

## India - Nepal Foreign Relations in the Context of Economics: Late 20th- Early 21st Century<sup>1</sup>

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### Abstract

In the context of the economy, India's foreign policy toward Nepal is defined by a complicated mix of cooperation and rivalry, with both nations attempting to strike a balance between their different interests while navigating a variety of political, economic, and strategic problems. Through a number of initiatives over the past few years, including the extension of a line of credit to support infrastructure development, the creation of an India-Nepal Joint Economic Commission, and the promotion of cross-border trade and investment, India has sought to deepen its economic ties with Nepal. These efforts have been aimed at boosting economic growth and development in Nepal while enhancing India's regional influence. However, India's foreign policy towards Nepal has also faced criticism, with some arguing that it prioritizes its own interests over Nepal's. This has led to tensions between the two countries, with Nepal seeking to diversify its economic and diplomatic ties beyond India. In this study, the trade, investment, aid, and tourism relations between India and Nepal are examined. It looks at how the economic hegemony of India and Nepal shaped the two countries' economic ties. The study also looks into the challenges and opportunities for the India-Nepal economic partnership. It investigates the issues related to trade barriers, infrastructure development, and energy cooperation. Additionally, this study examines the impact of political and diplomatic factors on the economic relationship between India and Nepal. The research is based on a combination of primary and secondary sources, including interviews with key stakeholders, economic data analysis, and a review of relevant literature. The findings of

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this study suggest that the economic relationship between India and Nepal has been significant and mutually beneficial, but there are several challenges that need to be addressed to realize the full potential of the partnership. Overall, this study offers insights into the prospects and challenges for deepening the economic relationships between the two countries as well as a better knowledge of the economic aspects of India-Nepal foreign relations.

**Key Words:** Bilateral trade, Economic relations, Foreign policy, India, International relations, Nepal

### **Introduction**

India and Nepal have traditionally shared a special friendship and working relationship. An open and welcoming border and shared linguistic, cultural, and ethnic links define the relationship between the people of India and Nepal. Given that Nepal is a priority under India's Neighbors First strategy, fostering stronger economic ties holds great significance and potential for both countries. Even while the political interactions between the two nations have been extensively studied, there is little literature that looks at their economic ties. This is a vital topic to investigate because India is Nepal's biggest export market, its biggest source of imports, its top investor in foreign capital stock, and one of the key sources of international aid. Moreover, India offers Nepal a transit route across its territory in order to reach seaports for international trade. This paper's main objective is to suggest policy changes that could increase bilateral trade and investment between India and Nepal. We looked at the patterns of bilateral trade and assessed the likelihood of generating the most new trade. Investigations were also conducted into the trends and shifting sectorial composition of Indian investment in Nepal, as well as the opportunities and challenges for such investment. This report made recommendations for fostering trade, eliminating non-tariff obstacles, upgrading infrastructure to foster connectivity, and boosting Indian FDI in Nepal in order to enhance economic cooperation between the two nations.

Political, social, and economic factors have shaped India and Nepal's long-standing relationship. Almost 1,850 kilometers of shared border separates the two nations, which have long-standing cultural links. Trade and investment have significantly impacted bilateral ties in recent years, highlighting the relationship's growing economic significance. The purpose of this is to examine the nature, dynamics, and historical development of the economic relationships that exist between the two nations. It will examine the historical, political, and geographic elements that have impacted the

economic ties between India and Nepal. Along with examining the existing status of economic cooperation between the two nations, this study will also look at the obstacles to deeper economic integration as well as its prospects. This will include examining the growth of both nations' infrastructure as well as trade and investment patterns. The study will also explore how economic cooperation affects the political and social relationships between India and Nepal as well as their overall relationship. Assessing whether economic cooperation has been a stabilizing or destabilizing force in the relationship and how economic forces have affected political and social dynamics between the two countries. Ultimately, this study offered a thorough analysis of the economic aspect of India-Nepal foreign relations and contributed to a greater comprehension of the whole connection between these two significant South Asian nations.

### **Objectives**

This study aims to assess and examine Nepal's economic progress in relation to India's foreign policy. The tasks listed below should be completed during the analysis cycle while keeping in mind:

1. To investigate India's current foreign policy toward Nepal.
2. To examine how the policy has affected the nation's political and economic environments.
3. To identify the main barrier to India-Nepal relations.
4. To determine areas that needs to be prioritized for India-Nepal relations to grow economically.
5. To provide the best strategies to enhance the relationships.

The penchant of the study is the development of Indian and Nepali relations in the economic spheres.

### **Literature Review**

Many studies have been done on international politics, diplomatic ties, and the linkages between them and India and Nepal. As a result, numerous significant and important studies were followed in relation to this topic.

Janjua (2007) focused on the primary goal and "how" of India's involvement in the political crisis in Nepal in 2005–2006. In the past, India has made significant attempts to weaken the various monarchical systems in order to support Nepal's democratic system. India has violated the norms of its foreign policy by interfering in the political turmoil in Nepal, even though Indian foreign policy does not officially permit any meddling in Nepal's internal political problems.

Nayak (2010) examines the treaty's applicability and India and Nepal's future possibilities in light of the shifting global landscape. It makes the case that Nepal has benefited from the pact considerably more than India has. However, in view of altering geopolitical dynamics in the area, the bilateral relations between India and Nepal must be turned into a strategic partnership that aspires to enhance security, modernization, and prosperity.

