

Analysis of India- Nepal economic relations in the first two decades of the 21st century

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Abstract: *The historically connected ties of Roti and Beti have helped in the evolution of economic relations between India and Nepal which was beneficial for the growth of both the countries. For India with its huge size and greater potential was obvious to guide smaller countries in its neighbourhood to achieve economic growth and prosperity. However, trade relations often suffered frequent turbulence due to various vested interests in both countries, the major reason being continuous political instability in Nepal. Throughout this period India remained a dominant trade partner of Nepal. As the Nepalese political system has accepted constitutional democracy, India and Nepal have huge potential to evolve and strengthen economic ties. The present paper discusses various existing trade agreements along with highlighting some of the major areas of contentions in trade and commerce. With the dawn of the 21st century rapid intrusion of China in various aspects of the Nepalese economy has impacted the bilateral relations between India and Nepal, this development is also mentioned in the paper. The paper concludes by stating a need for developing mutual trust and political will between both countries.*

Key Words: India, Nepal, Economic, Trade, deficit.

1. INTRODUCTION:

Many persons in Nepal and India cross the wide open border each day to do the job, sell, buy, and also distribute business. India accounts for more than two-thirds of Nepal's merchandise trade, about one-third of industry of services, one-third of international direct investments, about hundred per cent of oil supplies, along with a major share of inward remittances on account of pensioners, professionals & employees doing work in India, with about US dollar 1.2 billion per year remitted by Nepalese citizens in India to Nepal. India accounts for thirty per cent of FDI in Nepal, and that helps make it among the main investors for Nepal. Nevertheless, in 2020, Nepal incurred the largest trade deficit with India amounting to US dollars 6.1 billion. But behind statistics on India-Nepal trade is an intricate network of casual arrangements across borders which has made it possible. The family cope with each other across the borders ; business associates with sons and also daughters married into one another families. Lenders and vendors that offered credit had been seated on family references. Cash which moved fluently across the border. Similar informal ties and also the simplicity of those classic businesses are under stress. The Indian frugality is contemporising, transitioning out of the casual into the semiformal frugality. Contracts will be required. Complicated attestation is required to go products across borders. Stronger controls are succeeding delicate to move cash and also making payments.

2. Trade Agreement Between India-Nepal :

Both Nepal and India agreed to a trade convention which properly excluded Nepal's capability to conduct the transnational profitable policy of its singly. The very first trade treaty came into existence on 31st July 1950. Nepal must put import duties on the merchandise of the utmost diligence so they wouldn't be vented at a more affordable price in India compared to those items produced in India. The treaty allows duty-free access to farming produce in Indian industrial markets. Aside from the Treaty on Trade, India and Nepal also signed a Treaty on Transit in the 1970s, allowing Nepal to undertake final country trade through Indian Territory through a mutually agreed upon route. Nepal restored and also modified its seven-year transit trade agreement with India in June 2023. The updated treaty, signed in New Delhi by the top ministers of equal nations, enhances Nepal's ability to access designated Indian sea ports by highway, rail, and drinking water. Integrated Check Posts (ICPs) streamline the movement of people and goods across the borders. The 2 currently operational ICPs at Raxaul and Jogbani, handling the majority of bilateral trade, don't have a lot of narrow access and parking space roads, constraining the everyday crossing of as many as 730 trucks one day.

