

Changing Bilateral Trade of Agricultural Commodities between India and Nepal

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Abstract

The study has examined compositional changes and trade performance of agricultural commodities between India and Nepal during the period 2009-10 to 2020-21. The data have been analyzed by using descriptive statistics such as percentages, averages, and CAGRs to ascertain the various objectives of the study. The agricultural commodities import from India to Nepal showed two different patterns, a steady increase from 2009-10 to 2011-12, then a rapid surge in 2020-21. Nepal's export to India has increased steadily with a few ups and down. During the study period, the imports rose with a compound annual growth rate of about 21 per cent, whereas increase in exports with about 10 per cent. During 2020-21, almost 94 per cent of the total export of Nepal to India comprised only four commodities, out of which vegetable oils contributed the highest i.e., 66 per cent. During 2017-18, 43 agricultural commodities were imported by Nepal from India, out of which eight commodities accounted for about 82 per cent of the total share, non-basmati rice ranked first. The results revealed that both countries are equally important to each other in terms of trade and are perfect trading partners. Despite various impediments to trade viz. unauthorized trade, difficult administrative procedure, geographical structure of Nepal affecting revenues for both the countries, the traditional, cultural, geographical, and political relations have helped the trade to flourish, therefore, it is suggested to maintain the treaty in the overall interest of both countries.

Keywords: Agricultural commodities, export, impediments, import.

JEL Classification: D2, F13, F19

Introduction

Nepal is a landlocked country located in south-east Asia. Its economy is extremely dependent on agriculture, as it accounts for one-fourth share of the nation's GDP and also, provides occupation for two-thirds of the total labor force (Bastola, 2020). Nepal is divided into three major agro-ecological zones: the terai or plains region in the south, the hilly region in the nation's mid-section, and the mountainous region in the north.

The relationship between India and Nepal has been pleasant and impeccable for decades. The two neighboring countries not just share approximately 1800 km of open border with each other with 26 export-import outlet points but are also strongly interlinked by common arts, cultures, and traditions. The favorable geography, culture, and social affinity have encouraged trade to flourish (Sharma *et al.*, 2017). The volume of Nepal's trade in the year 1990-91

was Rs 2852.91 crores where export comprised of Rs 856.66 crores and import of Rs 1996.25 crores. The import and export have increased to Rs 61882.06 crores and Rs 4565 crores respectively in 2016-17 with a trade balance of Rs -57316.50 crores (Acharya, 2019). Therefore, India-Nepal trade cooperation has its important for the significant economic development of both these countries. Almost two third of Nepal's foreign trade is with India, with bilateral trade estimated to be around USD 4.7 billion. Indian firms are the biggest investors in Nepal, accounting for about 40 per cent of total approved foreign direct investments (Alam, 2020). The trade intensity of Nepal with India is 20 times higher compared with other South Asian Association of Regional Cooperation (SAARC) countries (Acharya, 2019). The trade scenario between India and Nepal has expanded tenfold since 2001. India's export to Nepal grew from USD 0.2 billion in 2001 to USD 5.93 billion in 2017 whereas India's imports from Nepal have remained constant at USD 0.4 billion between 2001 and 2017 (National Apex Chamber, 2018).

Despite various treaties and agreements such as World Trade organizations (WTO), South Asian Free Trade Area (SAFTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), etc., Nepal is experiencing trade deficits. Different policies are introduced by the Government of Nepal (GON) to encourage export like reducing tariffs, introducing one window policy, and simplifying administrative procedures to decrease the trade deficits by attracting more business into exporting (Govt.of Nepal, 2014). However, there is a strong presence of Non-Tariff Barriers (NTBs) which are causing problems in trade such as high transportation costs, poor institutions, inadequate infrastructure, and modern warehouse or container handling facilities at the border. (Singh, 2018). Undoubtedly, the reform initiatives undertaken in Nepal and India have provided new impetus to the trade activities of both countries. More significantly, the treaties of trade and transit as well as the agreement to control unauthorized trade have changed the trade composition. Against the backdrop of this, the present study was undertaken to examine the compositional changes and trade performance of agricultural commodities and to analyze the impediments to trade between India and Nepal.

