
Nepal-India Trade: Pre and Post Globalization Comparisons

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Abstract

Nepal and India have trade relations since pre historic age. The pattern of trade between these two countries has not remained same from prehistoric age to the current period. Nepal and British India signed first treaty of commerce in 1st March, 1792. Nepal's had trade surplus with British India before both the countries signed a treaty of friendship on December 21, 1923 AD. Nepal's trade deficit with India has been increasing. Nepal introduced country-wise and commodity-wise trade diversification initiatives to raise its export to India and lessen its reliance on India in international trade. Nepal has brought several reformations in trade policies though after 1991 when it liberalized its economy for increasing export and reducing volume of trade deficit. This study compares India-Nepal trade in past before down of democracy in Nepal, in between 1950 to 1990 and after 1990 in order to analyse effects of various trade treaties and policies in Nepal-India trade. It uses historical-analytical method using secondary sources of data to carry out the study. It covers data from 1900 AD to 2020/21. The study finds that various revisions in trade treaties between Nepal and India and trade reformation policies have not been effective in increasing export of Nepal, its trade deficit and dependency in India. **Key words:** Balance of payment, direction of trade, economic liberalization policies, trade deficit, trade & transit treaties.

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Introduction

Nepal is surrounded by Tibetan autonomous region of China in the north and India in east, west and south. Nepal's border with India is completely open whereas completely closed China. Katti (1992) opines that this unusual characteristic has developed tight economic, political, and cultural bond between Nepal and India. Dahal (1987) mentions that India always remained a major trading partner of Nepal since a long historical period due to the cultural and geographical tie up requiring no travel permit. Chaturvedi (1990) states that different ruling dynasties such as the Mauryas, the Lichhivis and Mallas maintained tight ties to their native areas of Bihar, Uttar Pradesh, and Bengal of India. Shah (1992) has found that Nepal was a bustling center for trade and handicrafts, and there was a successful export trade between India and Tibet during this period. According to Regmi (1971), King Bhim Malla patronized Nepal-India trade and developed it up to a prosperous stage due to which a significant portion of trade between India and central Tibet was routed through the Kathmandu valley during the 16th to 18th centuries. A complex and extremely successful commerce organization was run in cooperation by Lamastistic Tibetan monasteries, Kathmandu's Newari economic elite, and the Hindu and Muslim trading communities of north central India. Nepal and British India had signed first treaty of commerce on 1st March, 1792 to begin economic relation between them though these two countries had bitter political relations. Jung Bahadur Rana, the first prime minister of Nepal (1847-1877), established friendly relations with British India which assisted them in advancing their open trade in Nepal.

According to Shrestha (1974), Nepal had a positive trade balance with India till the first quarter of the 20th century. Nepal signed a treaty of friendship on December 23, 1923 with British India when it had a strong need to increase imports of particular goods after World War I. This was first official treaty between Nepal and British India. Although it was a treaty of friendship, it had trade-related restrictions that controlled British India's trade with Nepal until 1950. The independence of India from British shifted the nature of trade between Nepal and India as a result of which both countries signed 'A Treaty of Trade and Commerce' on July 31, 1950. Even after signing this trade and commerce treaty, Nepal's trade imbalance with India began to widen. Nepal opened to rest of the world establishing diplomatic ties with a number of nations after down of democracy in 1950 India accounted for practically all of Nepal's exports until 1960 (Dahal, 1987). However, Nepal's efforts to implement trade diversification policy during 1960s gradually reduced since mid 1970s Banskota (1981) found that Nepal's exports to and imports from India as a share of its overall exports and imports have been declining since 1975/76.

Nepal and India negotiated through a number of treaties for enhancing their economic relations and bring the transit facilities compatible to international practice of connections between main land and landlocked countries. These include the Trade Treaty, the Transit Treaty, and the Cooperation Agreement. The Cooperation Agreement was created to limit unreported trade between the two nations (Banskota, 1981). According to Pradhan, trade between two countries and trade with third countries are separated by these treaties. (Singh, 1997). Nepal export to India suffered heavy loss which recorded 11.89 percent in its total export though the import from India registered marginal loss of less than 1 percent in 1989/1990 when India put economic blockade to Nepal after expiry the treaty of trade and transit on March 23, 1989 which was removed after formation of the Nepalese interim administration following the 1990 People's Movement (Singh and Khanal, 2008). Nepal and India signed a new Trade and Transit Treaty on December 6, 1991 that made numerous changes to the original agreement. Nepal's successive governments after 1990 implemented policies to continue process of economic liberalization in Nepal. On December 3rd, 1996, Nepal and India reaffirmed their

Trade and Transit Treaty. This treaty negatively affected Nepal's export to India due to imposition quantitative restrictions on some Nepalese products, such as vegetable ghee, acrylic yarn, copper-based products, zinc oxide, etc. (MoF, 1997/98). Transit Treaty was separated from the trade and transit treaty of 1996 and its revised form was signed by Nepal and India on 6th January, 1999 which has provision of automatic renewal in every 7 years and its last renew was in 2020. On the other side, trade treaty of 1996 was renewed in 2002 incorporating certain amendments. Nepal India signed Treaty of Trade and Agreement of Cooperation on 27th October, 2009 which has provision of automatic renewal in every 7 years and its last renew was in 2016 (EoI, 2022).

Nepal's share of import in total foreign trade has increased rapidly due to adaptation trade openness policy since 1991/1992 whereas share of its export is in decreasing trend due to poor infrastructure and investment environment (MoF, 2016/17). According to Singh and Khanal (2008), Nepal's trade dependency with India has been increasing in post economic liberalization era even after several modifications of trade treaty with India. Nepal's trade with India has remained around 2/3 of its total foreign trade. Nepal's import from and export to India have been recorded not less than 30 percent and 60 percent respectively after it implemented trade liberalization policy in 1991/92. However, Nepal's trade with India squeezed in 2015/16 due to obstacle in supply at Nepal-India border by India due to its dissatisfaction in promulgation of new constitution in Nepal in 2015 (Gupta, 2021).

