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Revision of India-Nepal Treaty of Trade and Its Implications for Strengthening Bilateral Trade and Investment Linkages

Indra Nath Mukherji

Discussion Paper # 161



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Revision of India-Nepal Treaty of Trade and Its Implications for Strengthening Bilateral Trade and Investment Linkages

Indra Nath Mukherji*

Abstract: Relations between India and Nepal have been bound by long-standing geographical, historical, cultural, social and economic ties that the peoples of the two countries have shared since times immemorial. For quite some time, and particularly with the installation of Maoist-led coalition government in August 2008, the demand for revision of treaties trade and of peace and friendship was being made in the context of new developments in bilateral relationships.

Underscoring the close linkage between security and economy, India's first treaty of Trade and Commerce with Nepal was signed on the same day as the Treaty of Peace and Friendship on 31 July 1950. The first section of this paper traces historically, the evolution of India's Trade and Transit Treaties with Nepal beginning from the time such a Treaty was initiated in 1950 till the last revision was enacted on 28 October 2009. The paper focuses particularly on the last revision to analyze to what extent it addresses the concerns of the respective governments and stakeholders. The impression obtained is that the amendments rightly stress on a variety of non-tariff barriers as also non-tariff measures that need to be streamlined to enable trade, particularly exports from Nepal to flow more smoothly to India. However some time-bound institutional mechanism needs to be put in place to ensure that the incorporated provisions do not remain in the nature of best endeavor clauses. This is particularly relevant given that with the signing of several bilateral/regional free trade agreements by India over the last decade, the preference margin being enjoyed by Nepal has been severely eroded. In this context India's offer to consider the removal of special additional duties on Nepalese exports to India (on specific request from Nepal) appears plausible.

The paper highlights the trend in bilateral trade between the two countries. It notes that barring setbacks in certain years, the bilateral trade between the two countries has been growing briskly. It notes that even though Nepal has been able to diversify its trade with India, its trade deficit with India has been increasing

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sharply, and its export earnings are barely sufficient to meet the cost of imports of petroleum products from India.

The paper identifies products with high trade potential of both the countries so that these could be targeted in trade facilitation measures or when mutual recognition of each country's certification is accepted by the other.

Noting the close linkage between trade and investment, the paper examines the volume and status of Indian foreign direct investments in Nepal. An exercise in intra-industry trade between the two countries gives direction for sectors/ industries in which Indian investment could flow. The paper expresses concern about the labour situation in Nepal and the lack of arbitration tribunals in case of dispute. Quite a number of Indian industries have been shut down and those in the pipeline could also be adversely affected. In this context the need for long-pending Bilateral Investment treaty between the two countries has been emphasized.

I. BACKGROUND

Relations between India and Nepal have been bound by long standing geographical, historical, cultural, social and economic ties that the peoples' of the two countries have shared since time immemorial.

Under the India-Nepal treaty of Peace and Friendship of 31 July 1950, both the governments have undertaken, in token of neighbourly spirit, to give the nationals of the other, national treatment in its territory with regard to participation in industrial and economic development and to grant concessions and contracts relating to such development..

During the visit of Prime Minister of Nepal, HE Pushpa Kamal Dahal to India from 14-18 September, 2008, both noted the need to review, adjust and update the 1950 Treaty of Peace and Friendship and other agreements, while giving due recognition to the special features of the bilateral relationship. Although the roadmap set out in the November 2006 Comprehensive Peace Agreement was disrupted, the Constituent Assembly elections were held successfully in April 2008. The transition to a republic was peaceful and a new constitution is in the process of making. The election of a President in August 2008, and the formation of a Maoist-led government, even though delayed, took place.¹ However with the resignation of Nepalese Prime Minister on 4 May 2009, a new non-Maoist coalition government

has already been formed under Madhav Kumar Nepal, an influential leader of Communist Party of Nepal (United Marxist Leninist), on 23 May, 2009.

Underscoring the close linkage between security and economy, India's first Treaty of Trade and Commerce with Nepal was signed on the same day as that of the Treaty of Peace and Friendship on 31 July 1950. The treaty envisaged a customs union between the two countries. The trade treaty of September 1960 removed the requirement of a customs union, enabling Nepal to adopt its own tariff and trade policy, which led to its trade diversification with third countries.

The trade treaty signed in August 1971 permitted mutual bilateral exports of primary products free of basic customs duties. This treaty offered to grant Nepal, on the basis of non-reciprocity, favorable treatment to imports into India of products manufactured in Nepal, containing not less than 90 per cent of Nepalese and/or Indian materials in respect of customs duty and quantitative restrictions normally applicable on them.

For other manufactured articles in which third country material are used, if value of Nepalese and/or Indian materials and Nepalese labour added in Nepal is at least 50 per cent of the ex-factory price of the product, the government of India will provide favourable treatment to imports of such products in India.

In August 1978 India agreed to sign two separate treaties, a treaty on trade and a treaty on transit, fulfilling a long-standing Nepalese demand. In addition, the Indian demand to prevent deflection of unauthorized trade was also satisfied with the signing of an Agreement on Cooperation to Control Unauthorized Trade.

After the expiry of this treaty in 1988, a trade deadlock ensued between the two countries until a democratic government was set up in Nepal in 1990. Following this, a new agreement was signed in December 1991, which was renewed in December 1996, under a revised protocol with reference to Article V. A notable feature of this treaty was that it provided, for the first

time, the Nepalese access to the Indian market free of customs duties and quantitative restrictions for all articles manufactured in Nepal on the basis of certificates of origin issued by the then HMG of Nepal (or by its designated agency, the Federation of Nepalese Chambers of Commerce & Industry), waiving the rules of origin requirement entirely.

Following the concession, there took place considerable buoyancy in Nepalese exports to India. However, taking advantage of Nepal's low customs tariff on a number of sensitive products, with minimal or no processing, Nepali companies made large inroads to the Indian market. In particular, a number of *vanaspatti*² manufacturers in Eastern India were unable to meet the competition and had to wind up their operations.

Due to differences between the two governments on the trade deflection issue, the trade treaty of 1996, which was scheduled to expire in December 2001, could be renewed for a period of five years only with effect from 5 March 2002. The automatic extension of the agreement for further periods of five years at a time has been ensured by the clause that the treaty continues, unless either of the parties gives to the other a written notice, three months in advance, of its intention to terminate the treaty.

The Protocol with reference to Article V of the trade treaty stipulated adherence to a new rules of origin criteria. The rules of origin provisions made in renewed trade treaty requires Nepalese manufactured exports to fulfill twin criteria for their preferential access to the Indian market free of customs duties normally applicable and of quantitative restrictions. The twin criteria are: (i) domestic content requirements defined in terms of value added which has been fixed at 30 per cent of ex-factory price of articles produced in Nepal from March 2003 onwards; and (ii) requirements in terms of processing of inputs so as to cause adequate product transformation to output as to cause a change in tariff heading at four digit level of the harmonized system code.

In addition, tariff rate quotas have been imposed on Nepal's four export items to India, that is, vegetable ghee (100,000 MT/year), acrylic yarn

(10,000 MT/year), copper products (7,500 MT/per year) and zinc oxide (2,500 MT/year). Such products would enter duty-free up to the level of assigned quota, but subsequent exports would attract India's normal MFN rates.

Further, with reference to Article IX of the treaty, the new protocol to the treaty has a safeguard clause permitting appropriate remedial measures in tune with international norms in case of a surge in imports of certain commodities. This clause stipulates that in the event of a surge in imports under the treaty as to cause or threaten to cause injury to the domestic industry, the affected country could take appropriate measures to safeguard its domestic industry.

Indian position on the imposition of rules of origin is that India's trade preferences to Nepal are designed to promote the country's industrialization through backward linkages with its economy, which the rules of origin makes possible.³

The validity of the trade treaty was extended for a further period of five years from 6 March 2007 to 5 March 2012.⁴ In the meanwhile, however, the treaty had to be amended on 28 October 2009 accommodating to some extent, the concerns of the stakeholders.

II. CONTOURS OF REVISED THE INDO-NEPAL TRADE TREATY

For quite some time, particularly when the current treaty was extended in March 2007, there have been efforts especially from the Nepalese side (Nepalese Government and stakeholders) to revise and update the nearly 60 year old trade treaty. The demand for revision of all treaties with India took an active stance particularly when the Maoist-led coalition Government was formed in August 2008.

The two-day trade talks were held between India and Nepal in Katmandu between 5-6 March 2009 with a view to revising the treaty. After intense negotiations, on 28 October 2009 governments of Nepal and India signed an amended Treaty of Trade. The Indian trade Minister Anand Sharma

and his Nepali counterpart signed the documents. The treaty came into force on the date of its signature and superseded the Treaty of Trade and Protocols signed thereafter between the two governments on 6 December 1991.⁵

Article XII (b) extended to tenure of the treaty. It states that the treaty would remain in force for a period of seven years and would be “automatically extended for further periods of seven years at a time, unless either of the parties gives to the other a written notice, three months in advance, of its intention to terminate the treaty”. Thus regarding the tenure of the treaty, a compromise of seven years was arrived at, as against of ten years requested.

The Protocol to the treaty with reference to Article 1 added five more points. Under Point 3 Government of India sought to make a best endeavour to assist Nepal to increase its capacity to trade with India “through improvement in technical standards, quarantine and testing facilities and related human resource capacities” on request from Government of Nepal.

Under Point 4 both parties agreed to facilitate cross border flow of trade “through simplification, standardization and harmonization of customs, transport and other trade related procedures and development of border infrastructure.”

Point 5 agreed on “measures to reduce or eliminate non-tariff, para-tariff and other barriers that impede promotion of bilateral trade.”

Finally Point 6 of Protocol to Article 1 permitted both parties to “allow duty-free, temporary importation of used machinery and equipments into their territory for the purpose of repair and maintenance of such machinery and equipments ten years from the date of exportation” subject to a number of conditions.⁶ Thus the time limit for temporary import of machinery has been raised from 3 to 10 years.⁷

The last Point 7 stipulated that both parties “would take measures to exchange trade related data with each other from time to time, with a view

to facilitate the flow of trade and transport.” It will be noted that all the points added to the Protocol are in the nature of best endeavour trade facilitation measures. Even so, no mention was made of these measures in the earlier treaty.

With reference to Article II of the treaty, Point 6 has been added. This point states that both parties “shall grant recognition to the sanitary and phyto-sanitary certificates (including health certificates) issued by the competent authority of the exporting country, based on assessment of their capabilities, in the area of food and agriculture product (including primary, semi processed and processed) and shall allow entry of these products into their markets on the basis of these certificates subject to meeting the mandatory requirement of the importing country”. This is an important clause which addresses a major complaint of Nepalese traders who now have the option to have their products certified by a “competent authority” in their own country. India can help in Nepalese capacity building by enabling such “competent authorities” in Nepal fulfilling the mandatory requirements in India. This could go a long way in helping Nepal to export its primary, semi processed and processed food products to India.

With reference to Article IV, the parties agree, on a reciprocal basis, to exempt from basic customs duty as well as from quantitative restrictions the import of primary products. A number of primary products of export interest to Nepal have been added. These include floriculture, *atta*, bran and husk, bristles, and herbs. Besides essential oils and its extract” have been added to existing “*ayurvedic* and herbal medicines”. “A new class of products, “stone aggregate boulder, sand and gravel” has been added, increasing the list of product groups from 15 to 16.

