

Nepal's trade dependency on India swells in 2000s

KATHMANDU, FEB 04 - Nepal's foreign [trade](#) is heavily skewed in favour of India, and this dependency on the southern neighbour expanded between the years 2000 to 2010. According to a study report released by Nepal Rastra Bank (NRB), India's share of Nepal's exports ballooned fourfold while its share of imports swelled three times from the figures for the 1990s.

The central bank's report shows that India bought 28.02 percent of Nepal's exports in the 1980s. Shipments fell sharply to 16.15 percent in the 1990s and then jumped to 59.04 percent in the first decade of 2000s. Similarly, Indian accounted for 22.39 percent of Nepal's imports in the 1990s, down from 24.01 percent in the 1980s. The country's dependence on India for imports soared to 58.06 percent in the 2000s.

Experts have attributed the increasing [trade](#) dependency on India to lack of development of productivity and competency compared to Indian products. According to them, Nepal's dependence on India took an upward trend after the southern neighbour adopted an open market policy.

Posh Raj Pandey, executive chairman of South Asia Watch on Trade, Economics and Environment, said Indian products became more competitive after the open policy. "As a result, imports from South Asia of most of the developed countries started to be replaced by Indian products," he added.

According to Pandey, imports of Indian products rose mainly due to a depreciation of the Nepali rupee against the US dollar. In the last two decades, Nepali currency has been in freefall. And with third country imports becoming more expensive as a result, Indian products started dominating the domestic market.

Trade expert Bijendra Man Shakya said preferential treatment by India has played a vital role in boosting its share in Nepal's [trade](#). "After India started providing preferential treatment based on the Certificate of Origin since 1996, Nepal's exports to that country began taking off," said Shakya. According to him, the growing inflow of multinational companies into India after it followed an open market policy led to its becoming dominant in the export sector mainly in South Asia.

Meanwhile, the NRB study has revealed that Nepal's [trade](#) with China is unduly small. Due to the high transportation costs involved in conducting [trade](#) with other third countries, Nepal's imports are also concentrated among its nearby trading partners. The study has recommended diversifying the country's exports to China, Japan and the Asean countries.

As a result of the liberal economic policy that the country has been adopting since 1992, its [trade](#) is determined by comparative advantages with different economies. Similarly, inter-industry [trade](#) is common and [trade](#) with the developed countries is also on a rising trend.

Trade with the Saarc countries has also declined in the last three decades. Imports from Saarc slipped to 0.49 percent from 2.31 percent over the period. Likewise, exports to these countries fell to 2.56 percent from 3.75 percent.

The central bank study has recommended that Nepal diversify its [trade](#) mainly to China to reduce its excessive and risky [trade](#) dependence on India. "Nepal can acquire a large international market for its exports by improving [trade](#) relations and by constructing railway links with China at a time when it has been achieving a significant economic growth rate," said the report.

However, Pandey was more concerned by Nepal's growing [trade](#) deficit with China than with India. Nepal has failed to cater to the expanding Chinese market and it depends mostly on Tibet for exports. "However, export earnings from China are more inconsistent compared to export earnings from India."