



India, Nepal and GST Implications for Bilateral Trade



नीति अनुसन्धान
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Editor

Deepak Kumar Adhikari

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of
An Interaction Program
on
India, Nepal and GST: Implications for Bilateral Trade**

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Message

Implementation of Goods and Service Tax (GST) in India is one of the most transformational and game changing economic reform initiatives taken by the Government of India. Its positive impact for the economy is unfolding and has resulted in significant improvement in ease of doing business in India. I am particularly gratified to mention that India had made special provisions to include rupee based trade with Nepal in the GST scheme based on widespread demand from the Nepali businesses and the same has been fully implemented.

I am happy to note that Neeti Anusandhan Pratishthan, Nepal (NeNAP) is publishing a book on “India-Nepal and GST : Implications for Bilateral Trade”. I hope it is going to bring clarity vis-a-vis GST’s international trade neutrality and implementation modalities


(M.S. Puri)



Posh Raj Pandey, PhD

Dr Pandey has more than 25 years of experiences working on issues of trade, economy and development. Currently, he is the Chairman at South Asia Watch on Trade Economics and Environment (SAWTEE), a think tank working to build capacity of concerned stakeholders in the context of liberalization and globalization and which also works as a consortium of South Asian NGOs. He holds a PhD in Economics, and Masters' Degrees in Business Management and in Economics. Dr Pandey has served as a Member of the UN Secretary General High-Level Panel on Technology Bank, New York. He is listed in the Indicative Panelist of the Dispute Settlement Body of the World Trade Organization (WTO), Geneva. He is a Member in various high-level committees of the Government of Nepal, including, High-Level Foreign Policy Review Task Force, Board of Trade and Nepal Business Forum. Dr Pandey has also served as an Economic Expert in Prime Minister's Advisory Board and was a Member of the National Planning Commission, an apex policy making body of the Government of Nepal. He was one of the negotiators for Nepal's accession to the WTO. Dr Pandey has worked for the UNDP in Nepal on the issues of multilateral trade integration and trade related capacity building. He has also worked as a consultant to UNDESA, New York, Asian Development Bank, Manila, UNESCAP, Bangkok, FAO, Bangkok, ODI, London among others. He was a faculty at the Central Department of Economics, Tribhuvan University, Kathmandu. Dr Pandey has extensively published on the issues of international trade, macroeconomics and development and presented papers in various international seminars.

Nepal-India Trade : Some Reflection on the Impact of GST

Good afternoon.

I would like to thanks Deepak jee for inviting me for this program. Indeed, it is a privilege to be with you.

While suggesting the topic for discussion Deepak Jee informed me that most of the participants are students in PhD, M. Phil and Masters' Degree. So, I take liberty to speak on broad framework, including the issues of Nepal-India trade relation, before dealing on issues of GST, its impact on Nepalese economy or rather Nepalese trade.

Well, let me start with the legal framework that guides Nepal-India trade relation. The legal framework constitutes four agreements concluded between Nepal and India. First, Nepal-India Trade Treaty of 2009; second, Nepal-India Treaty of Transit; third, Nepal-India Railways Service Agreement of 2004 and the last, Agreement of Co-operation on Controlling the Unauthorized Trade of 2009. These four agreements between Nepal and India that defines our trade relation.

Let me explain in brief the key provisions of these agreements. The basic objective of Nepal-India Trade Agreement is to expand trade between two countries and encourage collaboration in economic development. It provides duty free market excess for primary products on basic primary products on reciprocal basis. The protocol of the agreement lists altogether 16 products for reciprocal duty-free treatment. It means, both the countries, Nepal and India do not levy

any import duty to these products while importing to their respective territories. With regards to manufacturing or industrial products, India provides duty free market excess to all Nepalese industrial manufactures provided criteria for rule of origin is satisfied. It means all Nepalese industrial products are required to fulfill rules of origin criterion in order to get duty free market excess in India. The applicable rules of origin criteria are domestic value addition and change in tariffs heading at HS-4 digits level. That is, to get duty free market access in Indian market, the foreign component of exportable product should not exceed 70% of the value and at the same time the tariff heading should be changed at HS-4 digits level. Nepal also provides partial exemptions on customs duties for Indian manufactured products. The point to note here is that it is not only India providing concessions for Nepalese exports, Nepal also grants preferential treatment to Indian exports.