With respect to Article V, the earlier Protocol had mentioned about the qualifying criteria for preferential treatment of products fulfilling the criteria as “wholly produced or manufactured” without setting the criteria. The amended Protocol sets in detail the criteria for products “wholly produced or manufactured.” This has resulted in the inclusion of several additional products as wholly produced or manufactured in Nepal for the

purpose of getting preferential access to the Indian market. “It includes articles collected in Nepal fit only for recovery of raw materials and waste and scrap resulting from manufacturing operations in Nepal.”⁸

Further, the amended treaty inserts a new paragraph (5) regarding “additional duty”. It states:

Whenever imports into India of products manufactured in the medium and large scale units of Nepal attract an “Additional Duty” over and above an Additional Duty equivalent to the effective duty of excise applicable to similar products produced or manufactured in India, Government of India shall, upon request from Government of Nepal, consider waiver of such additional duties on imports of products from Nepal.

It thus appears that the Indian government has not provided an exemption to all Additional Duties (read Countervailing Duty) but only agreed to “consider waiver” of “Additional Duties” (read Special Additional Duty) over and above an “Additional Duty” upon request from the Government of Nepal.⁹

Under the revised Protocol a new section VII has been added. This section states:

Both Contracting Parties shall make provisions so that no discrimination will be made in respect of tax, including central excise, rebate and other benefits to exports merely on the basis of payment modality and currency of payment of trade. This would be made effective from the date to be mutually agreed to, after which the Protocol to Article III¹⁰ would become redundant.

This provision meets long standing demands of both Nepalese importers and Indian exporters. This ensures that the Indian exporters will get rebate on central excise and other benefits to exports along lines the exporters to hard currency areas are entitled. Thus there is no question of

Nepalese exporters obtaining excise duty refund through a circuitous process mentioned above. As stated by Press Information Bureau:

This will make the bilateral trade conducted in Indian Rupees at par with trade in convertible currency and will end the existing mechanism of Duty Refund Procedure (DRP) which was procedurally cumbersome. It will provide Nepal a direct control on the customs duty revenues on import of manufactured goods from India. It will also allow Indian exports to avail benefit of export promotion schemes prevailing in India, making these products more competitive for further sale or value addition in Nepal.”¹¹

As Article VII states, now both Contracting Parties need to develop modalities for transition from the existing to the new system.

With reference to Article IX, some changes to safeguard clause has been incorporated. The safeguard clause applies when in the event of imports under the treaty threaten to cause serious injury to the domestic industry, some modalities to resolve the same have been more clearly specified. The definition of the terms “serious injury” and “domestic industry” have been linked to WTO Safeguards Agreement. A number of conditions and limitations are to be applied to an investigation for application of safeguard measures, including among other measures, “making a finding of serious injury or threat thereof caused by increased imports.” Thus the provisions regarding measures in the case of serious injury to domestic industry have been streamlined.¹²

Another new section added to the Protocol is with reference to Article IX. This section provides that “in case of problems arising in clearance of goods at the land customs stations, provided that the quality of goods in question would deteriorate or perishes due to delays, such problem shall be dealt at the joint meeting of the local authorities” comprising of customs officers, quarantine/food test officers, representatives of local chambers, and any other local officials nominated by the respective governments. This amendment again goes forward in addressing the long felt grievances of

Nepalese exporters, whose export products were held up indefinitely at the borders, leading to a deterioration of their quality and immense loss in value.

This article further lays down the modalities of consultations in matters relating to bilateral trade of the two countries. Issues on bilateral trade will be referred to an Inter-Governmental Committee (IGG) led by Secretaries in the Ministries of Commerce of the two Governments. The Committee would meet at least once in six months alternatively in their respective capitals. Besides, an Inter-Governmental Sub-Committee (IGSC), constituted by Joint Secretaries of the Commerce Ministries of the two countries would meet between the intervals of the meetings of IGG. This Committee would deal extensively with trade matters and would put their recommendations if any before the IGG Meetings to facilitate bilateral trade between the two countries.

Under the amendment to the treaty, an important point to note is the change in the Certificate of Origin (incorporating Rules of Origin) that determines the eligibility of Nepalese products for preferential access to the Indian market. While Cost Insurance Freight (CIF) values are retained for material/parts (as also such of undetermined origin), the value of Nepalese products are now considered Free on Board (FOB) instead of “Ex-Factory” earlier. This will enable the Nepalese exporters a wider threshold for eligibility for preferential entry to the Indian market.¹³

In order to facilitate freer cross-border movement of goods between Nepal and India, four additional Land Customs Stations have been incorporated in the revised treaty. These are: Maheshpur/Thutibari (Nawalparasi); Sikta-Bhiswabazar; Laukha-Thadi; and Guleria-Murtia.¹⁴ Further, bilateral trade will henceforth be allowed by air through international airports connected by direct flights between Nepal and India (Katmandu/Delhi, Mumbai, Kolkata and Chennai).

The treaty, however, fails to remove quota restrictions on all four specified products- a long standing demand by the Nepalese Government.¹⁵ However, on copper products the quota is raised by 2500 metrec tonnes per annum. Further, it has agreed that ‘modalities of operationalization of the fixed quota on vegetable fat (*Vanaspati*) shall be agreed from time to time

and the existing administrative arrangements for operationalisation of the fixed quota for acrylic yarn, copper products and zinc oxide “shall be reviewed for further simplification, as required.” The vagueness of the measures proposed is quite apparent from this clause.¹⁶

An examination of the features of the recent amendments to the treaty reveals that except for the plea for removal of quota restrictions on specified products, which could not be included, most of the other changes incorporate the concerns of Nepalese exporters. This needs to be followed up with effective implementation of the underlying principles.

III TRADE RELATIONS

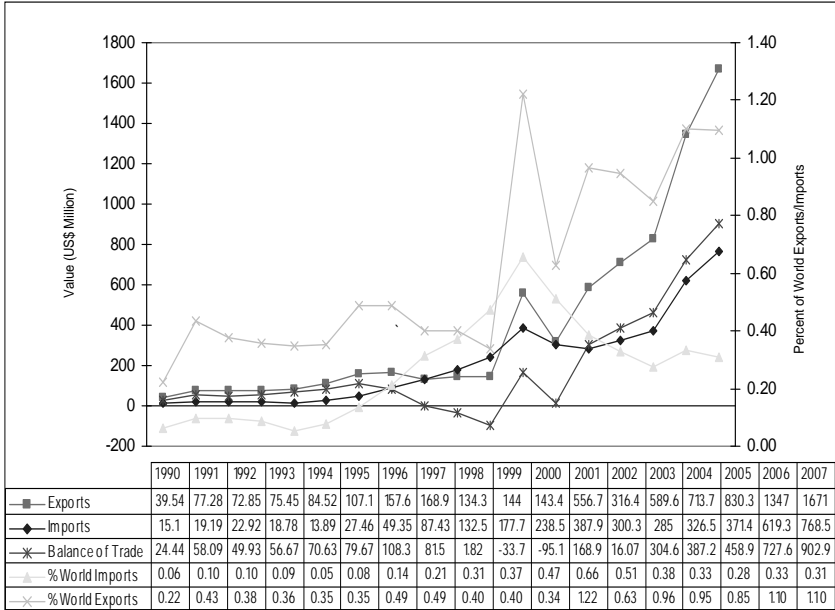
III.1 Trends in Bilateral Trade

The effectiveness of trade treaties reflect their impact on the underlying bilateral trade between the Contracting States. This section examines the same.

Indo-Nepal trade relations need to be viewed from the perspectives of both the countries in relation to their global trade. Figure 1 shows India’s trade with Nepal in relation to its world trade between 1990-2007. It will be observed that India’s exports to Nepal have been rising steeply from 2002. On the other hand, India’s imports from Nepal showed an upward trend since 1995 up to 2001. The liberalization of India’s imports from Nepal accompanying removal of value addition norms on Nepalese imports explains this surge in Nepalese exports to India during this period.

But between 2001 and 2002 India’s imports from Nepal declined for the first time and remained more or less stable until 2005. Between 2005 and 2006 India’s imports from Nepal nearly doubled. Thus the year 2005 appears to be another landmark depicting buoyancy in Indo Nepalese trade. Except for the period 1998-2000 India has been having trade surplus with Nepal. The low level of trade between the two countries during this period has been due to trade deadlock between them. It was not until the formation of a newly elected government in 1990 that bilateral trade between them started picking up.

Figure 1: India's Trade with Nepal (US \$ Million)



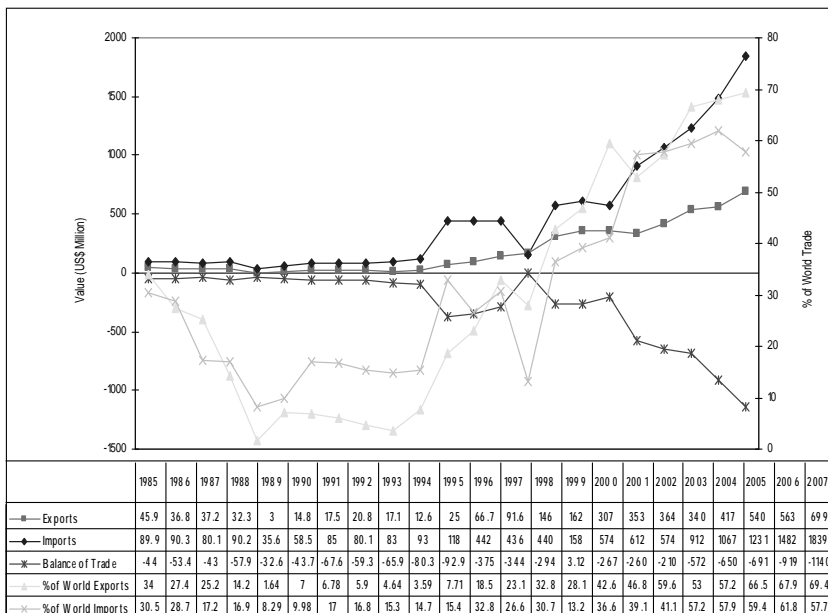
Source: IMF, Direction of Trade Statistics CD Rom, April, 2009.

Looked at from Nepalese perspective (Figure 2), we notice a similar trend with some variation. Nepal's exports to India started picking up from 1995 but imports started picking up from 1999 at an increasing rate from 2002. Nepal's exports to India declined in 2003, but have been increasing since then, at a lower pace than reflected by Indian data. The data also reveals that except for the year 1999, Nepal has been having consistently trade deficit with India.

Further to be observed is that the share of India in Nepal's world exports declined steadily till 1994 but started increasing thereafter. Similarly, India as a source of Nepal's imports after fluctuating with a declining trend up to 1999 started increasing thereafter. Consequently, by 2007 India's share in Nepal's world exports increased to nearly 70 per cent while as a source of imports, India accounted for 58 per cent. Thus while Nepal endeavored to reduce its dependency on India, this trend was reversed when India offered

the democratically elected Nepalese government in 1990 more incentives to enter the Indian market. The application of rules of origin criteria in 2002 no doubt caused some setback to Nepalese exporters for a period of three years, but exports to India have again started picking up since 2005.

Figure 2: Nepal’s Trade with India (US \$ Million)



Source: IMF, Direction of Trade Statistics CD Rom, April, 2009.

III.2 Structure and Composition of Bilateral Trade

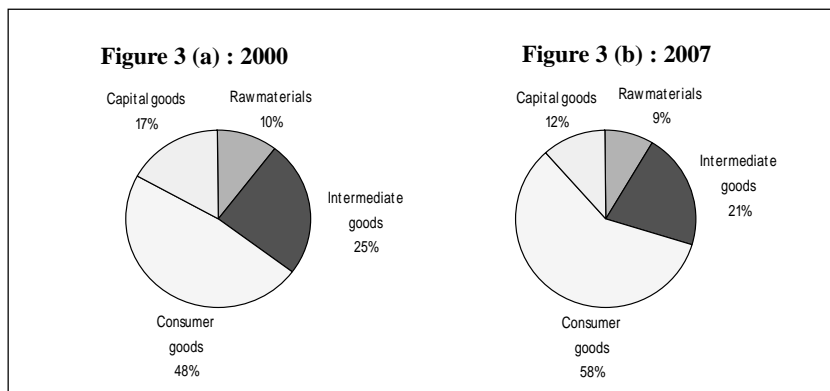
Overall bilateral trade between two trading partners does not reveal the underlying structure and composition of such trade. While analyzing the overall trend, one also needs to examine to what extent such trade has been diversified. Trade gets diversified when a large number of products, particularly manufactured products, enter bilateral trade. Duty concessions favouring in particular manufactured goods can help this process. The sections below examine this process using two categories for classification of bilateral trade: (i) by end-use classification examining the shares of raw

materials, intermediate goods, consumer goods and capital goods in bilateral trade; and (ii) by broad economic sectors, namely, the shares of agricultural, industrial and petroleum products in bilateral trade. We examine this from the Indian perspective of its exports and imports from Nepal.

