

## **PATTERN OF INDO-NEPAL TRADE AFTER 1990 (1990-2000)**

*(Dr. A. K. Singh Reader (Economics), T D College, Jaunpur  
Rajesh Keshar Khanal Research Scholar T D College, Jaunpur)*

### **Introduction:**

This paper aims at studying and analyzing impact of policies of economic liberalization on the pattern of Indo-Nepal trade after 1990 focusing on various aspects of Indo-Nepal trade like export, import, balance of trade, composition of trade, direction of trade, major commodities of trade etc. This paper has been divided into three sections in-order to fulfill the objectives of the paper. The first section deals with the statements of the problems, hypothesis of the study and methodology applied for collecting, analyzing and interpreting. Second section deals with the presentation and analysis various aspects of Indo-Nepal trade comparing the post 1990 and pre 1990 situations. Third section comes out with conclusions and suggestions.

I

### **Statement of Problems:**

Nepal is a least developed, landlocked and predominantly an agricultural country having per-capita income US\$ 240 (CBS, 2001). The agriculture sector contributes 38.0 percent to GDP employing 79 percent of the total population where as the industrial sector contributes 9.2 percent to GDP employing 2 percent of total population (Economic Survey, 2003).

Nepal has common frontiers with the Tibetan region of the People's Republic of China in the north and the Indian union in the south, west and east (Pradhan, 1990). Nepal's border with Tibet, an autonomous region China, fully closed where as its border with India is fully opened. This peculiar feature has indissolubly interlinked Nepal and India economically, politically and culturally (Vijaya Katti, 1992). Due to this peculiar feature Nepal has trade relations with India since time immemorial. Kautilya (300 B. C.), the famous Indian economist, mentions Nepal as the Principal exporter of woolen goods. "Newar" and "Kirat", the original communities of Nepal carried on trade with India (Vijaya Katti, 1992).

Nepal's trade with India remained significant in the past since Nepal had positive balance of trade with India till the first quarter of 20<sup>th</sup> century remaining a trade route between two neighbouring countries India and China through Tibet (B. P. Shrestha, 1974). Nepal's foreign trade was completely dominated by India after Nepal signed the trade treaty with British India in 1923. The pattern of foreign trade between Nepal and India changed further after India became independent in 1947 and Nepal also overthrew the Rana Rulers in 1950. Nepal's trade deficit with India started increasing more and more even after Nepal signed first Treaty of Trade and Commerce with independent India in 1950. Nepal exposed to rest of the world establishing diplomatic relations with many countries though nearly 99 percent of Nepal's foreign trade was with India till 1960 (Kishor Dahal, 1987). High dependency on India for trade had adverse impact on the Nepal's process of economic development when India became unable to provide many construction goods as it was also under the process rapid construction of infrastructures of development. So, Nepal brought trade diversification policy realizing the adverse impact of high dependency of trade with India (S. R. Paudel, 1998). The trade diversification policy aimed at reducing high trade dependency with India and having favourable balance of trade by promoting country-wise as well as commodity-wise diversification of trade. Many modifications were incorporated in the Trade and Transit Treaty between India and Nepal till its expiry in March 1989. After the implementation of the trade diversification policy the direction and composition of Nepal's foreign trade had changed remarkably as India's share in total export and import of Nepal decreased remarkably though India's share in total export and import of Nepal was higher than other third countries till 1990 except 1989 and 1990 when India's share in total export of Nepal decreased drastically because of the economic blockade created by India due to the failure of the renewal of the Trade and Transit Treaty. The trade diversification policy could not bring any