Suhrwardy (1996) examines India's relationship with Nepal, a neighboring small country that is landlocked and lacks considerable economic resources. Since 1947, India and Nepal's ties have served as a helpful case study for analyzing the interactions between big and small countries in the same region. The three Himalayan Kingdoms also made an effort to keep good relations with Big Brother by protecting their own interests and limiting Indian meddling in their internal affairs.

Budha (2014) using the auto-regressive distributed lag technique and annual data for the years 1975–2011, analyzes the influence of the final expenditure components in discouraging mining imports from India. Personal indulgence and Nepal's imports from India are co-integrated, according to the results of the limits testing methodology. Gross domestic investment, exports, and comparable pricing all have a negative influence on Nepal's import demand from India while positively impacting it. This suggests that Nepal lacks alternatives to Indian imports. The benefits of trade liberalization extend to Nepal's imports of commodities from India.

Singh (2010) seeks to evaluate Nepal's geopolitical position and its impact on India's security in addition to concentrating on the historical and political perspective in relation to border concerns with India and China. Nepal is a landlocked Himalayan territory that shares a border with India through four transit routes that were agreed upon by the Indo-Nepal Treaty.

Sen (1969) said that there is little doubt that the former phase of the Indo-Nepal relationship, during which India had a substantial influence over Nepal's domestic and foreign affairs, is now over. A new phase has begun. The Nepalese Prime Minister, Mr. Kirtinidhi Bista, informed New Delhi that he was seeking a new foundation for this relationship.

Mukherji (2011) tries to clarify it highlights the fact that, despite Nepal's success in diversifying its commerce with India, the trade gap between the two nations has been growing, and export earnings are just sufficient to pay for petroleum imports from India.

Taneja, Prakash, Bimal, Garg, & Roy, (2020) explained this article's primary goal is to offer policy recommendations that can boost bilateral investment and commerce between India and Nepal. The essay continues with recommendations for boosting trade, removing non-tariff barriers, upgrading infrastructure to promote connectivity, and expanding Indian FDI in Nepal in order to foster economic cooperation between the two countries.

India's economic ties with Nepal have been published in numerous publications and articles. Also, a lot of them have attempted to explain it from a political standpoint. Several of them provided an economic explanation. In light of the fact that these studies only touched on the subject in part, we want to investigate the crucial role that internal variables play in the formulation of India's foreign policy toward Nepal.

### Methodology

A combination of qualitative and quantitative research approaches was used for this project. We used secondary sources such as books, journals, magazines, archive materials, letters, and other records for the in-depth study in the research. The qualitative technique is thought to be the most appropriate for this research. The suggested study is exploratory and descriptive in character. The qualitative technique is thought to be the most appropriate for this research since it allows for both an interpretative and empirical investigation of the factors that determine the existence and significance of India's foreign policy patterns in this area. Trade data and other fundamental components of quantitative approaches are used in this investigation.

### Finding of the study

#### 1. Current trade & economic ties between India & Nepal

##### 1.1. Current India-Nepal trade relations

India and Nepal have a long history of trade and business interactions. Nepal's top trading partner is India. Exports to India exceeded NRS 90.19 billion during the last eleven months of the fiscal year 2020–21, and imports from India were NRS 886.59 billion. The value of bilateral trade exceeded NRS 976.78 billion.

**Table 1**

*The table below shows the volume of Nepal's annual trade with India. (Rs. in millions)*

PARTICULARS	2018-19(ANNUAL)	2019-20(ANNUAL)	2020-21(ANNUAL)
EXPORT	62731.80	70108.90	90194.60

IMPORT	917922.20	735294.80	886593.10
VOLUME	980654.00	805403.70	976787.70
SHARE IN %	64.70	62.20	64.90

Source: Nepal Rastra Bank (Govt. Of the Nepal, Embassy of Nepal, New Delhi, India)

Up from 28th in 2014, Nepal is now India's 11th-largest export destination. It made up 2.34% of India's exports in FY 2021–22. In reality, about 22% of Nepal's GDP comes from exports to India. Petroleum goods iron and steel, cereals, vehicles and components, and machinery parts are Nepal's key imports from India. Soybean oil, spices, jute fiber and goods, synthetic yarn, and tea are among Nepal's top exports.

On February 28, 2022, India and Nepal signed a Memorandum of Understanding (MoU) for the long-term supply of urea and DAP fertilizers to Nepal under a G2G agreement. FDI from Indian companies totals more than 33% of all FDI, or more than \$500 million, making them one of the largest investors in Nepal. Approximately 150 Indian companies operate in Nepal's manufacturing, services (banking, insurance, dry ports, education, and telecommunications), power, and tourism industries. In November 2011, the Double Taxation Avoidance Agreement (DTAA) was also ratified by India and Nepal. The expected value of the bilateral remittance flow is \$ 3 billion (from Nepal to India) and \$ 1 billion (from India to Nepal).