III.2.1 Structure of Indian Exports

In respect of India’s exports to Nepal, it will be observed in Figures 3 (a) and 3 (b) that consumer goods account for the bulk of India’s exports to Nepal. This share has increased by ten percentage points from 48 per cent to 58 per cent between 2000 and 2007. Next in importance are intermediate goods, capital goods and raw materials whose shares declined during this period.

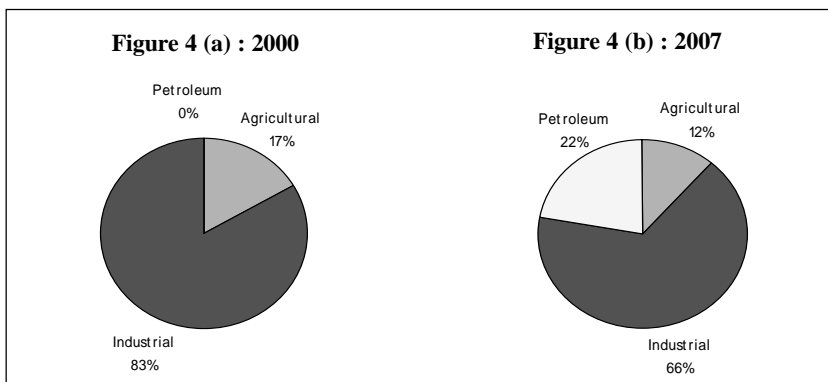
India’s Exports to Nepal by End Use Classification



Source: Estimated from UN Comtrade Database.

In terms of classification by broad economic sectors, we notice in Figures 4 (a) and 4 (b) that industrial and agricultural goods accounted for 83 per cent and 17 per cent respectively of India’s exports to Nepal in 2000. By 2007 petroleum products emerged as an important economic sector accounting for 22 per cent of India’s exports to Nepal. Consequently, the shares of agricultural and industrial goods declined to 12 per cent and 66 per cent respectively. Since petroleum products are classified as consumer goods, we have noticed their share earlier increasing in terms of end-use classification.

India's Exports to Nepal by Broad Economic Sectors

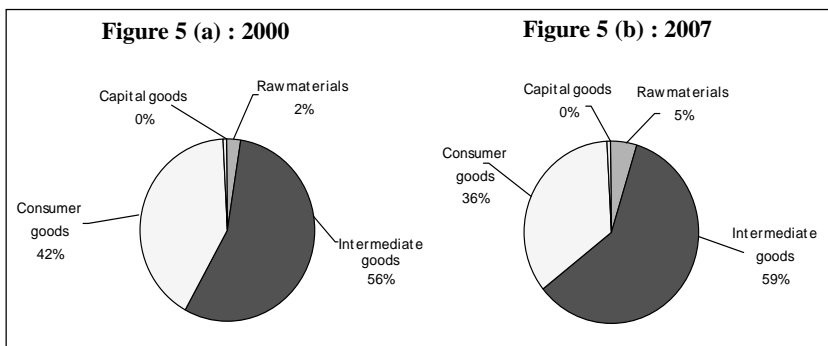


Source: Estimated from UN Comtrade Database.

III.2.2 Structure of India's Imports

Figures 5(a) and 5(b) presents India's structure of imports by end-use classification in 2000 and 2007. In this case intermediate products account for the bulk of India's imports from Nepal. Its share increased from 56 per cent to 59 per cent over the period 2000 to 2007. Consumer goods imports come next in importance. Its share declined from 42 per cent to 36 per cent over this period. The share of capital goods is negligible while the import share of raw materials is quite modest.

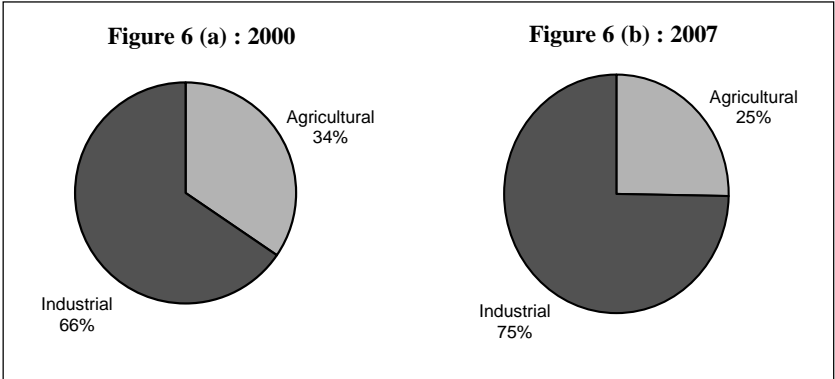
India's Imports from Nepal by End-Use Classification



Source: Estimated from UN Comtrade Database.

In terms of broad economic sectors, India’s imports from Nepal have been presented in Figures 6 (a) and 6(b). It will be seen that industrial goods account for the bulk of India’s imports from Nepal. Its share increased from 66 per cent in 2000 to 75 per cent in 2007. Consequently the share of agricultural goods declined from 34 per cent to 25 per cent over this period. The increasing shares of intermediate goods noted earlier and growing share of industrial goods reflects a shift from primary to more value added processed products in Nepal’s exports to India.

India’s Exports to Nepal by Broad Economic Sectors



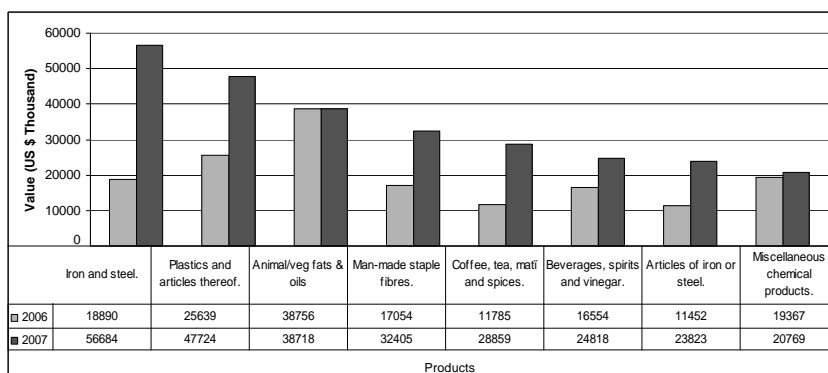
Source: Estimated from UN Comtrade Database.

III.3 Product-wise Analysis

In terms of product-wise analysis, we compare the top ten products at two-digit classification under the Harmonized System imported by India from Nepal over the period 2006 and 2007. This year was characterized by buoyant growth in bilateral trade.

Figure 7 reflects the major intermediate/industrial products imported by India from Nepal in 2006 and 2007. These include iron and steel and articles thereof, plastics, vegetable oils, man-made staple fibers, coffee, tea, miscellaneous chemical products, man-made filaments, essential oils, etc.

Figure 7: Top Ten Products Imported by India from Nepal in 2007 (US \$ Thousand)



Source: Estimated from UN Comtrade Database.

It will be observed that the high growth in imports of iron and steel and plastic products contributed in diversifying Nepal's exports to India. Table 1 presents details of India's iron and steel imports from Nepal in 2007. Here we examine more disaggregated data at 4-digit HS Classification.

Table 1: India's Imports of Iron and Steel Products from Nepal: 2007

Product	Product Name (in brief)	Trade Value (US\$'000)
72	iron and steel	56,684
7204	Ferrous waste and scrap	6
7206	Iron and non-alloy steel in ingots	8
7208	Flat-rolled products of iron/non-alloy-steel	1,675
7209	Flat rolled products of width>= 600mm,cold-rolled	579
7210	Flat-rolled products of iron/non-alloy steel	44,374
7211	Flat-rolled products of iron/non-alloy steel	735
7217	Wire of iron/non-alloy steel	7,684
7218	Stainless steel in ingots/other primary forms	10
7226	Flat-rolled products of a width of <600 mm	13
7229	Wire of other alloy steel	1,601
73	Articles of iron or steel.	23,823
7303	Tubes, pipes & hollow profiles of cast iron	235

Table 1 continued

Table 1 continued

7304	Tubes, pipes & hollow profiles,	55
7305	Other tubes & pipes,(e.g. welded, riveted etc)	127
7306	Other tubes/pipes & hollow profiles	22,319
7308	Structures(excl prefabricated buildings of heading no.9406)	86
7309	Reserves & containers for any material	8
7310	Tanks, drums etc & similar containers for materials	1
7311	Containers for compressed /liquefied gas of iron/steel	443
7312	Stranded wire, ropes, cables, plaited bands	97
7313	Barbed wire of iron or steel; twisted hoop	169
7314	Cloth(including endless bands),grill netting	273
7326	Other articles of iron or steel	10

Source: UN Comtrade Database.

It will be observed that in 2007 India imported from Nepal iron and steel (HS 72) worth US \$ 57 million, of which the most important product was flat-rolled products of iron/non-alloy, steel (HS 7210 valued at US\$ 44 million). Some other products included wire of iron/non-alloy steel (HS 7217) and flat-rolled products of iron/non-alloy steel (HS 7208).

India also imported articles of iron and steel (HS 73) worth US\$ 24 million of which the most important one was other tubes/pipes and hollow profiles (HS 7306) of which US \$ 22 million was imported.

It may be interesting to observe whether Nepal merely exported products of iron and steel that it had imported from India. A list of major iron and steel items (including those that were Nepal's major exports to India) has been presented in Table 2 below.

Table 2: India's Exports of Major Iron and Steel Products to Nepal: 2007

HS	Product	Value (US \$ '000)
7202	Ferro-alloys.	423
7207	Semi-finished products of iron	35,134
7209	Flat-rolled products of iron	12,249
7210	Flat-rolled products of iron	192
7213	Bars and rods, hot-rolled	3,629

Table 2 continued

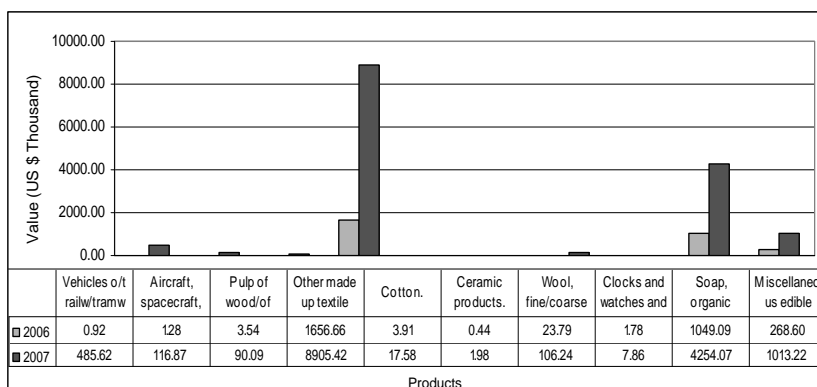
Table 2 continued

7306	Other tubes, pipes and hollow profile	302
7307	Tube or pipe fittings	1,343
7308	Structures (excluding prefabricated)	1,583

Source: UN Comtrade Database.

