



NATIONAL APEX CHAMBER

INDIA - NEPAL ECONOMIC TIES

NEW HORIZONS

JUNE 2018

PHD RESEARCH BUREAU
PHD CHAMBER OF COMMERCE AND INDUSTRY



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India – Nepal Economic Ties: New Horizons

June 2018

**PHD RESEARCH BUREAU
PHD CHAMBER OF COMMERCE AND INDUSTRY**

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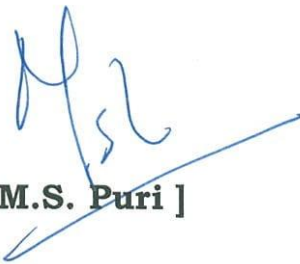
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MESSAGE

I am delighted to learn of the initiative of the India Nepal Centre (INC) of the PHD Chamber of Commerce and Industry (PHDCCI) to focus on private sector partnerships to contribute to the expansion and diversification of India-Nepal trade and investment ties by bringing out a detailed paper after research and consultation with all concerned in both countries.

This is indeed a laudable initiative which is particularly well-timed, coming as it does after the recent exchange of visits of the two Prime Ministers during which several steps were taken to further enhance bilateral partnership between the two countries. These include the new partnerships in agriculture, railway linkages and inland waterways, inauguration of the Integrated Check Post at Birgunj and laying of the foundation stone of the 900 MW Arun-III hydro-electric project in Nepal.

I wish the India Nepal Centre and the PHDCCI all the best for its endeavors and congratulate them on this important publication.


[M.S. Puri]



Mr. Anil Khaitan

From the Desk of President, PHD Chamber

The shared history, traditions and culture connect India and Nepal. This connection has been strengthened in the recent years with visits of Hon'ble Prime Minister of India Shri Narendra Modi to Nepal and Hon'ble Prime Minister of Nepal Shri K P Oli to India.

India has been holistically pursuing the “neighbourhood first” policy, wherein it has provided substantial financial and technical development assistance to Nepal, focusing on establishment of infrastructure at the grass-root level in the areas of health, water resources, education, and rural and community development.

We, at the PHD Chamber, aims to strengthen the bilateral cooperation with our closest neighbour, where there are tremendous opportunities in developing food processing value chains, tourism development, hydel power generation, banking and financial services, education services, and health services, among others.



**Mr. Hari Bhakta
Sharma**

From the Desk of President, Confederation of Nepal Industries

The past few years have witnessed a recognized reorientation in outlook of India-Nepal relations. In view of the importance of the relationship for sustainable economic development, Confederation of Nepalese Industries (CNI) have advocated for greater cooperation in the field of trade and investment. The untapped opportunities that have been created between India and Nepal are profound and inordinate.

With continuous talks and meets, Nepal has evinced signs of forging a long term partnership that will help in promoting sustainable development, security and a better rapport between the people and industries of India and Nepal.

Going ahead, we are hopeful that India Nepal Center (INC) will act as a catalyst of relation between two closest friendly nations and with priceless contribution to industry stakeholders of both Nepal and India.



**Dr. Rajesh Kazi
Shrestha**

From the Desk of President, Nepal Chamber of Commerce

India – Nepal bilateral relations have developed into a global strategic partnership, based on shared democratic values and increasing convergence of interests on bilateral, regional and global issues.

The business prospects have underwent a transition in the past few years. The prospects of growth have developed gradually. There is a new economic growth story emerging from both the regions as they possess all the pre-requisites to become a major growth pole in the South Asia region. The regions are reiterating the common desire to expand economic cooperation and trade and investment linkages between them.

INC's role will be very crucial in advising prospective traders and investors in India and Nepal to meet procedural and regulatory requirements. Also, it will foster economic relations between Nepal and India and lead to socio - economic development of both the nations.



Mr. Sushil Bhatta

From the Desk of President, Management Association of Nepal

India – Nepal relations enjoy excellent bilateral ties. The relations have strengthened and expanded over the years. The partnership with India in the areas of trade and transit is a matter of utmost importance to Nepal.

Both the countries have been deeply engaged in the regional and sub-regional frameworks for enhancing cooperation for greater economic integration by harnessing collectively the potentials and complementarities available in the region.

The initiative undertaken by PHD Chamber to launch a dedicated desk focusing on trade and investments between Nepal and India is a remarkable accomplishment. INC will boost trade and investments to new heights by exposing endless possibilities for collaboration in diverse sectors in both the nations. Going forward, the business relations are expected to get strengthened and streamlined in the coming years.



**Ambassador K V
Rajan**

From the Desk of Convenor, PHD India Nepal Centre (INC)

The India Nepal Centre (INC) has been established by the PHD Chamber at a time when the economic relationship between India and Nepal is being energized in a significant way. Nepal is now a Federation with a new Constitution and a clearly articulated vision of its leadership to grow at 8% p.a. and ensure that the fruits of development reach the common man.

A defining paradigm of India-Nepal relations as articulated by the two Prime Ministers is accelerated economic development. The PHD and INC will focus on opportunities to expand and diversify bilateral trade and investment relations with a view to achieving speedy positive outcomes in the best mutual interests of the two countries.



Mr. Saurabh Sanyal

From the Desk of Secretary General PHD Chamber

The relationship between India and Nepal has become stronger in the past few years. Both the nations have close economic, cultural and civilization ties and a wide-ranging and expanding partnership across diverse sectors. Identification of possible areas of collaborations and forging high socio-economic growth in the coming times is the key.

The recently signed agreements on partnership in agriculture, connectivity through inland waterways and expanding linkages to connect Indian railway lines to Kathmandu will bolster the trade prospects, which can be further expanded to other SAARC economies.

PHD Chamber is working diligently to strengthen the existing ties between India and Nepal through continuous dialogue and discussions both at micro and macro level.

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Executive Summary

There are emphatic indications now that the India-Nepal relationship is entering a new and promising phase, thanks to the clear vision articulated by the two Prime Ministers to each other's countries in recent weeks.

The importance being laid by both leaders is very much on speedy, sustainable development as the key driver of bilateral ties. Both leaders have expressed their determination not to allow the inevitable differences that must crop up between such close neighbours from time to time to pollute the environment of cooperation. India-Nepal economic ties need to achieve their full potential; this is as much in their interests as in the interests of a stable and prosperous region.

Nepal need not consider itself to be "land-locked". Its great advantage is that it is "India-linked". The fact that the Indian Prime Minister has declared Nepal to be the most important country in India's neighbourhood, the priority being attached to supporting Nepal's speedy development, and the Nepal Prime Minister's emphasis on deepening economic ties with a sense of urgency, opens the doors for the private sector in the two countries to cooperate with a much greater sense of direction and vision for the future. Nepal is now a federal democratic Republic, and there are high expectations as well as urgent requirements for speedy development.