Political unrest during 1995/96 to 2007/08 and political transition period before promulgation of constitution in 2015 were not favourable for industrial development and economic liberalization policies of the government supported flow of a variety consumer goods into the country which resulted in decrease in domestic production and increase dependency in imports to meet domestic demand. Foreign trade is expeditiously rising but with the increase in the total volume of trade, the trade deficit is also increasing (Kafle, 2017). Share of export in total foreign trade of Nepal during eight months of fiscal year 2021/22 is 10.1 percent while share of import is 89.9 percent. Growth of export and import are 28.7 percent and 44.4 percent respectively. Growth of trade deficit has increased by 34.5 percent and balance of payment deficit is 2.586 billion in eight months of fiscal year 2021/22 (MoF 2022). The various study reveals the fact that India remained a dominating trade partner in Nepal's foreign trade and trade deficit with it has been increasing. On this ground, this study administered to compare Nepal's Trade with India in pre and post globalization periods. The study attempts to answer the following research questions.

Research Questions

What was the Nepal-India trade situation before 1950?

What was the Nepal-India trade situation during the period 1950 to 1990?

What is current Nepal-India trade situation after 1991 in globalization era?

Methods and Procedures

This paper has adopted the historical-analytical method to carry out the study. This method helps to compare the present status of Nepal-India trade with past. The study is based on secondary sources of data such as books, research papers, research journals, official documents of both countries, etc.

Results and Discussion

Nepal-India Trade before 1950

Sharma (1965) mentions that beginning of India's commercial relation with Nepal and Tibet can be pushed back as early as fifth century B.C. Jahar Sen (1977) refers Desideri who confirmed that commercial intercourse between India and Tibet via Nepal was free and

unrestricted in the early eighteenth century. Murkham mentions a road leading from Varanasi and Mirzapur passed through Mustang as an alternative way from where more valuable sorts of Bengal goods were sometimes exported into Tibet. Thus, it is evident that the trade between India and Central Asia was carried on freely before the ascendancy of the Gurkhas in Nepal (Kathmandu valley) in 1769 (Richardson, 1962). Regmi (1971) mentions that Nepal after unification was economically and politically isolated from India in early British rule. It only involved in commerce with states in northern India. British India became interested in Nepal for exploiting its natural resources, especially forest of Terai (Char-Kose Jhadi). Beside this they had desire to establish commercial connections with Tibet and China via Nepal. Several attempts British-India to establish friendly relation with Nepal for enhancing Nepal-India trade but it could not be materialized till 1783. Nepal was not in a good position to control over conflict with Tibet during 1789-93. Therefore, Nepal sought help from Britishers and requested them to intervene in the conflict. The repeated requests of Nepal provided undue advantages to Britishers which resulted in signing of the first trade agreement between British India and Nepal in 1st March, 1792. This was beginning of formal Nepal- British India economic relations. According to Pradhan (1990), this treaty was not in favour of Nepal as Britishers attempted to put restriction on its export by imposing 2.5 percent tax. The treaty's utility ended after conflict between Nepal and China was over in November 1792 (Regmi,1971). Maulavi Abdul Qadir Khan, who led a mission to Nepal in 1796, estimated that export from India to Nepal amounted to Rs. 4 to 5 lakh annually. He noted that a large section of the Nepalese population acted as brokers or middlemen between the merchants of India and Tibet and suggested direct trade relation with China and Tibet would be highly conducive to the Company's commercial interest (Sen, 1977). Nepal had no good relationship with British India before Jung Bahadur Rana, the first prime minister of Nepal (1847-1877) who started diplomatic relations with British India (Pradhan, 1990).

The following table 1 reveals the that India's main trading partner was Nepal. It also demonstrates the importance of Nepal's trade with India to the country's economy. In 1900 AD, Nepal enjoyed a trade surplus with India since it exported Rs. 23559.00 to that country while only importing Rs. 16302.00, ignoring its intrastate business with Phari and Eastern China.

Table 1

Nepal's contribution to India's overland trade in 1900 AD (In Rs. Thousand)

SN	States/Regions	Exports from India		Imports to India	
		Amount	%	Amount	%
1	Nepal	16302	30	23559	36.72
2	Tibet via Nepal	417	0.77	928	1.45
3	Tibet via Phari	1013	1.87	1519	2.38
4	Eastern China	2822	5.2	1578	2.46
5	Shan States	8391	15.46	6590	10.27
6	Siam	1495	2.76	2010	3.13
7	Karenni	151	0.28	2557	3.99
8	Shikkim & Bhutan	461	0.85	754	1.17
9	Baluchiastan & Seistan	903	1.66	1428	2.23
10	Afghanistan	5130	9.45	5491	8.56
11	Kashmir & N.W. Frontier	17177	31.66	17735	27.65
Total Over Land Trade		54262	100	64149	100

Source: Jahar Sen, Indo-Nepal Trade in 19th Century, Firma KLM Pvt. Ltd, Calcutta, 1977, p.135, Citing Imperial Gazetteers of India, Vol. III, London Trubner & Co, 1908, p. 313

The composition of Nepal’s export to import from India in 1913/14 and 1920/21 is shown in the following table. The table 2 depicts that twisted yarn, cotton products, metals, oil, salt, sugar, tobacco, and spices were chief imports from and cattle, fruit and vegetable, rice, raw jute, ghee, mustard red spices, tobacco, and cow hides were chief exports to India. As compared to export and import in the years 1913/14, total export increased by around 53% and import climbed by 50% in 1920/21.

Table 2

Composition of Nepalese Trade with India (1913/14 – 1920/21)

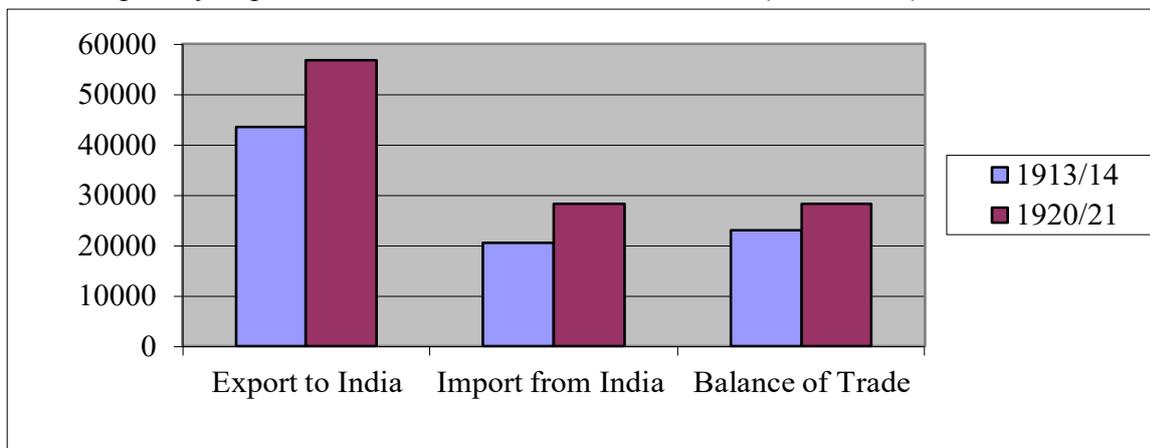
(In Rs. Thousand)