It will be obvious that India exported quite a negligible share of the most important iron and steel items that it imported from Nepal (HS 7210 & HS 7306). The major products it exported, eg. semi-finished products of iron (HS 7207), flat rolled products of iron (HS 7209) could have been used as inputs for its exports of flat-rolled products of iron/non-alloy steel (HS 7210) and other tubes/pipes & hollow profiles (HS 7306).

Figure 8: Top Ten Products Imported by India from Nepal in Terms of Growth Rates: 2006 - 2007 (US \$ Thousand)



Source: Estimated from UN Comtrade Database.

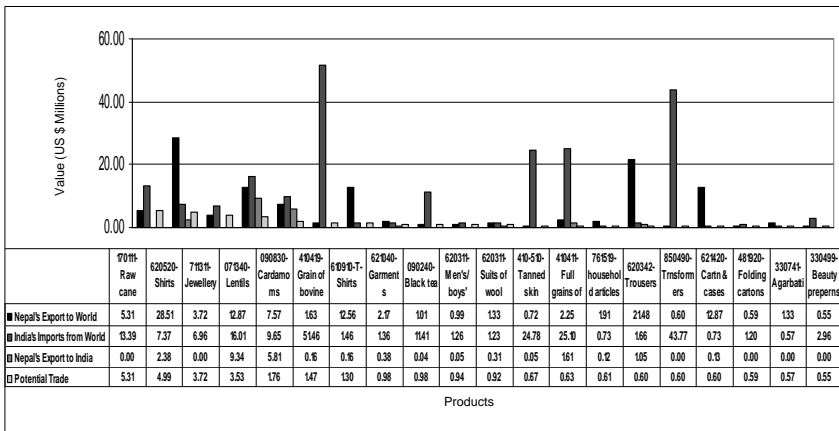
Figure 8 presents the top ten products imported from Nepal between 2006 and 2007 having the highest growth rates. Some growth rates are high because of low base. However, it may be noticed that some products are high value added non traditional ones. Some of these include vehicles of railway rolling stock, pulp of wood, ceramic products, soap and organic surface active agents, miscellaneous edible preparations, etc.

III.4 Potential Trade¹⁷

In order to expand trade, the two countries need to harness their trade potential. In order to assess their trade potential, we look at Nepal as supplier and India as market and conversely India as supplier and Nepal as a market. The supply potential is reflected in the country's world exports while the market size of the partner country is its world imports. The constraints are set by the minimum of the two values after netting or deducting the current bilateral exports to the partner country. The match making of the products exported and imported is carried out at six-digit level of classification of the Harmonized System (HS). As the product description is abridged, the HS code has been specified as a heading on each product description to remove any ambiguity of the product involved.¹⁸ In addition, Annexure 1 presents a description of products identified as having trade potential.

Figure 9 presents Nepal's top 20 products ranked in terms of potential trade for the year 2003.¹⁹ Some of the important products include raw cane sugar, men's and boys' shirts of cotton, articles of jewelry, lentils, cardamoms, etc.

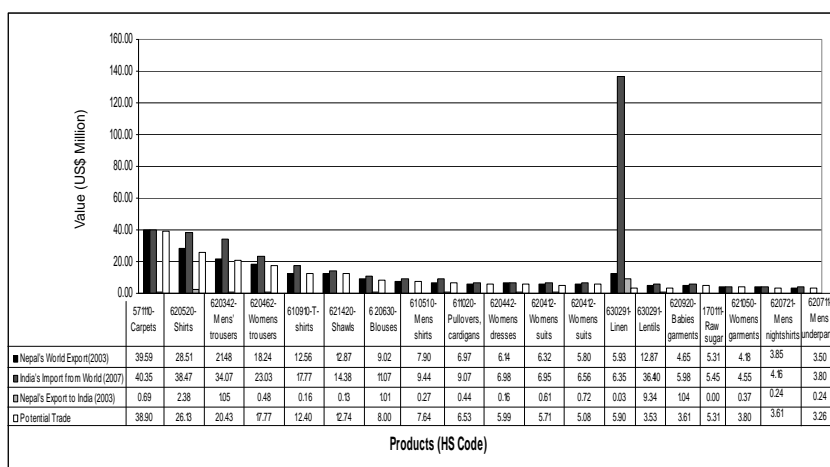
Figure 9: Nepal's Potential Trade with India: Top 20: 2003
(Million US \$)



Source: Estimated from UN Comtrade Database.

In the second scenario we assume Nepal's supply capability of 2003, but consider India's market demand in 2007. The top 20 products that emerge as having highest trade potential have been presented in Figure 10. Some of the important products include carpets of wool, men's and boy's shirts and trousers, women's/girl's trousers and shirts, T-shirts, shawls, women's/girl's blouses and shirts, lentils, raw sugar, etc.

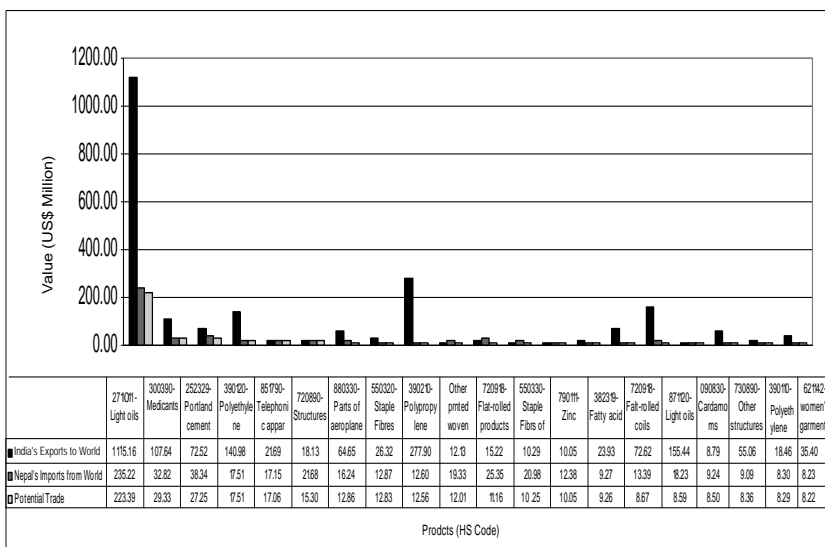
Figure 10: Nepal's Potential Trade with India: Top 20: 2003/2007 (Million US \$)



Source: Estimated from UN Comtrade Database.

Finally we take India as supplier and Nepal as market for the year 2003. Figure 11 lists the products. Some of the products having high potential trade include light petroleum oils and preparations, other medicaments, other portland cement, polyethylene, parts of telephonic/telegraphic apparatus, other structures and parts of structures, etc.

**Figure 11: India's Potential Trade with Nepal: Top 20: 2003
(US \$ Million)**



Source: Estimated from UN Comtrade Database.

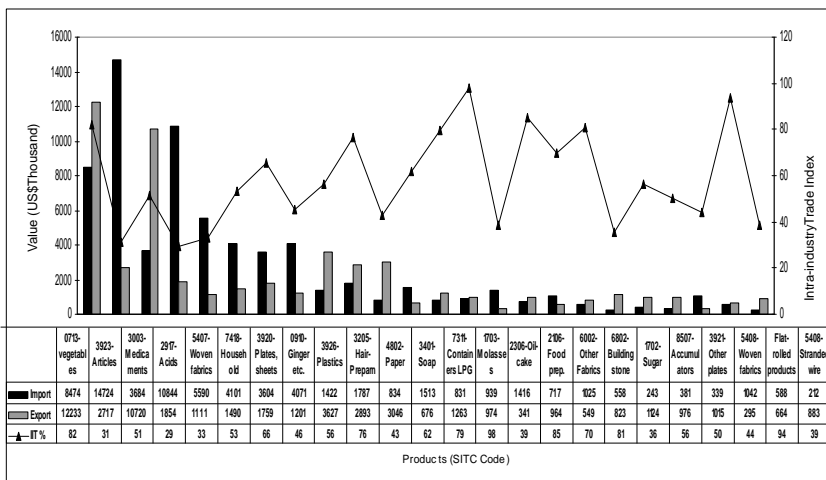
III.4 Intra-industry Trade²⁰

Intra-industry trade is driven by product differentiation and increasing returns to scale. Intra-industry trade can be achieved only if the countries are able to develop the technological capability to produce differentiated products at declining average cost. Kemal (2002), applying three-digit Standard Industrial Trade Classification (SITC), found in case of trade between India and Nepal wide ranging products in which intra-industry trade took place in varying degrees. For instance, in chemicals and related product groups he found intra-industry trade in nitrogen compounds, inorganic chemicals, perfumery and cosmetics. In some years intra-industry trade was significant in a number of basic manufactures such as articles of textiles and clothing, leather, rubber tyres, plywood, floor coverings, mineral manufactures, rails and railway track construction materials, coffee, aluminum metal containers, women's clothing, footwear, articles of plastic, etc.²¹

In this study the analysis on intra-industry trade is done applying four-digit SITC for products traded in 2007. The products listed in Figure 12 below have threshold intra-industry trade value of at least US \$ one million and intra-industry trade index of at least 25 per cent.

Our analysis shows that some of the important products include dried leguminous vegetables, medicaments, woven fabrics of synthetic filaments, table, kitchen & household articles, other plates/sheets, ginger, articles of plastics, etc. A more detailed description of products identified having high intra-industry trade has been presented in Annexure 2.

**Figure 12: India's Intra-industry Trade with Nepal: 2007:
(US \$ Thousand)**



Source: Estimated from UN Comtrade Database.

IV. INVESTMENT LINKAGES

IV.1 Structure of Indian Investment in Nepal

Indian firms are the biggest investors in Nepal, accounting for 44 per cent of total approved foreign direct investments. As of 15 July 2008, Indian investment accounted for Nrs. 17.98 billion of the total foreign direct

investment commitments of Nrs. 40.80 billion. According to government estimates, there were about 393 approved Indian joint ventures and fully owned subsidiaries operating in Nepal up to F.Y. 2007-08. The details are presented in Table 3 below.

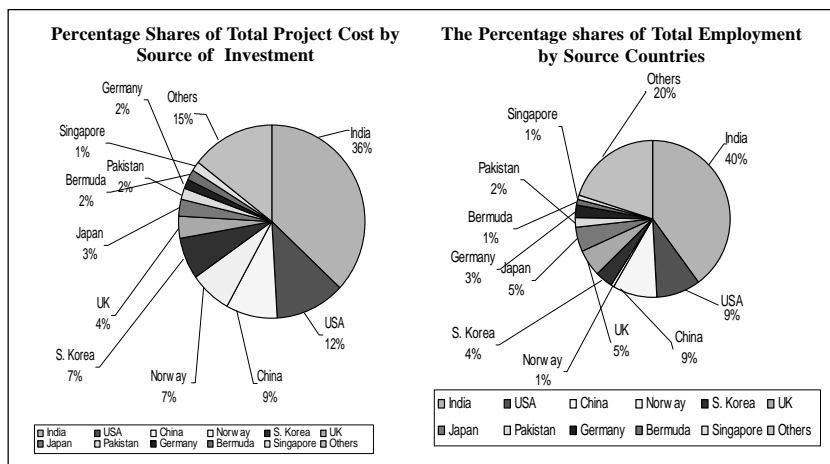
Table 3: Number of Industries Approved for Foreign Investment by Country of Origin (Nrs. Million-up to F.Y. 2007/08)

Country of Origin	No. of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment	Total No. of Employment
India	393 (27.61)	41923.11 (37.03)	32252 (34.31)	17980.43 (44.06)	48575 (39.98)
World	1423	113211	93990	40800	121484

Source: Industrial Statistics, 2007-08, Department of Industry, Government of Nepal.