A distinct advantage is the prospect of political stability in Nepal and a mutual desire to build on cultural affinities to expand areas of development, for example through boosting religious tourism.

The pillars which will underpin expanding cooperation in the months and years to come have been mutually agreed: Hydropower and Water Resources, a quantum improvement in connectivity through road, rail and inland waterways, Technology, Tourism, Agriculture and high value agricultural products, ICT, SMEs.

The PHD Chamber of Commerce and Industry, one of India's oldest Chambers, strongly believes that against this positive backdrop, the time is ripe for the private sector in both countries to upgrade and restructure their partnerships, apply innovative approaches, and focus on speedy identification and implementation of projects in Nepal's priority sectors in close consultation with the governments.

The Centre hopes to be able to assist business leaders in both countries in expanding and diversifying cooperation so that positive outcomes are speeded up wherever possible.

The PHD India Nepal Centre (INC) will work closely with counterpart bodies in Nepal and the two governments and focus on specific opportunities where it enjoys strengths, for example:

- Developing tourism on a significant scale, including in non-traditional areas
- Fast tracking progress on hydropower projects available for private sector participation
- Strengthening SME cooperation through introduction of new technologies, partners, markets
- Addressing opportunities for export from Nepal to adjoining states in India (a market of 400 million) through investments and joint ventures
- Exploring pilot projects for developing Nepal as a major base for organic farm products
- Dovetailing Nepal's plans for employment generation with Skill India
- Encouraging members to set up manufacturing base in Nepal for export to developed country markets to take advantage of concessions available to it as LDC
- Value addition to traditional exports to developed markets, eg by linking up crafts production with designers with access to department stores
- Developing sub-regional cooperation projects between Nepal and states like Uttar Pradesh, Bihar and Bengal where PHD has traditional strengths
- Encouraging investment in agriculture with "farm-to-fork" projects (PHD has been engaged in similar MEA-supported exercises with African countries)
- Introducing tested new technologies in connectivity projects (roads, tunnels, bridges) to significantly improve cost-effectiveness, speed of execution, maintenance challenges and longevity of projects)
- Developing world class training modules with a view to rapid technical capacity- building in Nepal

With every indication that Nepal and India will adhere on a long term basis to the road map articulated by their two Prime Ministers in recent weeks, there is every possibility of Nepal becoming the fastest growing economy in South Asia within a few years. INC, and the PHDCCI, are determined to play their part in this exciting journey.

India – Nepal Economic Ties: New Horizons

1. India – Nepal growing bilateral economic relations

India and Nepal share a unique relationship of friendship and cooperation characterized by open borders and deep-rooted people-to-people contacts and culture. Under unique Treaty arrangements, national treatment is available for both Indian and Nepalese businesses; and there is reciprocal treatment of Indian and Nepali citizens in the two countries, in residence, property, business and movement of human capital; among others¹.

The trade ties were strengthened through streamlining of customs and duties regulations between the two nations, which was an important factor for Nepal's trade as it is a landlocked country. During 1970 – 80, multiple Trade and Transit Treaties were signed between India and Nepal as trade ties strengthened.

Of late, India remains the largest foreign investor in Nepal, wherein it provides aid and is jointly constructing hydel power projects with Nepal, with an extension of a USD 1 billion credit line.

India and Nepal have been consistently holding various dialogues to identify areas of mutually beneficial cooperation and tactfully resolve spheres of conflicts hindering the growing relations between the two nations. More importantly, India and Nepal need to enhance their cooperation in the areas of connectivity, trade, agriculture, and border security to holistically develop and expand the bilateral relations.

The trade scenario between India and Nepal has expanded ten-fold since 2001. The trade increased from USD 0.55 billion to USD 5.93 billion in 2017. Furthermore, India's exports to Nepal grew from USD 0.2 billion in 2001 to USD 5.93 billion in 2017 whereas India's imports from Nepal have remained constant at USD 0.4 billion between 2001 and 2017.

2. Launch of PHD India – Nepal Business Centre

PHD Chamber organized an interactive session with the High powered Delegation from Nepal Chamber of Commerce and Management Association of Nepal (MAN) on 7th April, 2018. During the interactive session, PHD Chamber launched the India Nepal Business Centre with the objective of promoting two

¹ History of India – Nepal Relations; South Asia Program at Hudson Institute

way bilateral economic and business relations for the welfare of both the nations. The centre would facilitate the investors from India to invest in Nepal and investors in Nepal to invest in India in order to explore the trade and investment opportunities and to participate in the economic development of both the nations.

2.1 Key objectives of India Nepal Centre

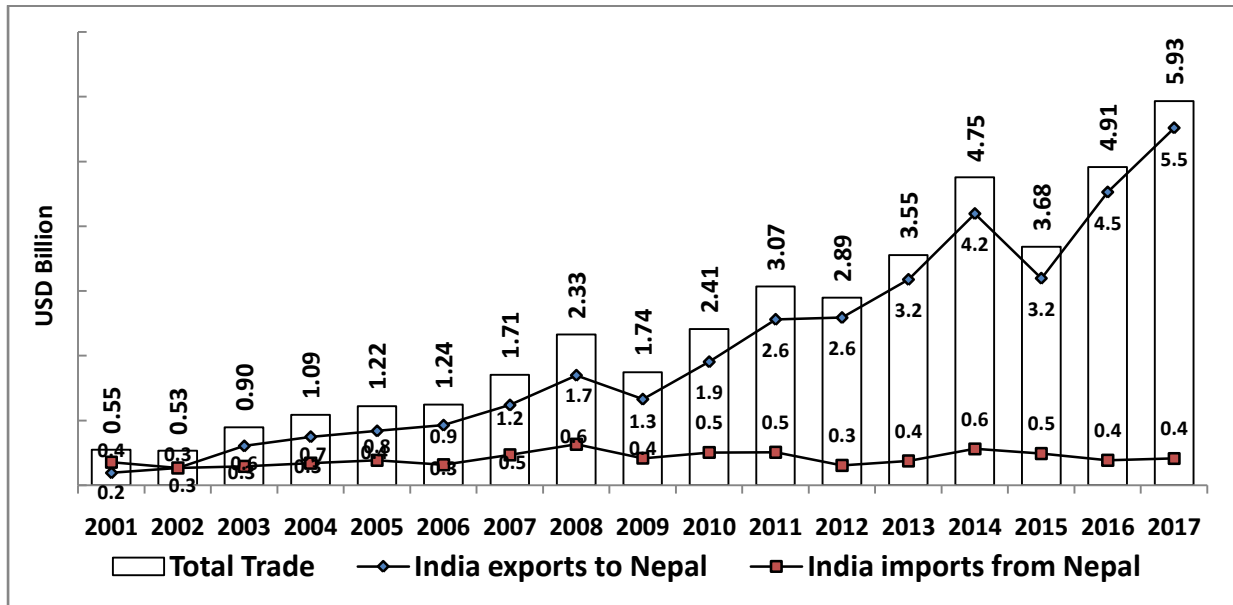
- INC will regularly monitor trade and investment opportunities in various sectors of both India and Nepal through regular research and networking with Government bodies, Entrepreneurs, Industry associations, Investors, business delegations, etc.
- INC will advise prospective traders and investors in India and Nepal processes, policies and procedures for filing applications and will help them meet other procedural and regulatory requirements in both the countries. For this purpose, information on specific trade and investment guidelines specific to India and Nepal will be provided by INBF.
- INC will provide information at a broad level to investors in India and Nepal about possible potential joint venture partners in both the nations.
- In case of requests made by individual investors to undertake specific research assignments, financial analysis or due diligence of any specific joint venture partner or Mergers & Acquisitions (M&A) targets in India and Nepal, INC will provide adequate resources to carry out such requests.
- In a nutshell, INC will increase understanding amongst the investors from India and Nepal on the promising investment areas and requirements and regulations for making investments in both the countries. It will facilitate in dealing with the Government in application procedures for Indian and Nepalese investors. This will reduce lead time in investment processes and procedural transactions.
- INC will be proactive in organizing exchange of business delegation, conferences, seminar, round tables, B2B meetings for the promotion of trade and industry not only in India and Nepal but also for the SAARC region.