Nepal-India Treaty of Transit recognizes Nepal as a landlocked country and it also recognizes that Nepal's needs freedom of transit, including permanent access to and from the sea, to promote its international trade. Here the word used is 'freedom' not 'right' and we should not get confused. The primary goal of transit agreement between India and Nepal is to facilitate 'traffic-in-transit' through their respective territories. Again, here the word 'respective territories' is used. In protocol, we do not have provision to grant transit facility to India, but as per this agreement, if India wants to use Nepalese territory to trade with China, then this agreement provides that kind of facility to Indian traffic in transit also. The agreement

exempts customs duties, transit duties or other charges, except reasonable charges for transportation for traffic-in-transit.

The third agreement, Nepal-India Railway Service Agreement basically provides the procedures to operate and manage the rail services between Kolkata/Haldia port and Vishakhapatnam port in India and Birgunj in Nepal via Raxual for traffic in transit and between stations on the Indian Railways and Birgunj via Raxual for bilateral traffic.

The agreement to control unauthorized trade requires both countries to cooperate effectively with each other to prevent infringement and circumvention of laws, rules, and regulations of either country in regard to trade-related matters.

The defining characteristics of Nepal's trade relation with India is stagnate exports, skyrocketing imports and widening trade deficits. Average annual growth rate of exports to India during 1990s was 34.8 percent, it was 5.6 percent during 2001-2010, and 2.27 percent during 2011-2018. But average annual growth rate of imports during 1990s was 19.8 percent, 23.8 percent during 2001-10, and 20.3 percent during 2010-2018. In the last two years it was 32 percent. Nepal's export to India was Rs. 893 million; import was Rs. 1227 million and trade deficits 37 percent of exports in 1975. In 2010, total export was Rs. 21.221 billion, import was 39.660 billion and trade deficit was 86 percent of exports. Currently in 2017-2018, export was Rs. 46.604 billion, import was 809.814 billion and trade deficit with India was more than 16 times of the exports. Another feature is increasing trade dependency with India. In 1992-1993, India's share in total exports was 9 percent and 32 percent in imports.

Currently, India's share in total exports is 57 percent and 65 percent in total imports. In terms of her consumption Nepal sources 32 percent of her consumption from India.

Nepal's export to India is concentrated in few products. Top ten export products, namely cardamom, juice, yarn, textiles, zinc sheet, wire, rosin, oil cakes, shoes and sandals, constitutes about two-third of Nepal's export to India. Export basket constitutes mainly agriculture products and few light manufacturing products. Unlike export, import basket is well diversified; it constitutes consumer goods to machinery equipment to intermediate products. In terms of value, petroleum and automobile products are top two import products.

Despite preferential market access for Nepalese exports in India, a question arises why such sorry state of affairs in trade relations. The reason being Nepal's productive capacity is very weak and low and Nepal cannot produce all products it consumes and for products which it can produce cannot compete with Indian products. For export sector, Nepal cannot generate sufficient exportable surplus and where exportable surplus exists, there are many non-tariff barriers are raised in Indian markets such as testing requirements in vegetables, dairy products, certification requirement in meat and meat products, special authorization, traceability requirements for pharmaceutical products and so on.

Let me turn to GST. India's tax regime witnessed a paradigm shift on July 1, 2017, when the Government of India rolled out

Goods and Services Tax (GST). GST has mitigated cascading or double taxation, paved the way for common national market and expanded tax base. It has also created a vast repository of information on economic activities, which will help better understanding of Indian economy and inputs in economic policy making. In fact, it is India's most ambitious tax reform initiative since its independence.