India's share in total project cost and total employment generated in relation to other countries has been presented in Figure 13 below. It will be observed that India's share in total project cost was 37 per cent and its share in total employment nearly 40 per cent.

Figure 13: Percentage Share of Total Project Cost and Employment of Indian Investment in Nepal



Source: Industrial Statistics, 2007-08, Department of Industry, Government of Nepal.

IV.2 Indian Investment by Status

In order to understand the status of Indian invested enterprises in Nepal we need to note their status in terms of their approval, licensing, and operation through construction or cancellation. Some are closed after being in operation. The foreign investor gets approval at the first stage, and gets a license thereafter and after getting license the investor either goes for operation through construction or files for cancellation. After operation the investor may choose to close his establishment if found unprofitable.²²

Table 4 below presents the nature of Indian investment in Nepal in terms of their status.

It will be observed that the total authorized capital of Indian ventures in Nepal as on 5 February 2009 was Nrs. 48.5 billion, of which 36.9 billion was fixed capital and Nrs. 11.0 billion was working capital. The foreign equity was Nrs. 30.5 billion. Indian ventures generated local employment of over 49, 256 while foreign employment was only 1,581.

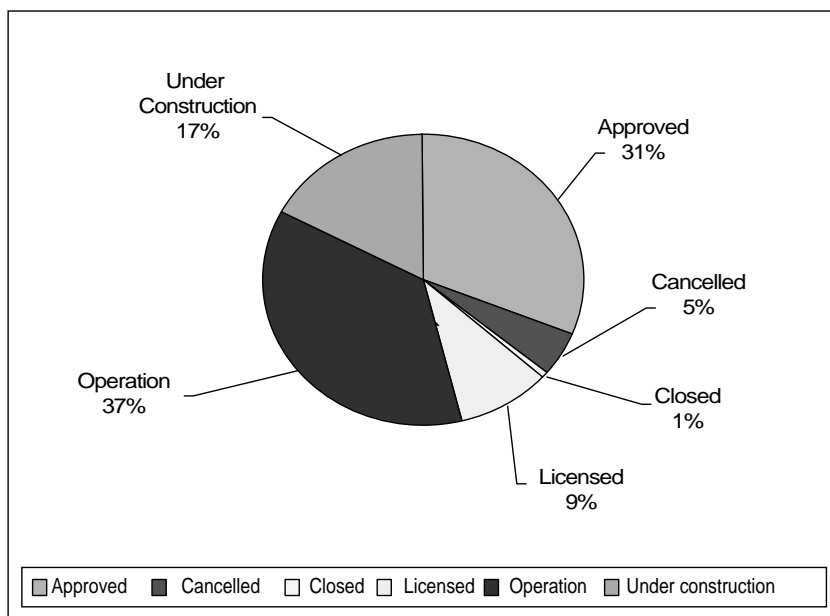
Table 4: Indian Investment in Nepal by Status (Value in NRs Million as on 5 February, 2009)

	Authorized Capital	Fixed Capital	Working Capital	Foreign Investment	Foreign Equity	Local Employment (Nos.)	Foreign Employment (Nos.)
Approved	14270	12616	4564	12200	14804	17398	417
Cancelled	2367	1829	432	641	2110	3647	148
Closed	239	179	50	53	343	545	37
Licensed	4211	2788	1405	1385	2454	4163	485
Operation	16669	13488	3007	3637	7432	20239	388
Under construction	7825	6064	1606	3179	3389	3264	106
Total	48581	36964	11065	21095	30532	49256	1581

Source: Department of Industry, Government of Nepal.

Figure 14 brings out status pattern of Indian ventures in terms of authorized capital. It will be noted that Indian ventures under operation accounted for 37 per cent of the total, followed by 31 per cent of those approved. Seventeen per cent of the ventures were under construction, 9 per cent were licensed, 5 per cent cancelled, and 1 per cent were closed.

Figure 14: Distribution of Authorized Capital in Indian Invested Enterprises in Nepal by Status



Annex Tables A.3-A.7 present in detail, companies under different status. The companies are classified in terms of scale category, product, share in foreign equity and ranked in terms of value of authorized capital.

IV 2.1 Approved Investment

Annex Table A.3 presents details of 22 Indian companies approved for investment in the large scale sector.²³ The four largest Indian companies were MIT Group Holdings Pvt. Ltd.(construction-business centres), Medical College and Hospital (service-medical college), Gorkha Lahari Pvt. Ltd. (manufacturing-cigarettes), and Global Education Foundation Pvt. Ltd. (service-hospital). All these companies have 100 per cent ownership and all are involved in financial collaboration. Other approved companies in manufacturing are in animal feed, G.I. sheets, air conditioners, ready-made garments, poles and tubes, plastics, woven sacks, stone making, etc. In services, companies have been approved for operating in communication, air cargo, electric generation and hydro power.

IV 2.2 Licensed

Annex Table A.4 lists 30 companies in all scales, licensed to operate. The major ones are Air Nepal Ltd. (air service), Oiland Nepal Ltd. (manufacturing lube oil), and M.C. Jashmin Telecom Ltd. (telecom service). Other licensed manufacturing companies include polyester textiles, iron and steel, textile products, cotton knit wear, ready-made garments, dairy and herbal products, cement, etc. In services, companies have been licensed in advertising, hotels, air and cargo service, housing construction, etc.

IV 2.3 Under Construction

A number of industries in the large scale sector are under construction. A list of ten such companies is listed under Annex Table A.5. These are Birla Cement Pvt. Ltd.(manufacturing Portland cement), Balefi Jalvidyut Co. Pvt. Ltd., (electricity generation), Samani Cement Co. (Nepal) Ltd.(Portland cement), Ordinary Portland Cement, HHI Hotels (Nepal) Ltd. (tourism), and Electricity Transmission Co. Ltd. (electricity).

IV.2.4 Cancelled

Annex Table A.6 lists a total of 34 industries in all scales of production for which licenses have been cancelled. These include Moment Apparels Pvt. Ltd., (manufacturing ready-made garments), International Communication Network Pvt. Ltd. (satellite TV), Dalmia Industries Nepal Ltd, (manufacturing dairy products), Usha Nepal Hotel and Resort Pvt. Ltd., (tourism), Lalit Palace Hotel Ltd.(tourism).

Other manufacturing companies include bicycles, iron rods, medicine, zipper, toothpaste, vegetable ghee, silk fabrics, tubular poles, acrylic sheets, PVC compound, etc.

IV.2.5 Under Operation

Annex Table A.7 lists a total of 61 large scale companies operating in Nepal. The most important of these under operation in Nepal are Manipal Education and Medical Group (medical education), Surya Tobacco Co. (manufacturing cigarettes), Air Nepal (NEPC) Ltd., Tara Gaon Regency Hotel Ltd., and Everest Medical College and Hospital.

Some other Indian ventures having authorized capital over 100 million Nrs. include Nepal Oriend Magnesite Pvt. Ltd., Nepal Lever Ltd., Aman Medical Products Pvt., Bashulinga Sugar and General Industries Pvt. Ltd., Colgate Palmolive Private Ltd., Dabur Nepal Pvt. Ltd., Dynasty Industries Nepal Pvt. Ltd., Surya Nepal Pvt. Ltd., Nepal Strips Pvt. Ltd., Leatherage Bansbari Shoe Factory Ltd., GMR Infrastructure Ltd., Infrastructure Finance and Services Ltd., and many others. Dabur has been manufacturing products such as hair oil, toothpaste and fruit juices that have been finding increasing market in India after meeting domestic demand in Nepal. Similarly, products of Nepal Lever Ltd. and Colgate Palmolive (Nepal) Ltd. manufacturing soap, toothpaste, shampoo, detergents, toothpowder and toothpaste have been gaining increasing market in India contributing to foreign exchange generation in Nepal. Similarly, industries such as Annapurna Textile Ltd. and Nepal Spinning Weaving & Knitting Pvt. Ltd., Surya Nepal Pvt. Ltd. (in joint venture with India Tobacco Co. India Ltd.) have been exporting readymade garments to India. It is this trade-investment linkage that has synergized to further integrate the Nepalese economy with India.²⁴

A number of steel mills operating in Nepal and possibly exporting back to India could be identified. These included Nepal Strips Pvt. Ltd., a fully owned Indian company-BIC Investments Ltd., manufacturing galvanized coil and others with an annual capacity of 50,000 metric tons. Another company, Nepal Steel private Ltd., was manufacturing torsteel of 16,000 metric tons annual capacity under a technical collaboration agreement with Torsteel India Ltd. Another company, Essel Packaging Ltd., a fully owned Indian venture had an annual manufacturing capacity of 97 million multilayered laminated tubes. Besides, Everest Rolling Industries Pvt. Ltd, an iron rolling mill had 80 per cent equity. These industries have enabled Nepal to export iron and steel products to India thereby diversifying its exports as has been observed in Table 3 earlier.

Dabur Nepal Pvt. Ltd. is a joint venture, 80 per cent owned by the Indian investor, Dabur India Ltd., is a good illustration of Indian investment in Nepal with backward linkage. The company started commercial production in November 1992. The company started producing herbal hair

oil and toothpowder. Later, it diversified to manufacture glucose-D, confectionary, fruit juice, perfumes, honey processing and medicinal plants.

Two additional projects, with significant backward linkage were launched. One was the unique apiary project which is rearing bees and queen bees as well as fabricating wood-saving plastic apiary boxes. The company sells this to the farmers with a guarantee that it will buy back honey for sale in both domestic and export markets.

Of greater significance is Dabur's medicinal plant project. The project seeks to conserve and propagate threatened medicinal plants and thereby provide employment and income to local people. In addition, the project provides technical assistance, seeds and planting materials to Nepalese farmers for the cultivation of medicinal plants. The company has set up 'state of the art' greenhouse with capacity to produce 3-4 million saplings per annum of medicinal plants which it supplies to farmers either directly or through development /NGO agencies at cost price. The company guarantees purchase of the final products in Nepal.²⁵

Table 5 presents India's imports of horticultural products from Nepal and Bhutan in relation to its world imports. It will be noticed that India's imports of such products from both Nepal and Bhutan is quite modest in relation to its similar imports from the world. This points to considerable potential for Indian entrepreneurs to set up agro-horticultural processing facilities in Nepal with an eye to marketing the produce in both the domestic Nepalese and the Indian markets.

Table 5: India's Imports of Horticultural Products from Nepal: 2007

HS Code	Product	Imports		
		Nepal	Bhutan	World
20	Preparations of vegetables, fruits, nuts or other plant parts	685	454	37241
2009	Fruit and vegetable juices, not fermented	408	454	18019

Source: UN Comtrade Database.

IV.2.6 Problems and Constraints

Even though India is the largest single investor in Nepal, and a large number of industries are in the pipeline, being approved, under construction, or licensed, quite a number of them have either been cancelled or closed.

In the last few years Nepal has witnessed unprecedented labour unrest aggravated by political unrest in the country. According to the Federation of Indian Chambers of Commerce and Industry (FICCI) status report: “There is a sense of insecurity in Nepal as the country drifts towards political turmoil. Industries are badly hit by acute shortages of power and raw materials; petroleum and diesel supply have run out and labour unrest has struck at the very heart of business.”²⁶ In a veiled reference to Dabur India, which has made significant presence in Nepal since 1989, having generated substantial foreign exchange for the country, the report states that the company has been the target of Maoists and a victim of trade unionism since September 2008. According to the report, “Maoist trade union has unilaterally decided to stop work from August 2008. This strike breached the long-term agreement signed between the workers and officials and also did not abide by the procedures laid down by labour law.” The closure has resulted in a loss of about Rs. 130 million per day for the company. The loss in production will be instrumental in further unbalancing the trade deficit of Nepal. Such illegal disruptions will definitely discourage FDI in the pipeline to Nepal.²⁷

After the shutdown of Dabur India, The United Telecom Company (UTL), a joint venture between BSNL and a Nepalese company, has similarly been suffering due to such problems where labourers contracted by an agent company are demanding permanent employment for those who have worked for more than 240 days with UTL. The Nepalese government has done little to deal with the situation.

