

DYNAMICS OF INFORMAL CROSS BORDER TRADE

IN AGRICULTURAL PRODUCTS BETWEEN NEPAL AND INDIA



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BACKGROUND

- The recorded figures of trade provide a substantially partial picture of the actual trade of Nepal
- Unrecorded imports and exports through Nepal's porous border with India are known anecdotally
- Informal trade exists if there are benefits from skirting the formal channels, both in terms of pecuniary and non-pecuniary factors
- Examines the drivers, modes and nature of informal trade in selected agricultural commodities between two border countries

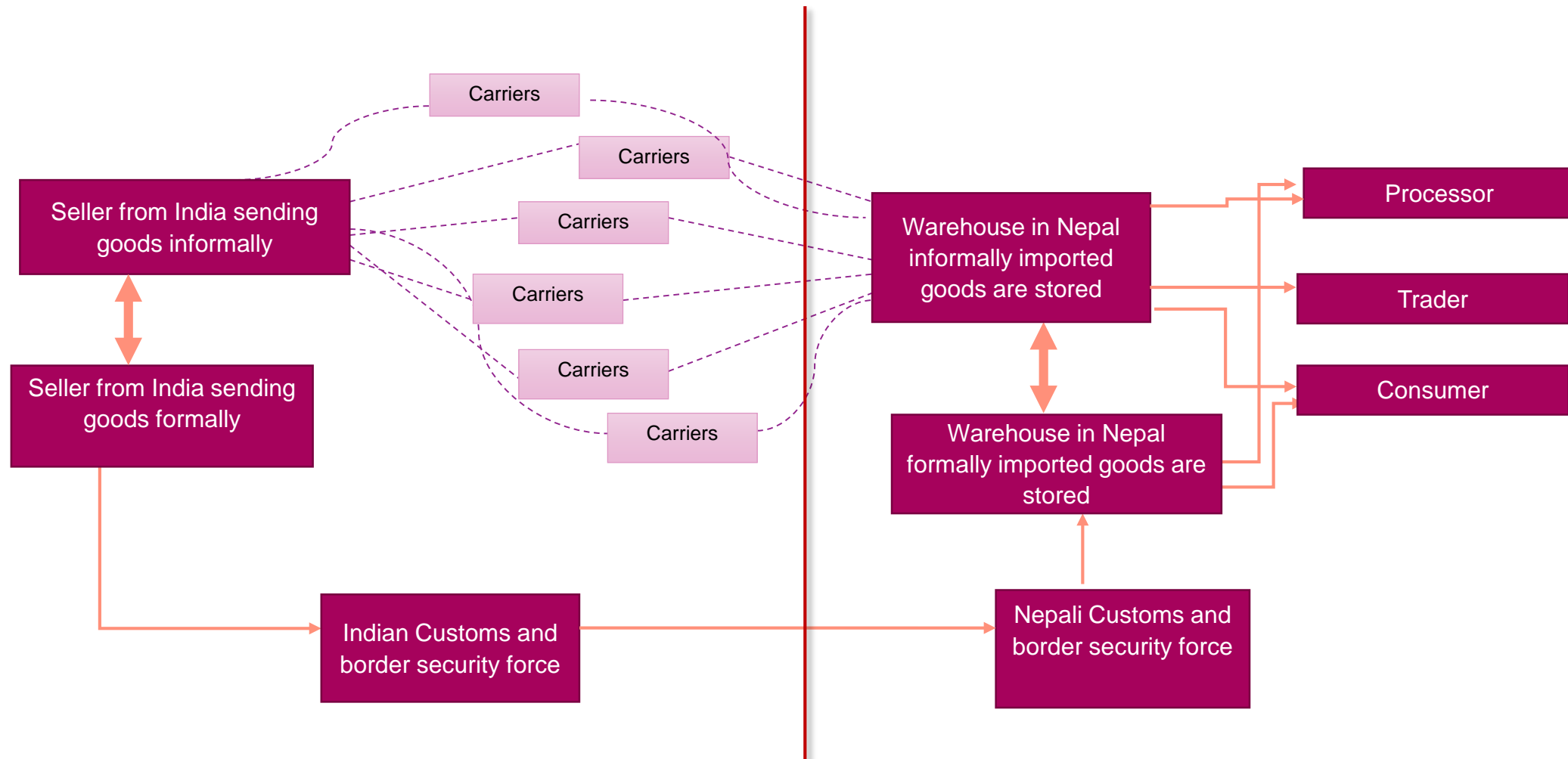
METHODOLOGY

- Definition: imports and exports of legal agricultural goods which escape the regulatory framework and are not recorded
- Qualitative: desk research; 74 key informants; 5 FGDs; 1 consultative discussion
- Survey locations: 9 customs points (Birgunj, Bhairahawa, Biratnagar, Nepalgunj, Kakarvitta, Krishnanagar, Jaleswor, Suthauli, Maheshpur and Bhadrapur) and the border crossings at their periphery
- Limitations: respondents hesitant to discuss informal trade; resource constraints hence focused on limited products; more focus on imports