In the India Nepal Business Centre, key sectors which would be focused include agriculture, agro and food processing, tourism, hydropower, infrastructure development, social infrastructure including health and education which will enhance and develop strong relationships and linkages between India and Nepal order to accelerate the growth momentum of both the nations.

3. Dynamics and Direction of Trade

The trade between India and Nepal has expanded from USD 0.55 billion in 2001 to USD 5.93 billion in 2017. India’s share in Nepal’s total trade grew from USD 30% in 1995 to around 60% in 2017. India’s exports to Nepal grew from USD 0.2 billion in 2001 to USD 5.93 billion in 2017 whereas India’s imports from Nepal have been hovering around in the range of USD 0.4 – 0.6 billion during 2001-17.

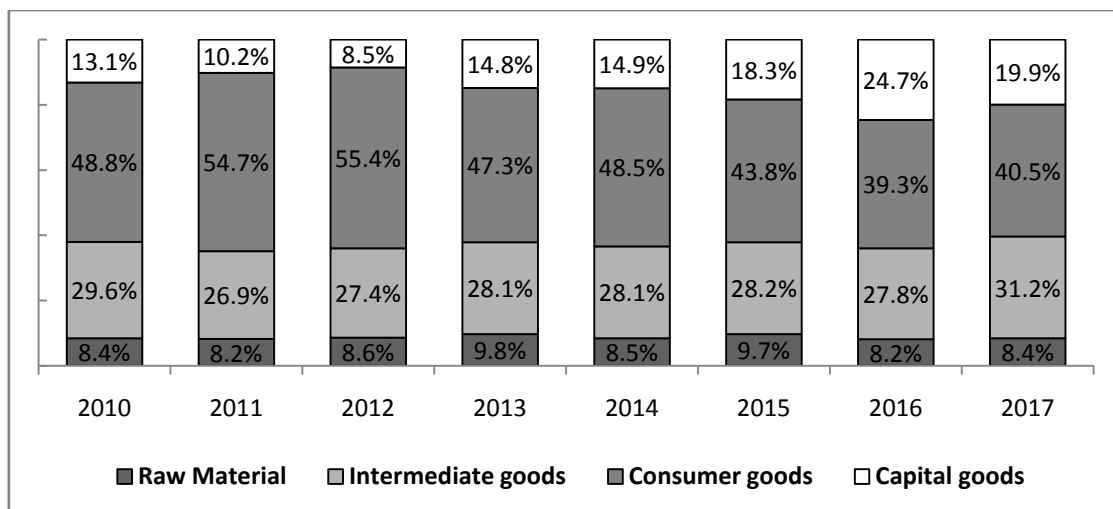
Chart 1: India Nepal Trade at a Glance



Source: PHD Research Bureau; Trademap Database

Based on the level of processing, India’s majority of the exports to Nepal are of consumer goods, viz. 41%; followed by Intermediate goods (31%); capital goods (20%); and raw materials (8%).

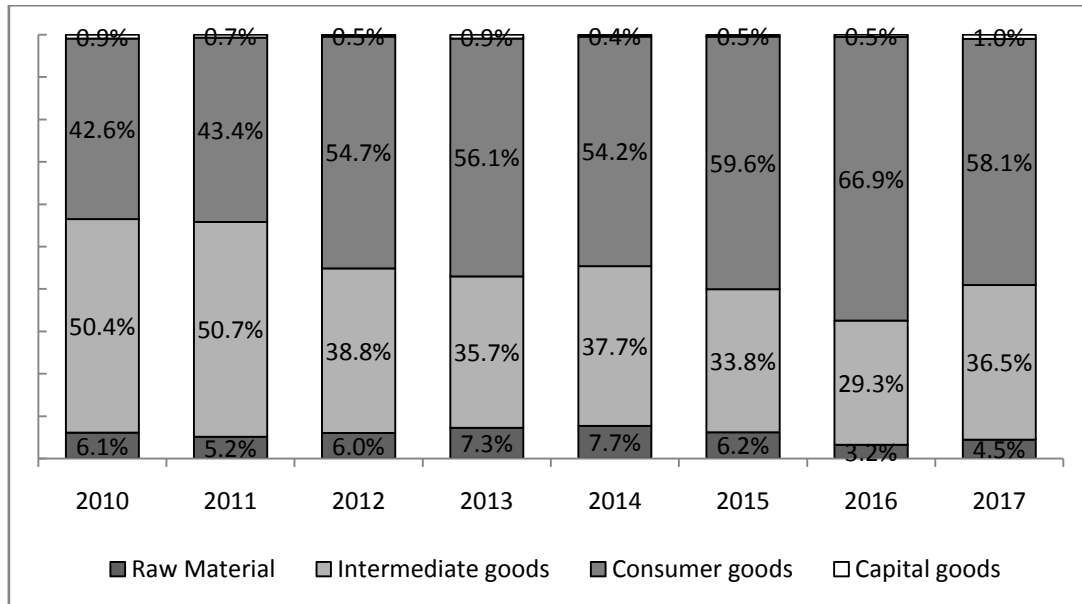
Chart 2: India’s exports to Nepal



Source: PHD Research Bureau; WITS Database

Conversely, majority of India's imports from Nepal are in the form of consumer goods, viz. around 58%; followed by intermediate goods (37%); raw materials (4%); and capital goods (1%) as indicated in Chart 3 below.