SN	Export to India			Import from India		
	Commodities	1913/14	1920/21	Commodities	1913/14	1920/21
01	Cattle	3399	2980	Twisted Yarn	2142	2272
02	Dyes Stuff	87	1561	Cotton Goods	7583	10313
03	Fruit & Vegetable	726	6878	Metals	1983	2231
04	Rice Husked	6897	8261	Oil	1039	1163
05	Rice Un-husked	9039	10953	Salt	1202	1490
06	Hides of Cattle	2067	704	Spices	1199	1856
07	Raw Jute	3623	2888	Sugar	1024	1767
08	Ghee	3186	5461	Tobacco	745	908
09	Lin Seed	953	1636	Others	3563	6293
10	Mustered Red	3098	4905			
11	Spices	1260	1119			
12	Tobacco	1237	1697			
13	Others	6923	10650			
	Total Export	42495	59693	Total Import	20480	28293

Source: Banskota, N. P. (1981). Indo-Nepal Trade and Economic Relations, B.R. Publishing House Corporation, N. Delhi, P. 25

Figure 1

Trade Surplus of Nepal with India in 1913/14 and 1920/21 (In ‘000Rs.)



Source: Table 1

A treaty of friendship was signed in December 21, 1923 to meet Nepal's increasing need of importing certain commodities after the World War I (Pradhan, 1990). This treaty had provision not to impose any custom duties on imports from Nepal and not to charge any additional taxes on the Cargo at Indian ports. A favourable treatment was given to Nepal by Britishers in treaty of 1923 which regulated British trade with Nepal and Nepal's foreign trade was completely dominated by British India until 1950 (Chaturvedi, 1990). The trade balance between Nepal and India between 1913–1914 and 1920–1921 is depicted in figure 1. The trade balance between Nepal and India in 1913–1914 was 23015 thousand rupees, while in 1920–1921 it was 28400 thousand rupees. Figure 1 demonstrates that up to 1920–1921, Nepal enjoyed a positive trade balance with the British India.

Nepal-India Trade during 1950-1990

Nepal had limited trade with overseas countries due to its political and physical isolation before World War II. England, Japan, Burma, Singapore etc. were the major countries from where Nepal was importing goods of its need. The cheap cotton textiles from Japan and the food grains from Burma were main imports of Nepal at the beginning of the war. Nepal's trade imbalance with that country began to widen even after trade and treaty of 1950. Nepal established diplomatic ties with other nations, opening itself out to the rest of the globe after down of democracy in 1950 (Dahal, 1987). The 1950 treaty mandated that regarding countries outside of India, Nepal agrees to a single tariff policy with India, placing restrictions on the expansion of Nepal's trade with these countries. Beside this, expansion of Nepal's trade with third countries adversely affected in respect of its foreign exchange requirement after the war (Shrestha, 1974). This situation did not favour to reduce Nepal's trade dependency in India as Nepal export to and import from India in total foreign trade were 99.8% and 94.2% respectively in 1960/61 (Singh and Khanal, 2008).

It is impossible to assess the balance of trade for the years 1951–1955, as there is no information or data available on the value of imports and exports during this time. Table 3 compiles some of the data that are accessible which show Nepal's volume of export to India and import from India are in increasing trend with fluctuations though increase in volume of import is greater than increase in volume of export during the period from 1956/57 to 1989/90. The export volume dropped drastically due expiry of trade and transit treaty on 23rd March, 1989. The figure also shows that, despite a sharp decline in the extent of the trade deficit in 1966–1967 and 1975–1976, Nepal's trade deficit with India increased continuously from 1956–1957 to 1989–1990. The government of Nepal took extreme measures in response to the Indian Currency's devaluation while attempting to keep its own exchange rate at equality, which led to a reduction in the trade deficit in 1966–1967 (Shrestha, 1975) and fall in trade deficit in 1975/76 was due to the oil crisis and inflation that resulted in recession and fall in aggregate demand in the economy (Banskota, 1981). The table 3 shows that in the fiscal year 1956/57, Nepal's trade deficit with India was Rs. 72,396 thousand which was recorded Rs. 4072000 thousand in the fiscal year 1989/90.

Table 3

Nepal's -India Trade Status (1961 to 1990)

(Thousand Rupees)

Year	Export to India	Import from India	BOT	Ratio of Export to Import
1956/57	93,436	165,832	-72,396	0.56
1957/58	70,489	150,341	-79,852	0.47
1958/59	116,692	218,217	-101,525	0.53
1959/60	131,296	269,926	-138,630	0.49

Year	Export to India	Import from India	BOT	Ratio of Export to Import
1960/61	209,172	375,091	-165,919	0.56
1961/62	263893	439661	-175768	0.60
1962/63	286010	598950	-312940	0.48
1963/64	284956	595587	-310631	0.48
1964/65	435168	806424	-371256	0.54
1965/66	370502	763506	-393004	0.49
1966/67	420759	465113	-44354	0.90
1967/68	390335	441130	-50795	0.88
1968/69	569924	697302	-127378	0.82
1969/70	485372	791281	-305909	0.61
1970/71	395274	616754	-221480	0.64
1971/72	431865	792312	-360447	0.55
1972/73	552453	919934	-367481	0.60
1973/74	696531	1206633	-510102	0.58
1974/75	701949	1367184	-665235	0.51
1975/76	893691	1227124	-333433	0.73
1976/77	779580	1343542	-563962	0.58
1977/78	498021	1534124	-1036103	0.32
1978/79	650134	1581699	-931565	0.41
1979/80	500935	1786416	-1285481	0.28
1980/81	992390	2179047	-1186657	0.48
1981/82	994348	2280877	-1286592	0.44
1982/83	843314	2499595	-1656281	0.34
1983/84	1160700	5058000	-1897300	0.38
1984/85	1601700	3895800	-2294100	0.41
1985/86	1241100	3970900	-2729800	0.31
1986/87	1302600	4262000	-2959400	0.31
1987/88	1567800	4595800	-3028000	0.34
1988/89	1034900	4238700	-3203800	0.24
1989/90	602500	4674500	-4072000	0.13