Data Sources and Methodology

The secondary data were collected from the Agricultural & Processed Food Products Export Development Authority (APEDA), to study the composition and trade performance of major agricultural commodities from the period 2009-10 to 2020-21. Nepal’s total commodities export to World was gathered from Nepal Trade Information Portal, which is a one-stop government window on import into, export from, and transit through Nepal for the same period i.e., from 2009-10 to 2020-21. The data collected for the present study were analyzed by using descriptive statistics such as percentages, averages and CAGRs.

Results and Discussion

The agricultural commodities import shows two different patterns, a steady increase from 2009-10 to 2011-12, then a rapid surge in recent years (Figure 1). The agricultural commodities exported to India from Nepal in the year 2009-10 were of Rs 392.3 crores while imports from India to Nepal were to the tune of Rs 804.78 crores, with Nepal facing a trade deficit of Rs 412.48 crores. In the year 2020-21, Nepal’s imports, exports, and a trade deficit of major agricultural commodities with India were Rs 9344.03 crores, Rs 3196.9 crores, and Rs 6147.13 crores respectively. The export to India increased with a compound annual growth rate of 9.96 per cent, whereas import from India grew at a rate of 20.61 per cent per annum. The products that experienced the surge in imports from India in the year 2020-21 were non-basmati rice, wheat, other cereals (except rice and wheat), oil meals, sugar, and fresh vegetables whereas, the products that explained the increase in the agricultural exports to India were vegetable oil, spices, tea, and misc. processed items.

Nepal’s Export of Major Agricultural Commodities to India

The share of Nepal’s major agricultural commodities export to India in value terms during 2020-21 has been shown in Figure 2. Altogether 28 commodities were exported to India amongst which only four commodities accounted for almost 94 per cent of the total export of agricultural commodities to India. Vegetable oils occupied the first position in export, accounted for 66 per cent of share, followed by spices (13 %), miscellaneous-processed items (7.19 %), and tea (7.05 %) respectively. Other commodities exports accounted for 6.27 per cent of the total agricultural commodities exported

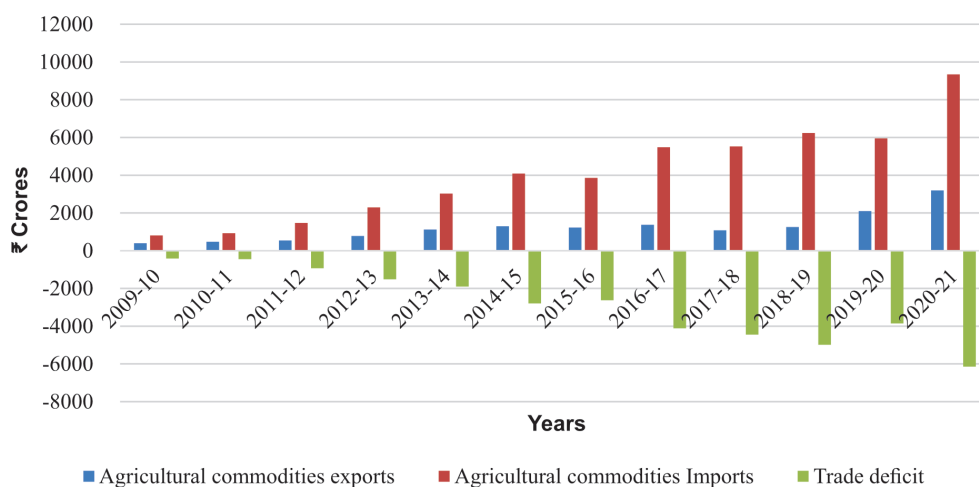


Fig. 1. Nepal’s Bilateral Trade with India, 2009-10 to 2020-21

to India. Total trade of agricultural commodities in the year 2020-21 was Rs 3196.9 crores. So, Nepal should focus on production and export of commodities like vegetables oils, spices, miscellaneous-processed items and tea to generate more revenue.