Chart 3: India's imports from Nepal



Source: PHD Research Bureau; WITS Database

3.1 Top traded products between India and Nepal

Table 1: India's top ten exports to Nepal (2017)

HS Code	Description	India's exports to Nepal	Share in total exports to Nepal
		USD million	(%)
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	1189.96	21.57%
'72	Iron and steel	763.17	13.83%
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	646.36	11.71%
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	509.00	9.22%
'10	Cereals	333.56	6.05%
'30	Pharmaceutical products	190.83	3.46%
'39	Plastics and articles thereof	163.84	2.97%
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	134.27	2.43%
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	125.16	2.27%

'23	Residues and waste from the food industries; prepared animal fodder	105.49	1.91%
Total exports to Nepal		5517.77	100.00%

Source: PHD Research Bureau; Trademap Database

India's major exports to Nepal include Mineral fuels (21.5%); followed by Iron and Steel (13.8%); Vehicles (11.7%); machinery (9.2%) and Cereals (6%) among others, of India's total exports to Nepal. Nepal is under-utilizing its potential in export of the products on which it has comparative advantage because of the inability to scale up production. This provides India various opportunities to enhance its presence in the Nepal's economy by greater value additions, which can be further strengthened as there exists huge potential for intra-industry trade of processed agriculture, light manufactured and heavy manufactured goods.

Table 2: India's top ten imports from Nepal (2017)

HS Code	Description	India's imports from Nepal	Share in total imports from Nepal
		USD million	(%)
'22	Beverages, spirits and vinegar	80.01	19.38%
'09	Coffee, tea, maté and spices	59.23	14.35%
'39	Plastics and articles thereof	41.94	10.16%
'72	Iron and steel	31.55	7.64%
'55	Man-made staple fibres	26.25	6.36%
'23	Residues and waste from the food industries; prepared animal fodder	23.02	5.58%
'53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	19.44	4.71%
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	16.44	3.98%
'38	Miscellaneous chemical products	16.22	3.93%
'64	Footwear, gaiters and the like; parts of such articles	13.25	3.21%
Total imports from Nepal		412.75	100.00%

Source: PHD Research Bureau; Trademap Database

India's top imports from Nepal include Beverages (19%); followed by Coffee (14.3%); plastics and articles thereof (10%) and Iron and Steel (7.6%) among others, of the total imports from Nepal. Looking at the share of Nepal's export to India in total export of each product, it appears that Nepal is close to exhausting its existing supply capacity. This gives immense opportunities for India to strengthen its position in Nepal.

3.2 Trade Cost between India and Nepal

India's trade cost with Nepal has increased from the level of 77% in 2010 to 98% in 2015, which has made products from countries like China and ASEAN nations more competitive compared to India. Although the trade cost for manufacturing products have declined over the years, trade cost for agricultural products have risen over the years. To strengthen the trade prospects, India and Nepal needs to address the rising trade cost at the earliest.

Table 3: India Trade Cost with Nepal (%)

	2001	2005	2010	2015
Agricultural products	172.03	93.06	116.74	150.46
Manufacturing products	76.52	98.14	147.56	78.35
Total Trade	100.23	140.02	77.66	98.34

Source: World Bank Trade Cost Database

3.3 Tariff Structure between India and Nepal

As per the data on India and Nepal's tariff compiled from World Integrated Trade Solution (WITS) database, for majority of the products imported from Nepal tariff rates are fixed at zero duty. However, for beverages, spirits and vinegar simple average tariff rate stood at 50%; and for tobacco and products thereof the rate stood at 30%.

Table 4: Simple Average Tariff imposed by India (2016)

Chapter	Product description	Simple average tariff imposed by India (%)	
		Nepal	World
01	Live animals	-	25.71
02	Meat and edible meat offal	-	22.22
03	Fish and crustaceans, molluscs and other aquatic items	-	17.02
04	Dairy produce; birds' eggs; natural honey; edible	0.00	36.72
05	Products of animal origin, not elsewhere specified	0.00	18.69
06	Live trees and other plants; bulbs, roots and the	-	28.17
07	Edible vegetables and certain roots and tubers	0.00	23.15
08	Edible fruit and nuts; peel of citrus fruit	0.00	28.69
09	Coffee, tea, maté and spices	0.00	51.52
10	Cereals	0.00	37.45
11	Products of the milling industry; malt; starches	-	31.66
12	Oil seeds and oleaginous fruits; miscellaneous	0.00	14.87
13	Lac; gums, resins and other vegetable saps	0.00	22.49
14	Vegetable plaiting materials; vegetable products n	0.00	13.80
15	Animal or vegetable fats and oils and products thereof	0.00	18.21

16	Preparations of meat, of fish or of crustaceans	-	27.97
17	Sugars and sugar confectionery	0.00	34.09
18	Cocoa and cocoa preparations	-	24.11
19	Preparations of cereals, flour, starch or milk	0.00	22.30
20	Preparations of vegetables, fruit, nuts or other products	0.00	24.74
21	Miscellaneous edible preparations	0.00	49.25
22	Beverages, spirits and vinegar	50.00	103.19
23	Residues and waste from the food industries; preparations	0.00	17.11
24	Tobacco and manufactured tobacco substitutes	30.00	33.02
25	Salt; sulphur; earths and stone; plastering materials	0.00	4.82
26	Ores, slag and ash	0.00	2.59
27	Mineral fuels, mineral oils and products of their	0.00	4.37
28	Inorganic chemicals; organic or inorganic compound	-	6.29
29	Organic chemicals	-	6.29
30	Pharmaceutical products	0.00	8.57
31	Fertilizers	-	5.44
32	Tanning or dyeing extracts; tannins and their derivatives	0.00	7.23
33	Essential oils and resinoids; perfumery, cosmetic	0.00	10.35
34	Soap, organic surface-active agents, washing preparations	0.00	7.88
35	Albuminoidal substances; modified starches; glues;	0.00	12.70
36	Explosives; pyrotechnic products; matches	-	9.57
37	Photographic or cinematographic goods	-	8.08
38	Miscellaneous chemical products	0.00	7.15
39	Plastics and articles thereof	0.00	7.86
40	Rubber and articles thereof	0.00	8.60
41	Raw hides and skins (other than furskins)	0.00	6.02
42	Articles of leather; saddlery and harness; travel	0.00	8.28
43	Furskins and artificial fur; manufactures thereof	-	3.72
44	Wood and articles of wood; wood charcoal	0.00	6.97
45	Cork and articles of cork	-	9.24
46	Manufactures of straw, of esparto	-	6.59
47	Pulp of wood or of other fibrous cellulosic materials	0.00	2.46
48	Paper and paperboard; articles of paper pulp	0.00	8.32
49	Printed books, newspapers, pictures and other products	0.00	7.28
50	Silk	-	8.34
51	Wool, fine or coarse animal hair; horsehair yarn	0.00	10.96
52	Cotton	-	6.93
53	Other vegetable textile fibres; paper yarn and woven	-	6.82
54	Man-made filaments; strip and the like of man-made	0.00	7.36
55	Man-made staple fibres	0.00	7.42
56	Wadding, felt and nonwovens; special yarns; twine	0.00	7.54
57	Carpets and other textile floor coverings	0.00	7.83
58	Special woven fabrics; tufted textile fabrics; lac	-	7.07
59	Impregnated, coated, covered or laminated textile	-	8.31