Open borders, strong people-to-people exchanges, and deep historical and cultural linkages are characteristics of India and Nepal's cordial relations. As a result of increased high-level political exchanges, routine meetings of bilateral mechanisms across various sectors of cooperation, expanding economic and development partnerships, better connectivity, cooperative initiatives in the water resources and hydropower sectors, defense and security, and most importantly, initiatives to promote people-to-people contacts, the two countries' multifaceted relations have gained new momentum in recent years.

Being the largest partner in Nepal's recovery from the tragic earthquake in 2015, EAM virtually presented his thoughts at the International Conference on Reconstruction of Nepal (ICRN) on December 7, 2021.

**Table 2**

*Status of Trade between Nepal and India (Value in '000 Rs)*

	F.Y.2012/13	F.Y.2013/14	F.Y.2014/15	F.Y.2015/16	F.Y.2016/17
Exports	51,788,459.87	59,458,375.46	55,859,252.78	39,695,134.60	41,500,843.94

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<b>Imports</b>	397,957,920.27	482,345,299.99	500,044,484.09	478,597,306.52	646,019,016.95
<b>Balance</b>	-346,169,460.40	-422,886,924.52	-444,185,231.31	-447,902,172.45	-604,518,173.01

Source: TEPC, 2017 (Govt. Of the Nepal, Embassy of Nepal, New Delhi, India).

In accordance with the Indo-Nepal Transit Treaty, China has replaced India as the country from which Nepal receives the majority of its foreign direct investments (FDIs), but India still provides transit for nearly all of Nepal's trade with third parties. The nation's principal trading partner is India. Nearly all of Nepal's petroleum imports come from India, along with more than two-thirds of its commerce in products, roughly a third of its trade in services, one-third of its foreign direct investments, and a sizeable amount of the retirees', professionals', and workers' remittances that are sent back to Nepal from India. Nepalese residents in India send home roughly \$1.2 billion annually. India is one of the main contributors, sending 30% of total FDI to Nepal. Nepal ranks as its ninth-largest trading partner of India. According to the World Bank, Nepal is the seventh largest source of remittances to India, sending \$3.2 billion there each year.

Nepal's commerce with India was expected to have totaled \$8.2 billion in the years 2017–2018; its exports to India totaled US\$446.5 million, while its imports from India totaled US\$7.7 billion. The trade disparity between India and Nepal is around 1724%.

The major Indian products that Nepal imports include petroleum goods (28.6%), motor vehicles and parts (7.8%), M. S. billet (7%), other machinery and parts (3.4%), cold rolled sheet in coil (3.1%), electrical equipment (2.7%), hot rolled sheet in coil (2%), M. S. wires, rods, and coils, and other metal products.

With a US\$6.1 billion trade deficit with India in 2020, Nepal has the greatest trade imbalance. Nepal exported power to India for Rs10.38 billion up until mid-November 2022. Energy has recently been one of Nepal's primary exports to India. In November 2021, India first gave Nepal permission to sell electricity on the Indian market through a competitive bidding process. India has been granted authorization to buy more than 400MW of electricity from Nepal.

**1.2 Status and composition of agricultural trade**

Table 3 lists India and Nepal's exports, imports, and percentage share of each TE. The table shows that India has become one of Nepal's main commercial partners after the treaty was signed in 1996. Prior to the treaty, Nepal exported a total of 20485 thousand dollars' worth of agricultural products to India in TE 1995; this amount climbed to

125172 thousand dollars in TE 2011, representing an increase of more than fifty times compared to the value of export in 1994. Following the deal, India's exports to Nepal also considerably rose. With the treaty, India's contribution to Nepal's total imports climbed dramatically, rising from 12.72 percent in TE 95% to 43.82% in TE 2011. Hence, it can be said that the pact considerably facilitated the two countries' trade.

**Table 3**

*Composition of export and import of agricultural commodities between India and Nepal*

Triennium Ending	Exports and Imports (values in '000 \$)			
	India		Nepal	
	Export to Nepal	Import from Nepal	Export to India	Import from India
1989	21669 (0.90)	13281 (0.85)	13281 (21.90)	21669 (20.55)
1992	13444 (0.59)	14241 (1.33)	14241 (26.58)	13444 (10.02)
1995	19017 (0.47)	204845 (1.12)	20485 (20.87)	19017 (12.72)
1998	19945 (0.35)	42845 (1.48)	42845 (57.41)	19945 (8.44)
2001	27492 (0.55)	103190 (2.86)	103190 (66.35)	27492 (12.21)
2004	75839 (1.33)	77710 (1.65)	77710 (35.65)	75839 (23.19)
2007	166820 (1.48)	118186 (1.72)	118186 (70.06)	185575 (44.04)
2011	241377 (1.10)	88929 (0.66)	125172 (56.39)	313613 (43.82)

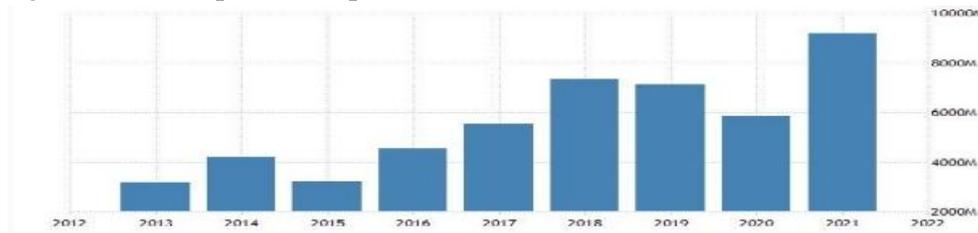
Source: (Pandey, D., Agarwal, P. K., Kumar, S., & Singh, R.2014).