GST is a destination-based tax on consumption of goods and services. It is levied at all stages right from manufacturing up to final consumption with credit of taxes paid at previous stages available as set off. In a nutshell, only value addition and the burden of tax is to be borne by final consumer. GST is applicable on supply of goods and services as against the previous concept of tax on manufacture of goods or sale of goods or provisioning of services. GST amalgamates various taxes collected by the centre and the states. It submerges eight central taxes namely, central excise duty, duties of excise (medicinal and toilet preparation) additional duties of excise (goods of special importance) additional duties of excise (textile and textile products) additional duty of customs (commonly known as CVD), special additional duty of customs (SAD), service tax and central surcharges and cesses so far as they relate to supply of goods and services collected by centre. Similarly, it unifies 9 state taxes, namely, state VAT, sales tax, luxury tax, entry tax, entertainment and amusement tax, taxes on advertisement, purchase tax, taxes on lotteries, betting and gambling and state surcharges and cases so far as they relate to supply of goods and services. GST has multiple rates- 0%, 5%, 12%, 18% and 28%-based on the category of goods and services. In product and

services that are defined as necessity, the rates are lower and those products defined as luxury attract higher rate.

Let's talk on how it impacts international trade? What are the provisions in GST that affects our trade, for both export and import? Import of goods and services are treated as interstate supplies and GST is levied in all imports at the border points. So, if Nepal gets duty free market access in Indian market but while exporting from Nepal to India, the importers are required to pay GST. Exports are treated as zero rated supplies. That is, input tax credit is available and refunded to the exporters. So, while exporting from India to Nepal or importing into Nepal from India, the input tax credit will be provided. These two are the provisions that impacts Nepal-India trade relation. How it's going to impact our travel and imports? The first is the price of some of our imports decreases. In the previous regime only central excise taxes were reimbursed while exporting to Nepal. But the GST, as explained earlier, submerged and replaced various domestic taxes, including state level taxes, and the exporters get GST reimbursed when customs official certifies of exportation. Thus, it has direct effect on prices. My institution, South Asia Watch on Trade Economics and Environment (SAWTEE) has conducted a quick study on the impact of GST on import and exports of Nepal. GST is applicable on imports from Nepal as inter-state supplies; the study shows that Nepalese exports become less competitive in Indian market. Out of the 30 major export items of Nepal to India, GST on 28 products is higher than previously collected taxes-countervailing duties and additional taxes. Similarly on import side, the price of many consumable products such as processed food, sugar, medicine, packed food as well as that of automobiles increases. However,

the prices of some of the construction materials such as cement paints and varnish, ceramic tiles, tampered glass decreases.

Second, it also incentivizes exporters in India to export Nepal through formal channel. The reason is Indian exporters get refund on the amount levied as GST only if Customs certify the export. It will boost authorized trade between India and Nepal because a large chunk of business in the informal sector is expected to come into the formal sector.

Third, it will encourage Indian exporters to issue genuine sales bill as the Indian vendor gets GST refund on exports. This will end the hassles associated with customs valuation and the problem of under-invoicing of imports and evade customs duties. It will, thus, contribute to Nepal government in collecting customs revenues.

Fourth, as a corollary, customs process is shortened as customs officials do not have to spend more time and energy on customs valuation of goods at the customs point.

Fifth impact is negative in the sense it increases transport cost for imports into Nepal because transportation services and insurance services attract 18 percent GST, which is higher than the existing taxes on transportation services.

Let me conclude my presentation. Despite this adverse impact on some of the exportable products of Nepal, I would say GST has positive impact on Nepalese trade with India. It has increased transparency and predictability in taxes and duties, increased formal trade through authorized channel, improved customs valuation process and procedures, and last but not the least, improve revenue collection of the government.

