

# **DYNAMICS OF INFORMAL CROSS BORDER TRADE**

IN AGRICULTURAL PRODUCTS BETWEEN NEPAL AND INDIA



Dikshya Singh  
SAWTEE  
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# BACKGROUND

- The recorded figures of trade provide a substantially partial picture of the actual trade of Nepal
- Unrecorded imports and exports through Nepal's porous border with India are known anecdotally
- Informal trade exists if there are benefits from skirting the formal channels, both in terms of pecuniary and non-pecuniary factors
- Examines the drivers, modes and nature of informal trade in selected agricultural commodities between two border countries

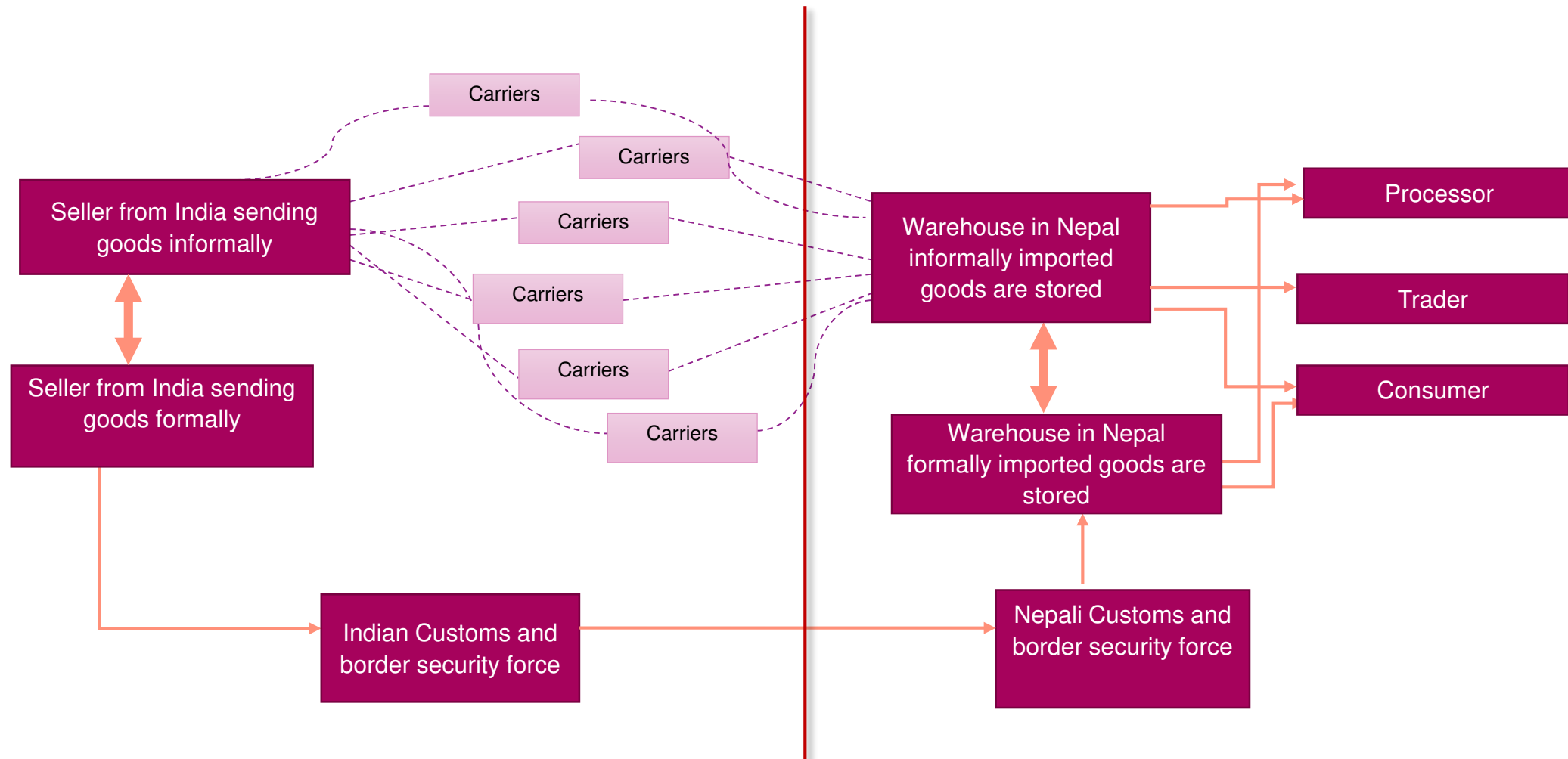
# METHODOLOGY

- Definition: imports and exports of legal agricultural goods which escape the regulatory framework and are not recorded
- Qualitative: desk research; 74 key informants; 5 FGDs; 1 consultative discussion
- Survey locations: 9 customs points (Birgunj, Bhairahawa, Biratnagar, Nepalgunj, Kakarvitta, Krishnanagar, Jaleswor, Suthauli, Maheshpur and Bhadrapur) and the border crossings at their periphery
- Limitations: respondents hesitant to discuss informal trade; resource constraints hence focused on limited products; more focus on imports