change in the pattern of balance of trade till 1990 though some positive changes were observed in the composition of manufactured products and primary products and country-wise diversification (Kishor Dahal, 1987). Nepal was facing serious macro economic instability such as growing fiscal deficit and declining international reserves. This situation compelled Nepal to implement the Stabilization Programme in 1985/86 supported by the IMF stand by a Structural Adjustment Programme (SAP) in 1987 and 1989 and financed by the World Bank structural credits and by an IMF structural Adjustment facility for 1987/88–1989/90 (K. K. Gurugharana, 1996). Thus, following the SAP Nepal entered into an era of new economic order, a market-oriented liberal economic system. The interim government formed in Nepal after popular people's movement in 1990 also continued the process of economic liberalization in Nepal. India removed economic blockade after both the countries signed the Joint Communiqué in June 10, 1990. Nepal and India signed new agreement of Trade and Transit Treaty on December 6, 1991 incorporating many modifications in the treaty that expired on March 23, 1989. The consecutive governments of Nepal after 1990 have continued the process of economic liberalization in Nepal formulating many policies like government enterprises were started privatizing, customs tariff rates were brought down, new industrial, commercial and foreign investment policies were brought, new trade policy was brought removing restrictions on imports except a few contraband items and Open General License (OGL) was introduced (Keshav P. Acharya, 1999). Nepal's economic and commercial policies have been heavily influenced by its close relationship with India as many policies of economic liberalization were brought in Nepal after India's announcement of economic and trade policy liberalization in July 1991 (Vijaya Katti, 2001). Nepal and India renewed the Trade and Transit Treaty in 1996. Some modifications have been incorporated in the treaty of 1996 but it imposed quantitative restrictions on some of the Nepalese products like vegetable ghee, acrylic yarn, copper based products, zinc oxide etc (Economic Survey 1997/98) which has also reduced the quantity of Nepalese export to India having negative impact on Nepal's balance of trade with India.

#### **Hypothesis of the Study:**

Null hypothesis has been used. Conclusions have been drawn after analyzing the collected data/information using simple tables. Descriptive method has been used to analyze and interpret the collected data/information.

#### **Methodology of Study:**

#### **Research Design:**

This research paper has been designed in such a that it can interpret the various aspects of pattern of Indo- Nepal trade on the basis of descriptive as well as analytical research work. In this course, the secondary data have been used. To avoid the non reliability and inconsistency of the data, publications of both the governments and books of renowned authors or experts have been consulted of referred.

#### **Nature and Sources of Data:**

This study is based on the secondary data. The sources of secondary data have been collected from the following sources:

- a. Printed Government Documents of both the countries.
- b. Trade Treaties of Nepal with India.
- c. Economic Journals of Tribhuwan University, Nepal
- d. Bulletins, Reports, Surveys of Nepal Rastra Bank, Central Bank of Nepal.
- e. Various Economic Surveys of Ministry of Finance of Nepal.
- f. Various related articles published in magazines and news papers.
- g. Books of various authors and experts.

## Tools for Data presentation, Interpretation and Analysis:

Simple statistical tables have been used to present, analyze and interpret data.

## II

### Indo-Nepal Trade: Direction, Growth and Balance of Trade

Nepal has close economic links with India due its landlocked position and complete open border with India and complete close border with China. Lack of any convenient access to third countries has compelled Nepal to depend on India for many essential commodities of day to day needs such as salt, sugar, and coal. The major imports of Nepal from India are textiles, salt, tobacco, mineral oil, iron and steel, other metals, metals manufactures, cements, drugs, medicines, sugar, tea, motor vehicles, machinery, vegetable oils, soaps etc. where as Nepal's export to India are jute manufactures, rice, ghee, mustard rape seeds, wood timber, medicinal herbs and oilseeds (Vijaya Katti, 2001).

Nepal's import from India has remained higher with increasing trend than export to India because import from India are cheaper than imports from other countries and these goods do not can be bought without expenditure on its foreign currency. Similarly, India provides the natural market for Nepalese products like rice, wheat, timber, hides and skins due to the geographical setting of the two countries, that is, Indian market is at the doorsteps of Nepal. Indian states adjoining Nepal absorb a variety of goods produced in Nepal including food grains.

Since late 1980s and early 1990s India and Nepal has been experiencing winds of change both in economic as well as in political spheres. The traditional age-old relationship between these two neighbours has assumed new dimensions with the liberalization in economic and trade regimes in both the countries (Dahal, 1993). Both the countries have realized the need to change their approach in bilateral trade matters for maximizing their benefits.