Trends in Nepal’s Export of Major Agricultural Commodities to India

The commodities viz. spices, misc processed items and tea showed a flat trend with some ups and downs except for vegetable oils, for which there was a rapid increase from the year 2017-18. In the year 2017-18 the export of vegetable oils was Rs 2.25 crores but it reached Rs 235.09 crores in 2018-19 and finally to Rs 2114.17 crores in the year 2020-21 (Fig. 3). The major reasons for this surge were (i) an Increase in import duty of all crude oils and refined oil in India during 2018. The import duty for refined soyoil, canola oil and sunflower oil was raised to 45 per cent from 35 per cent (Economic Policy, 2018).

Another reason was the zero-tariff privilege given by SAFTA to Nepal as a least developed country, so the traders exploited the loopholes in the zero-tariff privilege and imported crude soybean oil from other countries like Argentina, Brazil, Egypt, Paraguay, and Ukraine and re-exported processed oil to India (Prasain, 2021). Export of misc. processed items were also above Rs 500 crores from the year 2014-15 to 2016-17 but then it decreased and reached Rs 427.04 crores in the year 2020-21.

Nepal’s Import of Major Agricultural Commodities from India

The percentage share of Nepal’s major agricultural commodities imported from India in 2020-21 is presented in Figure 4. Out of 43 commodities, eight commodities accounted for about 82 per cent of the total share of

agricultural commodities imported from India in the year 2020-21. Non-Basmati rice accounted for the most with 31.18 per cent of the total import of agricultural commodities followed by other cereals except rice and wheat (10 %), followed by spices (8 %), oil meals (8%), sugar (7%), wheat (7%), fresh vegetables (7%) and cereal preparations (4%). The remaining 35 commodities accounted for about 18 per cent of the total import of agricultural commodities from India. Total trade of agricultural commodities in the year 2020-21 was of Rs 9344.03 crores (Fig. 1).

Trends in Nepal’s Import of Major Agricultural Commodities from India

The value of imports of all major agricultural commodities was estimated below Rs 500 crores till the year 2011-12 (Figure 5). Import of commodities like non-basmati rice, other cereals (except rice and wheat), oil meals, and fresh vegetables were valued at Rs 2913.9 crores, Rs 923.24 crores, Rs 739.85 crores, Rs 610.92 crores respectively. Import of all the major commodities showed a steady increase but rapid surge was found in the import of non-basmati rice. This surge might be due to Nepal’s decreased paddy harvest year-on-year due to a reduction in rice fields. The country has lost an estimated one lakh hectares of paddy area in last decade alone. Another reason for the increasing import of non-basmati rice was mainly due to less productivity of non-basmati rice in Nepal, delays in monsoons, shortage of fertilizers and low germination of seeds (Prasain, 2019).

Ranks of Major Countries in India’s Total Export of Agricultural Commodities

The rank of countries in India’s total agricultural export from 2009-10 in quantity and value terms showed that Nepal is emerging as a major trading partner of India (Table 1). Nepal was ranked 15th and 29th in quantity and value terms respectively in the year 2009-10, importing India’s total

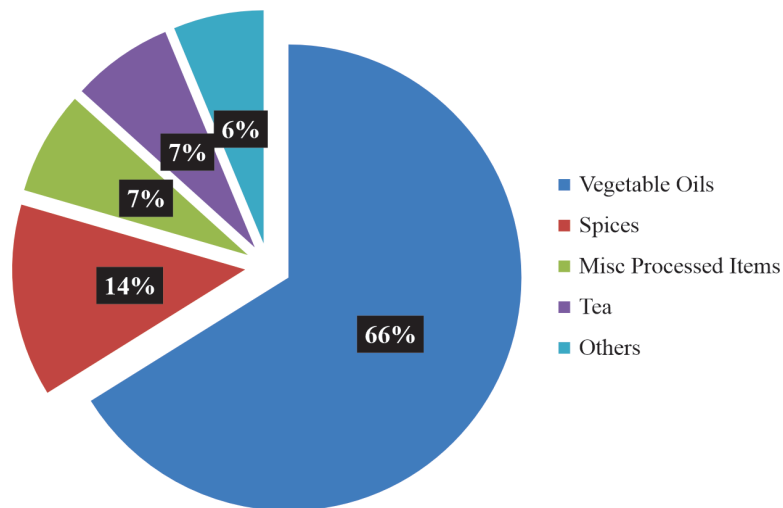


Fig. 2. Share of Nepal’s Major Agricultural Commodities Export to India (2020-21)