60	Knitted or crocheted fabrics	-	7.48
61	Articles of apparel and clothing accessories, knit	0.00	6.22
62	Articles of apparel and clothing accessories, not	0.00	5.27
63	Other made-up textile articles; sets; worn clothing	0.00	7.87
64	Footwear, gaiters and the like; parts of such articles	0.00	8.24
65	Headgear and parts thereof	0.00	7.33
66	Umbrellas, sun umbrellas, walking sticks	-	7.71
67	Prepared feathers and down and articles made of feather	-	7.71
68	Articles of stone, plaster, cement, asbestos, mica	0.00	8.07
69	Ceramic products	0.00	7.13
70	Glass and glassware	0.00	8.46
71	Natural or cultured pearls, precious or semi-precious stone	-	8.62
72	Iron and steel	0.00	7.06
73	Articles of iron or steel	0.00	8.27
74	Copper and articles thereof	0.00	5.42
75	Nickel and articles thereof	-	2.22
76	Aluminium and articles thereof	0.00	6.70
78	Lead and articles thereof	0.00	4.15
79	Zinc and articles thereof	0.00	4.53
80	Tin and articles thereof	-	4.39
81	Other base metals; cermets; articles thereof	-	5.94
82	Tools, implements, cutlery, spoons and forks	0.00	8.26
83	Miscellaneous articles of base metal	0.00	8.09
84	Nuclear reactors, boilers, machinery and mechanical	0.00	6.15
85	Electrical machinery and equipment and parts thereof	0.00	6.42
86	Railway or tramway locomotives, rolling stock	-	8.73
87	Vehicles other than railway or tramway	0.00	20.22
88	Aircraft, spacecraft, and parts thereof	0.00	5.62
89	Ships, boats and floating structures	-	7.11
90	Optical, photographic, cinematographic, measuring, etc	0.00	6.20
91	Clocks and watches and parts thereof	-	7.64
92	Musical instruments; parts and accessories of such	-	6.89
93	Arms and ammunition; parts and accessories thereof	-	9.67
94	Furniture; bedding, mattresses, mattress supports, etc	0.00	7.94
95	Toys, games and sports requisites; parts and accessories	-	8.39
96	Miscellaneous manufactured articles	0.00	7.84
97	Works of art, collectors' pieces and antiques	-	8.07

Source: PHD Research Bureau; WITS Database

On the other hand, the average tariff rate on various Indian products such as preparations of vegetables, fruits, nuts and other products; ores, slag and ash; lead; and vehicles are higher than the averages tariffs imposed by Nepal on all the countries.

On preparations of vegetables, fruits, nuts and other products (HS 20), simple average tariff on India stood at 20.6% compared to 20% on world average during 2016; for vehicles simple average tariff on India stood at 19.2% compared to 18.6% on world average; among others as illustrated in Table 4 below.

Table 4: Simple Average Tariff imposed by Nepal (2016)

Chapter	Product description	Simple average tariff imposed by Nepal (%)	
		India	World
01	Live animals	6.25	7.75
02	Meat and edible meat offal	7.00	9.63
03	Fish and crustaceans, molluscs and other aquatic	8.00	9.56
04	Dairy produce; birds' eggs; natural honey; edible	15.65	16.95
05	Products of animal origin, not elsewhere specified	5.67	5.82
06	Live trees and other plants; bulbs, roots	6.82	8.60
07	Edible vegetables and certain roots and tubers	8.70	9.47
08	Edible fruit and nuts; peel of citrus fruit or melons	8.51	9.39
09	Coffee, tea, maté and spices	12.05	16.99
10	Cereals	7.20	8.70
11	Products of the milling industry; malt; starches; etc	8.33	8.62
12	Oil seeds and oleaginous fruits; miscellaneous	7.31	9.01
13	Lac; gums, resins and other vegetable saps	6.00	8.48
14	Vegetable plaiting materials; vegetable products	6.00	8.00
15	Animal or vegetable fats and oils and products thereof	7.65	9.25
16	Preparations of meat, of fish or of crustaceans, etc	-	14.83
17	Sugars and sugar confectionery	12.80	19.70
18	Cocoa and cocoa preparations	21.00	26.84
19	Preparations of cereals, flour, starch or milk; etc	18.56	22.27
20	Preparations of vegetables, fruit, nuts or other products	20.53	20.01
21	Miscellaneous edible preparations	12.23	17.60
22	Beverages, spirits and vinegar	25.45	27.03
23	Residues and waste from the food industries; preparations	5.83	6.31
24	Tobacco and manufactured tobacco substitutes	26.67	27.33
25	Salt; sulphur; earths and stone; plastering materials	9.02	9.33
26	Ores, slag and ash	5.82	5.75
27	Mineral fuels, mineral oils and products thereof	8.24	12.96
28	Inorganic chemicals; organic or inorganic compound	6.17	8.16
29	Organic chemicals	5.90	7.30
30	Pharmaceutical products	7.82	9.20
31	Fertilisers	0.00	0.00
32	Tanning or dyeing extracts; tannins and their derivatives	10.76	13.96
33	Essential oils and resinoids; perfumery, cosmetics	10.21	13.57
34	Soap, organic surface-active agents, washing preparations	14.10	17.07
35	Albuminoidal substances; modified starches; glues;	5.92	9.17
36	Explosives; pyrotechnic products; matches; etc	12.92	16.14
37	Photographic or cinematographic goods	5.95	6.37
38	Miscellaneous chemical products	6.35	8.55

