

Nepal's Trade with its Giant Neighbours

Puspa Sharma

Summary

India is Nepal's major trade partner for both exports and imports. China is the second biggest source of Nepal's imports but it exports very little to China. Nepal has been unable to reap maximum benefits from the natural advantage of its location between the two giant economies of the world.

Nepal is a trade-dependent nation. In the past five fiscal years (FY), the ratio of its [total foreign trade \(both merchandise and services\) to its gross domestic product](#) (GDP) annually was, on average, 43 per cent. The size of its imports (36.5 per cent of GDP) was much larger than its exports (6.5 per cent of its GDP). Nepal's [trade deficit](#) with its major trading partners has been consistently high and, hence, an area of serious concern. This brief will discuss Nepal's merchandise trade.

India is Nepal's most important trade partner. Nepal's imports from and exports to India are around two-thirds of its total imports and exports respectively. China is the second important partner, in terms of Nepal's imports but not for exports. In the last FY, Nepal's imports from China were nearly 19 per cent of its total imports, which was an increase from earlier years when this ratio was around 14-15 per cent. However, on the export front, Nepal's exports to China have always been less than two per cent of its total exports. The United States and the European countries are the other important export destinations for Nepal after India.

While India holds the most important place for Nepal's merchandise trade, Nepal is also an [important export destination](#) for India. During 2019-2023, India's exports to the world, on average, was US\$375 billion (S\$450 billion) annually, of which US\$7.5 billion (S\$9.3 billion) worth of goods were exported to Nepal. Nepal ranked 11th in the list of India's top export destinations. However, [India's imports from Nepal](#) are not significant. While India's annual average import during those five years was US\$564 billion (S\$751 billion), import from Nepal was a meagre US\$860 million (S\$1.14 billion), placing Nepal in 61st place among India's top import sources.

Regarding China, while it is an important source of import for Nepal, Nepal is an insignificant source of import for China. During 2020-2024, while [China exported](#) US\$1.7 billion (S\$2.26 billion) worth of goods annually, on average, to Nepal, the value of [China's imports](#) from Nepal was merely US\$27 million (S\$36 million). Among the South Asian countries, China's imports from Nepal are larger than its imports from just the Maldives and Bhutan.

Theoretically, Nepal should have been able to benefit economically by accessing the huge markets of China and India due to the natural advantage of its location between the two giants. However, it has not been able to do so because of a number of internal and external

factors. On the internal front, Nepal lacks competitiveness in manufacturing, one reason being its landlocked status. The share of Nepal's manufacturing sector in the country's GDP is only around five per cent. It lacks competitiveness in agriculture as well. A large part of Nepal's imports consists of agricultural products despite the country being called an agricultural nation.

As per the bilateral trade treaty between Nepal and India, Nepal receives preferences in the form of non-reciprocal duty free and quota free (DFQF) market access to export most of the manufactured items to India. However, Nepal has not been able to make full use of this preference for several reasons, one of which is the presence of non-tariff barriers (NTBs). Even recently, exports of some of the manufactured products such as [cement](#), [plywood](#) and [shoes](#), in which Nepal has shown promise, have been affected due to various kinds of NTBs. The DFQF preference that Nepal was enjoying has also been eroded since 2008 when India started providing [duty free tariff preference](#) to all least-developed countries.

In relation to agricultural products, India and Nepal provide reciprocal DFQF market access to the imports of primary agricultural products from each other. One of the reasons for the poor performance of Nepal's agriculture sector is the inability to compete with India's agriculture due to this provision in the bilateral treaty. Moreover, [sanitary and phytosanitary](#) (SPS) issues emerge quite frequently in Nepal's [agricultural exports to India](#), sometimes for genuine reasons and, other times, as trade barriers.

Nepal lacks a bilateral trade treaty with China similar to that with India. China does not provide trade preferences specific to Nepal. Given the limited amount of Nepal's exports to China, trade tensions have not occurred between the two countries frequently. However, there have been occasional but serious disruptions. For example, there was a prolonged halt in bilateral overland trade between the two countries in the [aftermath of the 2015 earthquake](#). Similarly, after [COVID-19](#), China kept its land borders closed for a long time, which seriously hampered Nepal-China trade.

During the past decade, Nepal and China have revised and signed [a number of trade agreements](#) relating to trade, such as on transit transport, Nepal's citrus fruit exports to China and [buffalo meat export](#) from Nepal to China. However, these agreements have not been implemented effectively for various reasons. While the difficult geography between the two countries is a major reason for the lack of implementation of the transit transport agreement, SPS issues have hindered Nepal's citrus fruit exports to China. The agreement on buffalo meat export is a recent one. It remains to be seen whether it will experience the same fate as the previous agreements or delivers results.

In the past few years, there have been some changes in Nepal's trade pattern. Its imports from China have risen, particularly due to a rise in the [import of Chinese electric vehicles](#). Electric car sales have [outstripped](#) the sale of internal combustion engine (ICE) cars in Nepal. This has resulted in some reductions in imports from India due to a fall in imports of ICE cars and petroleum products, which are Nepal's major imports from India.

Nonetheless, Nepal's trade with its two giant neighbours will probably continue as usual, especially in other manufactured and agricultural goods unless India and China show a

bigger heart towards their smaller neighbour. However, international trade is political. Geopolitics, geo-economics and domestic interest groups might render this difficult.

.

Dr Puspa Sharma is a Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute in the National University of Singapore (NUS). He can be contacted at puspa.sh@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.