Note: Figures in parentheses show the% of the total exports and imports to the world of the respective country.

**1.3 India’s export to Nepal**

According to data on international commerce from the United Nations' COMTRADE database, India exported \$9.19 billion to Nepal in 2021. The data, historical chart, and statistics on India's exports to Nepal were last updated in February 2023.

Figure 1: India exports to Nepal



Source: tradingeconomics.com (Trading Economics, 2023a).

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**Table 4***Top 10 Products India exports to Nepal*

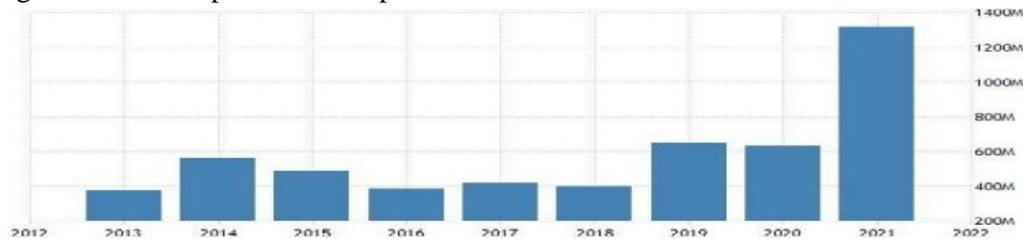
India Exports to Nepal	Value	Year
<a href="#">Mineral fuels, oils, distillation products</a>	\$2.15B	2021
<a href="#">Iron and steel</a>	\$1.38B	2021
<a href="#">Vehicles other than railway, tramway</a>	\$827.97M	2021
<a href="#">Machinery, nuclear reactors, boilers</a>	\$640.31M	2021
<a href="#">Cereals</a>	\$630.36M	2021
<a href="#">Electrical, electronic equipment</a>	\$370.79M	2021
<a href="#">Plastics</a>	\$335.98M	2021
<a href="#">Pharmaceutical products</a>	\$270.46M	2021
<a href="#">Articles of iron or steel</a>	\$148.84M	2021
<a href="#">Edible vegetables and certain roots and tubers</a>	\$129.92M	2021

Source: [tradingeconomics.com](https://tradingeconomics.com) (Trading Economics, 2023a).

#### 1.4 India imports from Nepal

According to the COMTRADE database on global trade maintained by the United Nations, India imported \$1.32 billion from Nepal in 2021. The data, historical chart, and statistics on India's imports from Nepal were last updated on February 2023.

Figure 2: India Imports from Nepal



Source: [tradingeconomics.com](https://tradingeconomics.com) (Trading Economics, 2023b).

**Table 5***Top 10 Products India Imports from Nepal*

India Imports from Nepal	Value	Year
<a href="#">Animal, vegetable fats and oils, cleavage products</a>	\$867.39M	2021
<a href="#">Coffee, tea, mate and spices</a>	\$73.58M	2021

Full text can be downloaded: <https://www.nepjol.info/index.php/craiaj> & <http://www.craiaj.info/>

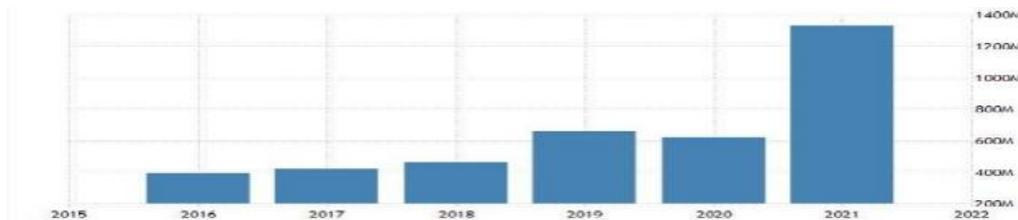
<a href="#">Manmade staple fibers</a>	\$64.62M	2021
<a href="#">Vegetable textile fibers not specified elsewhere, paper yarn, woven fabric</a>	\$52.65M	2021
<a href="#">Beverages, spirits and vinegar</a>	\$44.11M	2021
<a href="#">Plastics</a>	\$37.58M	2021
<a href="#">Residues, wastes of food industry, animal fodder</a>	\$34.78M	2021
<a href="#">Miscellaneous chemical products</a>	\$18.16M	2021
<a href="#">Other made textile articles, sets, worn clothing</a>	\$16.88M	2021
<a href="#">Vegetable plaiting materials, vegetable products</a>	\$13.94M	2021

Source: [tradingeconomics.com](#) (Trading Economics, 2023b).

### 1.5 Nepal exports to India

According to data on international commerce from the United Nations COMTRADE database, Nepal exported US\$1.33 billion to India in 2021. The data, historical chart, and statistics on Nepal exports to India were last updated in February 2023.

Figure 3: Nepal exports to India



Source: [tradingeconomics.com](#)(Trading Economics, 2023c).