Thank you



Nihar Ranjan Nayak , PhD

Dr Nayak completed his PhD in International Politics from Jawaharlal Nehru University. He was Visiting Fellow to PRIO, Oslo, from June 6 to July 7, 2006 and July 2007. He did a special course on Peace Research in International Summer School from Oslo University in 2007. He has been visiting Faculty to the Center for the Study of Nepal, Faculty of Social Science, and Banaras Hindu University in 2011. He has been Guest Faculty to Lal Bahadur Shastri National Academy of Administration (LBSNAA), Mussoorie since September 2006.

India-Nepal trade in post-GST period

The economic relationship between Nepal and India finds an important place in overall government to government relationship. There are five levels- official development assistance from India, Indian investments, border trade, trade under multilateral arrangements, and transit and bilateral trade- of economic engagements between India-Nepal. While the 1950 treaty guides the overall bilateral relationship, the current bilateral trade is guided by the 2009-revised Indo-Nepal Treaty of Trade, WTO, SAFTA and SAARC Agreement on Trade in

Services (SATIS). Besides that there has been reciprocal [MFN status](#).¹ Nepal tops the list of countries in terms of India's border trade with its neighbours, leaving more populous countries Pakistan and Bangladesh behind.”²

Despite having close relationship, there are, however, some irritants between the two countries. Bilateral and Transit trade dispute is one of them. The issue has figured prominently in bilateral meetings ever since King Mahendra's regime initiated diversification of Nepal's foreign policy in 1955. In 1978, Nepal demanded separation of the Transit Treaty from trade for seeking benefits of a landlocked developing country (LLDC). Major changes followed in this separation in 1991.

In post-GST period there are perceptions in Nepal that GST has widened the existing trade gap further.

Nepali Perception on GST

Quoting the [Nepal Rastra Bank report 2017](#), media reports said Nepal's export to India has been adversely affected after the enforcement of GST as Nepali goods have become less competitive in Indian market due to high duty in post-GST period. Export of major Nepali goods to India, which were enjoying zero duty or nominal tariff earlier, has dropped significantly.³

1 <http://pib.nic.in/newsite/PrintRelease.aspx?relid=106879>

2 <https://www.financialexpress.com/economy/indias-border-trade-nepal-tops-the-list-bangladesh-second-pakistan-even-behind-bhutan/1431456/>

3 Economic Times, October 31, 2017. <https://economictimes.indiatimes.com/news/economy/foreign-trade/gst-hits-nepals-export-to-india-report/articleshow/61365845.cms>

As per the study carried out by South Asia Watch on Trade, Economics and Environment (SAWTEE) on 30 major export items to India, export tariff for 28 top items have increased, like five per cent on big cardamom, 12 per cent on processed food items and 18 per cent on vegetable products.⁴

Second, there are reports about non-acceptability of GST bills by Nepali customs. Nepali customs official feel that most of the GST bills from India are duplicate. There is no mechanism from India side to cross-check the authenticity of the bills. This has severely affected Nepali businessmen transitions with India. A large number of Nepali businessmen feel that “they have to pay extra duties or fines for custom clearances at the Nepali customs due to price differences in the GST bill and Nepali Customs “Reference Book”⁵.

Third, there are also reports about lack of synchronization in customs policies between both the countries, lack of trust on Indian GST by Nepali authorities, and poor implementation of bilateral and multilateral trade treaties.⁶

4 <https://economictimes.indiatimes.com/news/economy/foreign-trade/gst-hits-nepals-export-to-india-report/articleshow/61365845.cms>

5 This [Book contains the Schedule 1 & Schedule 2, of the Financial Act](#), for goods to be imported and exported from Nepal and their customs, duty rate respectively. Customs Tariff 2014/2015, Government of Nepal. This book was updated in post-GST period. Any price differences between GST bill and reference book has to be paid by the importer. Also see https://www.customs.gov.np/upload/documents/Customs%20Tariff%202017_18_2017-12-29-11-35-32.pdf. [Authors interactions with stakeholders of both the countries.](#)

6 [Authors interactions with stakeholders of both the countries](#). For details see Meeting of Nepal-India Inter-Governmental Committee (IGC) on Trade, Transit and Cooperation to Control Unauthorized Trade held at Kathmandu on 26-27 April 2018.

