

Nepal-India Trade Relations

Some Recent Trends

Y P Pant

About 95 per cent of Nepal's trade is with India, The main items of export to India are rice and other food grains, hides and skins, oilseeds, timber, ghee and medicinal herbs. The main items of import from India are cotton yarn and cloth, woolen cloth, chemicals, kerosene and salt.

In recent years with the establishment of diplomatic and economic relations with an increasing number of countries, Nepal's trade is gradually becoming diversified geographically.

Even so for some years to come, rapid expansion of trade with countries other than India will be difficult for certain reasons.

First, Nepal is dependent upon Indian railways and ports for trade with other countries. The capacity of Indian railways and ports is, however, inadequate even to meet the needs of the rapidly developing Indian economy.

Second, the small scale of Nepal's trade makes it difficult to attract overseas businessmen,

Third an organised business community which will make positive efforts to promote trade does not exist in Nepal today. The growth of trade associations is a recent phenomenon in Nepal. Even now only some half a dozen trade organisations are registered with the Government and their activities are confined mostly to their respective localities.

[The author is Secretary to His Majesty's Government of Nepal in the Ministry of finance and Economic Affairs. This article is however, written in the author's personal capacity and does not in any way represent the official views of His Majesty's Government.]

BORDERED on the north by Tibet region of China and on the west, south and east by the Indian States of Uttar Pradesh, Bihar and West Bengal, Nepal is a land-locked country divided into three regions — the lower or tarai region, the central region, and the northern or Himalayan region. From the lower region with the tarai belt the country goes on rising gradually upto the altitude of a little more than 29,000 feet. While the country has a natural northern frontier—the Himalayas passable only at a few very high mountainous passes — and its borders to the west and the east are rivers and mountain ranges, the southern border in the Gangetic Plains is an artificial demarcation. The region towards the Indian frontier or the tarai belt covering an area of about one seventh of the country's territory, has fertile agricultural soil, which accounts both for Nepal's main exports and for a considerable part of the food supplies to the rest of the country.

The country has an area of 54,362 square miles and extends about 500 miles east to west in the shape of an elongated rectangle. The population is estimated at 9.4 million and density per square mile

at 174 according to the provisional figures of the Census of 1961. Though the country's economy is basically agriculture-oriented with about 94 per cent of the population dependent on agriculture, owing to reasons of topography and to other conditions of underdevelopment only one-fourth of the total land is either cultivated or cultivable. This is why there is very surplus left for exports after meeting domestic needs.

95 Per Cent Trade with India

Extreme difficulties of transport result in frequent local shortage of foodstuffs, and even in good crop-years there are large price differences as between one part of the country and another. In fact, lack of transport, has divided the surplus and deficit areas into rather tight regional compartments. As a result, goods of high value only are generally worth transporting. Again, the subsistence economy in the rural areas and the underdeveloped character of the country's industrial economy are reflected in the pattern of trade and in most parts of the country inter-regional trade is more or less in the form of barter. All these have necessitated heavy import of manufactured goods, capital equipment and even most consumer

goods, including many daily necessities, from outside.

Thus because of its land-locked location, historical and topographical features and other problems of underdevelopment, Nepal presents its own distinctive and unusual features in matters of foreign trade perhaps not common to most countries of the world. The present paper is an attempt to study certain recent trends in Nepal's trade relations with India with whom it conducts about 95 per cent of the total foreign trade. In the absence of the necessary information it is, difficult to trace all aspects of Indo-Nepalese trade accurately. Statistics published from time to time in the *Indian Trade Journal* as also those provided by the Indian Customs Authorities are the main sources of information. Since the trade figures, collection of which was recently started by the Central Bureau of Statistics, Nepal, are available even in their rough forms only for three fiscal years* — 1957-58, 1958-59 and 1959-60—the study of trends is based on these years and presents only the basic problems and generalises the probable trends.

Since there is a considerable volume of unrecorded trade arising * Nepal's fiscal year is from July to June.

out of the difficulties of establishing comprehensive customs control at all frontiers, particularly where such frontiers are not clearly marked and where the tarai plains facilitate smuggling, figures given in the tables are not entirely reliable. Generally, import figures are more reliable than those for export.

II

Geography being the main determinant of Nepal's trade, 'ridges stretching southward from Himalayan highlands to the low lands of the tarai and rugged terrain throughout the greater part of the country have been obstacles to both internal and external trade'. The trade routes that have existed are largely north to south channels, i e, through a few high passes into Tibet region of China and across the flat 500-mile Indian frontier. The routes to the outer world lead southward to three different parts of India by air, by road, by bridle path and by rope way, and northward to Tibet, mostly by bridle path. Since the country has no direct access to any sea-port, all transactions with over-seas countries are conducted through the ports of India—principally, Calcutta.