To facilitate the growing amount of trade, about 33 % of ICP was inaugurated on the border of Nepalgunj (Nepal) and Rupaidiha (India), and MOUs for 2 more ICPs, close to the Nepalese towns of Bhairahawa and also Dodhara Chandani, had been signed. Nepal greatly depended on India for essential petroleum imports, until 2019, which, were transported by road. Unexpected road disruptions before have brought severe hardship for Nepalis. To handle this particular problem and also guarantee the avoidance of earlier hardships, Nepal and India have established a 69 km pipeline from Motihari (India) to Amlekhgunj (Nepal). Nepal started importing diesel with the help of this pipeline in 2019(1). Transporting oil via pipelines is economical, minimises losses, safer, and isn't prone to road disruptions. In a bid to further decrease dependency on trucks, an MoU was signed during the top ministers' conference to extend the pipeline by sixty-two km to Chitwan in Nepal. An additional MoU spreads over the building of a brand new 50 km pipeline from Siliguri (India) to Jhapa (Nepal). Nepal initially achieved surplus power in 2021, but this is just the idea of the iceberg. Its hydroelectric power potential is huge. Nevertheless, locating a marketplace for surplus energy from June to September is difficult, despite a current capacity of approximately 1200 megawatts. That's just a portion of its economically viable potential of 42,000 MW. With new capacity being applied, along with no storage possibility, the surplus generation issue in the wet months will worsen. Cross-border transmission lines are, thus, crucial for Nepal's electricity trade. The majority of the twelve existing transmission lines are very low voltage and can't carry much energy. In this particular context, the 400 kV Gorakhpur Butwal line, likely to be finished in the following 2 years, is considerable. Aside from transmission, India likewise signed a project development agreement for the Lower Arun hydroelectric project (669 MW), likely to have 7 to 8 years for the construction of its as well as an MoU for the Phukot Karnali hydroelectric project (480 MW), expected to have 5 years for its construction. India and Nepal now allow Bank ATM debit cards and credit cards to be utilized across the border for withdrawing community currency and also making point-of-sale transactions in regional currency. Additionally, Nepali migrant workers in India utilize the Indo Nepal Remittance Facility Scheme to remit cash cheaply and swiftly, utilizing Indian banks. The MoU signed between India and Nepal on cross-border digital payments might be transformative. It's an element of India's ongoing global expansion of its vastly productive Universal Payments Interface (UPI). Introduced in 2016, UPI-based real-time electronic transactions accounted for three-fourths of all list electronic transactions in India in FY23. In Nepal, QR code-based point-of-sale transactions have climbed to monthly amount of almost eight million, along with mobile/online payments across banks also rising. When applied, the MoU is going to ensure interoperability between the 2 countries' electronic payment systems, marketing electronic inclusion, low transaction costs, and convenience, improving person-to-merchant payments and person-to-person, and also benefitting trade in services and goods, particularly for a lot of cross border travellers.

3. Areas of Contention in Trade and Commerce:

a) China's Engagement in Trade: For many little and medium Nepali businesses, it is today easier to trade with China. This is not because China has made India uncompetitive. The industry rules have made it hard to complete business with India. India- Nepal trading agreements still have the concern of old rules. For illustration, Nepali dealers can not import products from India which are not made in India. Rather, doing the initial business in China is far easier. Despite borders that are open, complicated non-supervisory conditions have complicated import-import in between the 2 countries. This is disproportionately for businesses that are small. With China currently a consideration laterally or directly impacting India-Nepal relations, decision-makers need to act fleetly to eliminate anomalies blocking lucrative engagements. They have to allow individuals across the borders to take part in each other 's growth just like they did ahead. India was the one biggest source for Foreign Direct Investments (FDIs) in Nepal, but currently, the position of its is eroding with growing Chinese investments. In 2019, for case, China reckoned roughly forty new FDIs against India's thirty. The distant relative decline in Indian investments in Nepal reflects 2 underpinning factors. For starters, the socio-profitable ties between Nepal and India have didn't acclimatize fleetly adequate. The system was the primary motorist of investments in the past it linked openings, secured investments, and also eased the inflow. As these socio-profitable networks have lagged, especially by neglecting to contemporise from the casual to the structured, Indian investments have declined. Next, the Indian government stepped in to lead India's investment incursion into Nepal. The story about growing Chinese investments in Nepal was cast in geo-political terms as the abating of Indian influence. The Indian authorities responded by vigorously purchasing the commitment of its. This particular method has undermined India's sweats in Nepal, farther eroding the main lucrative ties between individuals of the 2 nations. While India's government concentrated on engaging Nepal's government through bilateral and also government to government investments, China, on the opposite hand, allowed the enterprises of its to link straight with the individuals of Nepal(2). Many little Chinese enterprises arrived in Nepal. They create initial mates and invested in number of enterprises across sectors. In 2019, for illustration, about 1,500 Chinese companies had entered blessings for FDIs in Nepal. This was two times the amount of Indian enterprises which had been authorized for foreign investment. But on average, Chinese enterprises have been investing considerably reduced numbers a design compared to Indian enterprises. The investments by Chinese companies in Nepal had been much more grainy and a lot near on the business organizations and lives of

average Nepalis. Even though the government of Nepal and India concentrated on doing business between themselves, underneath wherever it truly counts, a brand new lucrative network between the individuals of Nepal and China has taken shape.