Table 1 shows the direction of foreign trade of Nepal from 1960/61 to 1999/00. It can be seen from the table that that Nepal's export to India comprised of 97.1% of the total export. This seems natural as Nepal was not exposed to other third countries and Indian market was at its doorsteps. The same pattern was reflected in Nepal's import as well. However, Nepal's export as well as imports started declining significantly since 1970-71. This was the result of trade diversification policy of Nepal which was formulated and implemented by Nepal since 1960s in-order to remove the over dependency on India by increasing Nepal's trade with third countries (Banskota, 1980). Share of India in Nepal's total export came down to 75.4% in 1975/76, 21% in 1985/86 and it came down to a mere 9.6%. It has been experienced a reversal trend in Nepal's export to India in total export as its share has been increasing continuously since 1993/94 and has reached it 42.6% in 1999/00. It indicates that the policies compatible with liberalized and market oriented economy supported to increase the volume of Nepalese export to India. As per the imports are concerned, India's share came down to 61.9% in 1975/76, it declined further to 42.5% in 1985/86 and reached lowest 25.5% in 1989/90 before adoption of new liberalized economic and trade polices as can be seen from the table 1. However, after 1990 the imports are in increasing pattern. The table shows that the share of India in Nepal's total imports increased to 90.6% in 1992.6, it came down to 68% in 1997/98 and has further come down to 36.6% in 1999/00 although it is higher than the share of 1989/90. So, mixed patterns have been experienced in India's share in Nepal's total imports. The establishment of many Indian multinationals in Nepal for producing goods of daily needs in Nepal that were previously imported from India may be one of the causes that has declined share of India in Nepal's total imports in recent years (Dahal, 1999). The trade balance with India has been found negative and fluctuating before as well as after 1990.

The table 2 shows that the rate of growth of Nepal's exports and imports has been fluctuating quite remarkably. However, the rate growth of export has exceeded growth rate of imports from 1992/93 to 1999/00 except in 1998/99 when rate of growth export was lower than

the growth rate of import although the rate of growth of imports in Nepal has been faster than the rate of growth exports as it can be seen from the table where growth of trade deficit has been in increasing trend except in some years. One of the causes for this is that Nepal needs more goods for its development requirements as a consequence of economic reforms in Nepal which is fulfilled by India being the nearest market of Nepal. Another reason for this is due to the weak export performance of Nepal. Low level of development is mainly responsible for this type of situation in the trade matters. As the supply response of the Nepal is very weak due to structural rigidity in the production, the additional demand is to be met through imports. India being market at Nepal's doorsteps with open border and free convertibility of the Nepalese currency into Indian currency and vice versa, a large chunk of import demand is met through imports from India (Vijaya Katti).

### **Changing Composition of Indo-Nepal Trade:**

India is a major buyer of both primary and manufactured products of Nepal. The pattern of Nepal's trade with India is also changing. The percentage share of primary products in Nepal's total imports from India has gone down remarkably. It was 51% in 1956/57 (Vijaya Katti) and came down to as low as 22.1% in 1994/95 after which it has remained slightly fluctuating in recording 25.6% (Table 2). Thus, the share of primary products in Nepal's total import from India has reduced by half over last four decades. As far as the share of primary products in Nepal's total export to India is concerned, it went down drastically from 95.04% in 1956/57 (Vijaya Katti) to lowest 11.90% in 1989/90 (Table 2). From 1990/91 to 1992/93 it remained fluctuating with the highest value 80.37% in 1991/92 although it has been in decreasing trend since 1993/94. It has reached 34.22% in 1999/00 as can be seen from the Table 2. Exports of manufactured products have found in increasing pattern due to result of various concessions granted by India in Indo-Nepal Trade Treaties (Vijaya Katti).