Shortage of Transport

Most of the trade centres of the country are located in the tarai region. Specially with the tarai region of the east, west and south borders Indian railroads connect with roads and trails into the tarai and northward; but the routes of transportation naturally follow the valleys and rivers. Trade with India is mostly conducted through Kathmandu, Biratnagar, Birganj and Nepalganj. Significantly, first three towns cover the trade between Nepal and Bihar. Much of the trade with West Bengal in India also passes through Biratnagar, an industrial town in the southeast. Trade with Uttar Pradesh in India is carried on through Nepalganj, a border town in the west. Generally, at the trade centres in the tarai along the Indian border the load is shifted from the Indian railroads to Nepalese highways and vice versa. Trade at many border crossings in the tarai is not generally registered.

The country operates two short narrow-gauge rail-roads in the tarai

—the total length of which is only 50 miles. Indian railway lines push to the border at various points along Nepal's southern, eastern and western boundaries. Jogbani (near Biratnagar), Raxaul (south of Birganj), Nautanwa (south of Butawalj. Tanakpur (western border) are some of the more important Indian rail terminals.

Air transport started with the construction of a fair-weather airstrip at Gaucher at Kathmandu and the first airline service connecting India was started by late 1950. Indian Airlines Corporation started its service in late 1952. The Royal Nepal Airlines also has been in operation both for internal and external flights since July 1958. In recent times air transport has been increasingly popular and the volume of air-borne trade has almost doubled in the last four years. However, the freight carried by airways is not very substantial, since the charges are exceedingly high and air transport does not operate all the year round.

On the whole, the undeveloped character of the transport system has made the movement of goods from one part of the country to the other, very difficult. Such few as exist are usually concentrated in or around principal cities and a few other centres. The coolie or pack animal transport and narrow trails of the mountains greatly restrict the radius of trade (probably not more than 50 miles of a town) as well as the variety of marketable goods in most parts of the country. Generally, Nepal's rivers are not navigable and even in the tarai seasonal drought and shifting river channels make navigation almost impossible, except in certain seasons. Consequently, there is little movement of goods from one place to another inside the country. As there is no large distributing or export agency with branches all over the country, movement is effected in small quantities on an individual basis.

III

Though about 95 per cent of Nepal's foreign trade is with India, no specific trade agreement between Nepal and India was concluded before 1923 and it was more by convention that India used to provide certain trade and transit facilities to

Nepal. In the then existing conditions of rigorous restriction by the Government on all types of imports from overseas countries and all but a limited volume of imports from India consisting mainly of essential commodities like raw cotton, textiles, salt, kerosene, medicine, etc no major trade problems arose. However, with the increase of import needs after the War and relaxation of restriction on import of certain commodities, a Treaty was signed between Nepal and Great Britain in December 1925 by which Nepal was allowed to import free of duty, provided the goods were the property of the Nepal Government and were required for the public services of the Nepal Government and were not for the purpose of any State monopoly or State trade. The treaty also permitted the import of arms and ammunitions from or through British India* into Nepal for the strength and welfare of Nepal, provided they were not exported back to India.

After 1930, with some liberalisation in the policy of the Ranas regarding imports, conclusion of a new and more comprehensive treaty became imperative. Later on, India's Independence also made it necessary to revise the old treaty. Accordingly, a Treaty of Trade and Commerce was signed in July 1950. The first four articles established Nepal's full and unrestricted rights of commercial transit of all goods, while article 5 ensured that the import and export duties of Nepal and India would be at the same level by stipulating that Nepal shall not levy duties on imports or exports at rates lower or higher than those in India.

After the signing of the above treaty, and more particularly after the overthrow of the Rana rule, some fundamental changes began in the trade policy of the Government. The emphasis shifted from revenue tariff to development tariff. Under the Treaty of 1950 Nepal could not adopt a policy independent from that of India. Since the tariff policy of a country is a product of its size, location, stage of economic growth and needs, in the changed context of the country's economic and political conditions the revision of the Treaty, therefore, became imperative.