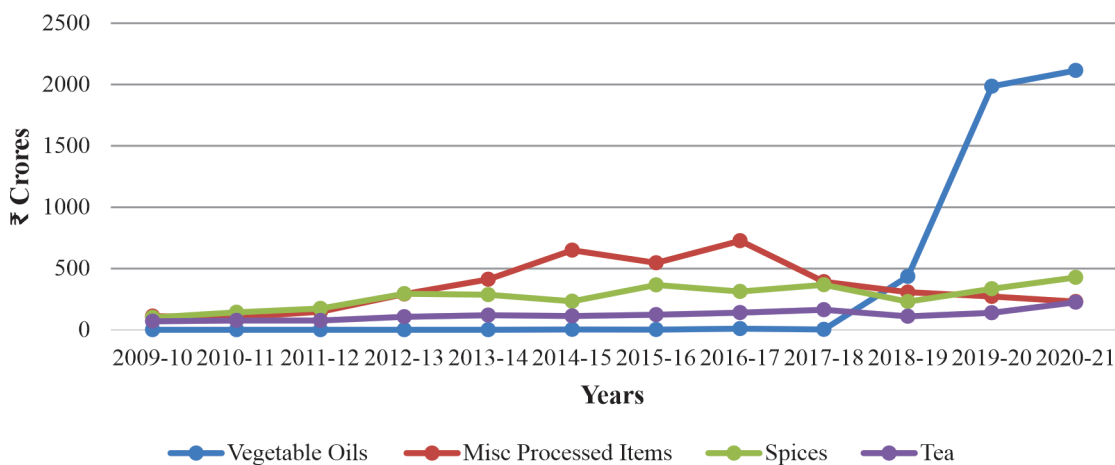


Fig. 3. Trends in Major Agricultural Commodities Exported to India

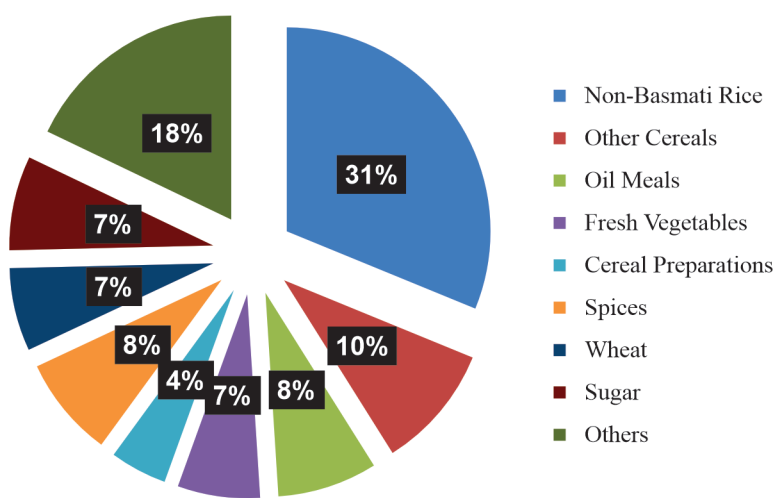


Fig. 4. Share of Nepal's Major Agricultural Commodities Import from India (2020-21)