Percentage shares of various commodities as per the SITC classification have been calculated and furnished in Table 3 and Table 4. The Table helps to understand a clear picture regarding changing composition of Nepal's export to India, nature of commodities and the extent to which these have undergone changes in terms of percentage shares. The same procedure has been repeated in Table 4 for understanding the extent to which different commodities belonging to SITC groups have undergone changes in terms of percentages shares in Nepal's total import from India.

The Table 3 shows that the percentage share of food in Nepal's total exports to India has decreased significantly recording 20.7% in 1995/96 to 1999/00 from 73.08% in 1956/57 to 1960/61. The increasing population of Nepal requires increasing food on one side and on the side many parts of the country have been connected by roads and the food is transported to areas which was sold to border areas of India earlier. These two reasons have caused the drastic decrease in percentage share of food in Nepal's total export to India. Percentage share of manufactured goods has also increased significantly. Another item of Nepal's export to India which has increased remarkably is chemicals, drugs and pharmaceuticals. It is worth mentioning that reason for increasing share of drugs and chemicals is due to removal of the raw material content requirement by the Indo-Nepal Trade Treaty of 1996.

Nepal's demand as well as capacity to absorb capital goods has increased with its development plans. So, also, India's capacity to provide these goods has increased with its development plans. Many new industries established in India increased industrial production (Vijaya Katti). The Table 4 shows that percentage share of manufactured goods in Nepal's imports from India has shown fluctuating trend with reduction in percentage share in the 1980s and increasing trend in the same in 1990s. The percentage share of machinery and transport equipment has increased in 1980s and the same trend continued in 1990s. The new industrial units established in Nepal and connection of various parts of the country by roads can be taken as the cause of increasing the percentage share of machinery and transport in Nepal's import from India.

## III

**Conclusions:**

Conclusions of this paper have been summarized in the following points:

- a. The percent of import from India as total trade with India has been found increasing pattern after 1990 though there has been slight decrease after 1996/97.
- b. Value of import has remained always higher than value of export after 1990. Low agricultural production, Nepal's failure to produce more exportable items based on its own natural resources, higher share of primary product in total export to India and the quantity restrictions imposed by India on certain goods of export to India have caused value of import from India remain higher than export to India.
- c. Percentage share of Trade deficit with India in Nepal's total foreign trade is increasing till 1995/96 then it is in decreasing trend till 1999/00 although the growth rate of trade deficit with India has been found increasing in all years after 1990 except in some years.
- d. Annual growth rate of export is higher than annual growth rate of import in almost all the years except in some years during 1990-2000.
- e. In the total export to India, the share of primary goods has decreased significantly and the share of manufactured goods has increased significantly during the study period though the pattern of percentage share of primary product and manufactured products has been found in similar trend with slight fluctuations after 1995/96.
- f. In total export from Nepal, the share of India has been found increasing since 1993/94 and in total import of Nepal, the share of India has been increasing during the whole period with some exceptional years after 1996/97. These increasing shares of India in total export and import of Nepal indicate that the trade dependency of Nepal on India has increased in the first decade of new economic order (1990-2000).
- g. There has been some changes in the in the pattern of items of Nepalese export as per SITC group during the study period. Share of food and live animals has found decreasing where as the share of animals and vegetable oils and fats, chemical and drugs and manufactured goods classified chiefly by material have found in increasing pattern.
- h. There has been no change in the items of import from India though major groups of import as per SITC have been found slightly fluctuating during the study period. Percentage share of food and livestock, beverages and tobacco, mineral and lubricant have decreased where as the percentage share of crude materials, chemical drugs, manufactured goods, machinery and transport equipment etc. have increased.