Table 6

Top 10 Products Nepal exports to India

Nepal Exports to India	Value	Year
<a href="#">Animal, vegetable fats and oils, cleavage products</a>	\$890.95M	2021
<a href="#">Coffee, tea, mate and spices</a>	\$71.91M	2021
<a href="#">Manmade staple fibers</a>	\$64.58M	2021

Full text can be downloaded: <https://www.nepjol.info/index.php/craiaj> & <http://www.craiaj.info/>

<a href="#">Vegetable textile fibers not specified elsewhere, paper yarn, woven fabric</a>	\$52.22M	2021
<a href="#">Vegetable, fruit, nut food preparations</a>	\$42.82M	2021
<a href="#">Residues, wastes of food industry, animal fodder</a>	\$35.76M	2021
<a href="#">Manmade filaments</a>	\$29.00M	2021
<a href="#">Miscellaneous chemical products</a>	\$18.47M	2021
<a href="#">Other made textile articles, sets, worn clothing</a>	\$17.39M	2021
<a href="#">Vegetable plaiting materials, vegetable products</a>	\$14.36M	2021

Source: [tradingeconomics.com](http://tradingeconomics.com)(Trading Economics, 2023c)

**Table 7**

*Top 15 products Nepal Exports to India*

<b>Nepal Imports from India</b>	<b>Value</b>	<b>Year</b>
<a href="#">Mineral fuels, oils, distillation products</a>	\$2.13B	2021
<a href="#">Iron and steel</a>	\$1.40B	2021
<a href="#">Vehicles other than railway, tramway</a>	\$844.01M	2021
<a href="#">Cereals</a>	\$669.15M	2021
<a href="#">Machinery, nuclear reactors, boilers</a>	\$669.07M	2021
<a href="#">Electrical, electronic equipment</a>	\$404.43M	2021
<a href="#">Plastics</a>	\$364.25M	2021
<a href="#">Pharmaceutical products</a>	\$285.07M	2021
<a href="#">Edible vegetables and certain roots and tubers</a>	\$162.68M	2021
<a href="#">Articles of iron or steel</a>	\$162.12M	2021
<a href="#">Residues, wastes of food industry, animal fodder</a>	\$139.00M	2021
<a href="#">Rubbers</a>	\$119.79M	2021
<a href="#">Ceramic products</a>	\$115.79M	2021
<a href="#">Edible fruits, nuts, peel of citrus fruit, melons</a>	\$105.69M	2021

Full text can be downloaded: <https://www.nepjol.info/index.php/craiaj> & <http://www.craiaj.info/>

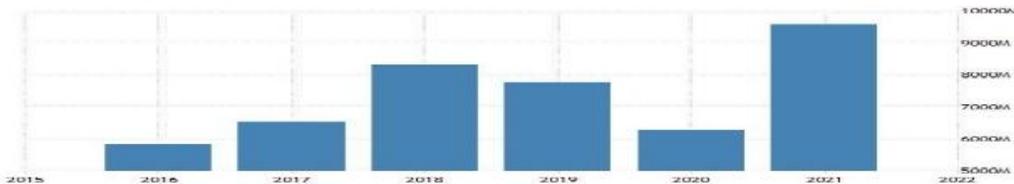
<a href="#">Paper and paperboard, articles of pulp, paper and board</a>	\$97.34M	2021
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Source: [tradingeconomics.com](#) (Trading Economics, 2023d).

### 1.6 Nepal imports from India:

According to data on international trade from the United Nations COMTRADE database, Nepal imported \$9.58 billion from India in 2021. The data, historical chart, and statistics for Nepal imports from India were last updated in February 2023.

Figure 4: Nepal Imports to India



Source: [tradingeconomics.com](#)(Trading Economics, 2023d).

## 2. Major obstacles in India-Nepal trade and economic relations

### 2.1 Open border problems

The open border between India and Nepal has had both beneficial and detrimental effects on their trade and economic ties. The open border has made it easier to transfer people, products, and services back and forth between the two nations, but it has also presented a number of difficulties (Taneja, N., Prakash, S., Bimal, S., Garg, S., & Roy, R. 2019). One of the primary problems with it is that a lot of Indian items have been streaming into Nepal as a result of the open border. Nepali businesses have been harmed by this. The inability of Nepalese producers to compete with the unrestricted importation of goods from India has led to a trade imbalance.

### 2.2 Levy of the agricultural reform fee

The Government of Nepal imposes an Agricultural Reform Fee at a rate of 5% on the import of primary products from India, despite the Bilateral Trade Treaty permitting duty-free access to each other's primary goods as the agreed list. When Nepal joined the World Trade Organization (WTO) in 2004, it promised to abolish the fee within ten years. However, this cost is still imposed. Since 2014, the Indian government has raised the issue of removing "Other Duties and Charges" (ODCs) during meetings of the Intergovernmental Committee (IGC).

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### 2.3 Competition from Chinese exports

India is thought to be under major threat from China's expanding dominance in Nepal's domestic markets. However, data shows that India's portion also increased, from 64% to 66%, at the same time that China's contribution to Nepal's imports increased from 11% in 2010 to 14% in 2016. As a result (Table 8), India continues to export the most goods to Nepal. Other exporters, such as the United Arab Emirates, Indonesia, and Thailand, saw a fall in their share of Nepal's imports as a result of the competition between India and China for market share (Table 8).