The Maoists had also shut down Sipradi Trading, the sole dealer for Tata vehicles in Nepal, as well as Bharat Petroleum Corporation’s Mak Lubricants that supplies lubricants for cars and Indian Lucas Electrical that supplies electrical equipment for vehicles. The tobacco factory of Surya Nepal, ITC’s joint venture, Nepal Lever, Hindustan Lever’s subsidiary, have

also been closed down over a week by strikers making similar demands.²⁸ There is no Labour Tribunal in Nepal and institutional mechanism to deal with labour is poorly evolved.

A number of Agreements, essential for the smooth operation of Indo Nepal trade treaty, are still on hold by the Nepalese government. A Bilateral Investment Protection Agreement (BIPA) is under negotiation with Nepal. India, the largest foreign investor to Nepal, has been asking the government to enter investment protection agreement since mid-1990s to create a more predictable investment environment in the country. This issue has gained relevance after the Maoist attacks on India's largest investors in Nepal. India has been raising the issue in every bilateral talk, to which Nepal had been adopting a policy to deal on it separately through independent negotiations. It may be noted that Nepal has signed such agreements with other countries such as Germany, Mauritius, France and United Kingdom. Its impact on raising investment from these countries has been positive.²⁹

V. Concluding Observations

The basic structure of trade agreement between India and Nepal remains the Indo-Nepal Treaty of Trade, 1991 as modified by letters of exchange of 16 February 1993, 3 December 1996, 2 March 2002, and 28 October 2009. Several Protocols to the treaty up to 3 December 1996 were aimed to provide Nepal more favourable access to the Indian market. This resulted in a phenomenal increase in Nepalese exports to India from 1996-2002. However, imports of certain products such as hydrogenated oil, copper wire, acrylic yarn, etc. took place merely taking advantage of the marked differential in the customs duties on such products in the two countries. The surge in imports of such products adversely affected the livelihood of small scale manufacturers of such products in India. Reacting to the affected lobbies, India in its letter of exchange of 2 March 2002, imposed twin rules of origin criteria on Nepalese imports as also set quota restrictions on four products, canalizing them through public sector agencies. This led to decline, and stagnation in Nepalese exports to India until 2005. The subsequent acceleration in Nepalese exports to India until 2007 was aided by removal of special additional duties on selected imports from India as also by the

reduction of customs duties on readymade garments. However, from 2002, fuelled by increasing shortage of energy, Nepalese imports from India, particularly of petroleum products, accelerated at a pace much faster than its exports to India leading to an ever increasing trade deficit. Nepalese trade statistics show that in recent years the total earnings from Nepalese exports to India is barely sufficient to finance for Nepalese imports of petroleum products from India. Given the shortage of Indian rupees, Nepal had to obtain the same by making payment in hard currency. This will again induce Nepal to diversify its markets away from India.

India's imports from Nepal showed some diversification in composition as the share of imports in intermediate and industrial goods increased over the period 2000-2007. On the other hand India's share of consumer goods exports to Nepal increased largely due to increasing export of petroleum products. Accordingly, the shares of other sectors declined.

The increasing trade gap in Nepal's current account has, however, been to some extent compensated by increasing Indian investments as also the flow of remittances to Nepal. Nepal's trade gap with India would have been higher but for the earning of hard currency from exports to India by some of Indian joint ventures operating in the country.

Recent political developments in Nepal, however, do not give hope that increasing Nepalese exports to India observed in the last two years will be sustained.³⁰ The trade imbalance, in fact, is expected to increase further given that some of India's leading joint ventures in Nepal catering to the Indian market are facing increasing constraints, adversely affecting their operational capabilities.

With the revision of 60 year old trade treaty some Nepalese concerns have be addressed. Now that Indian customs duties on most products, including on edible oils have been brought down, the possibility of arbitrage on differential customs duties between India and Nepal stands considerably reduced. Besides, the letters of exchange of 2 March 2002 has put in place twin criteria of rules of origin as well as safeguard measures. These provisions

put adequate safeguards against a sudden surge in Nepalese exports to India in specific products. The revised treaty, however, retains canalization and quotas on specific commodities.

This study has identified products with high trade potential and products with high level of intra-industry trade. Joint ventures and Indian investments in such areas could help expand the supply capability of Nepal. Further strengthening transport linkages to enable the freer flow of such products could help expand trade even though the existing flows may be modest. Also useful would be to prioritize such products for mutual recognition agreements and accreditation of testing laboratories.

The latest amendment seeks to further a few trade facilitation measures by doing away with cumbersome excise refund procedures for Indian exporters in line with India's global trade policy. This needs to be followed up by implementation of the new system. The amendments also address the concerns of Nepalese primary product exporters whose goods deteriorate at the border owing to lack of warehousing and testing facilities. Institutional mechanisms for consultations to tackle such issues as also acceptance of the principal of both parties granting recognition to the sanitary and phyto-sanitary certificates issued by the competent authority of the exporting country are important landmarks in furthering bilateral trade relations between the two countries.

The worth of revised treaty will depend considerably on issues of implementation. To illustrate, the mutual acceptance of phyto sanitary certificates of each country by the other will depend on mutual recognition agreements and accreditation of laboratories for testing. The modalities for operationalisation of import of quota items from Nepal need to be worked. Besides, the modalities for transition from DRP system to the proposed system need to be worked out in detail.

With respect to the absence of a Bilateral Investment Protection Treaty, many Indian projects some in the pipeline, may not get off the ground, particularly if the labour unrest continues to mar the performance of some

of India's most prestigious enterprises . Besides, a Motor Vehicles Agreement for passenger vehicles, initialed on 23 February 2004, awaits formal signature by the Nepalese government. The Agreement will enable bus services between India and Nepal on 14 routes through five border points on a reciprocal basis.³¹ Besides a Double Taxation Avoidance Agreement signed in 1987, calls for revision.

The opening of more banking facilities at the critical border points such as one in Panitanki and upgrading the customs administration by delegating more powers to officers at land customs stations are some of the other issues.³²

It must not be overlooked that over the last decade India has undertaken a number of bilateral as well as regional trade agreements with a number of countries as well as regional blocks both within the region as well as beyond. This has considerably eroded Nepal's preferential margin in the Indian market. It is in this context that Nepal's plea for elimination of "Special Additional Duty" needs to be considered favorably. However, greater emphasis needs to be given on the removal of non-tariff barriers or at least ensure that applicable non-tariff measures do not transform to barriers. In this context India's role on Nepal's capacity building as also in building of supportive institutions designed to ensure this calls for priority.

A major lacuna of the present bilateral trade agreement between India and Nepal is that in spite of some necessary refinements in the amended treaty, the structure remains basically traditional, centered on "goods only" approach. A more comprehensive revision of the treaty is required to bring it in line with a comprehensive economic partnership framework in which investments, services, standards, trade facilitation measures, etc. would form integral components to address the mutual concerns of both the countries. In the absence of this approach that helps in expanding Nepal's capacity to export, the initiated measures would remain far below their potential in enhancing bilateral trade between the two countries.

Finally, it needs to be stated that apart from the economic benefit this

approach will bring to both the countries, the strategic objective of having Nepal as a friendly neighbour to India should not be glossed over particularly when China, Nepal's other neighbour to its north is only too willing to demonstrate its soft power.

Endnotes and References

- ¹ International Crisis Group, *Nepal's Faltering Peace Process*, Asia Report, No. 163, 19 February, 2009.
- ² Hydrogenated vegetable oil.
- ³ This portion is based on Mukherji, I.N., "The Right Balance in Indo-Nepal Trade", *The Financial Express*, 17 September, 2008.
- ⁴ Indo Nepal Treaty of Trade, in <http://www.commerce.nic.in/trade/Nepal.pdf>.
- ⁵ Treaty of Trade between the Government of Nepal and the Government of India, 28 October, 2009.
- ⁶ One such condition is that "goods are re-exported within six months of the date of re-importation"
- ⁷ Press Information Bureau, Government of India, downloaded from <http://pib.nic.in/release/release.asp?relid=53636>.
- ⁸ Op. cit. n12.
- ⁹ Nepal has been urging exemption of 4 per cent Special Additional Duty (SAD) of custom. In the year 2006-07, on Nepal's specific request, the Department of Revenue was able to waive SAD on around 111 items. The Government of Nepal has been insisting on complete exemption of this provision on all items.
Also prior to the amendment to the trade treaty, some initiatives have been taken to widen market access to Nepal's beleaguered garments industry, affected by recessionary conditions in developed market economies. This industry has shown a sign of relief with India slashing customs duty on garments. Nepal has been pleading for zero duty on garment exports as per Indo-Nepal trade treaty. However, since 2006 Indian customs authorities have started applying duty on maximum retail price instead of invoice related price. It resulted in Nepalese exporters having to pay four percent customs duties on cotton apparel and eight percent on polyester clothing. Now that India has agreed to apply customs duties on the invoice price, as against maximum retail price charged earlier, the Nepalese garment industry will benefit from around 50-75 per cent reduction in such duties.(see "Nepal exporters rejoice: India rolls back duty", <http://www.thaindian>, November 8, 2008). One consequence of the duty roll back has been a phenomenal increase in readymade garment exports to India which increased from US \$ 7.3 million in 2007-08 to US \$ 14 million during six months of fiscal 2008-09 (Counselor, Indian Embassy, Economic and Commercial Newsletter, 20 March, 2009).
- ¹⁰ Protocol to Article III states "The Government of India will allow Government of Nepal payment of the excise and other duties collected by the Government of India and exported to Nepal provided that: (i) Such payment shall not exceed the import duties and like charges levied by the Government of Nepal on similar goods imported from any other country, and (ii) the Government of Nepal shall not collect for the importer of the said import goods so much of the import duty and like charges as is equal to the payment allowed by the Government of India".
- ¹¹ Op. cit. n12
- ¹² Ibid.
- ¹³ See Annexure D/I of the revised Treaty.
- ¹⁴ See Annexure "A" of revised Treaty.
- ¹⁵ According to media reports, India had agreed to review its quota for four export items. Earlier,