Understanding GST

India's tax regime witnessed a paradigm shift on July 1, 2017, when the Government of India rolled out Goods and Services Tax (GST). GST incorporated over a dozen central and state taxes that were levied on goods and services earlier. It is implemented as a broad based and multi-stage taxation, keeping in mind federal India as a common market.

Though GST is a domestic tax that is neutral to foreign trade, it was integrated with the customs duty (imposed on imported items by the customs authority) structure for effective implementation.

GST and foreign trade

The dual-tax model, led to the splitting of the GST rate into three categories: Central GST (CGST); state GST (SGST); and integrated GST (IGST). The CGST and SGST collections go straight into the coffers of the centre and the consuming state. If an item is produced and consumed in the same state it attracts only CGST and SGST. But if it crosses the state boundary, the IGST comes into picture, which will be shared between the states, including the transit state.

As a domestic tax, the GST has a limited role with regard to exports, except the input tax credits to the exporter. This is in line with the exemptions granted to exports in the previous tax regime but with robust safeguards against false claims.

In the pre-GST period, imports by Indian traders often attracted additional customs duty (ACD), special additional customs duty (SACD) etc., over and above the basic customs

duty (BCD), as a means to protect domestic production. This apart, imports attracted countervailing duty (CVD) at the same rate as central excise on domestic production of similar goods. Sales of imported items in the domestic market attracted VAT at a rate equal to that imposed on domestic produce.

In the GST regime, imports in India are treated as inter-state transfers and attract IGST, at the same rate as is applicable on domestic produce and, duties other than basic customs duty are subsumed with IGST⁷.

“All imports shall be deemed as inter-State supplies and accordingly integrated tax shall be levied in addition to the applicable Custom duties,” reads a guideline⁸ for importers released by the Central Board of Excise and Customs. The guideline further adds that:

The Customs Tariff Act, 1975 has accordingly been amended to provide for levy of integrated tax and the compensation cession imported goods. Accordingly, any goods which are imported into India shall, in addition to the Basic Customs duty, be *liable to integrated tax at such rate as is leviable under the IGST Act, 2017 on a like article on its supply in India*. (See figure 1)

Figure- 1 indicates that before the implementation of GST, imports to India (here Indian importers) were subject to an ‘additional duty’, a ‘special additional duty’, and education cess (tax), state level value added or sales taxes, the central sales tax, and/or various other local taxes and charges. The GST has

7 IGST Act, 2017

8 Imports in GST regime http://www.cbic.gov.in/resources/htdocs-cbec/gst/Imports_in_GST_Regime.pdf;jsessionid=D30E87B41834C6C60D-3BA8DAA363FDA9

subsumed a number of these charges, including the additional and special additional duties that were previously levied on imports, into the single GST, or in the case of imports, IGST. There is no change in the basic customs duty in GST regime. According to Ajay Sahai, DG & CEO, FIEO, “BCD has nothing to do with GST. BCD remains same in GST regime. During pre-GST period, prices of imported goods were going up due to multiple taxes at different phases. That is not the case under GST regime.”⁹ Anti-dumping duty, safeguard duty and the GST compensation cess apply separately on the special or luxury goods imported into India.¹⁰

As per the GST rules, only manufacturing companies and their authorised dealers are allowed to export. Indian customs will certify only the export bills presented by manufacturing companies or their authorised dealers. Indian customs will not accept GST bills of the local suppliers, if they are not authorised dealers.

GST is levied on every transaction of goods and services, except on exempted goods and services, goods that are outside the purview of the new tax regime and transactions that are below the prescribed threshold limits. Goods and services can be exported, either on payment of IGST which can be claimed as refund after the goods have been exported, or under a bond or letter of understanding (LUT) without payment of IGST.