MODES OF INFORMAL TRADE

- Households' imports for consumption
 - Cross-border shopping trips for food items, FMCG, RMG etc.
 - Use two-wheelers, rickshaws etc. to ferry goods
 - Price differences, product availability and preference are motivating factors
 - Tolerated by the authorities to an extent
- Traders through carriers
 - Organized informal imports for commercial purpose through carriers
 - On foot, two wheelers and bicycles used; make multiple trips in a day and deposit the commodities at warehouses (charge about NPR 5/kilo)
 - Large consignment also transported when 'line is opened'

NETWORK OF INFORMAL TRADE



DYNAMICS AND DRIVERS OF INFORMAL TRADE

Products	Nature of informal trade	Drivers of informal trade
Rice	<ul style="list-style-type: none"> Rice has been identified as one of the highly informally imported items (traders estimate 25-40% of formal imports) Recorded imports have been on the rise but halved in FY2022/23 India's export duty on rice imposed in September 2022 and export ban in July 2023 of non-basmati rice fueled the informal trade 	<ul style="list-style-type: none"> Evasion of tariff and duties (11.5% including ARF and AIT) Variation in prices (18-20% less in India) Ban on export (only certain border points allowed to transport)

Products	Nature of informal trade	Drivers of informal trade
Vegetables	<ul style="list-style-type: none"> • Vegetables are one of the major imported products from India to Nepal; green vegetables happen in small scale • Onions and potatoes happen in larger scale; imposition of 13 percent VAT on import of potatoes, onions and garlic at the Customs (FY 2023/24), which is attributed for surge in informal imports of these vegetables • India imposed export ban of onions in December 2023 after imposing 40 percent export duty on October 2023 	<ul style="list-style-type: none"> • Evasion of tariff and duties (14 to 24.67%) • Cheaper in India • Ban on export (like onion) • Avoidance of non-tariff requirements—phytosanitary certificates etc; EXIM Code for importers

Products	Nature of informal trade	Drivers of informal trade
Chemical fertilizers (Urea and Diammonium Phosphate)	<ul style="list-style-type: none"> Persistent chemical fertilizer shortage domestically Border area farmers buy from Indian market; traders use informal carriers to stock up and resell at price equivalent to domestic rate Price per kilo is cheaper in Indian side (Urea at NPR 10 and DAP NPR 43 in India, in Nepal NPR 28 for urea and NPR 55 for DAP) 	<ul style="list-style-type: none"> Shortage in domestic market (800,000MT requirement while formal import is 400,000 MT); informal imports estimated about 100,000 to 200,000 MT) Variation in prices (but if bought indirectly no price advantage)
Seeds	<ul style="list-style-type: none"> Farmers in Nepal informally import seeds of varieties not available locally—especially hybrid seeds of vegetables Ease of information sharing between farmers across the border and are aware of the varieties 	<ul style="list-style-type: none"> Restricted import Avoidance of non-tariff requirements

DYNAMICS AND DRIVERS OF INFORMAL TRADE (EXPORTS)

Products	Nature of informal trade	Drivers of informal trade
Vegetables	<ul style="list-style-type: none">• Vegetables such as tomatoes, chayote, certain varieties of chilly are informally exported to India due circumvent SPS-related requirements	<ul style="list-style-type: none">• Variation in prices• Avoidance of non-tariff requirements
Paddy	<ul style="list-style-type: none">• If price offered in India is higher, farmers in some bordering villages sell them to Indian traders	<ul style="list-style-type: none">• Price differential (in 2023/24 season, farmers received about NPR 2 higher)
Betel nuts	<ul style="list-style-type: none">• Massive informal export from Nepal (even third country imported products)	<ul style="list-style-type: none">• Arbitrage afforded by high duty in India

TAKEAWAYS

- Informal trade of agri-food commodities, including inputs, has increased access to those products
- Eroded productive capacity and made Nepali products less competitive (for example 1/3rd mills reported to have shut down in Nepal)
- Foregone revenue from the government coffers
- Reduced policy effectiveness—import tariffs to support domestic production; siphoning off of subsidized goods meant for Indians—ineffective export duty and quotas
- Policy complacency towards increasing productivity; timely arrangement (fertilizers etc)
- Social issues—exploitation of vulnerable people as carriers

WAY FORWARD

- More accurate and comprehensive research and data are needed commodity-wise
- Rationalize regulatory barriers where possible
- Harmonize the sanitary and phytosanitary requirements and mutual recognition of certificates
- Implement trade facilitation measures to ensure seamless movement of products

Thank you

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