

## India-Nepal Informal Trade: Estimation and Qualitative Assessment

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*This study used primary survey data to prepare estimates of informal trade between India and Nepal. It also analyzed the institutional mechanisms that enable informal trade to take place between the two countries. Using insights from the New Institutional Economics, the study contrasted informal and formal institutions engaged in cross-border trade in an effort to examine the transaction environments of formal and informal traders, and to understand whether informal trading arrangements provide efficient institutional solutions.*

### I Introduction

The focus of this study is on India's informal trade with Nepal. At the outset, it is important to clarify what informal means. The term informal has been used by some to denote illegal economic activities, by others to denote parallel markets (i.e., those unregulated by the government) and by still others to mean extra-legal activities. Clearly, there is an illegal component to informal trade if we consider trafficking in drugs, narcotics, or arms. In addition, if informal trade refers to pure smuggling of goods across borders, i.e., it is taking place primarily to circumvent tariff and non-tariff barriers; it could be termed as illegal trade. However, it is entirely possible that a significant part of informal trade is in the nature of extra-legal trading, tolerated in practice even if illegal in the letter of the law. For instance, informal trading enterprises would be those that are unregistered and unlicensed. This occurs due to the fact that the governance of state machinery does not extend to all corners of society in developing countries. In the context of the present study, while all three definitions are relevant, trafficking in drugs, narcotics and arms has not been considered. The concept of informality has not been used very often

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