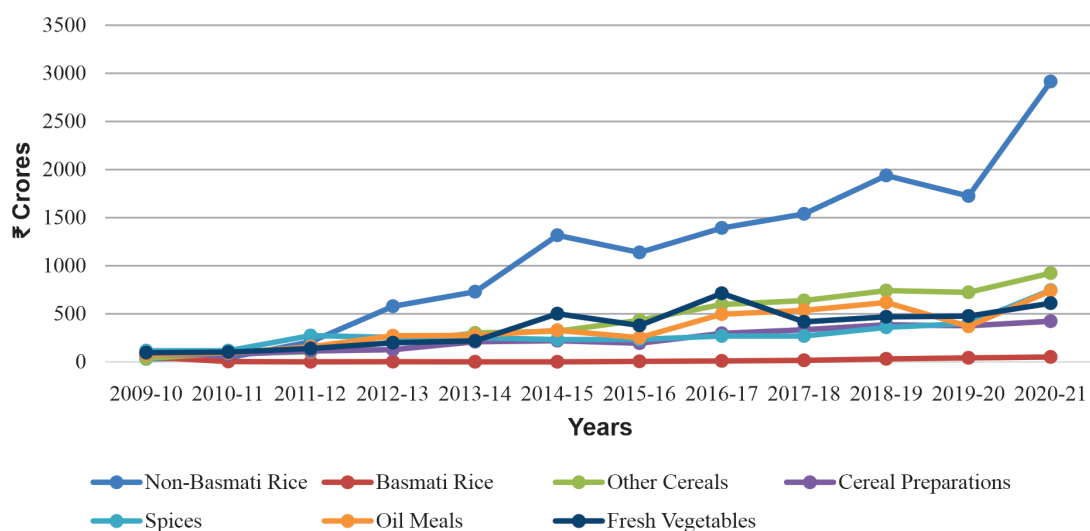


Fig. 5. Trends of Major Agricultural Commodities Imported from India

agricultural commodities share of 2.10 per cent in quantity terms while 0.90 per cent in value terms. In 2014-15 Nepal reached 7th and 14th in quantity and value terms, with the import of five per cent in quantity terms and 1.83 percent in value terms of India's total export share. Nepal consistently ranks 2nd in quantity terms (in the range of 6-7 per cent of the total agricultural export), as well as top ten in value terms.

Ranks of Major Countries in Nepal's Total Export of Commodities

A perusal of Table 2 depicts the ranks of countries in Nepal's total export of commodities in value terms from 2009. In the year 2009, India ranked first importing almost 64 per cent of Nepal's total imports, followed by the U.S.A. (6.90%), Bangladesh (6.11%) and Germany (3.87 %) respectively. Nepal's total export has always been steady with India, in the range of 60 per cent with few small fluctuations but always in rank 1 which indicating India an important destination for export of Nepalese products. India had registered import of 72.9 per cent of Nepal's total export in the year 2020 which has found the highest in all the years and reveals that India becoming a major trading partner for Nepal.

Nepal's Export of Commodities to World and India

The trends of Nepal's total export of commodities to World and India as well as agricultural commodities exported to India from the year 2009-10 to 2020-21 have been shown in Figure 6. It is revealed that Nepal's total export of the commodities to the World in the year 2009 was of Rs 4043 crores which rose to Rs 5650 in the year 2014. In the year 2015 it declined slightly to Rs 4720 crores, followed the upward trend, and reached its maximum in the year 2019

with Rs 6753 crores. The agricultural commodities exported to India also showed an upward trend. In the year 2009-10 Nepal's total export of agricultural commodities to India was of Rs 392 crores. With a steady increase, in the year 2016-17, Nepal exported agricultural commodities of Rs 1372 crores to India and then skyrocketed to Rs 3197 crores in the year 2020-21. Both total commodity and agricultural commodities export of Nepal showed an increasing trend which is a good sign for Nepalese trade with India.

India ranks first by importing 73 percent of the Nepal's total export in the year 2020, followed by the U.S.A., Germany, U.K., Turkey, France, and China with 10.2 percent, 2.8 per cent, 2.0 per cent, 1.4 per cent, 1.1 per cent and 0.7 per cent respectively (Figure 7). Other countries export accounted for 8.9 per cent of Nepal's total export to the world. This proves that India was the major importer of Nepal's total exports.