b) Non-Tariff Measures and a trade deficit with India: Found as a macroeconomic identity because of its present account balance a manifestation of the big difference between investment and savings- Nepal's general trade deficiency, of that deficiency with India may be the predominant part, will be an incarnation of investment exceeding savings. Nonetheless, this macroeconomic identity is not a declaration of reason. In a frugality whereby factors of merchandise are mostly underutilised, it is feasible to boost exports with the role of savings. Importantly, junking of trade wall space in destination requests might boost exports, because of the role of cost savings. When exports increase, affairs/ income increases as well, in turn, which, may deliver superior cost savings. At any rate, a far more cautious plus detailed look at trade imbalances than permitted by a physical approach is, decreasingly, not impermissible in the post-pandemic terrain. While generally there are elements within Nepal which stymie the realisation of the import eventuality its, attributing the trade deficiency to supply-side constraints by itself is neither empirically accurate nor favourable to the all-around health of the bilateral relationship. The swell in trade imbalance could be incompletely traced to the 2002 modification of the liberal 1996 trade meeting between the 2 nations. The modification introduced restricted vittles, specially onerous rules of origin and quantitative limitations, on the additional essential import particulars of Nepal. In regular group meetings on bilateral trade, Nepal goes on to expect the junking of quantitative restrictions on zinc oxide, bobby products, acrylic yarn, and vegetable ghee assessed eighteen times agone. Para-tariffs on Nepali exports similarly improved following the 2002 modification (With the preface of the products & services duty (GST) in India in 2017, nevertheless, the responsibility of border levies apart from customs tariffs has become increasingly transparent, and para tariffs happen to be significantly removed.) nevertheless, on one hand, Nepali growers are unable to deal with subsidised agrarian significances. Reports of indigenous growers' produce rotting in the fields really as significances created a prime request during the epidemic convinced lockdown produced the captions in Nepal, directing renewed public focus on the trade deficiency issue. In 2018/19, Nepal imported 4 times more husbandry solutions, in value terms, from India than it exported to India. The trade convention requires a modification to exempt Nepal from being forced to offer tariff-free request access to primary agrarian goods from India, and at the very least to let Nepal put select goods on a vulnerable list that is protected from zero- tariff conditions(3). Although this will imply Nepal not repaying India's provision of duty-free request access to primary agrarian items, it'd be unified with the concepts of 'less than-full-reciprocity', and discriminational and special treatment method, in compliance with varying circumstances of growth and structural constraints across nations, that each India and Nepal advocate at the World Trade Organization (WTO). It'd likewise stay in sync with India's bent position on pastoral livelihoods and food security at the WTO. In virtually any situation, India extends the identical tariff concessions it gives Nepal under the bilateral convention to any other least advanced countries in South Asia under the Agreement on South Asian Free Trade Area, but without the donors being forced to provide duty-free entry to primary agrarian products to India in exchange. A provision in the meeting which constrains Nepal's capability to subscribe to preferential trade agreements with third countries must be taken out also. The distant relative significance of NTMs- aseptic and specialized walls and phytosanitary measures to trade- has grown with India lowering the tariffs of its in general(and also for least advanced countries in particular), performing in preference corrosion for Nepal. The special regulations and conformity assessment conditions assessed by NTMs, and also the connected procedural obstacles, pose tough wall space to exports from Nepal, particularly of agrarian items, where Nepal arguably carries an all-natural distant relative benefit. Arbitrary Opinions of officers at the border will also be wall space for Nepali exporters. The unpredictability in the functioning of rules, including those linked to NTMs, has produced queries. The negative products of trade policy query were proved in transnational trade literature. It'd likewise stay in sync with India's bent position on pastoral livelihoods and food security in the WTO.

c) Hydro-energy Trade: On paper Nepal lists a hydropower generation capacity of 90,000 Mega Watts (MW) of which 43,000 MW is economically feasible. This is due to the existence of four great swash systems in the country Koshi, Gandaki, Karnali and Mahakali and the other swash system consisting of the southern gutters. Nevertheless, despite similar underlying natural bents, Nepal's hydroelectric generation is estimated at only 650 MW per annum, less than one percent of the proven eventuality. In Nepal's turbulent domestic politics, hydropower and its colorful development aspects have featured in every government profit-driven development plan. The two countries have had a heated dispute over water due to the difficulties underpinning the water covenants on Kosi, Gandak and Mahakali. There is a feeling in Nepal that India has duped Nepal in those covenants and Nepal's natural coffers have been drained without considering its interests. Deepak Gyawali has noted that in the Kosi and Gandak covenants, Nepal can do nothing as all operation powers have been retained by the Indian side. Nepalese regard the Mahakali convention as one of the bilateral covenants, approved with a two thirds majority in the Nepalese Parliament. Despite this, there's a feeling that the design

