar. However, all arguments on currency rates start with the assumption that at zero period the rate of exchange was equilibrating. In the case of exchange rates between Indian currency and US dollar on the one hand, Nepalese Rupees and Indian Rupees on the other, the zero period rates may not have been equilibrium rates to start with. As long as convertibility of Indian currency remains restricted, the free float of Nepalese currency against Indian currency may tend to encourage deflection of trade in restricted and other items with different Indian and Nepalese customs duty rates and cause depreciation of IRS rather than increase its value against NRS. When Indian currency becomes freely convertible, there may not be a need for Nepal to maintain separate exchange rate system for Indian and other convertible currencies. With liberalization of trade and exchange regime in India, many of the irritants in Nepal - India trade and transit relationships may disappear.

Moreover, given Nepal borders, India's most depressed areas of U.P. and Bihar, that the proportion of landless laborers in U. P. and Bihar are much larger than in Nepal, that Nepals' industrial labor class is largely unskilled , that Nepal has very rudimentary physical infrastructure and financial markets, that Nepalese capital is too weak to compete with large Indian conglomerates, it is not clear how Nepal can take benefit of the large Indian market presumably opened by the Trade Treaty. The processes involved in micro-economic optimization with macro-economic liberalization are not clear at all (Klitegard, 1991).

Moreover, unless Nepal completely follows the Indian policies in relation to her trade tariff and exchange rate policies with the third countries, the possibility of trade deflection will remain.

Given free flow of labor between the two countries, the income and employment multiplier effect of industrial investment, infrastructure building and development of service industries is likely to flow largely to India as in the past.

For the Nepalese to benefit substantially from this relationship, preferential treatment for Nepalese nationals in matters of employment, investment, trade and commerce is a must. It is estimated that there are 100 thousand garment workers in the Kathmandu capital area alone, of which 70,000 are Indians. Even the small scale industries in the Terai area employ a large number of Indian nationals, while the Terai settlers have started going to Indian market as agricultural laborers.

CONCLUSION

Nepal, therefore, must invest primarily in agricultural development, develop physical infrastructure and concentrate on education and skill training for the rural population, so as to receive the maximum benefit from the multiplier effect generated by developmental activities and exports. Island's of joint venture establishments based on Indian or other foreign capital, labor and goods will only push the economy towards a more dualistic structure with no benefit for the mass of the Nepalese population. It must also push the Nepalese economy towards more dependency on India. However, there is a difference between Indian capital investment or aid in Nepal and other foreign flow of capital. Other foreign investment use and train Nepalese labor while Indian capital and aid tend to import labor as well (Lama, 1985). Any negotiation on Nepal within or outside the SAARC, must include conditionalities of preference to Nepalese nationals. Nepal should also negotiate with India for regulation of the border movement in a planned manner.

Table 1

Selected Indicators of Nepal on Trade and Balance of Payments

(In Percent)

Year	GDP Real Growth	Ex-ports/ GDP	Im-ports/ GDP	Trade Deficit/ GDP	Share of Primary Goods in Total Exports	Third Country Share	
						Exports	Imports
1974/75	--	5.4	11.0	5.6	82.6	16.0	19.0
1975/76	4.4	6.8	11.4	4.6	87.5	25.0	38.0
1976/77	3.0	6.7	11.6	4.9	85.5	33.0	33.0
1977/78	4.4	5.3	12.5	7.2	82.6	52.6	38.0
1978/79	2.4	5.8	13.0	7.1	78.0	50.0	45.0
1979/80	-2.3	4.9	14.9	10.0	89.5	55.0	49.0
1980/81	8.3	5.9	16.2	10.2	74.8	38.0	51.0
1981/82	3.8	4.6	15.9	11.1	80.2	33.0	54.0
1982/83	-3.0	3.4	18.7	15.3	63.6	26.0	60.0
1983/84	9.7	4.5	17.1	12.6	60.6	32.0	53.0
1984/85	6.2	6.6	18.5	12.0	55.3	42.0	50.0
1985/86	4.3	8.2	18.9	12.7	41.9	60.0	58.0
1986/87	3.9	5.2	18.9	13.7	44.0	57.0	61.0
1987/88	7.3	6.1	20.4	14.4	36.0	62.0	67.0
1988/89	4.2	5.4	21.0	15.6	22.2	75.0	74.0
1989/90*	6.1	5.7	20.2	14.5	17.0	88.0	75.0
1990/91**	5.6	7.0	22.1	15.1	20.4	79.0	89.0
1991/92***	3.1	10.7	25.2	14.6	19.3	89.0	84.0

* Revised Preliminary Estimates.
** Preliminary Estimates.
*** Tentative Estimates.