In case of goods and services exported under a bond or LUT,

9 Ajay Sahi’s interview to Nihar R Nayak in FIEO, New Delhi, in March 2019.

10 Import in GST Regime, (Goods and Service Tax), Directorate General of Taxpayer Services, Central Board of Excise & Customs, Government of India.

the exporter can claim a refund on the accumulated ITC on account of exports.¹¹

Further, there is no GST on export of goods and services. However, given the special relationship between India, Nepal and Bhutan, the government of India (GoI) added a new clause to this on October 27, 2018 and exempted GST on services against payment in Indian currency, to Indian service providers.

GST amendments for Nepal and Bhutan

After receiving feedbacks and suggestions from the two Himalayan countries on various issues relating to bilateral trade in the post-GST era, both in the bilateral and track-II level interactions, the ministry of finance, government of India [removed the GST on supply of services](#) to Nepal and Bhutan against payments made in the Indian currency through a gazette notification on October 28, 2018. Earlier, the GST was exempted only if the service supplier received payment in convertible foreign currency. That rule had reportedly created an extra burden on Nepali and Bhutanese traders, as they usually make payments to service suppliers in Indian currency.¹²

In case of Nepal, traders import various services from India namely, transportation, insurance, handling of shipping line containers, container freight stations, among others, which are also associated with third-country trade. India has also been the major supplier of software and other information technology-related products, business process outsourcing, knowledge process outsourcing and legal product outsourcing.

11 Ibid.

12 Notification no.9/2017-integrated tax (rate), June 28, 2017, notification no-31/2017 (29 September 2017), notification no-42/2017 (27 October 2017), Department of Revenue, Ministry of Finance, Government of India.

India's trade framework with Nepal

As per the declaration made at the Hong Kong ministerial of the WTO in 2005, India granted duty free tariff preference (DFTP) to all LDCs,¹³ in 2008. The scheme¹⁴ which was made fully operational in 2012, was amended in 2015, and provided duty-free access for more than 98 per cent of India's tariff lines. Bangladesh, Nepal, Bhutan, Myanmar, Afghanistan are all eligible to trade under the scheme. This coupled with the preferential trade offered under SAFTA,¹⁵ allows Nepal, Bangladesh, Afghanistan and Bhutan to enjoy duty-free, quota-free access to the Indian market for wide range of export items.

The India-Nepal trade has some extra features. Nepal pegged its currency to the Indian rupee in 1993, thereby cushioning itself against foreign exchange volatility risks. Second, considering its landlocked location the bilateral trade treaty of 1996 that was upgraded in 2009, offers some unique concessions to Nepal, over and above the benefits offered by India under SAFTA, and those for the LDCs.

Interestingly, despite special benefits offered to Nepal from India side, its total exports to India remain stagnant. A detailed analysis will prove that the country witnessed robust growth in exports in some major product or commodity segments (like tea, cardamom, jute, manmade fibre, iron and steel etc), post-

13 UN list of LDCs https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf

14 "India's duty-free tariff preference scheme for LDCs". International Trade Centre, 2015. <http://www.intracen.org/uploadedFiles/intracenorg/IndiaDutyFreeTariff.pdf>

15 Operationalization of SAFTA. PIB release, February 12, 2014 <http://pib.nic.in/newsite/PrintRelease.aspx?relid=103587>

GST. According to the Trade and Export Promotion Centre (TEPC), Nepal's trade deficit increased to 40.3 per cent between July-October 2018. Suyash Khanal, deputy executive director at the TEPC, observed that the trade deficit has gone up due to "Nepal's dependence on imported goods caused by the constraints in production and supply" at the domestic level.¹⁶

Further, Nepal's trade stagnation is not new. It has been reported since 1992. A NRB study in 1992 indicated that, in 1991-92, the trade deficit with India was to the tune of Rs 10,247.0 million, a steep increase from Rs 333.4 million in 1975/76. The study also found that "not a single commodity has been stable and perpetually exported for quite some time both to India and other countries."¹⁷

This indicates that GST could not be the reason for the growing trade deficit between Nepal and India. There must be some other reasons for Nepal's relatively poor export performance.