Impediments of Trade

One of the main barriers to trade between both countries i.e. Nepal and India is the geographical structure of Nepal. Nepal is a land-locked country, with a mountainous and rugged structure. Nepal has to export/import goods from India because of its geographical dilemma, which raises the cost of commercial transactions in transportation costs and also in merchandise shifting from one mode of transport to another (Sharma, 2020).

India and Nepal share approximately 1800 km of the open border with 26 outlet points, according to the Treaty of Transit (Sharma *et al.*, 2017). Due to the open border, it is frequently recorded the import and export of goods from

Table 1. Ranks of major countries in India's export of agricultural commodities

Years	2009-10		2012-13		2014-15		2018-19		2019-20		2020-21	
	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V
USA	13	3	14	1	11	2	7	1	5	1	9	1
China	6	1	23	2	13	7	8	4	7	2	4	2
Bangladesh	1	6	1	6	1	4	1	6	3	7	1	3
UAE	3	2	4	5	4	5	5	5	6	5	6	4
Vietnam	2	4	2	3	2	1	4	2	8	4	5	5
Saudi Arab	5	5	9	7	6	3	6	7	4	6	8	6
Indonesia	8	14	3	9	3	11	13	9	19	11	3	7
Nepal's overall rank	15	29	11	25	7	14	2	10	2	10	2	8
(% share)	(2.1)	(0.9)	(2.5)	(1.1)	(4.2)	(1.7)	(6.4)	(2.3)	(6.7)	(2.4)	(7.2)	(3.1)
Iran	9	8	5	25	5	6	3	3	1	3	7	8
Malaysia	4	7	7	25	9	8	9	8	11	8	10	8

Note: Quantity (Q)- Metric Tons (MT), Value (V) in ₹ Crores

Figures in parentheses are percent contribution of Nepal's import in India's total agricultural exports.

Source: Data compiled from APEDA

Table 2. Ranks of countries in Nepal’s total export of commodities

Years	2009	2012	2015	2018	2019	2020
Importers						
India	1 (63.9)	1 (68.1)	1 (61.3)	1 (59.1)	1 (68.7)	1 (72.9)
U.S.A.	2	2	2	2	2	2
Germany	4	4	3	4	3	3
U.K.	6	6	4	5	5	4
China	5	5	5	6	6	10
Bangladesh	3	3	11	7	7	12
France	7	7	7	8	8	6
Italy	9	10	9	9	10	11
Canada	8	11	10	11	11	8
Australia	11	12	12	12	12	9

Note: Figures in parentheses are the percentage share in Nepal’s total export of commodities
 Source: Authors’ computation based on Nepal Trade Information Portal

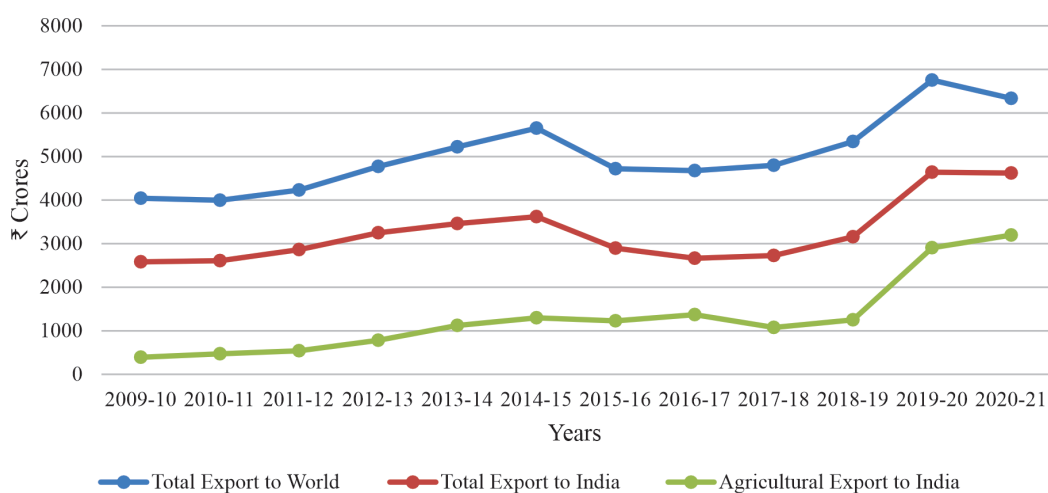


Fig. 6. Nepal’s Export of Total as well as Agricultural Commodities to World and India