1960 Trade Treaty

Accordingly, a new Treaty of Trade and Commerce was signed in September 1960, which provided for free trade, maintenance of separate foreign exchange account and fuller transit facilities for Nepal. Now Nepal can impose protective duties or quantitative restrictions on goods being produced by newly established industries in the country. These provisions apart from encouraging Nepal's foreign trade with other countries, are expected to help Nepal regulate its internal fiscal policy according to the country's own needs. The Treaty also provides that payment for transactions with third countries will be made in accordance with the respective foreign exchange laws, rules and regulations of the two countries, while before then all the necessary foreign exchange for imports used to be granted against import licences issued by the Government of India. Finally, by eliminating most of the complex administrative procedure greater transit facilities have been given to Nepal under the new arrangements. For example, traffic in transit has been exempted from customs and other transit duties, and a separate shed in the Calcutta port area has been allocated to His Majesty's Government. In a similar way, formalities in connection with the movement of goods from the port of entry to the place of destination in Nepal have been simplified.

IV

Before 1951 Nepal's overall trade balance was favourable; so was the balance with India also.

After 1951, however import needs went up very fast without any corresponding increase in exports.

Table 2 shows some important features of the commodity composition of exports. Exports are almost exclusively of agricultural origin. Agricultural commodities, whether as paddy, tobacco and other beverages, or processed as jute textiles and vegetable oils form the bulk of the country's exports. The principal commodities include paddy, which is by far the biggest item, forming about one-fourth of the total food products exported, wheat, grain and grain products, spices, sugarcane, milk products, fish, fruits, etc. These agricultural products are produced mostly in the tarai region and go to

the Indian districts adjacent to the Nepalese border. The nearness to the market is a great advantage to the Nepalese exporters. The Indian States adjoining Nepal are almost regularly short of food and under the circumstances they must either import from Nepal's tarai regions or from distant overseas markets. Thus Nepalese foodstuffs are in a definitely favourable position compared to imported foodstuffs in these States.

Crude materials exported by Nepal to India include hides and skins, jute, herbs, crude textile fibres, metal ores and metal scraps. They form another important group of commodities entering into the country's export trade. Jute and jute products account for almost one fifth of the total.

Mineral fuels, lubricant, and related materials form another group of export commodities. Exports of manufactured goods comprise of wooden furnitures, bamboo and bamboo products, cotton textiles and related products. The total volume of export of manufactured goods is almost negligible. Table 2 reveals that exports increased slightly in value in 1959-60 compared to 1958-59. The increase registered in exports of food articles between 1957-58 and 1959-60 was due to the larger exports of paddy as a result of good harvests in the tarai region. In 1958-59 in the chemical group there was only one commodity, soap,

while in 1959-60 varnish, paint and medicine were also exported.

The overall picture that one gets of Nepal's exports to India over the past three years is one of stagnation in the total volume, increase in exports of some items being more than offset by the decline in others.

Impact of Development on Imports

The volume and composition of Nepal's imports from India are, in general, the cause and consequence of the pace of economic development of the country. Though Table 3 shows that there has not been much change in the value of imports of different commodities, the total value of imports in 1959-60 was slightly higher as a result mainly of increasing imports of certain building materials and other goods for developmental activities, as under the foreign aid. For example, annual development expenditure during First Five Year Plan period has been estimated as follows :

Fiscal.	YEARS	TOTAL EXPENDITURE
<i>(In millions of Rupees)</i>		
1956-57		14.7
1957-58		12.4
1958-59		32.7
1959-60		78.9
1960-61		65.3

Thus the increase in imports is partly the result of developmental needs. The above figures include aid from countries like U S A in which case the goods are imported

Table 1 : Exports and Imports
(In millions of Rs)

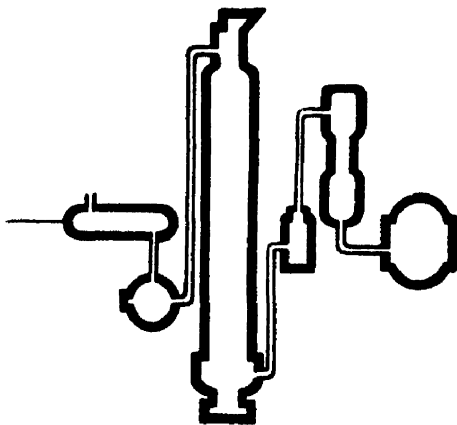
	1944-45	1948-49	1949-50
MAIN IMPORTS			
Clothes yarn, cigarettes, sugar, kerosene, petroleum, etc	45	78	80
MAIN EXPORTS			
Rice and jute, ghee, oilseeds, herbs, timber, hides and skins, etc	50	88	124
Export Surplus	5	10	44

Table 2 : Important Exports to India
(In '000 Rupees)

ITEMS	1957-58	1958-59	1959-60
Food	4,52.49	8,68.19	9,67.66
Beverages and tobacco	18.21	8.86	9.16
Crude materials, inedibles except fuels	1,82.25	2,57.77	2,73.17
Minerals, lubricants and related materials	3	9	—
Animal and vegetable oils and fats	6.48	6.04	3.58
Chemicals	50	98	5.33
Manufactured goods classified by materials	10.27	16.09	23.09
Machinery and transport equipment	47	—	19
Miscellaneous manufactured articles	12.27	3.50	8.91
Miscellaneous transactions and commodities	21.92	5.41	4.61
Total	7,04.89	11,66.93	12,95.70

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from the aid-giving country and do not enter into trade with India. Since India and USA are the largest donors it follows that imports from India for developmental needs have gone up.