Source: 1. *Quarterly Bulletin, Various Issues, 1956/1957 to 1960/1961, Nepal Rastra Bank*
2. 1961/62 to 1982/83: Ratna Bahadur Thapa Kshetri, *Historical Background of Nepalese Foreign Trade and Its Diversification (1961/62-1982/83)*, Unpublished PHD Thesis Submitted to Economic Instruction Committee, T.U., 1986, p. 204
3. 1983/84 to 1989/90: *Economic Survey 1998/99*

Trade diversification policy followed by Nepal during 1960s did not significantly reduce Nepal's dependency in India till 1970 as in 1970/71, Nepal's export to India and rest of the world were 98.66 percent and 1.34 percent and 98.66 respectively. Similarly, Nepal imported 91.52 percent of its goods from India in 1969/70, compared to 8.48 percent from rest of the world in the same year. The following table 4 shows the direction of Nepalese foreign trade between the years 1961/62 and 1989/90. The table demonstrates that Nepal's export to India and import from India are in decreasing trends with fluctuations during period 1971/72-1989/90. The table depicts the fact that Nepal's percentage of Nepal's export to and import from India was declining from 1974/75, possibly as a result of Nepal's trade diversification policies.

Table 4

Nepal's Foreign Trade Direction from 1961 to 1990
(In Percentage)

Year	Export to India	Export to Third Countries	Import from India	Import from Third Countries
1961/62	99.50	0.50	98.93	1.07
1962/63	99.43	0.57	99.16	0.84
1963/64	97.87	2.13	98.52	1.48
1964/65	98.78	1.22	98.48	1.52
1965/66	98.77	1.23	97.64	2.36
1966/67	98.70	1.30	96.64	3.36
1967/68	99.33	0.67	92.33	7.67
1968/69	99.61	0.39	93.24	6.76
1969/70	99.16	0.84	91.52	8.48
1970/71	98.66	1.34	88.22	11.78
1971/72	69.90	30.10	90.87	9.13
1972/73	80.36	19.64	89.16	10.84
1973/74	80.17	19.83	86.62	13.38
1974/75	80.89	16.11	80.30	19.70
1975/76	75.37	24.63	61.92	38.08
1976/77	66.93	33.07	66.91	33.09
1977/78	47.61	52.39	62.12	37.88
1978/79	50.13	49.87	54.83	45.17
1979/80	44.31	55.69	51.33	48.67
1980/81	61.69	38.31	49.21	50.79
1981/82	66.67	33.33	46.26	53.74
1982/83	74.50	25.50	39.59	60.41
1983/84	68.12	31.88	46.94	53.06
1984/85	58.44	41.56	50.32	49.68
1985/86	40.13	59.69	42.51	57.49
1986/87	43.92	56.08	39.08	60.92
1987/88	38.10	61.90	33.14	66.86
1988/89	24.67	75.33	26.06	73.94
1989/90	11.68	88.32	25.51	74.49

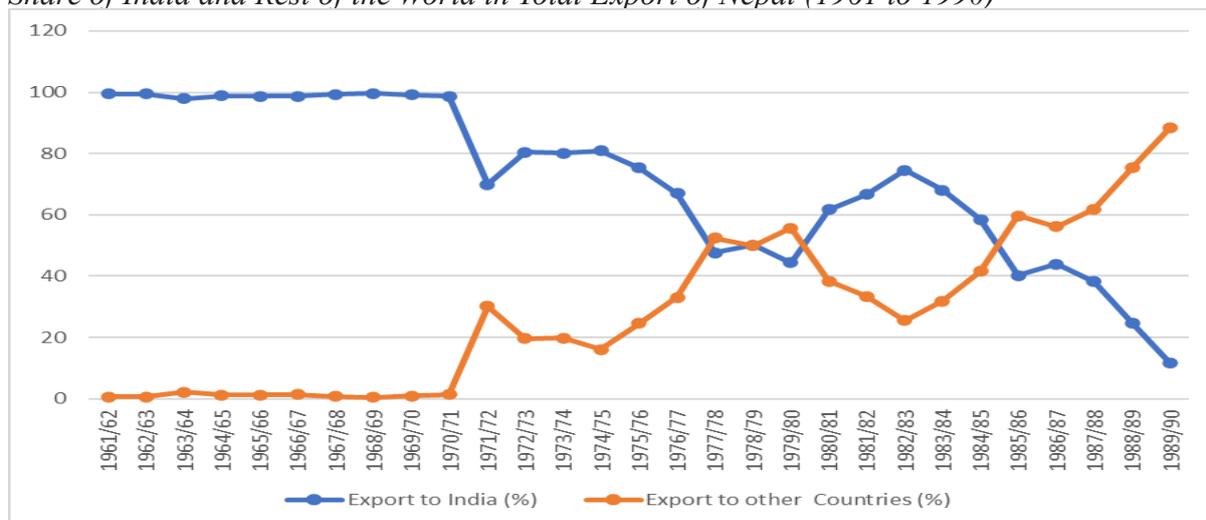
Source: 1. 1961/62 to 1982/83: Ratna Bahadur Thapa Kshetri, *Historical Background of Nepalese Foreign Trade and Its Diversification (1961/62-1982/83)*, Unpublished PHD Thesis Submitted to Economic Instruction Committee, T.U., 1986, p. 204

2. *Economic Survey 1998/99* referencing Nepal Rastra Bank, 1983/1984 to 1989/1990.

The following figure 2 shows percentage share of India and other countries in total export of Nepal. This figure demonstrates that during 1971–1972 to 1989–1990, India's share of Nepal's exports to foreign countries decreased while Nepal's share to third countries increased.