**APPENDICES****Table: 1**

## Direction of Foreign Trade of Nepal (1960/61 to 1999/00)

(Value in Million NRS)

Years	Total Export FOB	Exports to India	Total Imports CIF	Imports from India	Trade Balance Total	Trade Balance with India	Exports to India as % of total trade with India	Import from India as % of total trade with India
1960/61	131.7	131.4	398	375.1	-266.3	243.7	35.8	61.2
*	100	99.8	100	94.2	100	91.5		
1970/71	400.5	395.2	699.1	616.8	-298.5	-221.6	39.1	60.9
*	100	98.7	100	88.2	100	74.2		
1975/76	1175.8	893.7	1987.7	1227.1	-795.9	-333.4	42.1	57.9
*	100	75.4	100	61.9	100	41.9		
1980/81	1608.7	992.4	4428.2	2179.2	-2819.5	-1186.8	31.3	68.7
*	100	61.7	100	49.2	100	42.1		
1985/86	3078	1241.1	9341.2	3970.9	-6263.2	-2729.8	23.8	76.2
*	100	40.3	100	42.5	100	43.6		
1986/87	2991.4	1302.6	10905.2	4262	-7913.8	-2959.4	23.4	76.6
*	100	43.5	100	39.1	100	37.4		
1987/88	4114.6	1567.8	13869.6	2595.8	-9755	-3028	25.4	74.6
*	100	38.1	100	33.1	100	31		
1988/89	4195.3	1034.9	16263.7	4238.7	-12068.4	32.3	19.6	80.4
*	100	24.7	100	26.1	100	26.5		
1989/90	5156.2	602.5	18234.9	4674.5	-13168.7	4072	11.4	88.6
*	100	11.7	100	25.5	100	30.9		
1990/91	7387.5	1552.2	23226.5	7323.1	-15839	-5770.9	17.5	82.5
*	100	21	100	31.5	100	36.4		
1991/92	13706.5	1450	31940	11245.5	-18233.5	-9795.5	11.4	88.6
*	100	10.6	100	35.2	100	53.7		
1992/93	17266.5	1621.7	39205.6	12542.1	-21393.1	10920.4	11.6	88.4
*	100	9.4	100	90.6	100	49.8		
1993/94	19293.4	2408.9	51570.8	16884.5	-32277.4	-14626.5	13.2	86.8
*	100	12.5	100	87.5	100	45.3		
1994/95	17639.2	3124.3	63679.5	14514.9	-46040.3	-16491.6	13.7	86.3
*	100	17.7	100	82.3	100	35.8		
1995/96	19881.1	3682.6	74454.5	16198.5	-54573.4	-20716	13.1	86.9
*	100	18.5	100	81.5	100	38		

1996/97	22636.5	5226.2	93553.4	17410.3	-70916.9	-19357.1	17.4	82.6
*	100	23.1	100	76.9	100	27.7		
1997/98	27513.5	8794.4	89002	18719.1	-61488.5	-18536.6	24.3	75.7
*	100	32	100	68	100	30.2		
1998/99	35676.3	12530.7	87525.3	32119.7	-51849	-19589	28.1	71.9
*	100	35.1		36.7	100	38.8		
1999/00	49822.7	21220.7	108504.9	39660.1	-58682.2	-18439.4	34.9	65.1
*	100	42.6	100	36.6	100	31.4		

\*Indicates Percentage of the Total

Source: 1. 1960/61 to 1970/71- Nepal's Foreign Trade and economic Development by Pushkar Reejal, a CEDA Publication