Source: 1) Ministry of Finance, *Economic Survey*, Various Issues
2) Nepal Rastra Bank, *Quarterly Economic Bulletin*, Various Issues
3) Own Computations.

Table 2
Balance of Payments Summery of Nepal
1974-1992

(In million NRs.)

Year	Trade Balance	Services Net	Transfers Net	Current Account Balance	Official Capital Net	Official Capital Foreign Loans	Official Capital Amortization	Miscellaneous	Change in Reserves Capital Net
1974/75	-925	281	524	-80	87	104	-17	-389	422
1975/76	-813	284	589	60	148	164	-18	152	358
1976/77	-856	493	618	255	215	233	-19	-159	311
1977/78	-1,451	572	588	-292	291	311	-19	10	11
1978/79	-1,609	779	870	39	429	448	-19	116	583
1979/80	-2,403	873	1,188	-342	577	598	-21	-209	26
1980/81	-2,830	1,117	1,417	-298	534	-665	-31	-144	194
1981/82	-3,452	1,376	1,682	-392	744	807	-32	-120	502
1982/83	-5,197	1,635	1,891	-1,671	924	984	-40	72	-675
1983/84	-4,824	1,407	2,073	-1,343	-1,204	1,274	-71	14	-128
1984/85	-5,022	1,080	2,094	-1849	1,270	1,363	-92	287	-866
1985/86	-6,266	1,575	2,241	-2,471	1,812	2,005	-194	1,220	561
1986/87	-7,924	2,327	2,692	-2,904	1,890	2,098	-210	1,393	377
1987/88	-9,766	2,212	2,931	-4,622	4,368	4675	-307	2,528	2,273
1988/89	-12,086	3.048	2,718	-6,320	5,922	6,302	-380	474	76
1989/90	-13,186	2,613	2,819	-7,751	4,978	5,706	-729	5,420	2,650
1990/91	-16,608	2,692	3,661	-10,255	6,300	7,154	-854	8,736	4,132
1991/92	-19,040	3,893	4,294	-10,852	7,326	8,710	-1,384	7,860	4,333

Source: Nepal Rastra Bank, *Quarterly Economic Bulletin*, Vol. XXVI, No.3 and 4.

Table 3
Trade Dependency Ratio of Selected countries, 1990

Country	Exports	Imports	Total Trade	GDP	Percent of total Trade to GDP
Nepal (Rs in millions)	6,160.000	20,157.000	26,157.000	84,911.000	31
India (U.S. dollar in billions)	17.967	23.692	41.384	254.540	16
Pakistan (Rs in billions)	121.345	160.134	281.479	862.451	33
China (Yuan in billions)	293.060	251.230	544.290	1,768.600	31
Thailand (Bhat in billions)	589.813	844.447	1,434.260	2.051.200	70
Sri Lanka (Rs in billion)	79.481	107.729	187.210	321.057	58
S. Korea (Won in billion)	46.016	49.433	95.449	169.701	58
Singapore (S. dollar in billions)	95.246	110.033	205.279	62.711	327
Hong Kong (U. S.dollar in billions)	29.002	82.495	111.497	59.670	187

Source: Institute for Sustainable Development, 1992

Table 4
Foreign Exchange Reserve Position in Nepal

Mid July	In Thousand US Dollars			Import
	Foreign Exchange	Convertible	Inconvertible	Coverage (months)
1957	3,993	1,232	2,761	-
1958	5,629	1,505	4,124	-
1959	9,869	2,425	7,444	-
1960	16,297	5,489	10,808	-
1961	22,553	6,866	15,687	-
1962	26,485	10,048	16,437	-
1963	28,549	13,569	14,980	-
1964	44,546	19,098	25,448	-
1965	53,438	23,450	29,988	-
1966	43,613	30,437	13,176	-
1967	46,101	37,808	8,293	-
1968	51,670	39,885	11,785	-
1969	69,124	51,897	17,227	-
1970	80,923	59,625	21,298	-
1971	94,495	71,198	23,297	-
1972	100,175	82,495	17,680	-
1973	111,658	99,204	12,452	-
1974	119,225	110,972	8,253	-
1975	100,655	88,690	11,965	8.6
1976	112,311	101,073	11,238	10.7
1977	137,370	128,737	8,633	12.8
1978	132,740	118,219	14,529	9.9
1979	167,798	142,262	25,536	11.1
1980	172,886	156,437	16,429	9.1
1981	182,148	127,242	54,906	8.0
1982	219,489	149,771	69,718	9.1
1983	149,951	67,840	62,111	5.8
1984	110,804	68,331	42,473	5.6
1985	64,182	52,318	11,864	3.7
1986	87,611	71,123	16,488	4.4
1987	114,440	88,844	25,596	4.7
1988	223,979	204,604	19,375	6.1
1989	235,653	226,547	9,106	8.1
1990	293,983	244,076	49,907	7.6
1991	346,057	312,155	33,902	9.6
1992	448,282	438,279	9,993	8.7