Figure 2

Share of India and Rest of the World in Total Export of Nepal (1961 to 1990)

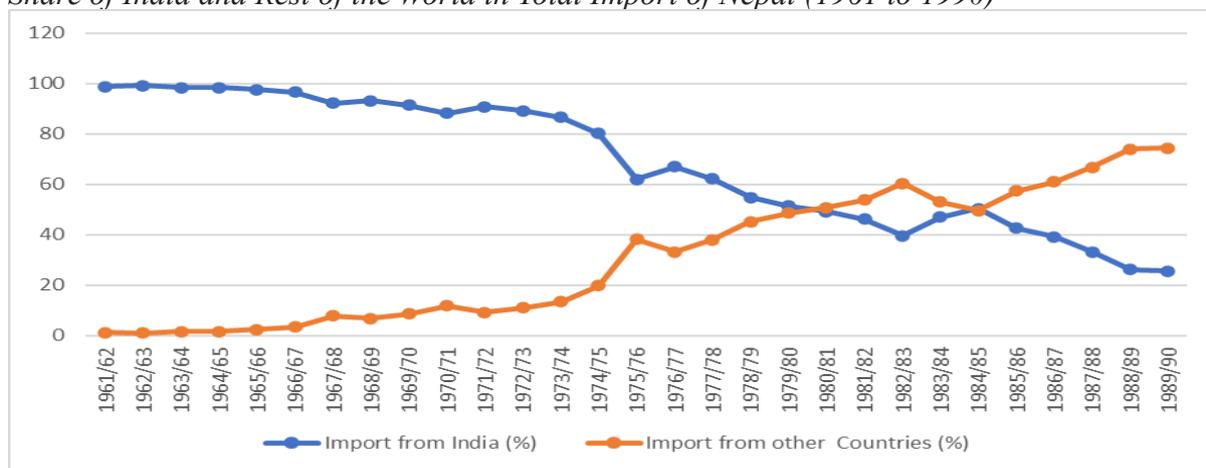


Source: Table 4

The above figure 3 shows percentage share of India and other countries in total import of Nepal. This figure reveals the fact that Nepal’s share of import from other countries is in increasing trend while share of import from India is in decreasing trend between the years 1966/1967 and 1989/1990.

Figure 3

Share of India and Rest of the World in Total Import of Nepal (1961 to 1990)



Source: Table 4

The table 5 reveals the fact that the food and Livestock, raw materials, non-edible commodities other than fuels, manufactured goods mostly categorized by materials, etc., continued to be Nepal’s principal exports to India and the main commodities that Nepal continued to import from India were manufactured goods chiefly classified by materials, food and animals, machinery, and transportation equipment, chemical and drugs, minerals, fuels and lubricants, raw materials, inedible products other than fuels, etc.

Table 5*Composition Nepal-India Trade (1960 to 1990)*

SITC Code	FY Particulars (%)	60/61	69/70	79/80	1980/81 to 1984/85	1985/86 to 1989/90
0	Food and Livestock					
	Export to India	75.67	60.74	35.1	48.66	48.9
	Import from India	12.62	19.78	19.3	19.86	21.54
1	Beverages and Tobacco					
	Export to India	1.18	0.43	0.3	0.47	0.08
	Import from India	5.80	1.32	1.3	1.7	3.69
2	Crude Materials, inedible except fuels					
	Export to India	20.75	24.80	56.7	30.02	28.7
	Import from India	5.30	6.24	4.1	4.12	2.49
3	Minerals, fuels and Lubricants					
	Export to India	-	-	0.1	0.1	0.03
	Import from India	6.60	10.84	2.0	2.83	2.61
4	Animal and Vegetable oils and fats					
	Export to India	0.31	0.32	3.8	4.08	8.52
	Import from India	2.68	1.05	0.8	1.15	0.15
5	Chemicals and Drugs					
	Export to India	0.04	0.25	0.1	0.08	0.49
	Import from India	5.73	7.36	12.9	13.84	17.23
6	Manufactured goods classified chiefly by materials					
	Export to India	0.92	9.49	3.2	14.25	14.39
	Import from India	49.42	38.71	33.7	28.5	31.98
7	Machinery and transport equipment					
	Export to India	0.04	0.03	0.2	1.08	0.69
	Import from India	6.52	8.95	16.4	15.97	17.77
8	Miscellaneous manufactured articles					
	Export to India	0.65	3.89	0.7	0.73	1.11
	Import from India	4.29	5.66	9.3	7.04	5.48
9	Miscellaneous					
	Export to India	0.44	0.05	0.10	0.66	0.04
	Import from India	1.04	0.06	0.2	0.06	0.23

Source: 1. 1960/61 to 1980/81- Kishor Dahal, "Indo-Nepal Trade: Problems and Prospects", Ratna Pustak Bhandar, 1987

2. 1980/81 – 1984/85 to 1985/86 – 1989/90 - Dr. Mrs. Vijaya Katti, "Indo-Nepal Trade: Post WTO Dimension", Kalinga Publication, Delhi, 2001, p. 37

Globalization and Nepal-India Trade (1990/91 to 2020/21)

Since the late 1980s, Nepal had been experiencing severe macroeconomic instability as a result of sluggish economic development including expanding fiscal deficits and dwindling foreign reserves, which has forced it to begin new era of economic order. In this context, the World Bank and the International Monetary Fund (IMF), two major donors and international financial institutions, began identifying Nepal's development priorities and advising the government to adopt market-based economic growth and make itself more accessible to foreign capital. Ideologically, the market economy sought to free the economy from governmental control and allow economic forces to participate in the process of promoting global progress (Dahal, 1999). Nepalese government adopted Structural Adjustment Programme (SAP) in 1987 and 1989

funded by the World Bank Structural Credits and an IMF Structural Adjustment Facility for the period from 1987/88 to 1989/90 (Gurugharana, 1996). Nepalese government after restoration of democracy in 1990 continued SAP. Nepal adopted several economic liberalization policies exposing itself to the flow of foreign investment after India announced its economic and trade policy liberalization in July 1991 (Katti, 2001).

Following 1990, Nepal's successive governments continued to formulate and implement the country's economic liberalization policies by developing and putting into effect a number of programs such as privatization of government enterprises, reducing customs tariff rates, adopting new industrial, commercial, foreign investment, new trade policies, reducing import limitations, with exception of a few illegal items, implementing the Open General License (OGL) framework, etc. (Acharya, 1999). According to Silwal (2008), liberalized and trade dependent nature of Nepal has widened the gap between import and export specially after it became World Trade Organization's member in 2004 which compelled Nepal expand the openness and reduce tariffs and import restrictions which resulted in rise in trade deficit. The continuous growth of mismatch between import and export has resulted in an alarming level of trade deficit growing and continued mismatch between import and export have resulted in an alarming level of trade deficit in Nepal (NPC, 2016). According to Chhetri (2021), Nepal's export has changed from agriculture goods in the 1980s to manufactured goods after 1990s. The flow of remittance has increased the imports whereas political instability and insecurity have decreased the export beside this the abolishment of export quota in 2005 has further worsened the trade gap.