isn't moving forward because of Indian reservations over use of the term 'equivalency' (equal share of electricity and water) espoused in the agreement thus, India has not set up the headquarters, Chief Executive Officer and other specialized aspects of the design designedly. There is also no reciprocity from the Nepalese side because Nepal is politically insecure. Now the Maoists want the convention changed to be more neutral. Despite the customary power/electricity deficit, large sections of Nepalese, including Kathmandu-grounded intellectualists, are not happy with the level of investment by India in the hydro-power sector. They want a 50 per cent stake in the hydro investments and a promise that the Electricity generated by the systems would be returned to the original population at the rate set by the Nepal electricity Authority. They claim that most of the hydroproject agreements are opaque. That gives the opposition parties in Nepal an opportunity to play on the situation. Nepalese reservations are further compounded by Indian separation on operation control and turndown for independent review of downstream benefits. There is also another set of intellectuals and political leaders who do not want India to profit from electricity generated in Nepal even if India pays the stylish price per unit. Thus they focus on small heads whose product capacity is 10- 20 MWelectricity for Nepal's own use. There have been allegations of Indian companies not taking the concurrence of the original population and discouraging original participation. still, it's the responsibility of the Nepalese state to consult the original people before allowing a design to a particular company. In most cases this is not done, resulting in apathy of Indian investors towards original needs and businesses. The people of northern Nepal, where most of these hydro-systems are planned, know little about India and the business MoUs, They follow the story of the original political leaders. In terms of original participation, the Indian companies find it extremely delicate to involve original contractors in the construction work as they lack the specialist moxie. Overall, the Nepalese are told that the electricity generated by the hydro-power systems being built by India would be too precious to be used and exported to India; and they often accuse their politicians of tossing the gutters to India without vetting the interests of Nepal. The Maoists stopped construction on the Upper Karnali, West Seti, Upper Marsyangdi and Arun III systems as they wanted compensation for allowing the companies to operate in the region. There is a faction within the Maoist party that opposes Indian systems and wants to redistribute them to some other foreign company. The UCPN-Maoist's water coffers and energy department had also hovered to suspend development work in 14 hydropower systems because those systems were 'import-acquainted 'and, according to them, against public interest. However, across the party lines, it is accepted that India is an implicit investor in hydro-power sector and it is also an implicit request. Many others also believe that bilateral cooperation in the hydro-power industry will benefit both the countries. A non-industrialised country like Nepal which derives most of its income from tourism would gain enormously from aggregating its enormous water coffers productively through close cooperation with India. By tapping into this resource both the countries can meet their huge energy needs. It will also help them flush out their lands and prevent cataracts(4). So far, India has no real competitors in Nepal's hydro-power industry. China is a implicit contender but since it isn't a request for fat hydro- power, it may not be willing to invest in mega hydropower systems. nonetheless, China has been investing in small hydro- systems in Nepal, both for the purposes of goodwill and for strategic reasons. also, China has abundant water coffers in Tibet. still, given China's interests in the water coffers of South Asia and especially Pakistan, it may in the unborn shot for mega systems in Nepal to further its business and strategic interests.

4. Conclusion :

Nepal, on the other hand, needs to modernise its public quality testing structure- including standardisation, testing, dimension, instrument and delegation. This will benefit its exports as well as equip it to stem significances of unacceptable products. It should also seek to eliminate information asymmetries to allow the Nepali private sector to meet India's needs more economically. A proper launch would be a result of the agreement signed in August 2019 between food Safety and Standards Authority of India (FSSAI) and Nepal's Department of food Technology and Quality Control (DFTQC) to accept tests analysis instruments issued by DFTQC for 24 Food and husbandry products. This may lead to a later more inclusive collective recognition agreement. This is in line with a provision introduced in the trade convention in 2009, by which India has pledged to help Nepal to “ increase its capacity to trade through enhancement in specialized norms, counterblockade and testing installations, and related mortal resource capacities. “ In general, the trends in cross-border power trade are beneficial to all the parties. The gains are clear for Nepal, as we have seen above. For India, the developments are an equally significant signal in its commitment to a bilateral and sub-regional energy market. It is facilitating the long-desired hydropower development of Nepal by allowing cross-border energy export from Nepal. It is also seeding the seeds for sub-regional energy cooperation by allowing such trade to become trilateral. Lastly, India is helping the green transition with hydropower development from Nepal and Bhutan. Both need to develop habit of trust to each other to realise the untapped trade potential in various areas as discussed.

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