Like all of its neighbors', Nepal too has a limited export basket that has little complementarity with India's vast production profile and thereby ends up competing in areas, where India is exceptionally strong. Moreover, Nepal has failed to build strong global equity in select areas like ready-made garments in Bangladesh or tea in Sri Lanka. Naturally, it operates on low margins and depends almost entirely on Indian demand.

16 Nepal's trade deficit balloons amid rising imports of fuel, agricultural goods, Kantipur, November 30, 2018.

17 Trade imbalances with India, A study conducted by Economic Development and Engineering Research Institute for Nepal Rastra Bank, 1992.

The GST has little to do with this rollercoaster. On the contrary in 2017-18, when GST was introduced, the combined export earnings from tea and cardamom shot up by 27 per cent to \$71.71 million, which constituted over 16 per cent of Nepal's total exports to India.

The weakness is more pronounced in Nepal's manufacturing exports. A closer look may reveal, that Nepal's major export items – like jute products, processed food, iron and steel etc. - are largely dependent on the supply of raw material from either India, or some other source.

Effects of GST on Nepal

That GST has no direct impact on India's trade with Nepal or any other country, as has been amply debated and discussed above. However, GST may have many long ranging impacts on Nepal economies.

While there is not yet much research material on the subject, some circumstantial evidence as per newspaper reports, indicates that GST may change the way foreign trade has so far been conducted in the region, reduce the incidence of under-invoicing and thereby help the neighboring economies to plug tax leakages.

Since GST is bringing about long term changes in the Indian business environment, the impact of such changes could be minimal on India's sea-based trade than border trade.

For example, unlike the sea-based trade, border trade is dominated by smaller players many of whom prefer cash transactions. The unorganized nature of the trade also increases

the logistical costs of border trade, as smaller players cannot afford railway rakes and opt for movement by truck, which is more costly. Almost all the \$6.6 billion Indian exported goods to Nepal are transported by road. This, despite the fact, the two countries is connected by rail.

Since GST is not applicable on goods exported to other countries, and now with the exemptions on service exports, a large number of Indian goods have become cheaper in Nepal. Nepali importers pay less for transportation and other miscellaneous charges. Goods imported from India are reportedly taking less time to reach their destination in Nepal. Exemption of the GST on supply of services to Nepal against payments made in Indian currency, has simplified the transactions for Nepali importers with regard to India. The same has also helped Nepal save foreign currency.

Major Findings

Since the GST is a domestic tax, it does not have any impact on Nepal's transit trade unless Nepali traders import services from India.

The study found that GST invoice or Tax invoice and e-way bill can be verified online (ICEGATE.gov.in or <https://services.gst.gov.in/services/searchtp>) by entering reference details like IEC no, PAN no, GSTIN no and invoice no, etc, about authenticity of a particular trader and transaction details. Because, as per GST provisions, only registered traders or companies in India can claim IGST return upon the delivery of goods at the destination.

It is also observed that Reference Book (Bhansar) price and price of goods mentioned in GST invoice does not match. As a result, a large number of Nepali importers pay fine for that. The government of India has categorized 1211 items under various taxes. Rate of GST on goods is available online (<https://cbec-gst.gov.in/gst-goods-services-rates.html>). Since chaotic phase under GST regime is over, Nepal needs to update its Reference Book for smooth functioning of bilateral trade.

Both the countries must hold regular (twice a year) training or trade policy related awareness workshops in various border cities in coordination with the trading and business associations of both countries to keep traders updated on the new policies and facilities available for ensuring ease of doing business.

(As presented in Constitution Club on 10 Feb 2019. A detailed project report submitted to SSPC, New Delhi.)

Author: Research Fellow with IDSA, New Delhi.

Figure-1