Direction Nepalese foreign trade is shown in table 6. It shows total volume of Nepal's export to and import from India and other countries and their percentage shares. The figure shows that India's share of Nepal's overall exports has been declining since 1992/93. The table shows that India's share has been in increasing trend during the period from 1993/94 to 2020/21. Similar trend is found in case of share of India's in Nepal's total import during the same period. India's shares in total export of and import of Nepal are 21% and 31.5% in 1990/91 which reached 75.37% and 63.1% respectively in 2020/21. Nepal's share of trade deficit with India during 1970s and 1980s was found in decreasing trend as compared to share of other countries. But reversal case has been found during post globalization era as share of Nepal's trade deficit with India other countries are 36.4% and 63.6% respectively in 1990/91 which have been recorded as 61.86% and 18.14% respectively in 2020/2021. The table 6 reveals the fact that Nepal's trade dependency in India has increased in post globalization era.

Table 6*Nepalese Foreign Trade Direction for the Period 1990 to 21*

(Rs. Million and Percentage)

Year	Export To (F. O. B.)		Import From (C. I. T.)		Balance of Trade With	
	India	Other Countries	India	Other Countries	India	Other Countries
1990/91	1552.2 21%	5835.3 78%	7323.1 31.5%	15903.4 68.5%	-5770.9 36.4%	-10068.1 63.6%
1991/92	1450.0 10.6%	12256.5 89.4%	11245.5 35.2%	20694.5 64.8%	-9795.5 53.7%	-8438.0 46.3%
1992/93	1621.7 9.4%	15644.8 90.6%	12542.1 32.0%	26663.5 68.0%	10920.4 49.8%	-11018.7 50.2%
1993/94	2408.9 12.5%	16884.5 87.5%	17035.4 33.0%	34535.4 67.0%	-14626.5 45.3%	-17650.9 54.7%
1994/95	3124.3 17.7%	14514.9 82.3%	19615.9 30.8%	44036.6 69.2%	-16491.6 35.8%	-29548.7 64.2%

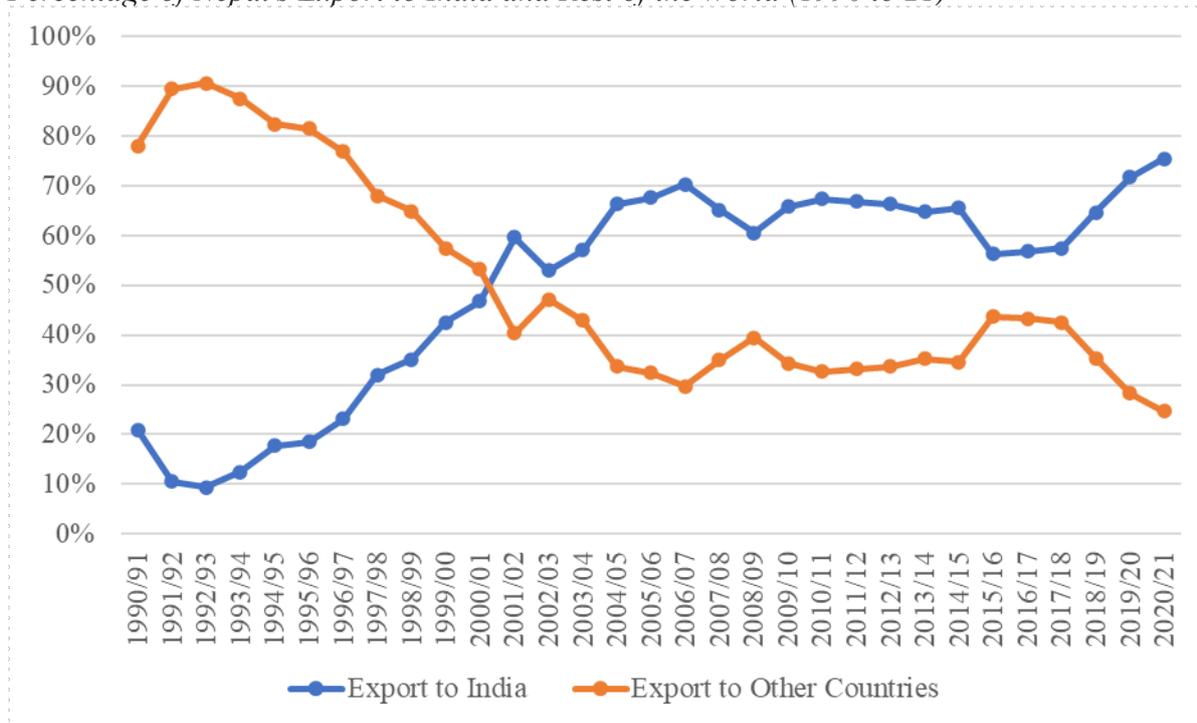
Year	Export To (F. O. B.)		Import From (C. I. T.)		Balance of Trade With	
	India	Other Countries	India	Other Countries	India	Other Countries
1995/96	3682.6 18.5%	16198.5 81.5%	24398.6 32.8%	50055.9 67.2%	-20716.0 38%	-33857.4 62%
1996/97	5226.2 23.1%	17410.3 76.9%	24583.3 26.6%	68700.1 73.4%	-19357.1 27.7%	-51289.8 72.3%
1997/98	8794.4 32.0%	18719.1 68%	27331.0 30.7%	61671.0 69.3%	-18536.6 30.2%	-42951.9 69.8%
1998/99	12530.7 35.1%	23145.6 64.9%	32119.7 36.7%	55405.6 63.3%	-19589.0 38.8%	-32260.0 61.2%
1999/00	21220.7 42.6%	28602.0 57.4%	39660.1 36.6%	68844.8 63.4%	-18439.4 31.4%	-40242.8 68.6%
2000/01	26030.2 46.8%	29623.9 53.2%	45211.0 39.1%	70476.2 60.9%	-19180.8 32%	-40852.3 68%
2001/02	27956.2 59.6%	18988.6 40.4%	56622.1 52.7%	50766.9 47.3%	-28665.9 47.4%	-31778.3 52.6%
2002/03	26430.0 52.9%	23500.6 47.1%	70924.2 57.0%	53427.9 43.0%	-44494.2 59.8%	-29927.3 40.2%
2003/04	30777 57.09%	23134 42.91%	78740 57.78%	57538 42.22%	-47962 58.23%	-34404 41.77%
2004/05	38917 66.29%	19789 33.71%	88676 59.33%	60798 40.67%	-49759 54.82%	-41009 45.18%
2005/06	40715 67.59%	19519 32.41%	107143 61.65%	66637 38.35%	-66428 58.50%	-47118 41.50%
2006/07	41729 70.27%	17654 29.73%	115872 59.51%	78822 40.49%	-74144 54.79%	-61168 45.21%
2007/08	38556 65.10%	20711 34.90%	142377 64.15%	79571 35.85%	-103821 63.82%	-58850 36.18%
2008/09	41006 60.57%	26692 39.43%	162438 57.10%	122032 42.90%	-121432 56.02%	-95340 43.98%
2009/10	39994 65.75%	20830 34.25%	217114 58%	157221 42%	-177121 56.5%	-136391 43.4%
2010/11	43360 67.39%	20978 32.61%	261925 66.11%	134250 33.89%	-218565 65.87%	-113272 34.13%
2011/12	49616 66.81%	24645 33.19%	299390 64.85%	162278 35.15%	-249773 64.47%	-137633 35.53%
2012/13	51000 66.31%	25914 33.69%	367031 65.93%	189709 34.07%	-316031 65.86%	-163792 34.14%
2013/14	59614 64.80%	32378 35.20%	477947 66.91%	236419 33.09%	-418333 67.22%	-204041 32.78%
2014/15	55865 65.48%	29455 34.52%	491656 63.47%	283028 36.53%	-435791 63.22%	-253575 36.78%
2015/16	39494 56.33%	30624 43.68%	477213 61.69%	296386 38.31%	-437719 62.22%	-265763 37.78%
2016/17	41449 56.74%	31599 43.26%	633670 64%	356444 36%	-592220 64.58%	-324844 35.42%
2017/18	46720 57.42%	34640 42.58%	814102 65.38%	431001 34.62%	-767382 65.94%	-396361 34.06%
2018/19	62732 64.60%	34378 35.40%	917922 64.71%	500613 35.29%	-855190 64.72%	-466236 35.28%