- State Trading Corporation of India was designated as the canalizing agency that determined how much of the quota Nepal is allowed to export annually. The canalizing agent's place was to be taken up by Nepalese government's Department of Commerce and exporters would be free to choose the Indian states they want to export. A similar review of the other three products is also to begin (*The Hindu*, 7 March 2009).
- ¹⁶ See Annexure "C" of the text, clauses ©,(d).
- ¹⁷ Potential Trade is given as : [(Min, SE, MI) - ET] where where SE- Suppliers's Global Exports, MI –Markets Global Imports, ET- Existing Bilateral Exports. By matching the import demand with export supply, it gives the possibility of trade expansion under most favourable competitive conditions after netting the existing trade.
- ¹⁸ For full product description under the Harmonized System of classification see, Indian Export-Import Portal, <http://exim.indiamart.com/product-classification>.
- ¹⁹ This year has been taken since even though Indian data is up to 2007 that of Nepal is available only up to 2003).
- ²⁰ Bilateral intra industry trade (IIT_{ijk}) in commodity *k* of country *i* with country *j* is given as:

$$IIT_{ijk} = [(X_{ijk}+M_{ijk}) - |X_{ijk}-M_{ijk}| / (X_{ijk}+M_{ijk})] * 100$$
Where *X_{ijk}* and *M_{ijk}* are respectively country *i*'s exports to and import from country *j* in industry *k*. The measure should by definition, vary between 0 and 100 when expressed as an index. When exports exactly equal imports of an industry, IIT = 100; and where there are exports but no imports or vice-versa, IIT_{iwk} and IIT_{ijk} = 0.
- ²¹ Kemal, A.R. *et al*, 2002. "A Plan to Strengthen Regional Trade Cooperation in South Asia" in Srinivasan T.N. (ed.) *Trade, Finance and Investment in South Asia*, Social Science Press, New Delhi
- ²² It must be kept in mind that not all the industries listed under various categories are mutually exclusive. Hence some companies with overlapping listings were deleted.
- ²³ Industries classified under medium and small scale have been excluded to emphasize the most important industries.
- ²⁴ Details of joint ventures and fully owned subsidiaries operating, under construction, licensed, as also approved projects for foreign investment and technology transfer is available in Federation of Nepalese Chambers of Commerce and Industry, Nepal and the World: 2007. Annex tables A.3-A.7 of this paper also give some details of data for 2009 as obtained from the Department of Industry, Government of Nepal.
- ²⁵ UNCTAD, Investment Policy Review, UNCTAD/ITE/IPC/MISC/2003/1.
- ²⁶ Federation of Indian Chambers of Commerce and Industry, "Turmoil in Nepal hitting Indian investors, <http://www.thaindian.com>, 6 May 2009.
- ²⁷ Ibid.
- ²⁸ <http://www.thaindian.com>
- ²⁹ "Nepal Government to negotiate with India on BIPA" in *Katmandu Post*, Katmandu, 27 August, 2003
- ³⁰ Signs of decelerating Nepalese exports to India are witnessed from more recent Indian data. India's imports which stood at US \$ 628 million in 2007-08, fell to US \$ 275 million during April-September 2008-09.
- ³¹ See Indian embassy in Nepal web site: <http://www.south-asia.com/embassy-India>.
- ³² Brief on Indo-Nepal Trade Relations, Ministry of Commerce, Government of India, undated.

Annexure Tables

Table A.1: List of Nepalese Products Having High Potential Trade with India (HS Classification: 2003/2007)

HS Code	Product Description
071340	Lentils (mosur),dried & shelled
090240	Other black tea/other partly fermented tea
090830	Cardamoms
170111	Raw cane sugar not containing flavoring / coloring material
252329	Other portland cement
271011	Light oils and preparations
300390	Other mendicants (excl heading 3002,3005,3006) for therapeutic prophylactic uses not put up for retail sale.
330499	Other beauty/make up preparations nes
330741	Agarbatti & other odoriferous preparations which operate by burning
382319	Other industrial monocarboxylic fatty acid
390110	Polyethylene having a specific gravity below 0.94
390120	Polyethylene having a specific gravity 0.94 /more
390210	Polypropylene
410411	Full grains-unsplit /grain-splits of bovine in wet state including wet-blue
410419	Other grain of bovine in wet state including wet-blue
410510	Tanned/crust skin of sheep or lamb without wool whether or not split but not further prepared. in wet state
481920	Folding cartons, boxes and cases etc. of non corrosive paper.
521215	Other printed woven fabrics weighing <=200 g/m2
550320	Staple Fibres of Polyester not Corded/Combed
550330	Staple Fibers of Acrylc/Modacrlc not Corded/Combed
570110	Carpets of wool or fine animal hair, knotted
610510	Men's /boys shirts, of cotton, knitted or crocheted
610610	Women's or girls' blouses and shirts, cotton, knit
610910	T-shirts , singlets, knit etc of cotton
610910	T-shirts, singlet and other vests, of cotton, knitted
611020	Pullovers, cardigans and similar articles of cotton, knitted
620311	Men's or boys' suits of wool or fine animal hair
620342	Men's or boys' trousers bib & brace overalls breeches &shorts of cotton
620342	Men's/boys trousers and shorts, of cotton, not knitted
620411	Women's/girls suits, of wool or fine animal hair, not knitted
620412	Women's /girls suits, of cotton, not knitted

Table A.1 continued

Table A.1 continued

620442	Women's /girls dresses, of cotton, not knitted
620462	Women's /girls trousers and shorts, of cotton, not knitted
620520	Men's/boys shirts, of cotton, not knitted
620530	Men's or boys' shirts of man-made fibers
620630	Women's/girls blouses and shirts, of cotton, not knitted
620711	Men's/boys underpants and briefs, of cotton, not knitted
620721	Men's/boys nightshirts and pajamas, of cotton, not knitted
620920	Babies garments and clothing accessories of cotton, not knitted
621040	Other men's or boys' garments
621050	Women's/girls garments nes, impregnated, of textile woven fabrics
621142	Other garments of cotton for women's or girl's
621420	Shawls, scarves, veils & the like of wool or fine animal hair, not knitted
630291	Toilet and kitchen linen, of cotton, nes
711311	Articles of jewellery and parts thereof of silver, whether or not plated or clad with other precious metal.
720839	Flat-rolled products in coils of a thickness of <3mm not further worked
720890	Other structures & parts of structures etc
720918	Flat-rolled products, in coils not further worked cold-rolled (cold reduced) of thickness<0.5 mm
730890	Other structures & parts of structures etc
761519	Other table, kitchen / other household articles and parts thereof
790111	Zinc, not alloyed ,containing by wt>=99.99% zinc
850490	Parts of transformers, static converters & inductors
851790	Parts of telephonic/telegraphic apparatus
871120	With reciprocating internal combustion engine
880330	Other parts of airplanes/helicopters

**Table A.2: List of Products with High Intra-industry Trade
(SITC Classification: 2007)**

SITC	Product Description
0713	Dried leguminous vegetables, shelled
0910	Ginger, saffron, turmeric (curcuma)
1702	Other sugars, including chemically
1703	Molasses resulting from the extract
2106	Food preparations not elsewhere specified
2306	Oil-cake and other solid residues,
2917	Polycarboxylic acids, their anhydride
3003	Medicaments (excluding goods of heading 3002, 3005, or 3006)
3305	Preparations for use on the hair.
3401	Soap; organic surface-active product
3920	Other plates, sheets, film, foil
3921	Other plates, sheets, film, foil and strip of plastics
3923	Articles for the conveyance or pack
3926	Other articles of plastics
4802	Uncoated paper and paperboard,
5407	Woven fabrics of synthetic filament
5408	Woven fabrics of artificial filament
6002	Other knitted or crocheted fabrics.
6802	Worked monumental or building stone
7208	Flat-rolled products of iron
7311	Containers for compressed or liquefied gas
7312	Stranded wire, ropes, cables, plaited
7418	Table, kitchen or other household
8507	Electric accumulators

Table A.3: Number of Indian Industries Approved in Large Scale Sector for Foreign Investment in Nepal (upto 5, Feb, 2009)

Sl. No.	Company Name	Category	Product	Authorised Capital	Foreign Equity
1	MIT Group Holdings Pvt. Ltd.	Construction	Business Complex	1150	100.00
2	Medical College and Hospital	Service	Medical College	720	100.00
3	Gorkha Lahari Pvt. Ltd.	Manufacturing	Cigarette	700	100.00
4	Medical College and Hospital	Service	Medical College	620	100.00
5	Global Education Foundation Pvt. Ltd.	Service	Hospital	600	60.00
6	Reliable Multiple Industries Pvt. Ltd.	Agriculture	Animal Feed	560	33.33
7	Cargo	Service	Aircargo	505	65.00
8	Naulo Nepal Hydro Electric Pvt. Ltd.	Energy Based	Electricity	500	90.00
9	Spice (Nepal) Pvt. Ltd.	Service	Communication	457	60.00
10	Himtal Hidro Power Company Pvt.Ltd.	Energy Based	Hydropower	450	80.00
11	Jagamamba Steels Pvt. Ltd.	Manufacturing	NA	440	5.00
12	Sum Industries Pvt. Ltd.	Manufacturing	Gi Sheet Cr Coil	420	20.00
13	Air Conditioner	Manufacturing	Air Conditioner	284	100.00
14	M/S Elegance Apprales and Computer Embr	Manufacturing	Ready. Garment	281	100.00
15	Steel Poles & Tubes Industries	Manufacturing	Poles & Tubes	274	100.00
16	Glin Menchars Pvt. Ltd.	Energy Based	Hydro Electricity	250	63.33
17	Pawanputra Industries Pvt. Ltd.	Manufacturing	Plastic Product	199	100.00
18	Plastic Industry	Manufacturing	Plastic Product	189	0.00
19	Stone Aggregate	Manufacturing	Stone Aggregate	160	100.00
20	B. Seenaiiah Ana Company Project Ltd.	Manufacturing	Stone Aggregate	158	100.00
21	Woven Sack Industry	Manufacturing	Woven Sack	138	100.00
22	Construction Industry	Construction	Construction	125	67.00

Source: Department of Industry, Government of Nepal.

Table A.4: Number of Indian Industries Licensed in all Sectors for Foreign Investment in Nepal (upto 5, Feb, 2009)

Sl. No.	Company Name	Category	Scale	Product	Authorised Capital	Foreign Equity
1	Air Nepal (NEPC) Limited	Service	Large	Air Service	1918	80.00
2	Oiland Nepal Limited	Mfg. Service	Large	Lubricating Oil	250	0.00
3	M.C. Josmin Telicom. Ltd.		Large			226
4	Two Brothers Nepal Textile Ltd.	Mfg. Service	Large	Textile	196	0.00
5	Computer Land Communication		Large		176	
6	Leisure Hotels & Resorts Pvt.Ltd	Tourism	Large	Hotel	160	60.00
7	Resources Apparel Ind. Pvt. Ltd.	Mfg.	Medium	Ready. Garment	143	100.00
8	Krishna Cement Pvt. Ltd.	Mfg.	Medium	Cement	82	50.00
9	Integrated Steel Mill	Mfg.	Medium	Melting & Rolling	81	80.00
10	Reddy Khetan Phamaceuticals Pvt.Ltd	Mfg.	Medium	Medicine	80	50.00
11	Luxmi Knitwear Pvt.Ltd	Mfg.	Medium	Garment	67	
12	Textile Made Up Project	Mfg.	Small	Textile Product	58	0.00
13	Hotel Industry	Tourism	Medium	Hotel	58	100.00
14	Brij Cement Industries Pvt. Ltd.	Mfg.	Medium	Cement	54	50.00
15	Golden Resorts & Developers (Nepal) Ltd	Tourism	Medium	Hotel	47	100.00
16	Padmini Polymers Nepal P.Ltd	Mfg.	Small	Mineral Water	47	80.00
17	Forest and Livestock Co.Ltd	Agricul-Ture	Medium	Milk, Angora	47	17.00
18	Pashupati Housing And Dev Co.P.Ltd	Service	Small	Housing, Const.	43	95.00
19	Manakamana Gas Industry Pvt. Ltd.	Service	Medium	Lpg Gas	41	100.00

Table A.4 continued

Table A.4 continued

20	Mahalaxmi Card Board Industries Pvt. Ltd.	Mfg.	Small	Corrugated Box	39	10.00
21	Utensil of Non-Ferrous Metal	Mfg.	Small	Non Ferrous Metals	38	100.00
22	Himalayan Leather Co.Pvt.Ltd	Mfg.	Small	Leather	37	50.00
23	Ocean Plastic and Footwear Pvt Ltd	Mfg.	Small	PVC,TPR Compound	36	90.00
24	Vasudha Rosin & Turpentine P Ltd.	Mfg.	Small	Rosin and Turpentine	33	90.00
25	Vikram Auto Industries Pvt.Ltd	Service	Small	Vehicles Bodies	30	75.00
26	Kathmandu Prince Hotel Pvt.Ltd	Tourism	Small	Hotel	30	50.00
27	Inter Orient (Nepal) Pvt. Ltd.	Mfg.	Small	Herbal Product	30	95.00
28	Cotton Rich Pvt. Ltd.	Mfg.	Small	Cotton Knitwear	28	100.00
29	Vasudha Electrodes (P) Ltd.	Mfg.	Small	Welding Rods	26	90.00
30	Bhaktapur Indiyana Dairy Prod P.Ltd	Mfg.	Small	Dairy Products	24	40.00
31	Ajanta Textile P. Ltd.	Mfg.	Small	Polyster Textile	19	50.00
32	Alpine Cable Pvt. Ltd.	Mfg.	Small	PVC Cable	16	100.00
33	Community Village Resort Ltd.	Tourism	Small	Hotel	14	2.00
34	Tuscon Intern-Ational Pvt.Ltd	Service	Small	Construction	10	100.00
35	Alpine Metals Pvt. Ltd.	Mfg.	Small	Copper Brass	8	100.00
36	Cargo	Service	Small	Cargo Service	8	85.00
37	Shree Shyam Jeepar Udyog	Mfg.	Small	Zip Fastner	4	90.00
38	Vivek Coals Udyog & Industries Pvt.Ltd	Mineral	Small	Coal Mining	3	75.00
39	Crayons Advtg. & Marketing P. Ltd	Service	Small	Advtg.	2	100.00

Source: Department of Industry, Government of Nepal.

