Preface

Study of balance of payments is getting increasing importance in the economic sphere of a country. Nepal is a small and open economy. It is a landlocked country surrounded by India from three sides- East, West and South and sealed to the North by China. As the Northern part constitutes not easily penetrative high ranges of Himalayas, India remains the only economically feasible neighbour for Nepal.

Since time immemorial there remained a strong relationship between India and Nepal. During the ancient period the relationship was strengthened through increased traveling of people for education, religious and family affairs. India has been remaining one of the largest trading partners of Nepal since the history. Not only this, aid from India has greatly helped to develop Nepalese infrastructures, increase economic activities and enhancing growth. The investment from India has helped industrial development in Nepal. Remittance from India has become one of the important means of living for the rural Nepalese people. All the inflow of Indian currencies to Nepal has helped to increase the level of reserves of Indian currencies in the country. However, due to high trade deficit with India, deficit in Nepalese current account and thereby deficit in balance of payments (with India) has become a general phenomenon. Nepal has been suffering from deficit in the balance of payments with India in most of the years.

In this backdrop, the purpose of this study is to explore the determinants of Nepalese trade and balance of payments with India and to recommend proper policy prescription to improve it. This study is an analytical and empirical one and has used both primary and secondary sources of information. This study has tried to analyse the economic cooperation between India and Nepal. The bilateral flows in trade, aid, investment, remittances, tourism and the overall balance of payments and measures for their correction has been dealt with.
This work has been divided into eight chapters. The first chapter is the introductory chapter and has examined the literature on the subject, examined the various theoretical approaches to the problems, and defined the scope, significance and objectives of the study. The second chapter “Analysis of Merchandise Trade” analyses the nature and composition of Nepalese commodity trade with India and also with countries other than India. The third chapter is the “Analysis of Non-Merchandise Trade.” In this chapter some brief studies on Indian aid, remittance and tourism have been made. Chapter four deals with “Capital Account Analysis” under which the nature, and quantity of Indian foreign investment has been analysed. Chapter five is devoted to deal with “Overall Nepalese Balance of Payments” with India. In this chapter an attempt has been made to analyse the situation of Nepalese balance of payments with India, its trends and problems in some detail. Chapter six “Management of Indian Currency in Nepal” has dealt with some managerial difficulties of the circulation of Indian currencies in Nepal. This chapter has examined how the effective management of Indian currency in Nepal could improve its balance of payments with India. Chapter seven is the “Empirical Analysis” which especially has accounted the monetary approach to the balance of payments and drawn some conclusions to improve Nepalese overall balance of payments with India. The last chapter is the “Conclusion” chapter, which has drawn the conclusions of the whole study and recommended some policies for the correction of trade and balance of payments of Nepal with India.

27 July 26, 2007

Mahesh Kumar Chaulagai