In view of the predominantly agricultural character of the country's economy, with some surplus production in the tarai and a certain potential for exporting forest products, imports are mostly of industrial products which are not produced in the country. Out of all imports of manufactured goods in 1959-60, about 60 per cent was of rotten cloth. Textiles were followed by cigarettes of which the consumption is very high in Nepal. Other important import commodities are metal articles like household utensils and other hardwares, machinery for printing presses, kerosene, petrol, cement and other goods for productive purposes and consumption articles like salt, sugar, tea and medicine. Almost all consumption goods imported into Nepal are of Indian origin, such imports from other countries being very limited and specific.

Trade statistics in Nepal regarding the direction and distribution of trade, in its existing form, is not very useful. The origin of the imports and the destination of exports are not specifically given.

Changing Direction

However, the direction of the country's foreign trade as shown in Table 4 has been very slowly changing during recent years, total trade with India dropping from 98 per cent in 1958-59 to 95 per cent in 1959-60, while that with Tibet and overseas countries going up. First the trade pattern has undergone some change in recent years as a result of the policy of diversifying economic relations with other countries. Second, foreign aid from different countries has resulted in increasing imports of various commodities from those countries. For example, imports from overseas have increased due to import of USOM goods valued at 11.4 million rupees in 1959-60. In 1958-59, Britain and the United States of America were principal markets besides India for Nepalese goods.

Conditions are, however fast changing. The pace of economic development, and the inflow of foreign aid, will change the direc-

tion of Nepal's foreign trade to some extent. The pattern of foreign assistance received so far indicates that while aid from India and the United States has been largely directed to agricultural and transport development, China and Russia have chosen to play important roles in the country's industrialisation.

Over the last three years the overall balance of trade has tended to be unbalanced, though in the tables given here invisibles are not included. But income from invisibles is not impressive enough to restore the favourable balance.† Nepal's adverse balance of trade is in certain respects, a legacy of the days of the Ranas when the country was always kept isolated from the external world and trade was almost completely banned — not to protect indigenous industries but to safeguard the interest of the ruling class. The seeds of the present adverse balance of trade were thus sown in the days of the Ranas before 1950 when the country actually had a favourable balance. When the ban on imports was lifted following the advent of the democratic set up in 1951 the Government had to face various problems. The adverse balance position was inevitable under the circumstances. A developing economy has to work under conditions of shortage when, for example, economic over-heads like roads, power installations or even big factories, which have long gestation periods, are constructed.

However, necessary regulatory measures, including restraints on consumption, were not taken by the Government during the period.

V

To sum up, about 95 per cent of Nepal's trade is with India, The main items of import from India are cotton piece-goods, cotton yarn, woolen cloth, chemicals, salt, kerosene; the main items of export are rice (husked and unhusked), food-grains, hides and skins, timber and oilseeds which are tarai products and ghee and medicinal herbs which are hill products. From an analysis of the import pattern, it is clear that the growing tempo of economic activities in Nepal has created certain strains in the trade balance. This emphasises the need to improve export earnings through export promotion. Exports, in which a few agricultural commodities have predominated, have more or less remained stagnant. Certain insurmountable physical obstacles like the hilly regions and the difficulties

† The main invisible items include services of Gorkha soldiers and tourism, These two together bring about 13 million rupees worth of foreign exchange to Nepal annually. Other invisible exports and imports are almost negligible. Statistics on invisible imports including the payment of interest on capital borrowed from other countries, tourists' expenditures in foreign countries etc, are not available. It is therefore, practically impossible to prepare estimates of the balance of payments.