Table A.5: Number of Indian Industries under Construction in Large Scale Sector for Foreign Investment in Nepal (upto 5, Feb, 2009)

Sl. No.	Company Name	Category	Product	Authorised Capital	Foreign Equity
1	Birla Cement Pvt. Ltd.	Mineral	Portland Cement	2000	30.00
2	Balefi Jalvidhut Company P.Ltd.	Energy Based	Electricity	1500	33.33
3	Somani Cement Company(Nepal) Ltd.	Mfg.	Portland Ciment	550	36.00
4	Ordinary Portland Cement	Mfg.	Cement Portland	500	100.00
5	HHI Hotels (Nepal) Pvt.Ltd	Tourism	Hotel	428	100.00
6	Electricity Transmission	Mfg.		300	33.30
7	Sai Krishna Foundatin For Health &Medical	Service	Teaching College	250	60.00
8	Nepal International Kathmandu Hotel P.L.	Tourism	Hotel & Restaurant	219	100.00
9	Cross Country Nepal Hotels P.Ltd	Tourism	Hotel	185	66.00

Source: Department of Industry, Government of Nepal.

Table A.6: Number of Indian Industries Cancelled in all Sectors for Foreign Investment in Nepal (upto 5, Feb, 2009)

Sl. No.	Company Name	Category	Scale	Product	Authorised Capital	Foreign Equity
1	Momento Apparels Pvt.Ltd	Mfg.	Large	Ready Garment	225	50.00
2	International Comm. Network P.Ltd	Mfg.	Large	Sattelite T.V.	219	76.00
3	Dalmia Industries Nepal (Ltd).	Mfg.	Large	Dairy Products	206	60.00
4	Usha Nepal Hotel And Resort Pvt.Ltd	Tourism	Large	Hotel	188	80.00
5	Lalit Palace Hotel Pvt.Ltd	Tourism	Large	Hotel	175	50.00
6	Interocean Cycle Industries Pvt. Ltd	Mfg.	Medium	Bi-Cycles	136	30.00
7	Hotel Tragopan Pvt.Ltd	Tourism	Large	Hotel	130	15.00

Table A.6 continued

Table A.6 continued

8	Electra Nepal Ltd	Mfg.	Medium	Transformer	80	29.00
9	Iron and Steel Rolling Mill	Mfg.	Medium	Iron Rods	78	100.00
10	Electra Fun World	Tourism	Medium	Amusement Park	68	29.00
11	Vijaya Deep T He Pharma Ltd	Mfg.	Medium	Medicine	65	
12	Olympic Zippers Nepal Limited	Mfg.	Medium	Zipper	65	75.00
13	Himalayan Foods Beverage Co. Pvt.Ltd	Mfg.	Medium	Juice, Snackes	64	45.00
14	Balsara Hygiene Products P.Ltd	Mfg.	Medium	Tooth Paste	63	100.00
15	Usha Nepal Agro Product Ltd	Mfg.	Medium	Vegetable Ghee	60	80.00
16	Silk Fabric and Twisted Yarn	Mfg.	Medium	Silk Fabrics	56	100.00
17	Interocean Nepal Limited	Mfg.	Medium	PVC Pipe	48	100.00
18	Colour Scan Nepal Ltd	Service	Medium	Colour Scanning	47	20.00
19	Nepal Monopole Industries Pvt.Ltd	Mfg.	Small	Tubular Poles	45	40.00
20	Rajdoot Paints Nepal (P) Ltd.	Mfg.	Small	Paints	43	100.00
21	Interocean Nepal Pvt.Ltd	Mfg.	Medium	Iron Rod	43	100.00
22	Acrylic Sheet & Acrylic Monomem Industry	Mfg.	Small	Acrylic Sheets	35	100.00
23	Hama Iron And Steel Industris Pvt.Ltd	Mfg.	Small	Iron Rod	35	
24	Cotton Terry Towel Inds.	Mfg.	Small	Terry Towel	29	100.00
25	Future Packaging Systems	Mfg.	Small	Plastic Puoch	29	50.00
26	Atlas Plastic and Aqua Inds.Nepal P.Ltd	Mfg.	Small	Process Water	25	50.00
27	Super Industries Pvt.Ltd	Mfg.	Small	PVC Compound	25	95.00
28	The Asia Art Furniture Inds Pvt.Ltd	Mfg.	Small	Furniture	24	100.00
29	Everyready Packaging Industry	Mfg.	Small	Corrogated Box	22	51.00
30	Nepal Beverage And Food Products Lt	Mfg.	Small	Fruits & Vegetables	17	75.00
31	Bal Krishna Choice Pvt.Ltd	Mfg.	Small	Ready Garment	8	60.00
32	Uptron Academy of Computer L Centre	Service	Small	Computer Training	6	0.00
33	Vikra Nepal Pvt.Ltd	Service	Small	Vehicles	6	100.00
34	Amber Restaurant	Tourism	Small	Restaurant	4	50.00

Source: Department of Industry, Government of Nepal.

Table A.7: Number of Indian Industries in Operation in Large Scale Sector for Foreign Investment in Nepal (upto 5, Feb, 2009)

Sl. No.	Company Name	Category	Product	Authorised Capital	Foreign Equity
1	Manipal Education & Medical Group	Service	Medical Education	3324	100.00
2	Surya Tobacco Company Pvt.Ltd	Mfg.	Cigarette	2100	51.00
3	Birla Cement Pvt. Ltd.	Mineral	Portland Cement	2000	30.00
4	Air Nepal (NEPC) Limited	Service	Air Service	1918	80.00
5	Aarti Cement Pvt. Ltd.	Mineral	Ordinary Portland	1587	100.00
6	Tara Gaon Regency Hotel Ltd.	Tourism	Hotel	1510	36.00
7	Everest Medical College And Hospital	Service	Medical College	1501	95.00
8	Balefi Jalvidhut Company P.Ltd.	Energy Based	Electricity	1500	33.33
9	Dyanasty Industries	Mfg.	Cement	1242	100.00
10	Mit Group Holdings Pvt. Ltd.	Const.	Business Complex	1150	100.00
11	Bashulinga Sugar & General Inds	Mfg.	Sugar	901	60.00
12	Nepal Oriend Magnesite Pvt. Ltd	Mineral	Bricks	826	50.00
13	Medical College and Hospital	Service	Medical College	720	100.00
14	Gorkha Lahari Pvt. Ltd.	Mfg.	Cigarette	700	100.00
15	Medical College and Hospital	Service	Medical College	620	100.00
16	Global Education Foundation Pvt. Ltd.	Service	Hospital	600	60.00
17	Somani Cement Company (Nepal) Ltd.	Mfg.	Portland Cement	550	36.00
18	Colgate Palmolive (Nepal) Limited	Mfg.	Tooth Powder	540	100.00
19	Cargo	Service	Aircargo	504	65.00
20	Naulo Nepal Hydro Electric Pvt. Ltd.	Energy Based	Electricity	500	90.00
21	Ordinary Portland Cement	Mfg.	Cement Portland	499	100.00
22	Nepal Strips Pvt. Ltd	Mfg.	Galvanised Coil	496	100.00
23	Spice (Nepal) Pvt. Ltd.	Service	Communication	457	60.00
25	Hotel Yak And Yeti	Tourism	Hotel	454	0.00
26	Himtal Hidro Power Company Pvt.Ltd.	Energy Based	Hydropower	450	80.00
27	Jagamamba Steels Pvt. Ltd.	Mfg.	Na	440	5.00
28	Hhi Hotels (Nepal) Pvt.Ltd	Tourism	Hotel	428	100.00
29	Sum Industries Pvt. Ltd.	Mfg.	Gi Sheet Cr Coil	419	20.00
30	Rescent Industries (Nepal) Ltd.	Mfg.	Shoe Polish	368	100.00

Table A.7 continued

Table A.7 continued

31	Nepal Liver Limited	Mfg.	Soap, Toothpaste	346	80.00
32	Air Conditioner	Mfg.	Air Conditioner	284	100.00
33	M/s Elegance Apprales and Computer Embr	Mfg.	Ready. Garment	280	100.00
34	Anapoorna Textiles Ltd	Mfg.	Textile	276	90.00
35	Aman Medical Products	Mfg.	Surgical Goods	276	100.00
36	Steel Poles & Tubes Industries	Mfg.	Poles & Tubes	273	100.00
37	Essel Packaging Ltd.	Mfg.	Tubes	256	100.00
38	Glin Menchars Pvt. Ltd.	Energy Based	Hydro Electricity	250	63.33
39	Sai Krishna Foundatin For Health &Medica	Service	Teaching College	250	60.00
40	Oiland Nepal Limited	Mfg.	Lubricating Oil	249	0.00
41	Momento Apparels Pvt.Ltd	Mfg.	Readymade Garment	225	50.00
42	International Comm. Network P.Ltd	Mfg.	Sattelite T.V.B	219	76.00
43	Nepal International Kathmandu Hotel P.L.	Tourism	Hotel & Restaurant	219	100.00
44	Dalmia Industries Nepal (Ltd).	Mfg.	Dairy Products	206	60.00
45	Hotel Dela Annapurna Pvt. Ltd	Tourism	Hotel	205	0.00
46	National Soap Industries Pvt.Ltd	Mfg.	Soap		
47	Pawanputra Industries Pvt. Ltd.	Mfg.	Plastic Product	199	100.00
48	Two Brothers Nepal Textile Ltd.	Mfg.	Textile	196	0.00
49	Plastic Industry	Mfg.	Plastic Product	189	0.00
50	Usha Nepal Hotel And Resort Pvt.Ltd	Tourism	Hotel	187	80.00
51	Cross Country Nepal Hotels P.Ltd	Tourism	Hotel	185	66.00
52	Lalit Palace Hotel Pvt.Ltd	Tourism	Hotel	174	50.00
53	Stone Aggregate	Mfg.	Stone Aggregate	160	100.00
54	Leisure Hotels & Resorts Pvt.Ltd	Tourism	Hotel	159	60.00
55	B. Seenaiah Ana Company Project Ltd.	Mfg.	Stone Aggregate	158	100.00
56	Grand Hotel Pvt.Ltd	Tourism	Hotel	156	99.56
57	Woven Sack Industry	Mfg.	Woven Sack	138	100.00
58	Hotel Tragopan Pvt.Ltd	Tourism	Hotel	129	15.00
59	Construction Industry	Const.	Const.	125	67.00
60	Concept Pharm. Nepal Ltd	Mfg.	Medicine	120	100.00
61	Hotel Everest International	Tourism	Hotel	112	100.00

Source: Department of Industry, Government of Nepal

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