

How's business?

- The southern neighbour accounts for two-thirds of Nepal's exports and imports

- Rajesh Khanal

JAN 26 - Nepal has a huge trade deficit with its largest trading partner India. The southern neighbour accounts for two-thirds of Nepal's exports and an equal proportion of imports. India is also Nepal's only transit route for trade with third countries as it shares a 1,850-km open border with it on three sides.

In fiscal 2013-14, a significant 66.7 percent of Nepal's imports came from India while the country shipped 65 percent of its total exports to the southern neighbour, said Nepal Rastra Bank.

The situation was quite different in the past. In the last one and a half decades, Nepal's dependency on the southern neighbour rose due to a decade-long insurgency, deterioration of the business environment that contributed to a fall in the country's export capability and Nepali goods losing their global competitiveness.

In the 1980s, India's share in Nepal's total imports was only 24.01 percent while its share in total exports was 28.02 percent. After Nepal adopted liberalization in the early 1990s, private sector investments in the country grew.

In the 1990s, a massive rise in carpet and garment exports, particularly to the US and Germany, resulted in a drop in Nepal's dependency on exports to India. During that decade, India bought 16 percent of Nepal's exports and sent 22 percent of its imports, according to Nepal Rastra Bank.

However, in the 2000s, India accounted for 59 and 58 percent of the total exports and imports respectively when two major export products of Nepal, garments and carpets, lost their markets in the US and Germany. Presently, India accounts for two-thirds of Nepal's exports and imports.

Experts said that along with the country's losing its export competitiveness, there has been a massive surge imports from India that resulted in a massive trade deficit with the southern neighbour. "Over the last few years, there has been a massive rise in imports of agricultural products from India which is a new trend for Nepal," said Posh Raj Pandey, executive chairman of South Asia Watch on Trade, Economics and Environment. "Nepali agriculture lost its competitiveness against India's subsidized farm products."

As per a bilateral trade agreement, both the countries have been providing duty-free access to their agricultural products on a reciprocal basis. Apart from agro products, India has also been providing duty-free access to most of Nepal's manufactured products on a non-reciprocal basis.

Despite such facilities, Nepal has not been able to benefit from the special treatment India has provided to its manufactured products. Experts said that poor infrastructure such as lack of power, political instability and labour problems led to the country's manufacturing sector losing its competitive edge.

Former commerce secretary Purushottam Ojha said good policy and political environment must be created to attract more investments in the country which would enhance its export capability.

"Ending non-tariff barriers related to quality, transport facilitation and customs harmonisation are needed to boost exports of Nepal's manufactured goods as they already enjoy duty-free access," he added.

Ginger, amriso, medicinal herbs, cardamom, zinc sheet, GI pipe, copper utensils, betel nuts, instant noodles, iron products, rosin, carpet and some agricultural products are Nepal's major exports to India.

According to a recent study carried out by Nepal Rastra Bank, the growth rate in export earnings from India fell to 14 percent in 2011-12 from 26 percent in 2004-05. The average growth rate of exports

to India in the last five years reached barely 6 percent. On the other hand, imports have grown in the double digits.

Petroleum products, vehicles and spare parts, MS billet, machinery and parts, agro products and medicines, among others, are the major imports from India . Petroleum products occupy the largest portion (27 percent) of the total imports from India . This has been attributed to increasing power shortages in the country.

According to the central bank's report, there is increasing export scope for high value added products including cement, iron and steel and pharmaceutical products. However, lack of policy agreement with the India n government and lack of quality assurance by domestic suppliers have been hindering the export growth of these products, said the report.

Following the Inter-Governmental Committee (IGC) meeting held last year in Kathmandu and India n Prime Minister Narendra Modi's visit to Nepal, India has announced further trade facilitation measures for Nepal.

India has agreed to provide Jogbani-Biratnagar and Nautanwa-Bhairahawa customs points in addition to the Raxaul-Birgunj point while importing bulk cargo from other countries and transshipment facilities and ease quarantine procedures. These are facilities that Nepal can cash in on to improve exports to India .

Due to Nepal's increasing dependence on India even for farm products as a result of the massive subsidies provided to the agricultural sector by the southern neighbour, Pandey said that Nepal could consider ending duty-free access for India 's agricultural products. "We should convince India not to provide duty-free access to India n agricultural products on a reciprocal basis for the time being," he added.

Nepal imported cereals worth Rs 28 billion in the last fiscal year, according to the Trade and Export Promotion Centre (TEPC).

Posted on: 2015-01-26 07:53