Year	Export To (F. O. B.)		Import From (C. I. T.)		Balance of Trade With	
	India	Other Countries	India	Other Countries	India	Other Countries
2019/20	70109 71.75%	27600 28.25%	735295 61.44%	461504 38.56%	-665186 60.52%	-433904 39.48%
2020/21	106372 75.37%	34752 24.63%	971604 63.10%	568233 36.90%	-865232 61.86%	-533481 38.14%

Source: Economic Survey of various fiscal years from 2003/04 to 2021/22

Figure 4

Percentage of Nepal's Export to India and Rest of the World (1990 to 21)

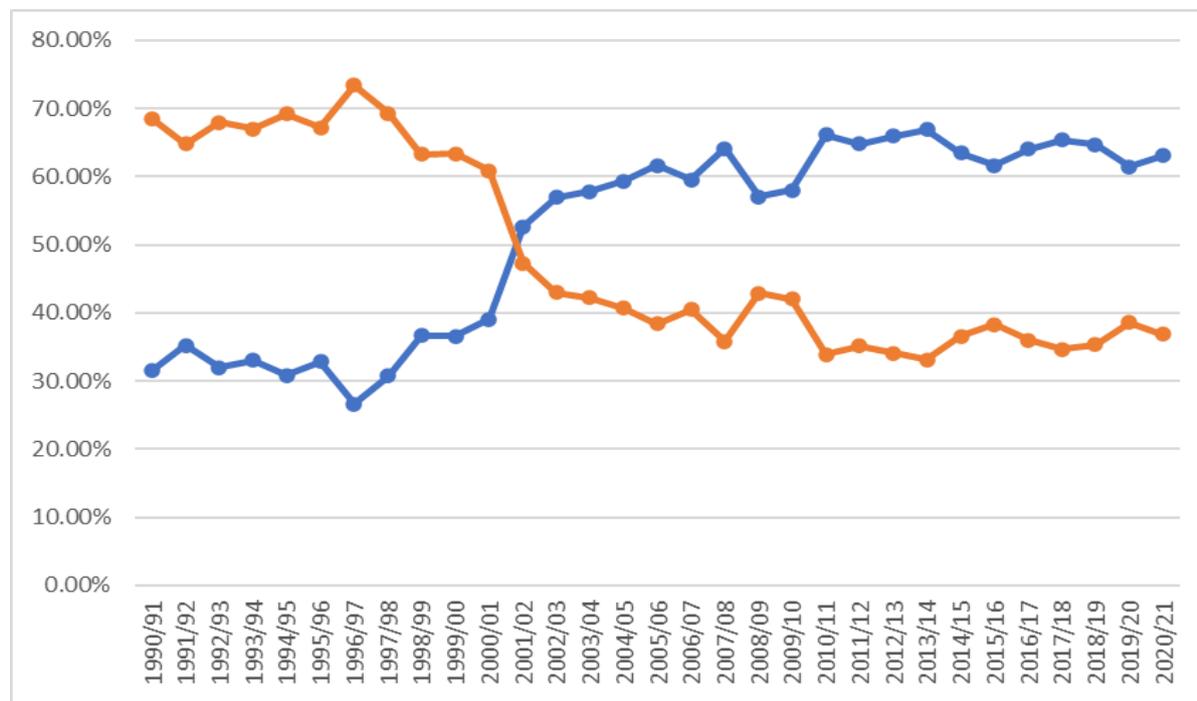


Source: Table 6

Figure 4 above depicts the percentage contribution of India and other nations to Nepal's total exports from 1990–1991 to 2020–2021. This statistic shows that over this time period, Nepal's share of exports to India has been increasing while its percentage of exports to other nations has been declining. The figure further reveals the fact that share of other countries is greater than share of India in Nepal's total export before 2000/01. But reversal case is there as share of India is greater than share of other countries after 2000/01.