39	Plastics and articles thereof	15.26	20.50
40	Rubber and articles thereof	7.70	11.29
41	Raw hides and skins (other than furskins) and leather	5.00	5.00
42	Articles of leather; saddlery and harness; travel	15.40	18.20
43	Furskins and artificial fur; manufactures thereof	6.53	9.86
44	Wood and articles of wood; wood charcoal	6.57	10.28
45	Cork and articles of cork	6.13	7.42
46	Manufactures of straw, of esparto	6.47	7.42
47	Pulp of wood or of other fibrous cellulosic materials	5.25	5.75
48	Paper and paperboard; articles of paper pulp	12.17	14.98
49	Printed books, newspapers, pictures and other products	7.06	9.53
50	Silk	6.35	9.07
51	Wool, fine or coarse animal hair; horsehair yarn	5.19	6.44
52	Cotton	5.46	8.95
53	Other vegetable textile fibres; paper yarn and woven	7.29	9.51
54	Man-made filaments; strip and the like of man-made	8.75	10.52
55	Man-made staple fibres	9.31	10.71
56	Wadding, felt and nonwovens; special yarns; twine	8.66	12.99
57	Carpets and other textile floor coverings	28.68	29.11
58	Special woven fabrics; tufted textile fabrics; lac	7.22	12.47
59	Impregnated, coated, covered or laminated textile	9.83	13.29
60	Knitted or crocheted fabrics	15.00	15.00
61	Articles of apparel and clothing accessories, knitted	19.81	19.90
62	Articles of apparel and clothing accessories, not-knitted	19.77	19.84
63	Other made-up textile articles; sets; worn clothing	13.75	15.50
64	Footwear, gaiters and the like; parts of such articles	18.54	19.55
65	Headgear and parts thereof	8.22	13.84
66	Umbrellas, sun umbrellas, walking sticks	5.71	9.51
67	Prepared feathers and down and articles made of feathers	7.25	16.14
68	Articles of stone, plaster, cement, asbestos, mica	10.29	13.83
69	Ceramic products	10.84	15.57
70	Glass and glassware	14.56	18.18
71	Natural or cultured pearls, precious or semi-precious stone	5.36	9.03
72	Iron and steel	9.03	10.30
73	Articles of iron or steel	11.89	14.83
74	Copper and articles thereof	5.88	8.80
75	Nickel and articles thereof	6.63	8.50
76	Aluminium and articles thereof	6.42	10.81
78	Lead and articles thereof	6.29	6.00
79	Zinc and articles thereof	5.25	5.56
80	Tin and articles thereof	8.85	12.63
81	Other base metals; cermets; articles thereof	6.67	9.74
82	Tools, implements, cutlery, spoons and forks	5.45	6.52
83	Miscellaneous articles of base metal	7.80	9.71
84	Nuclear reactors, boilers, machinery and mechanicals	5.40	7.43
85	Electrical machinery and equipment and parts thereof	7.23	9.32
86	Railway or tramway locomotives, rolling stock and	7.25	12.96
87	Vehicles other than railway or tramway	19.15	18.60
88	Aircraft, spacecraft, and parts thereof	6.00	9.81
89	Ships, boats and floating structures	6.94	11.24

90	Optical, photographic, cinematographic, measuring, etc	4.51	5.12
91	Clocks and watches and parts thereof	6.37	11.20
92	Musical instruments; parts and accessories of such products	5.00	5.00
93	Arms and ammunition; parts and accessories thereof	11.25	50.54
94	Furniture; bedding, mattresses, mattress supports, etc	9.19	20.67
95	Toys, games and sports requisites; parts and accessories	5.09	5.36
96	Miscellaneous manufactured articles	7.31	10.56
97	Works of art, collectors' pieces and antiques	9.00	9.33

Source: PHD Research Bureau; WITS Database

4. Investment Environment: Promising Areas

In terms of approved amount of FDI, India is Nepal's largest source of FDI. India accounts for around 44% of Nepal's total foreign direct investment. There are about 150 Indian ventures operating in Nepal. They are engaged in manufacturing, services such as banking, insurance, dry port, education and telecom; power sector and tourism industries. Some of the major joint ventures of India in Nepal include Surya Nepal – a joint venture with ITC India, Dabur Nepal, Nepal Lever and United Telecom Nepal, Everest Bank, SBI Bank, LIC Nepal, Asian Paints, GMR India, IL&FS and Manipal.

Nepal is a prospective destination for Indian Investments. The low labour costs and liberal trade and economic policy resulting in lower tariffs are responsible for attracting Indian investment in Nepal. Further, the climatic advantage due to the terrain ranging from almost the sea level up to the Mount Everest within the average distance of 200 kms provide wider scope in Nepal for growing all sorts of agricultural products such as medicinal herbs, fruits and high quality tea, coffee and saffron in the country. Also, there is huge scope for the commercial production of hydropower in Nepal.

It becomes imperative that the existing hydropower projects are allowed to move smoothly. If such projects are completed, they would change the national economy dramatically as they would have multiplier effect on different sectors such as on education, health, transport, communication, industry, trade and service sectors.

Going ahead, Indian investments can play a vital for Nepal's economic growth, especially in sectors like infrastructural facilities as hydropower, education and health, agri-business, tourism and other financial sectors.

5. Ease of Doing Business

On the Ease of Doing Business front, India witnessed a remarkable jump in ranking from 130th position in 2017 to 100th in 2018 whereas Nepal witnessed a decline in its ranking from 99th in 2017 to 105th position in 2018.

Table 5: World Bank’s Ease of Doing Business Ranking 2018 – India and Nepal

Parameters	India	Nepal
EoDB Rank	100	105
Starting a business	156	109
Dealing with Construction Permits	181	157
Getting electricity	29	133
Registering Property	154	84
Getting Credit	29	90
Protecting Minority Investors	4	62
Paying Taxes	119	146
Trading across borders	146	76
Enforcing contracts	164	153
Resolving insolvency	103	76

Source: Ease of Doing Business Report 2018

On the ease of export front, Indian trucks are allowed free access to any part of Nepal for a period upto 72 hours without having to pay any extra charge. Similar initiative can be implemented for Nepalese trucks coming into India after due and comprehensive security checks. In many cases, Nepalese goods have to be transhipped to Indian trucks at the border, which adds to the time and cost of trading across border due to loading and unloading requirements. These problems need to address through creation of a harmonized transport segment catering to the logistics of India and Nepal trade.