Source: Nepal Rastra Bank, *Quarterly Economic Bulletin*, Various issues.
Reejal, 1982 for 1956/57 to 1969/70.

Table 5
Growth of Imports and Exports of Nepal

(In Percent)

Year	Imports				Exports			
	India		Overseas		India		Overseas	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
1975/76	-16.9	-16.9	122.7	97.0	19.7	20.2	104.2	80.6
1976/77	9.5	9.5	-12.1	-12.1	-12.8	-12.8	13.8	32.1
1977/78	14.1	10.1	41.0	45.5	-36.2	-38.5	42.3	46.8
1978/79	3.1	2.4	39.2	40.6	30.5	29.7	18.1	19.2
1979/80	12.9	12.9	30.0	30.0	-19.8	-19.8	-2.6	-2.6
1980/81	22.0	22.0	32.8	29.1	90.4	90.4	-2.2	-4.9
1981/82	4.7	4.7	17.8	9.8	0.2	0.2	-19.3	-24.9
1982/83	9.6	9.6	44.0	31.1	-15.2	-15.2	-41.9	-46.9
1983/84	22.3	22.3	-9.4	-19.9	37.7	37.9	87.9	65.7
1984/85	27.4	25.7	11.3	0.4	38.0	36.1	109.8	89.1
1985/86	1.9	-10.8	39.6	20.0	-22.5	-32.2	61.3	38.6
1986/87	7.3	7.4	23.7	20.4	5.0	5.0	-8.1	-10.5
1987/88	17.2	17.2	39.6	30.8	20.3	20.3	50.8	41.2
1988/89	-15.2	-15.1	29.7	11.1	-34.0	-34.0	24.1	6.3
1989/90	10.3	10.3	13.5	5.1	-41.7	41.8	44.1	33.4
1990/91	56.6	56.6	16.5	-12.0	157.4	157.5	28.1	-3.3
1991/92	61.4	61.4	32.9	-2.4	1.1	1.1	112.0	55.7

A= At current exchange rate
B= At 1980 exchange rate
Source : NRB Bulletin (Different year Complied (Table 29.31.32 and 34)

Table 6
Exchange Rates: Nepalese Rupees per Currency Unit, 1960-1992

Mid July	Us Dollar		Indian Rupees	
	Buying	Selling	Buying	Selling
1960	7.60	7.68	1.5975	1.6000
1961	7.60	7.68	1.5975	1.6000
1962	7.60	7.68	1.5975	1.6000
1963	7.60	7.68	1.5975	1.6000
1964	7.60	7.68	1.5975	1.6000
1965	7.60	7.68	1.5975	1.6000
1966	7.60	7.68	1.0125	1.0160
1967	7.60	7.68	1.0125	1.0160
1968	10.10	10.20	1.3500	1.3515
1969	10.10	10.20	1.3500	1.3515
1970	10.10	10.20	1.3500	1.3515
1971	10.10	10.20	1.3500	1.3515
1972	10.10	10.20	1.3900	1.3915
1973	10.50	10.60	1.3900	1.3915
1974	10.50	10.60	1.3900	1.3915
1975	10.50	10.60	1.3900	1.3915
1976	12.45	12.55	1.3900	1.3915
1977	12.45	12.55	1.3900	1.3915
1978	11.90	12.10	1.4500	1.4515
1979	11.90	12.10	1.4500	1.4515
1980	11.90	12.10	1.4500	1.4515
1981	11.90	12.10	1.4500	1.4515
1982	13.10	13.30	1.4500	1.4515
19.83	14.40	14.60	1.4500	1.4515
1984	16.30	16.50	1.4500	1.4515
1985	17.60	17.80	1.4500	1.4515
1986	21.10	21.30	1.6800	1.68.15
1987	21.80	22.00	1.6800	1.6815
1988	23.50	23.70	1.6800	1.6815
1989	27.40	27.60	1.6800	1.6815
1990	29.10	29.30	1.6800	1.6815
1991	42.70	42.90	1.6500	1.6515
1992	42.60	42.80	1.6500	1.6515

Source: Nepal Rastra Bank, *Quarterly Economic Bulletin*, Various Issues.