Figure 5

Percentage of Nepal's Import from India and Rest of the World (1990 to 21)



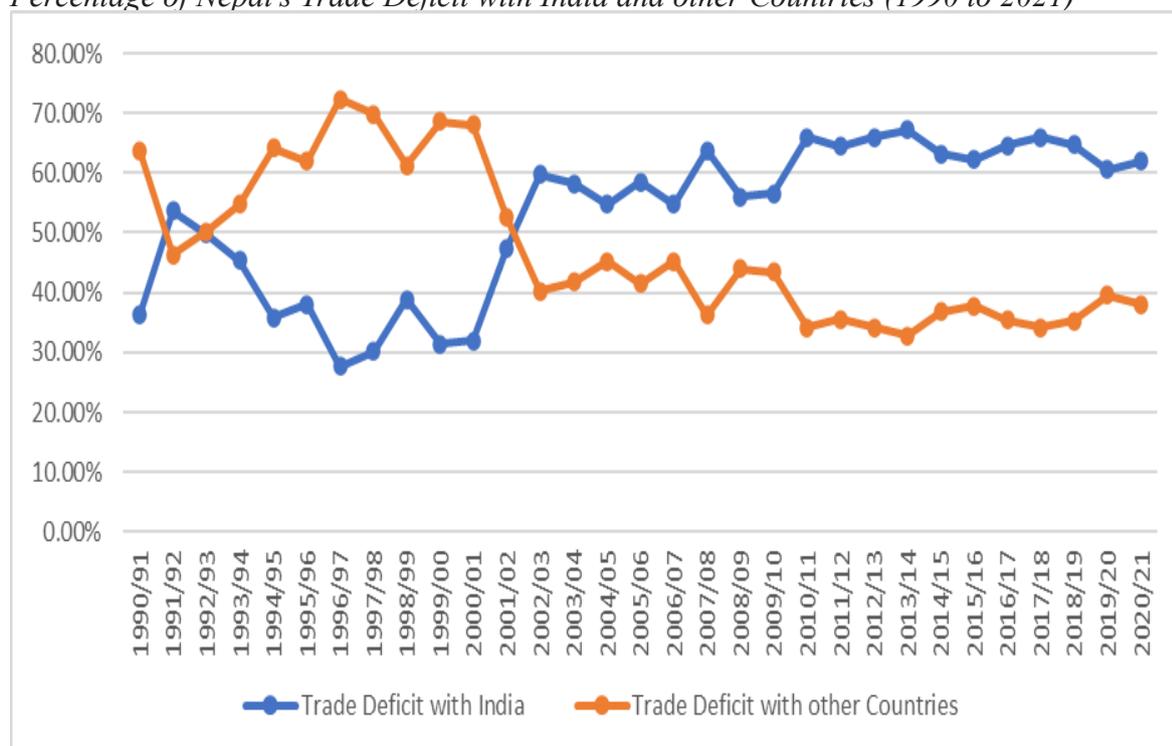
Source: *Table 6*

The above figure 5 shows percentage share of India and rest of the world out of total import of Nepal in between 1990 to 2021. This figure shows that share of import of Nepal from India is in increasing trend while share of import from rest of the world is in decreasing trend during the same time period. The figure further reveals the fact that share of other countries is greater than share of India in Nepal's total import before 2001/02. But reversal case is there as share of India is greater than share of other countries after 2001/02.

Figure 6 below illustrates the percentage contribution of India and other nations to Nepal's overall trade deficit from 1990/91 to 2020/21. This picture shows that, with some changes, share of the trade deficit of Nepal with India was declining and rising with rest of the world in between 1991/92 and 2001/02. But reversal case is there during the time period from 2002/03 to 2020/21 as Nepal's share of trade deficit with India is in increasing trend and it is in decreasing trend with other countries during the same time period. The figure further reveals the fact that share of Nepal's trade deficit with other countries is greater than share of India during the time period 1993/94 to 2001/02. But reversal case is there during the time period from 2002/03 to 2020/21 as Nepal's share of trade deficit with India is greater than share of other countries.

Figure 6

Percentage of Nepal's Trade Deficit with India and other Countries (1990 to 2021)



Source: Table 6

Table 7 shows that Nepal's principal exports to India are still food and livestock, animal and vegetable fats and oils, manufactured commodities mostly categorized by chiefly materials, miscellaneous produced items, crude materials, inedible excluding fuels, chemicals and pharmaceuticals, etc. while chief imports of Nepal from India are manufactured goods primarily categorized according to materials, food and animals, machinery, and transportation equipment chemical and drugs, minerals, fuels and lubricants, miscellaneous manufactured articles crude materials, inedible except fuels etc. in between 1990/1991 and 2020/2021.

Table 7

Composition of Nepal-India Trade as per SITC (1990/91 -2020/21)

(in percentage)

SITC Code	FY Particulars	1990/91	2000/01	10/11	15/16	20/21
0	Food and Livestock					
	Export to India	50.8	15.3	22.59	23.42	18.36
	Import from India	20.4	9.8	32.63	14.19	13.88
	Beverages and Tobacco					
1	Export to India	0.3	0.3	0.0	0.68	0.18
	Import from India	3.5	1.4	0.55	0.83	0.36
2	Crude Materials, inedible except fuels					
	Export to India	13.7	2.7	2.99	3.16	1.95
	Import from India	2.4	5.3	4.92	4.32	3.43
	Minerals, fuels and Lubricants					
3	Export to India	0.0	0.0	0.0	0.0	0.0
	Import from India	2.9	3.0	20.5	10.87	13.92

SITC Code	FY Particulars	1990/91	2000/01	10/11	15/16	20/21
4	Animal and Vegetable oils and fats					
	Export to India	12	15.1	0.64	0.15	39.65
	Import from India	0.02	0.9	3.72	2.73	5.3
5	Chemicals and Drugs					
	Export to India	0.5	15.3	4.17	6.59	3.95
	Import from India	17.5	14.7	11.43	13.44	11.68
6	Manufactured goods classified chiefly by materials					
	Export to India	21.8	34.2	52.06	46.59	26.4
	Import from India	26.6	40.0	23.05	21.09	21.25
7	Machinery and transport equipment					
	Export to India	0.0	0.8	0.59	0.57	0.6
	Import from India	22.3	19.2	21.54	24.53	21.78
8	Miscellaneous manufactured articles					
	Export to India	1.0	16.2	16.96	18.83	8.7
	Import from India	4.4	5.8	6.87	5.93	7.02
9	Miscellaneous					
	Export to India	0.0	0.0	0.01	0.0	0.0
	Import from India	0.02	0.0	0.03	2.08	1.78

Source: Economic Survey of various fiscal years from 2003/04 to 2021/22

Conclusion

Despite huge potentiality of getting benefit from trade in order to accelerate economic development of the country and by increasing output and income and alleviating poverty Long lasting political instability, lack of infrastructural facilities, poor entrepreneurial skill in youths, procedural difficulties, lack of food governance etc. are obstacles in rapid industrial development in the country. Lower production capacity of the economy and use of remittance for consumption has increased volume of import which has resulted in continuous increase in volume of trade deficit. Instead of several policy reformation, implementation of trade diversification policy and increase in trade relationship with many countries Nepal's trade dependency with India has increased in post globalization era which indicates for revision of trade policies with capacity building up of private sector along with developing infrastructural facilities and good governance for getting desired benefit from Nepal-India trade.

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