6. Socio-Economic Development

India has been a major contributor in Nepal’s socio-economic growth. India provides substantial financial and technical development assistance to Nepal, focusing on establishment of infrastructure at the grass-root level in the areas of health, water resources, education, and rural and community development. More than 537 large, intermediate and small-scale projects at an estimated cost of USD 76 million have been implemented across Nepal under Indian financial support since 1951.

Nepal topped the chart of three countries where India spends money on developmental grants under rebuilding and reconstruction activities in the last

two years, ahead of both Afghanistan and Sri Lanka. Till January 2018, the grant in assistance to Nepal for 2017-18 was Rs. 253.17 crore. Apart from grant assistance, India has also extended four lines of credit to Nepal for USD 100 million, USD 250 million, USD 550 million and USD 750 million for execution of infrastructure development projects and post-earthquake reconstruction.

In recent years, India has been assisting Nepal in development of border infrastructure through up gradation of roads in the Terai areas, development of cross-border rail links at Jogbani–Biratnagar, Jaynagar-Bardibas, Nepalgunj Road-Nepalgunj, Nautanwa-Bhairhawa, and New Jalpaigudi-Kakarbhitta; and establishment of Integrated Check Posts at Raxaul-Birgunj, Sunauli-Bhairhawa, Jogbani-Biratnagar, and Nepalgunj Road-Nepalgunj.

7. Focus areas for development in Nepal

There are certain key areas which the Nepal can focus upon accelerate economic growth in the country. Fostering economic relations in the following areas can facilitate in developing the sectors which will lead to all-inclusive growth in the coming times.

7.1 Agri, Agro and Food Processing

Nepal is an agrarian economy with more than 65% of the population directly engaged in farming. Agriculture is the mainstay of the economy and contributes one-third to the GDP of Nepal. The Tarai plains are known as the breadbasket of Nepal. Some of the major staple crops of the state are barley, buckwheat, cotton, jute, maize, oilseeds, potato, rice, sugarcane, tobacco and turmeric.

A number of fruits and vegetable are grown by the farmers in the country such as apple, banana, cucumber, brinjal, lemon, lichi, lime, leafy vegetables, and mango, among others. However, the investment in the agriculture sector is low as compared to neighbouring countries and SAARC region.

Therefore, there is low technological development in the sector. It may be mentioned that the country holds huge potential in industrialization of agriculture produce. However, usage of traditional methods of farming coupled with scarcity of labour and skilled manpower.

To promote the trade of agriculture products, the government has initiated various schemes such as Agricultural Commodity Export Promotion Program, High Value Agriculture Project (HVAP) 2010-2017, Nepal Economic Agriculture

and Trade (NEAT) 2010-2013, and Agriculture Commercialization and Trade (PACT) 2012-2017, among others.

Table 6: Agriculture at a glance

Indicator	Value (in '000 hectares)
Agriculture area	4121
Total area equipped for irrigation	1368.9
Area under Permanent Crops	212
Area under organic crops	9.4

Source: PHD Research Bureau, compiled from FAO, Data pertains to 2015

However, the sector faces various constraints and challenges for export promotion such as supply side constraints, lower investments, inadequate trade infrastructure and facilitation. The sector has too many smallholder farmers which lack competitiveness and use traditional methods of farming. Consequently, there is lack of economies of scale and only 44.7% of the agriculture entities are commercialized while the majority (55.3%) of the farmers indulges in subsistence farming.

Going ahead, focus on building good export infrastructure along with reduction in structural and procedural barriers such as visa rule could strengthen the economic prospects. To promote agro industries and food processing in the economy, focusing on building basic infrastructure with a good network of roads connecting north-south corridor for linking hills, with Tarai and valley floor, provision of better irrigation facilities and availability of 24x7 power supplies. For commercialization of agriculture, fragmented land parcels and small holdings could be consolidated.

7.2 Tourism

Nepal has varied topography due to which it is a popular destination for domestic as well as foreign tourists. According to World Travel and Tourism Council, the direct contribution of travel and tourism to GDP is 3.6% of the total GDP in 2016 while the total contribution has been estimated at 7.5% of GDP during the period. Further, the sector supported more than 9 lakh direct and indirect jobs in 2016. The industry earns on an average 25% of the total foreign exchange. The government has set a target of attracting 2 million tourists by 2020.

According to tourism entrepreneurs, one of the major challenges is the lack of clear vision and mission on the part of the government. Formulation, in consultation with the private sector and other players, of a clear and pragmatic vision backed by a mission for the tourism industry would go a long way.

While export of travel services has expanded in recent years, much needs to be done to further expand the sector and be a net exporter of travel services. Poor infrastructure is the major constraint to expansion and development of tourism sector in Nepal. The road networks across the country are below standards while the air connectivity within the country is limited.

Encouraging the entry of international hotel chains and gradual improvement in the quality of services will help bring high-end tourists to Nepal. Further, ensuring timely construction of basic infrastructure like roads and airports, preservation of natural habitat, trekking trails and exploration of new travel destinations would strengthen the tourism climate. Going ahead, the far-western belt of the country remains largely unexplored. This can be developed with basic amenities to make it a tourist destination in the coming times.

7.3 Hydropower

Hydropower has a huge scope in the economy of Nepal as South Asia's considerable hydropower potential is concentrated in the Himalayan region. Nepal's theoretical hydropower potential has been estimated to be around 84,000 MW, of which 43,000 MW has been identified as economically viable.

Currently, Nepal's total power generation has been estimated at around 900 MW while the country generates around 847 MW from its hydro resources. Although Nepal suffers from regular energy shortages with a load shedding of close to 4 to 5 hours, the available hydropower resources could provide a large surplus if strategically developed with a view to foster regional energy trade. It is a well known fact that India has a huge demand for clean and affordable electricity which can be catered by Nepal.

7.4 Infrastructure Development

Infrastructure gaps present a significant challenge for Nepal's short and longer term development goals. It has been estimated that even though approximately 83% of population has access to basic water services, only 16% of the population has access to higher/medium quality water services. The infrastructure deficit is alarming and should be addressed for the overall economic development of the country.

Nepal needs to improve the basic infrastructure such as enhanced connectivity, availability of uninterrupted power supply, promotion of agglomeration economies which will allow the private sector and businesses to unleash their potential. A World Bank estimate of Nepal's 'infrastructure gap' pegs investment needs at between 8-12% of national income until 2020. Thus,

huge amount of investments are needed to develop infrastructure for fostering economic growth in the country.