# MODES OF INFORMAL TRADE

- **Households' imports for consumption**
  - Cross-border shopping trips for food items, FMCG, RMG etc.
  - Use two-wheelers, rickshaws etc. to ferry goods
  - Price differences, product availability and preference are motivating factors
  - Tolerated by the authorities to an extent
- **Traders through carriers**
  - Organized informal imports for commercial purpose through carriers
  - On foot, two wheelers and bicycles used; make multiple trips in a day and deposit the commodities at warehouses (charge about NPR 5/kilo)
  - Large consignment also transported when 'line is opened'

# NETWORK OF INFORMAL TRADE



# **DYNAMICS AND DRIVERS OF INFORMAL TRADE**

Products	Nature of informal trade	Drivers of informal trade
Rice	<ul style="list-style-type: none"> <li>Rice has been identified as one of the highly informally imported items (traders estimate 25-40% of formal imports)</li> <li>Recorded imports have been on the rise but halved in FY2022/23</li> <li>India's export duty on rice imposed in September 2022 and export ban in July 2023 of non-basmati rice fueled the informal trade</li> </ul>	<ul style="list-style-type: none"> <li>Evasion of tariff and duties (11.5% including ARF and AIT)</li> <li>Variation in prices (18-20% less in India)</li> <li>Ban on export (only certain border points allowed to transport)</li> </ul>

Products	Nature of informal trade	Drivers of informal trade
<b>Vegetables</b>	<ul style="list-style-type: none"> <li>• Vegetables are one of the major imported products from India to Nepal; green vegetables happen in small scale</li> <li>• Onions and potatoes happen in larger scale; imposition of 13 percent VAT on import of potatoes, onions and garlic at the Customs (FY 2023/24), which is attributed for surge in informal imports of these vegetables</li> <li>• India imposed export ban of onions in December 2023 after imposing 40 percent export duty on October 2023</li> </ul>	<ul style="list-style-type: none"> <li>• Evasion of tariff and duties (14 to 24.67%)</li> <li>• Cheaper in India</li> <li>• Ban on export (like onion)</li> <li>• Avoidance of non-tariff requirements—phytosanitary certificates etc; EXIM Code for importers</li> </ul>

Products	Nature of informal trade	Drivers of informal trade
Chemical fertilizers (Urea and Diammonium Phosphate)	<ul style="list-style-type: none"> <li>Persistent chemical fertilizer shortage domestically</li> <li>Border area farmers buy from Indian market; traders use informal carriers to stock up and resell at price equivalent to domestic rate</li> <li>Price per kilo is cheaper in Indian side (Urea at NPR 10 and DAP NPR 43 in India, in Nepal NPR 28 for urea and NPR 55 for DAP)</li> </ul>	<ul style="list-style-type: none"> <li>Shortage in domestic market (800,000MT requirement while formal import is 400,000 MT); informal imports estimated about 100,000 to 200,000 MT)</li> <li>Variation in prices (but if bought indirectly no price advantage)</li> </ul>
Seeds	<ul style="list-style-type: none"> <li>Farmers in Nepal informally import seeds of varieties not available locally—especially hybrid seeds of vegetables</li> <li>Ease of information sharing between farmers across the border and are aware of the varieties</li> </ul>	<ul style="list-style-type: none"> <li>Restricted import</li> <li>Avoidance of non-tariff requirements</li> </ul>

# DYNAMICS AND DRIVERS OF INFORMAL TRADE (EXPORTS)

Products	Nature of informal trade	Drivers of informal trade
<b>Vegetables</b>	<ul style="list-style-type: none"><li>• Vegetables such as tomatoes, chayote, certain varieties of chilly are informally exported to India due circumvent SPS-related requirements</li></ul>	<ul style="list-style-type: none"><li>• Variation in prices</li><li>• Avoidance of non-tariff requirements</li></ul>
<b>Paddy</b>	<ul style="list-style-type: none"><li>• If price offered in India is higher, farmers in some bordering villages sell them to Indian traders</li></ul>	<ul style="list-style-type: none"><li>• Price differential (in 2023/24 season, farmers received about NPR 2 higher)</li></ul>
<b>Betel nuts</b>	<ul style="list-style-type: none"><li>• Massive informal export from Nepal (even third country imported products)</li></ul>	<ul style="list-style-type: none"><li>• Arbitrage afforded by high duty in India</li></ul>

# TAKEAWAYS

- Informal trade of agri-food commodities, including inputs, has increased access to those products
- Eroded productive capacity and made Nepali products less competitive (for example 1/3rd mills reported to have shut down in Nepal)
- Foregone revenue from the government coffers
- Reduced policy effectiveness—import tariffs to support domestic production; siphoning off of subsidized goods meant for Indians—ineffective export duty and quotas
- Policy complacency towards increasing productivity; timely arrangement (fertilizers etc)
- Social issues—exploitation of vulnerable people as carriers

# WAY FORWARD

- More accurate and comprehensive research and data are needed commodity-wise
- Rationalize regulatory barriers where possible
- Harmonize the sanitary and phytosanitary requirements and mutual recognition of certificates
- Implement trade facilitation measures to ensure seamless movement of products

# Thank you

dikshva.singh@sawtee.org

