

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Reforms in 1990 established a multiparty democracy within the framework of a constitutional monarchy. A Maoist insurgency, Launched in 1996, has gained traction and is threatening to bring down the regime, especially after a negotiated cease-fire between the Maoists and government forces broke down in August 2003. Mass protests organized by the seven-party opposition and the Maoists, the king allowed parliament to reconvene on 28 April 2006. After the peace talks held between the CPN (M) and the Government of Nepal, the Maoist rebels were ready to put an end to the ten-year-long Civil War. Signing the Comprehensive Peace accord, Maoist revolution was to be waged by the reinstated parliament. The peace accord was signed on September 21, 2006 .The interim constitution of Nepal 2063, gave a constitutional position to these Maoist join to interim government to accomplish the nation's common goal. (The Interim Constitution of Nepal, 2007)

Nepal, being animated by the desire to strengthen economic co-operation between India and Nepal impelled by the urge to develop their economies for their several and mutual benefit, and Convinced of the benefits of mutual sharing of scientific and technical knowledge and experience to promote mutual trade. Have resolved to conclude a treaty of trade in order to expand trade between their respective territories and encourage collaboration in economic development. Though Nepal has trade with the neighboring countries from the time immemorial, data is available only since 1956-57 onwards. In 1956-57 the rupee value of Nepal's exports was 95.47 million rupees. It increased to 47.7 million rupees in 1988-89. During the same period, the rupee value of total imports increased from 169.89 million to 14208.4 million rupees. (Shakya,1998)

High transportation costs are also penalising trade in South Asia. However, poor institutions (e.g. lack of e-filing of trade documents), inadequate infrastructure (e.g. lack of modern warehouse or container handling facility at border), and absence of a regional

transit trade (virtually in the entire region) are prohibiting the trade to grow in South Asia. The importance of tariffs as barriers to trade has gradually come down, however, high-tariffs still exist for certain sensitive products, and there is a strong presence of Non-Tariff Barriers (NTBs) including high border transaction costs in the region. (Karan & Hiroshi, 1996)

Afghanistan, Bhutan and Nepal, the South Asian countries, are landlocked countries and solely depend on transit through neighbouring countries. They confront with a variety of practical constraints that increase the logistics costs of their international trade. Landlocked developing countries, as a group, are among the poorest of developing countries, with limited capacities and dependence on a very limited number of commodities for their export earnings. About 38 countries are presently landlocked with no access to sea (Uprety, 2006). Lack of territorial access to the sea, remoteness and isolation from world markets have contributed to their relative poverty, substantially inflating transportation costs and lowering their effective participation in international trade. For example, Bhutan and Nepal heavily rely on Indian eastern coast for their international trade. Due to several bottlenecks including those are visible at border crossings and transit ports, Bhutan and Nepal face substantial trade costs, which, otherwise could have been avoided if a regional transit trade regime is restored in South Asia. The trade-reducing effect is strongest for transport-intensive activities. Most, if not all, landlocked countries in South Asia are commodity exporters. The very high transport costs which they must bear constrain export development since that burden limits the range of potential exports and markets in which goods can be competitively and profitably traded. The price of imports tends to increase because of high transit transportation costs(UNCTAD, 2005).

Nepal is increasingly dependent on India for its 68 percent of exports and 62 percent of imports in a year. The relatively bigger country like Bangladesh sources about 13 percent of global imports from Bhutan, India, and Nepal, but its export to these countries is low, compared to import. The interesting development is that Bangladesh's trade with Bhutan has witnessed a steep rise in recent years, where this entire trade is carried overland using the India – Bangladesh – Bhutan transit corridor. India's trade with adjacent countries like Bhutan and Nepal have also gone up, which is again carried