Going ahead, utilization of latest technology extensively to establish intelligent transport system for roads and airports to enhance and lead to effective utilization of assets. To enhance availability of power, the Government of Nepal can use the India model of renovation and modernization of existing power plants to deliver more electricity. This will reduce costs (involved in building new plants) and at the same time generate power supply to cater to the growing demand. Above all, streamlining the permit approvals as well as land acquisition, reduce bottlenecks, will facilitate infrastructure development and facilitate ease of doing business in the country.

7.5 Soft Infrastructure

According to the Annual Household Survey 2015-16, the literacy rate of Nepal (age 5 years and above) stood at around 65.9%, wherein male and female literacy rate stood at 74.2% and 58.2%, respectively. There is still big gap in the literacy between sexes in Nepal. Therefore, focus should be to introduce reforms in education system with a focus to improve the skill sets of the people, enhance enrolment ratio in schools, upgrade educational infrastructure and to fill gender gap in literacy rates.

The healthcare infrastructure in Nepal demands urgent attention. There is a huge demand supply gap. There are only 0.36 doctors and 1.17 nurses per 1000; as compared to the BRICS medians of 1.8 and 4.9 respectively. There is an urgent need to formulate better health policies, provide incentives and address the bottlenecks in infrastructure development to spur private investments in health sector. Focus should be on allowing foreign private equity investors in the healthcare sector so as to enable the sector to have access to state of the art technology, processes and know-how.

8. Conclusions

The strengthening of India – Nepal relations will be game changer for expanding the prospects of SAARC Free Trade Agreement, going forward. The recently signed agreements on partnership in agriculture, connectivity through inland waterways and expanding linkages to connect Indian railway lines to Kathmandu will bolster the trade prospects, which can be further expanded to other SAARC economies.

Despite being contiguous nations, connectivity has been the major impediment for SAARC members. Therefore, the strengthening of India – Nepal existing

trade routes and creation of new routes would benefit the entire SAARC region. For instance, the Treaty of Trade between Nepal and India provides access to the Indian market for Nepalese products at a zero tariff rate, except for a small negative list, and as long as they meet specific rules of origin.

Similarly, as Least Developed Country (LDC), Nepal is eligible for preferential treatment under Generalized Systems of Preference (GSP) and, therefore, enjoys lower tariffs than the Most Favoured Nation (MFN) tariffs. On the back of robust connectivity, Nepal can boost its exports to India. Further, to tap the market potential, processing of products, value addition, branding and marketing are beneficial for both the nations in each other's market.

Going ahead, trade and other treaties such as control of unauthorized trade, transit, and rail service need to be periodically renewed. Focus should be on engaging in consistent Inter Governmental Committee meetings between both the nations to deliberate on procedural issues and trade restricting policy-related issues. On the back of further liberalized trade prospects and strengthened infrastructure, we anticipate the trade between India and Nepal to grow to USD 12 billion by 2022.

9. Suggestions

India – Nepal hold immense collaborative opportunities in the following sectors:

- 9.1 Developing Food processing value chains:** Nepal is predominantly an agrarian economy, which gives India ample opportunities to develop processed food value chains in collaboration with Nepal. The Food Processing industry in India is one of the largest industries in the country mainly on the account of its strong agricultural base. The share of India's export of processed food in global trade stood at 2.3%, valuing at USD 30 billion. Given the size and growth prospect of this sector, India – Nepal collaborative approach can foster the value chains significantly.
- 9.2 Tourism development:** Nepal has new and unexplored opportunities that make tourism a well-suited sector for collaboration. Tourism and its associated services comprise a significant portion in Nepal's GDP, which provide opportunities for India to develop hotels, travel agencies, tour operators, trekking and rafting agencies. India's ever growing hotel industry can steer the development process of hospitality sector in Nepal, which is highly fragmented at present. This will improve the movement of people between India and Nepal and enhance the foreign exchange earnings of Nepal, going forward. Other prospective and

collaborative tourism opportunities include adventure tourism and religious tourism.

9.3 Hydrel Power Generation: Despite of a huge hydropower potential, Nepal is power starved. This is evident from the fact that Nepal is rich in water resources with the potential to generate 83,000 MW of hydro-power, but it currently generates 674 MW of hydro-power from the total installed capacity of 705 MW. This is an opportune moment to push for electricity trade with a long-term perspective to develop hydrel power generation capacities.

At present, India has surplus power capacity. It can import flexible hydropower from Nepal to balance its fast growing renewable generation and also provide a market for Nepal's electricity. India can enter into a joint venture with Nepal to develop the infrastructural capabilities of Nepal due to which hydro potential can be developed faster.

9.4 Banking and Financial Services: The magnitude and coverage of banking and financial services in Nepal is relatively small and limited. The institutions are not developed or modernized to support the financial needs of various demanding sectors in Nepal. In Nepal, only 38% of adults have bank accounts. Of that number, only 6.7% use debit cards. This provides tremendous opportunities for India to enter into collaboration with Nepal to develop and sustain the banking and financial services in the country, including establishment of large scale banks, non-banking finance institutions, insurance companies, among others.

9.5 Education services: Presently, Nepal's education sector is downtrodden due to poor quality of public education and disparity in access to quality education across the nation. Nepal lacks research centers that are committed to the creation and dissemination of knowledge, in a range of disciplines and fields. With numerous opportunities to develop educational institutions providing training and turning out quality oriented graduates, India can enter into joint ventures for green field and brown field investments with Nepal. Further, major Indian universities can sign exchange programmes and MoUs with Nepalese Universities to enhance exposure of Nepalese students.

9.6 Health Services: Nepal's health care sector has the potential to export services. As the country's economy grows, the demand for quality health

services will also grow. This enables India to setup health care related infrastructure capacities in Nepal. There are also opportunities for public private partnerships in the development and management of public health infrastructure, pharmaceutical industry, health care facilities, ayurvedic medicines and ayurveda holistic treatment centres and health care educational services for India.

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About the PHD Chamber

PHD Chamber of Commerce & Industry, a leading Industry Chamber of India, ever since its inception in 1905, has been an active participant in the India Growth Story through its Advocacy Role for the Policy Makers and Regulators of the Country. Regular interactions, Seminars, Conference and Conclaves allow healthy and constructive discussions between the Government, Industry and International Agencies bringing out the Vitals for Growth. As a true representative of the Industry with a large membership base of 48000 direct and indirect members, PHD Chamber has forged ahead leveraging its legacy with the Industry knowledge across sectors (58 Industry verticals being covered through Expert Committees), a deep understanding of the Economy at large and the populace at the micro level.

At a Global level we have been working with the Embassies and High Commissions in India to bring in the International Best Practices and Business Opportunities.



“We Walk Our Talk”



PHD CHAMBER OF COMMERCE AND INDUSTRY