**Table 8**

*Nepal's Top Import Partners*

Year	2010		2016	
	Value (US\$ mn)	% of Total Imports	Value (US\$ mn)	% of Total Imports
India	3,253	64%	5,816	66%
China	561	11%	1,247	14%
UAE	194	4%	210	2%
Indonesia	107	2%	111	1%
Thailand	102	2%	110	1%

Source: UNCTAD-WITS Database.(Taneja, N., Prakash, S., Bimal, S., Garg, S., & Roy, R. (2019).

### 2.4 Non-tariff measures faced by India's exports to Nepal

Non-tariff measures (NTMs) are described by UNCTAD (2010) as "policy measures, other than regular customs duties, that may have a potential economic impact on international trade in goods, modifying volumes exchanged, prices, or both." In terms of goal, formal structure, and impact on the economy, NTMs encompass a wide range of metrics. When they are put into place in a restrictive way, they are frequently referred to as "barriers" to trade.

### 2.5 Under-utilization of the tariff rate quota

Tariff rate quotas were placed on vegetable ghee, copper products, acrylic yarn, and zinc oxide as part of the Bilateral Trade Treaty's 2002 amendment. These products were only permitted duty-free entry into India from Nepal up to a predetermined quota limit; after that point, MFN tariffs would have been in effect. For instance, in 2007–08, the utilized quota for copper products was 45.3%, vegetable ghee was 47.5%, acrylic yarn was 20.3%, and zinc oxide was 0%. Acrylic yarn's utilized quota was 23% in 2017, copper products' was 12%, while vegetable ghee and zinc oxide's was 0%. These "TRQ products" represented 29.7% of Nepalese imports into India in 2001–2002, but by 2016, their overall share had decreased to just 5%.

Full text can be downloaded: <https://www.nepjol.info/index.php/craiaj> & <http://www.craiaj.info/>

**Table 9***India's Imports of TRQ Products from Nepal (Metric Tonnes) and Quota Utilization (%)*

Items	2010		2012		2014		2015		2017	
	Volume	Quota used*								
<b>Veg Fats</b>	0	0%	0	0%	0	0%	0	0%	0	0%
<b>Acrylic</b>	1600	16%	200	2%	2700	27%	4600	46%	2300	23%
<b>Zinc Oxide</b>	0	0%	0	0%	0	0%	0	0%	0	0%
<b>Copper Product</b>	2800	28%	1000	10%	2000	20%	2200	22%	1200	12%

Source: Author's calculations using World Integrated Trade Solutions. (Taneja, N., Prakash, S., Bimal, S., Garg, S., & Roy, R. 2019).

### **2.6 Non-tariff measures facing Nepal's exports to India**

Exporters from Nepal frequently lament the non-tariff obstacles they encounter while trying to reach the Indian market. According to a review of the literature, exporters do not have trouble meeting requirements, but there are issues with information flows, as well as procedural and infrastructure constraints. We list the main obstacles listed below that allegedly prevent Nepal from exporting goods to India:

#### **2.7 Lack of awareness**

It has been found that neither Nepalese exporters nor Indian importers are aware of the regulations or rules pertaining to pest risk analyses for agricultural commodities like medicinal plants (Kumar, 1990).

#### **2.8 Dependence on government laboratories for testing**

Even though there are many commercial laboratories in India that have been approved by the National Accreditation Board for Testing and Calibration Laboratories (NABL) and notified by the Food Safety and Standards Authority of India (FSSAI), only government laboratories are utilized for cross-border trade. This causes testing to be delayed excessively and raises transaction costs.

#### **2.9 China's entry into the Nepalese market**

This reluctance is caused by a number of factors, including Nepal's history of relations with India and the risks involved with defecting, in addition to the country's failure to successfully forge an alternative economic relationship with China in order to quell Indian pressure. Tibet's remoteness and difficult terrain naturally hinder trade, but Nepal could have had substantial success in overcoming these obstacles if it had negotiated for beneficial trade and developed its northern zone in accordance with the needs of China's Tibetan region.

### **2.10 Informal trade**

Between India and Nepal, there are more than 1600 kilometers of unsecured border (Singh, 2011). Despite the advantages of an open border, criminals, smugglers, and other subversive organizations make use of it. According to the transit treaty, import and export trade is conducted through 22 transit sites. Informal trade is thought to be 8 to 10 times as large as formal trade between India and Nepal.

### **2.11 Buying Indian currency**

Earning convertible foreign cash like the US dollar is difficult. Yet, India has been able to readily purchase US dollars from Nepal using freely minted Indian money. Nepal spent US dollars to buy 300 billion Indian Rupees in the 2018–19 fiscal year alone. Nepal has to spend over USD 430 million of its hard-earned money to do this (New Business Age, 2020). The growing trade gap between Nepal and India is one of the key reasons why the nation lacks Indian money. This kind of transaction has been quite advantageous for India.

### **2.12 Adequate market**

Not finding a suitable market for Nepali manufactured goods in the Indian market might be identified as the main issue contributing to Nepal's adverse trade balance (Singh, 2011). There may be a variety of causes for this; the most important ones may be, in the context of business, an inability to compete in the Indian market on the basis of quality, price, supply capacity, etc. In terms of business, it may be quantitative limitations, product exclusion, etc. Thus, one of the main issues is establishing a suitable market niche for Nepalese-manufactured items in India.