Table 7

Balance of Payments of Nepal With India 1975/76-1991/92

Year	Trade Balance	Services Net	Transfer Net	Current Account Balance	Official Capital Net	Misc Capital	Change in Reserve net (Increase-)
1975/76	-366	-110	300	54	2.6	64	-120
1976/77	-580	207	395	22	2.6	-60	35
1977/78	-1,063	198	280	-584	0.1	-109	693
1978/79	-952	319	388	-246	0.0	-50	296
1979/80	-1,339	258	458	623	0.0	-511	1,134
1980/81	-1,200	604	577	-20	0.0	-49	69
1981/82	-1,300	735	564	-1	-0.9	364	362
1982/83	-1,671	750	446	-476	109.0	573	-206
1983/84	-1,911	660	656	-594	0.0	241	354
1984/85	-2,315	319	630	-1,366	0.0	148	1,218
1985/86	-2,753	901	666	-1,187	-1.1	1,488	-300
1986/87	-2,970	1,024	911	-1,035	-1.2	1,297	-261
1987/88	-3,039	1,237	997	-805	0.0	733	73
1988/89	-3,221	1,548	976	-697	0.0	478	219
1989/90*	-4,090	1,279	1,030	-1,781	0.0	3,125	-1,344
1990/91*	-6,085	1,556	1,277	-3251	0.0	3,385	-134
1991/92*	-10,275	998	1,782	-7,495	0.0	6,348	1,147

* Provisional

Source: Nepal Rastra Bank, *Quarterly Economic Bulletin*, Various issues.

Table 8

Balance of Payments of Nepal With Overseas Countries, 1975/76-1991/92

(In Million NRs)

Year	Trade Balance	Services Net	Transfer Net	Current Account Balance	Official Capital Net	Misc Capital	Change in Reserve Net (Increase-)
1975/76	-456	174	289	6	143	88	-238
1976/77	-277	286	223	233	212	-99	-346
1977/78	-388	374	307	393	292	120	-704
1978/79	-656	460	482	285	429	166	-879
1979/80	-1,064	616	730	282	577	302	-1,161
1980/81	-1,630	514	841	-276	622	-84	-263
1981/82	-2,152	643	1,118	-392	775	-245	-139
1982/83	-3,526	885	1,445	-1,195	819	-505	-881
1983/84	-2,913	747	1,417	-749	1,204	-227	-228
1984/85	-2,707	761	1,464	-483	1,270	-438	-352
1985/86	-3,533	674	1,575	-1,284	1,813	-265	-263
1986/87	-4,954	1,303	1,782	-1,870	1,890	96	-116
1987/88	-6,727	827	2,130	-3,770	4,413	1,702	-2,346
1988/89	-8,865	1,441	1,785	-5,638	6,045	-112	-295
1989/90*	-9,097	1,335	1,789	-5,973	5,889	1,390	-1,305
1990/91*	-10,523	1,135	2,384	-7,004	6,300	4,702	3,998
1991/92*	-8,765	2,895	2,512	-3,358	7,326	1,512	-3,187

* Provisional

Source: Nepal Rastra Bank, *Quarterly Economic Bulletin*. Various issues

Table 9
Excise and Total[1] Customs Duties on Selected Items
(Effective Feb. 3,1992)

(in Percent Advalorem)

Goods	Domestic Production	Import (India)	Import (Overseas)
Vegetable Ghee[2]	8.2	23.9	29.2
Soyabin Oil[2]	8.2	18.7	23.9
Piparment/Chocolates	13.3	38.0	55.3
Noodles	7.6	32.0	43.0
Biscuits	13.3	41.5	58.7
Coke and Pepsi	32.3	55.3	72.5
Paints	19.6	42.6	59.9
Toilet Soap	11.1	56.0	68.0
Polythene Pipe	12.8	40.9	58.1
Plastics Utensils	12.2	40.3	57.6
Tyre and Tubes	11.1	38.6	55.1
Synthetic Clothes	26.5	68.0	86.0
Synthetic Readymade Garments	38.0	80.0	98.0
Sports and Track Shoes	18.5	59.6	77.6
Leather Shoes	-	56.0	74.0
Iron Rods	8.2	29.8	40.8
G. I. Sheets and Wire	19.6	36.9	48.3
Radio and Transistor	23.2	63.3	80.5
Television (Color)	32.3	89.8	112.8
Watch	13.3	59.6	77.6
Bulb per Pec.	5.0	38.0	55.2
Electric Wire	13.2	41.6	58.7
Steel Furniture	17.7	34.2	45.2
Foam and Sponz	27.2	63.2	81.2
Zeep Fastner	38.0	98.0	122.0
Tooth Paste and Powder	5.0	26.5	37.1
Umbrella	10.0	26.5	37.5
Stainless Steel Utensils	5.0	37.5	54.0
Nails	10.0	26.5	37.5