Source: Data compiled from Nepal Trade Information Portal & APEDA

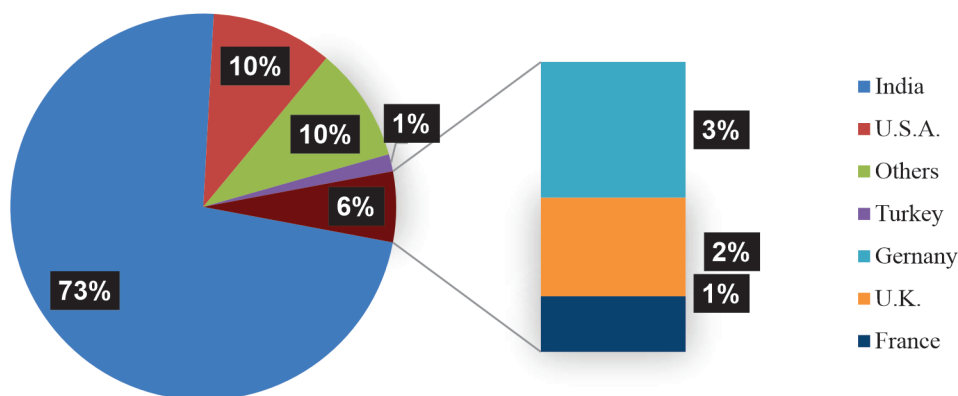


Fig. 7. Share of Major Countries in Nepal’s Total Export (2020)

unauthorized routes. As per the literature reviewed, there are no precise estimates of unauthorized trade but it constitutes a large volume. The unauthorized trade adversely affects the revenue of both the countries but also the exact volume of trade is not determined which makes it hard to make proper policies that benefit both countries.

As a developing country, Nepal is still lacking modern technology and still uses traditional farming, due to which production of goods is costly (Agriculture Sector Profile, 2016). In contrast, India uses modern technologies for farming and different policies given by the Indian government are benefitting its farming community. The low cost of production helps Indian farmers to compete with Nepalese farmers in the global market (Simkhada, 2020).

Due to various administrative procedures the traders have to reach different custom departments for trade related work and certificates, which is time-consuming and tiring. Different policies have been introduced by the Government of Nepal (GON) to encourage exports like reducing tariffs, introducing one window policy and simplifying administrative procedures to decrease the trade deficits by attracting more business to promote export. Nepalese products are mostly unbranded which makes them undesirable in most of the cases in the Indian market. Lack of publicity and advertisement of Nepalese products in the global market is the main reason behind the low desirability of Nepalese goods.

Conclusion and Policy Implications

The results of India's total export of agricultural commodities brought out that Nepal has become a major trading partner for India as it has climbed from 15th position to 2nd position in volume of export of agricultural commodities from the year 2009-10 to 2020-21. The share of Nepal's import has increased from 2.07 per cent to 7.18 per cent in India's total export of agricultural commodities during the said period. In value terms, Nepal's share of import of agricultural commodities has increased to 3.06 per cent of India's total agricultural export and has been ranked 8th, indicating Nepal of becoming a valuable trading destination for India products. India has always been Nepal's major destination for agricultural exports as more than 60 per cent of Nepal's products were exported to India from 2009-10 to 2020-21. The results showed that both countries are equally important to each other in terms of trade and are perfect trading partners. Despite various impediments to trade viz. Nepal being a land-locked country, lack of use of modern technology and high cost of production in Nepal, difficult administrative norms for traders in Nepal and unauthorized trade affecting revenues for both the countries. But the

traditional, cultural, geographical, and political relations have helped the trade to flourish, therefore, treaty should be maintained in the interest of both countries.

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