### **2.13 The Problem of strained political scenario**

According to the report, India has supported Nepal's economic growth goals through a number of business relationships. However, the increasing trend can only last if the political environment in Nepal is positive and if relations between India and Nepal are also amicable (Sharan, 2010). The Maoist insurgency, the king's assassination, the hastily put together pro-Chinese administration led by P. K. Dahal, the call for insurgent recruitment in the Nepalese army, the reinstatement of senior army officials, the boycott of national games, etc. have all demonstrated Nepal's political instability and division. It is a battle for the Indian companies operating in Nepal.

### **2.14 Increasing trade deficit and economic dependency**

Growing Trade Gap and Economic Dependence on India Nepal is significantly dependent on India for a number of goods, including petroleum products, automobiles



tumultuous history in Indo-Nepal relations, India demanded security for its aircraft in a secretariat-level conference in 2008.

### **3.3 Joining hands against terrorism**

Nepal has guaranteed India that no one will be able to conduct terrorist attacks against India on its soil. Additionally, it will guarantee the confidentiality of military records and take legal action against the importation of fake Indian rupees.

### **3.4 Defense sector**

The Royal Nepalese Army and the Indian Army are close allies. India has assisted the RNA in its modernization efforts by providing training and equipment. The Indian Army's Gorkha unit is largely staffed by recruits from Nepal. The Indian Army also runs a number of welfare programs for the retraining and rehabilitation of former Gorkha troops and their families.

### **3.5 Trade and economy**

India is Nepal's principal trade partner, the largest source of foreign investment, and the country through which almost all of Nepal's trade with other countries passes. In 2018–19, bilateral trade totaled INR 57,858 crore (\$8.27 billion). In 2018–19, India imported INR 54,300 cr (US\$ 7.76 bn) from Nepal, while Nepal exported INR 3558 cr (US\$ 508 mn) to India. Indian businesses operate in a variety of industries, including manufacturing, finance, insurance, dry ports, power, and tourism (UPSC Civil Services, 2022).

### **3.6 Nepali students: Major customers of Indian education**

The Human Resource Development Ministry of India's statistics support this assertion. The share of Nepali students among all foreign students who enrolled in higher education in India in 2018–19 was 26.88 percent. That academic year, a total of 47,724 foreign students roughly 13,000 of them from Nepal enrolled in various Indian universities. The contribution of Nepali students to the Indian economy alone amounts to Rs 52 billion if it is assumed that Nepali parents spend approximately Rs 800,000 per student year for their children's higher education in India (UPSC Civil Services, 2022). If we include Nepali children who attend convent schools in Darjeeling and the Indian cities of Dehradun, Nainital, and Lucknow, the total rises to Rs 100 billion.

### **3.7 Remittance and employment**

There is a widespread belief that Nepal living and working in India send enormous quantities of money home (New Business Age, 2020). True, around Rs 100 billion in remittances are sent from India to Nepal. Nonetheless, the remittance outflow

from Nepal to India is far bigger than the remittance inflow from the southern neighbor. According to 2017 World Bank data, Indians who work in Nepal send home three times as much money as Nepal's who work in India. The World Bank's Bilateral Payments Matrix shows that in 2017, Nepal received remittances from India totaling USD 1.02 billion (about Rs 102 billion), while remittance outflows from Nepal to India totaled USD 3.01 billion (about Rs 301 billion).

#### **4. Ways to develop Indo-Nepal trade and economic relation: Recommendations**

The following recommendations can be made in order to enhance future ties between the two nations:

##### **4.1 Enhancing trade**

- ) Address the ambiguity under SAPTA: With the conclusion of the SAFTA process, the concessions under SAPTA were supposed to end. Due to Nepal's ongoing tariff liberalization process under SAFTA, the situation under SAPTA remains unclear. This ambiguity needs to be made clear.
- ) Address the anomaly in tariff concessions between the bilateral agreement and SAFTA: India can negotiate with Nepal to get discounts on products for which the tariff levies under the bilateral agreement are higher than those under SAFTA.
- ) Remove the TRQ: India should consider removing the TRQ on four products, including acrylic yarn, vegetable fats, zinc oxide, and copper products, as the quotas are not being utilized.

##### **4.2 Addressing non-tariff barriers faced by Nepal**

- ) Bridging the information gap: India may launch awareness efforts and seminars to minimize the knowledge imbalance that currently exists in fields like Pest Risk Analysis (PRA) on agricultural products.
- ) Create a bilateral institutional system: To help ensure that food imports into India are only sporadically inspected and to speed up food trade, particularly agricultural trade. This process would aid in ensuring that the FSSAI swiftly notifies partner nation laboratories that have been approved by the NABL.
- ) Implement trade facilitation measures: Implement risk management programs, single windows, and electronic data interchange at border crossings to take advantage of the potential benefits of coordination and efficiency.