2. 1980/81 to 1999/00- Economic Survey (Various Issues), MOF, Nepal

**Table: 2**

**Growth and Composition of Indo-Nepal Trade (1983/84 to 1999/00)**

Years	Annual Growth of Export, Import and BOT (%)			Composition of Export to & Import from India (%)			
	Export	Import	Trade Deficit	Export		Import	
				Primary Goods	Manufactured Goods	Primary Goods	Manufactured Goods
1983/84	-	-	-	68.12	31.88	46.94	53.06
1984/85	38	27.7	-0.3	58.44	41.56	50.32	49.68
1985/86	-22.5	1.9	27.5	40.13	59.69	42.51	57.49
1986/87	5.0	7.3	-57.2	43.92	56.08	39.08	60.92
1987/88	20.4	-39.1	106.5	38.10	61.90	33.14	66.86
1988/89	-37.7	63.3	36.1	24.67	75.33	26.06	73.94
1989/90	-42.0	10.3	84.9	11.68	88.32	25.51	74.49
1990/91	157.0	56.7	44.2	76.65	23.35	29.23	70.77
1991/92	-6.6	53.6	14.4	80.37	19.63	29.22	70.78
1992/93	11.8	11.5	37.6	77.51	22.49	29.77	70.23
1993/94	48.5	34.6	-20.7	56.26	43.74	24.80	75.2
1994/95	29.7	-14.6	8.0	61.36	38.64	22.10	77.9
1995/96	17.9	11.6	5.0	52.35	47.65	23.19	76.69
1996/97	41.9	7.5	-1.7	50.73	49.27	25.23	74.77
1997/98	68.3	7.5	72.9	46.09	53.91	20.32	79.68
1998/99	42.5	71.6	16.3	46.38	53.62	25.19	74.81

1999/00	69.3	23.5	-32.0	34.22	65.68	25.26	74.74
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Source: 1. Table 1

2. Various issues of Economic Survey, MOF, Nepal

3. Various Economic Report, Nepal Ratra Bank

**Table: 3**

**Changing Composition of Nepal' Export to India**

**(Average Share for the period 1956/57-1960/61 to 1995/96-1999/00 in Percentage)**

Particulars	Periods						
	1956/57 to 1960/61	1965/66 to 1969/70	1975/76 to 1979/80	1981/82 to 1984/85	1985/86 to 1989/90	1990/91 to 1994/95	1995/96 to 1999/00
Food and Live Stock	73.08	53.51	57.98	48.66	48.9	47.18	20.70
Beverages and Tobacco	1.33	0.34	0.2	0.47	0.08	0.18	0.32
Crude Materials (inedibles except fuels)	21.36	27.78	37	30.02	28.07	13.38	3.67
Mineral, Fuel and Lubricants	Negl.	Nil	0.1	0.1	0.03	Negl.	0.05
Animal & Vegetable oils & Fats	0.43	1.78	0.48	4.08	8.52	8.77	16.20
Chemical Drugs	0.12	0.13	0.67	0.08	0.49	3.76	21.28
Manufactured goods classified chiefly by materials	1.36	16.25	1.88	14.25	14.39	24.73	27.20
Machinery & Transport Equipment	0.02	0.04	0.1	1.08	0.69	0.03	0.46
Miscellaneous manufactured articles	0.99	1.78	0.48	0.73	1.11	1.56	10.13
Miscellaneous	1.28	0.07	0.22	0.06	0.04	0.02	Negl.

Source: Calculations based on the data from Nepal Rastra Bank

**Table: 4**

**Changing Composition of Nepal' Import from India**

## (Average Share for the period 1956/57-1960/61 to 1995/96-1999/00 in Percentage)

Particulars	Periods						
	1956/57 to 1960/61	1965/66 to 1969/70	1975/76 to 1979/80	1981/82 to 1984/85	1985/86 to 1989/90	1990/91 to 1994/95	1995/96 to 1999/00
Food and Live Stock	20.4	18.12	18.23	19.86	21.54	18.92	15.59
Beverages and Tobacco	8.14	2.6	1.97	1.7	3.69	2.77	1.99
Crude Materials (inedibles except fuels)	5.6	7.9	2.6	4.12	2.49	2.68	3.72
Mineral, Fuel and Lubricants	6.9	11.33	6.26	2.83	2.61	2.61	1.82
Animal & Vegetable oils & Fats	4.19	1.36	0.93	1.15	0.15	0.03	0.19
Chemical Drugs	4.7	6.68	10.77	13.84	17.23	15.74	16.14
Manufactured goods classified chiefly by materials	42.82	36.23	31.18	28.5	31.98	35.97	35.63
Machinery & Transport Equipment	3.96	6.9	13.87	15.97	17.77	20.55	19.83
Miscellaneous manufactured articles	5.49	6.07	8.02	7.04	5.48	4.57	4.95
Miscellaneous	1.11	0.12	1.11	0.06	0.23	0.02	0.04

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