1) Includes basic additional duties and surcharges if any.
2) 50 percent discount in sales tax on domestic production.

Source: Calculated from published schedules.

Table 10
Nominal and Real Exchange Rates Indices With Respect to US dollar and Indian Rupees

Year	Nominal[a] Exchange Rate Levels		Index		Real Exchange[b] Rate Index		Equivalent[c] Real Exchange Rate Level	
	IC	US $	IC	US $	IC	US $	IC	US $
1975	1.39	11.00	95.80	92.00	87.50	77.10	1.27	9.25
1980	1.45	12.00	100.00	100.00	100.00	100.00	1.45	12.00
1985	1.47	18.25	101.40	152.10	91.40	130.40	1.33	15.65
1990	1.68	29.35	115.80	244.70	82.80	173.40	1.20	20.81
1991	1.68	38.90	115.80	324.20	85.50	218.30	1.24	26.20

Note:

a) Nepalese Rupees per unit of foreign currency, average rate of calender year based on monthly rates.

b) Real average rate = Nominal Exchange Rate Index + Foreign Price Index/Domestic Price Index.

The domestic Price index used here is the Consumer Price Index for Nepal. The foreign price index is the Indian Wholesale Price Index for India, and the CPI for Industrialized countries for US dollar rate calculations.

c) The amount of Nepalese Rupees in 1980 constant value required to purchase what US dollar 1 purchased in 1980 or what one IC Rupee purchased in 1980.

Table 11
Thread and Textile Imports of Nepal From India, 1985/86-1991/92

(NRs in million)

Years	Thread	Textile*	Readymade Garments
1985/86	111.4	633.0	57.0
1986/87	100.0	604.0	54.0
1987/88	101.3	407.0	72.2
1988/89	131.0	505.0	69.0
1989/90	153.1	503.0	69.0
1990/91	220.7	680.7	82.3
1991/92	288.8	1068.6	148.7

* Readymade garments not included.
Source: Nepal Rastra Bank: *Nepal's Foreign Trade Statistics,* Various issues.

Table 12

Estimated Cost Structure of Garment Industry in Nepal

	(NRS per piece of shirt)
Textile	60.0
Other Materials*	16.5
Total Materials	76.5
Tailor Rate	10.0
	86.5
Overhead + Profit (20 percent of direct cost)	17.0
Total Cost	103.5

* Includes button, label, thread, paper box, poly bag, poly sheet and strapping.
Source: Estimates of a manufacturer.

Table 13

Structure of Export and Import of Nepal with India and Overseas Countries (1970/71-1991/92)

(In Percent)

Categories	To India						To Overseas					
	1970/71	77/78	80/81	82/83	87/88	91/92	1970/71	77/78	80/81	82/83	87/88	91/92
Export												
Primary Goods *	90.3	97.0	97.4	76.9	83.5	81.0	69.0	70.1	38.3	28.7	7.5	11.6
Manufactured Goods **	9.7	2.9	2.5	23.0	16.3	18.8	30.9	29.9	61.4	71.2	92.4	88.5
Not Classified	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Total	100.1	99.9	100.0	99.9	99.9	99.8	99.9	100.0	99.9	99.9	99.9	100.0
Import												
Primary Goods *	38.4	31.0	29.6	31.7	34.9	33.2	5.0	24.5	34.5	30.4	27.2	38.4
Manufactured Goods **	61.4	68.9	70.1	68.2	65.0	66.8	94.6	75.5	65.3	9.5	72.7	60.7
Not Classified	0.2	0.1	0.4	0.0	0.0	0.0	0.4	0.0	0.2	0.0	0.1	0.8
Total	100.0	100.0	100.1	99.9	99.9	100.0	100.0	99.8	100.0	99.9	100.0	99.9

* Includes SITC categories 0-5
** Includes SITC categories 6-8

Note : Total may not tally due to rounding.
Source: Nepal Rastra Bank, Quarterly Economic Bulletin, Various Issues.

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