##### **4.3 Addressing non-tariff barriers faced by India**

India should join PIC and PIC/S: commonly known as the Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Cooperation Scheme. The

Indian Department of Pharmaceuticals should file an application to join PIC/S. The goal of PIC/S is to provide inspectors with training opportunities while establishing uniform GMP standards that will harmonize inspection practices for health and regulatory inspections around the world. As a result, India may export to Nepal without the DDA or Nepali testing or inspection of Indian manufacturing facilities if it joins the PIC/S. As a result, exporting pharmaceutical items will be easier, more effective, and quicker.

#### **4.4 Upgrading infrastructure**

- ) Address infrastructure gaps at land customs stations: At the Panitanki LCS, serious infrastructure inadequacies include a weighing bridge, refrigerated storage, and EDI facilities. It is unknown whether all of the infrastructure problems that occurred at the previous LCS at Raxaul have been fixed, despite the fact that the Integrated Check Post has been placed into action there.
- ) Need for gap assessment in infrastructure at the LCS along the India-Nepal border: Infrastructure at the 27 LCSs that India and Nepal jointly operate must be improved. To do this, a thorough assessment of the current infrastructure must be conducted in order to pinpoint any gaps in both hard and soft infrastructure. Only two LCSs, Raxaul-Birgunj and Panitanki-Kakarbhitta, are covered by the limited information currently available in the studies, which also do not include all infrastructural components.

#### **4.5 Enhancing FDI from India to Nepal**

- ) Bilateral investment treaty: Given that the current agreement has expired, India should establish a new bilateral investment agreement.
- ) Capitalise on trade-investment nexus: More trade-generating investment from India into Nepal has to be encouraged. More foreign direct investment (FDI) from India, particularly in the industrial sectors, could improve Nepal's export capability and potential to the rest of the globe. Additionally, this will aid Nepal in decreasing its trade imbalance with India.
- ) Develop SEZs in Nepal: Indian businessmen are now able to construct and grow Special Economic Zones (SEZs) in Nepal thanks to the country's SEZ Act. Indian investors may choose to establish SEZs near the Nepal-India border in order to strengthen ties with the Indian states. Indian investors who are interested in setting up a SEZ can also take advantage of the option to apply for a 6-month non-tourist visa.

#### **4.6 A more comprehensive partnership**

Full text can be downloaded: <https://www.nepjol.info/index.php/craiaj> & <http://www.craiaj.info/>

Many bilateral treaties of cooperation between India and Nepal that must be revised on a regular basis are the result of the multifaceted cross-border flows between the two countries. It is suggested that the many agreements be consolidated into a single Comprehensive Partnership because enhancing investment, hydropower, and trade in products and services would all be crucial in the future. This will extend beyond the current treaties on trade in commodities to cover, among other things, trade in services, power, FDI, and trade facilitation.

### **Conclusion**

India's position in South Asia has often been contested. Due to the fact that all of them, with the exception of Pakistan, depend on India for the majority of their needs, India has periodically exerted pressure on its neighbors. As neighbors with historically friendly relationships, India and Nepal must be aware of current developments and endeavor to normalize their relationship in order to benefit both sides and protect the interests of all groups. India benefits from Nepal's geopolitical position in terms of regional peace and stability, and Nepal benefits from India's importance in terms of overall growth. India is in danger because China wants to fill the void and India hasn't given up its "pressure policy" toward its neighbors. Because of India's domineering attitude, China has an easy way to expand its influence, which disturbs Indian policymakers. India needs to establish trust-building processes with its neighbors if it wants to fulfill its aspiration of leading the world. Making allies is more important than making enemies. India's Nepal policy is severely hampered by the internal politics of Nepal and the bordering states, as well as China's influence in the region of South Asia. India must rethink its foreign policy toward its neighbors and handle them carefully and skillfully. India's strategic interests in the region have shaped its foreign policy with Nepal. India sees Nepal as a buffer state that provides strategic depth to its northern frontiers. India has often made an effort to maintain a friendly relationship with Nepal in order to promote peace in the area. On the other side, Nepal's foreign policy toward India has been driven by its determination to maintain its independence and sovereignty. Nepal has constantly attempted to maintain a balance in its relations with India and other important nations like China and the United States in order to safeguard its own security and economic interests. A number of factors, including Nepal's growing ties to China, their border dispute, and the Nepali government's decision to release a new map that depicts Indian land have harmed relations between India and Nepal in recent years. The India-Nepal foreign policy study claims that the two countries' relationship has many

dimensions. To solve their problems and develop peace and stability in the region, both nations must have genuine dialogue and cooperation. This study contends that in order to improve their relationship and foster confidence, India and Nepal should place a higher priority on economic cooperation. India has been Nepal's principal trading partner. In actuality, India plays a significant role in Nepal's economy. Although they were only temporary in nature, the significant concessions made by India under the trade agreements established between the two nations were advantageous to Nepal's economy. In this context, in addition to the current trade agreements, it is essential for the two countries to construct a comprehensive economic agreement that encompasses different aspects of the Nepalese economy. India can assist Nepal in developing services like hydropower, tourism, and telecommunications in this way. Yet, it is crucial that Nepal create a more effective regulatory structure and policy framework as a result of the political unrest in the nation if such collaboration is to be ensured on the part of the Indian government and companies. On the other side, India must also make greater investments in the infrastructure of Nepal, as this will help Nepal draw in a large number of foreign investors. Such a thorough economic alliance can assist Nepal in establishing long-term progress, which will be advantageous to both nations.

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