Table 3 : Important Imports from India

ITEMS	(In '000 Rupees)		
	1957-58	1958-59	1959-60
Food	3,83.26	4,16.91	6,35.89
Beverages and tobacco	1,68.19	2,15.23	2,06.45
Crude materials inedible, except fuels	92.38	77.81	1,31.69
Minerals, lubricant and related materials	1,18.04	1,48.70	1,88.43
Animals and vegetable oils and fats	1,02.04	1,05.02	4,75.6
Chemicals	84.32	93.58	1,19.41
Manufactured goods classified by materials	4,68.49	9,14.22	10,65.68
Machinery and transport equipments	48.54	61.32	83.02
Miscellaneous manufactured articles	97.03	1,21.26	1,86.06
Miscellaneous transactions and commodities	15.07	28.57	35.07
Total	15,77.46	21,82.62	26,99.26

Table 4 : Direction of Foreign Trade*

	IMPORTS		EXPORTS		TOTAL TRADE	
	1958-59	1959-60	1958-59	1959-60	1958-59	1959-60
India	97.69	93.88	98.95	99.02	98.12	95.49
Tibet	.60	.98	1.05	.98	.76	.98
Overseas	1.71	5.14	—	—	1.12	3.53
	100.00	100.00	100.00	100.00	100.00	100.00

* Excluding invisibles.

in increasing food production are perhaps responsible for this.

Road Transport : Key to Greater Trade

In the absence of adequate transport facilities it has been virtually impossible to develop an integrated economy in Nepal. In view of the country's limited resources in the years to come, it would be necessary to concentrate on one mode of transport. For topographical reasons development of roads will be most suitable for Nepal. Roads, though costly to construct and maintain are the most economic form of transport in mountainous areas. Therefore, in the proposed Three Year Plan the highest priority should be given to the development of road transport.

The geographical location of the country being what it is, provision of transport alone will not enable Nepal to develop trade with other countries. Diversified foreign trade will not be possible without adequate transit facilities through India.

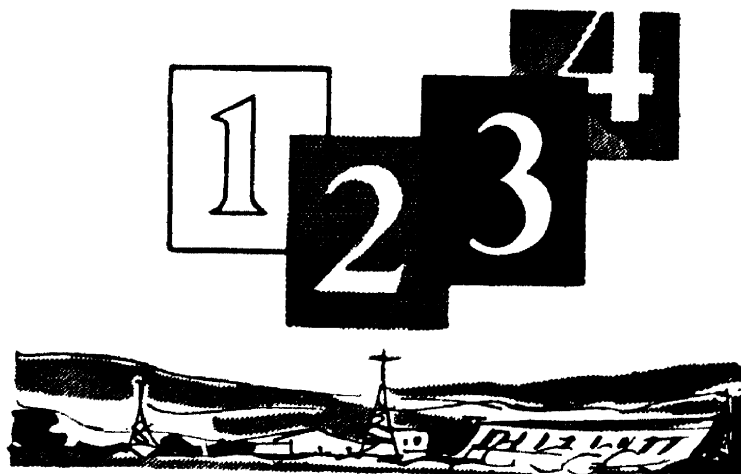
Finally, without industrialisation and expansion of output both for domestic and external markets, no exportable surplus can be available. Certain commercial crops like jute, linseed, tobacco and medicinal herbs which are exported either as semi-finished products or as raw materials have good prospects. Since more than 90 per cent of the total cultivated area is now under food crops, it is imperative that there should be a gradual shift from food crops to commercial crops. At the same time, it would be necessary to increase general production by improvements in the techniques.

The Government's export policy should aim at consolidating and expanding the market for the traditional commodities and diversifying the export of semi-processed and manufactured goods. Of course, the expansion of exports depends as much on Nepal's ability to export as on the readiness of foreign countries to buy what Nepal has to sell. The marketing side will, therefore, have to be properly organised. More studies of foreign markets will be necessary for drawing up an appropriate policy. In other words, both aspects of export promotion production and marketing will have to be approached in a coordinated way.

Tourism has enormous potential as an exchange earner. It is estimated that in 1961 7,000 tourists came to Nepal as against 4,017 in 1960 or an increase of 74 per cent. Tourism is, however, more significant with regard to countries other than India.


It is encouraging that in recent years, with the establishment of diplomatic and economic relations with an increasing number of countries, exports are tending to be gradually diversified. But for some years to come, even if the production of exportable commodities is increased, expansion of trade with countries other than India will be difficult for certain reasons. First, Nepal is dependent upon Indian railways and ports for trade with other countries. The capacity of

Indian railways and ports is in most cases inadequate even to meet the needs of the rapidly developing economy of India. Second, the small scale of Nepalese trade has made it difficult to attract overseas businessmen. Third, an organised business community, which will make a positive effort to promote exports does not exist in Nepal today. The few business communities existing now are neither properly organised, nor are they well spread over different parts of the country. The development of trade associations in Nepal is a recent phenomenon. Apart from a few local trade associations, only some half a dozen trade organisations are registered with the Government and even their activities are continued mostly to their respective localities.




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