overland, where India has bilateral transit agreements with both of them. India's trade with Bangladesh has witnessed a phenomenal rise, despite the fact that they do not have any bilateral transit arrangement. The trade between Bangladesh and Nepal witnessed a marginal rise between 2000 and 2006. About US\$ 4.50 million was the bilateral total trade between the two countries, carried overland in 2006 through a tiny corridor between India, Nepal and Bangladesh.¹¹ A trilateral transit understanding between Bangladesh, India, and Nepal is in place in order to facilitate the overland trade between Nepal and Bangladesh. Bhutan's trade is again India-centric. Bhutan sources about 75 percent of its import from India and sales almost 88 percent of its exports to that country. However, trade among the countries in eastern South Asia sub-region is not always a transit trade. For example, India's bilateral trade with Bangladesh, Bhutan and Nepal can not be termed as transit trade, whereas the same between Bangladesh, Bhutan and Nepal through India can be seen as transit trade since the trading countries in this particular case are not geographically adjacent. Similarly, the trade of Bhutan and Nepal with rest of the world through another country (here, India) can also be termed as transit trade. We discuss the profile of this transit trade in context of eastern South Asia next. (Nepal Trade Directory, 2006)

Actually speaking, need for expanding intra-regional trade was realized only during the sixth SAARC summit held in Colombo in 1991, when the Srilanka government called for establishing SAPTA. In Nepal SAARC information was maintained separately only after that year. In intra-SAARC trade, according to the trade statistic of 2010-11 published by trade promotion centre, India alone occupied more than 91.36% of its total exports to Bangladesh account for 7.4%; Bhutan 0.9% Maldives 0.0%; Pakistan 0.3%; Srilanka 0.02% and export to Afghanistan in the year was 0.0%. And total export on SAARC is 46920291 thousand and it is 72.7% of total Nepal export. On the import side, of the total imports from SAARC Member countries, India alone occupied 99.4%; Bangladesh 0.4%; Bhutan 0.04%; Maldives 0.0%; Pakistan 0.1%; Sri Lanka 0.05%. and Afghanistan 0.0%. On the total import of Nepal, SAARC Member countries total amount is 260825378 thousand rupees and account for 65.6% of the total imports of Nepal (Economic survey of Trade promotion center, 2012).

Nepal's Transit

The meaning of 'Transit' is the right to access to sea by land-locked countries. Nepal has been surrounded by India a three sides and China in one side. Due to this Nepal is unable to trade with overseas country freely. Nepal's only trade route has been Kolkota of India, however government is trying Nepal to make a transit point. In the latter part, a trade treaty was signed with British India on December 1923 which allowed unrestricted import of British goods to Nepal. The Rana regime had established development board to promote economic activities. Trans-Himalayan trade routes continued for the people of northern border while Terai was modernizing itself due to the spill over effects of economic development taking place in India. The movement for the establishment of multi-party democracy in Nepal in the latter part of 1940s marked a break with the feudal past. In 1950, Nepal joined the democratic community of nations. But in the 1950s, political rivalry among various interest groups of society and chronic political instability remained strong. "The emergence of middle class, independent of connections with either foreign nationalities or the Rana regime had not occurred" (Karan and Ishii, 1996:2) in Nepal to serve as a backbone of democracy and economic development. During 1960-1990 Nepal adopted state-led industrialization and import substitution oriented economic policies. Nepal had a small entrepreneurs, poor transportation and education, communication was undeveloped and traditional social structure of caste dominated attitude towards rational social change. The country's diplomatic opening towards the outside world started very lately. One can find a connection between Nepal's landlocked ness and least developed status. The least developed status of Nepal is largely characterized by poverty, inequality, poor productivity of workforce and heavy dependence on few commodities in its structure of trade. Despite nearly sixty years of planned development, Nepal is predominantly an agricultural country and agriculture sustains the livelihoods of majority of population. Industrialization is at incipient stage and bulk of the income comes from the export of commodities. Effective co-operation of Nepal with neighboring countries and international community is, therefore, important to overcome its development problems and expand access to regional and international markets. The "Treaty of 1923 between Nepal and British- India led Nepal's trade to be India-oriented" (NPC, 1983, 29). This policies continued until recently. Landlocked situation, Peace and Friendship and Trade and Commerce Treaties

with India (1950), open door policy for Nepalese workers and vital trade links to the outside world through India strongly influence Nepal's development policies and strategies. Still, reducing the costs of transit is a major policy challenge for Nepal to become competitive in the world economy and realize the goal of economic and diplomatic diversifications. The new economic policy of finance and service has weakened the base of traditional manufacturing that was the base of its industrial development. (NPC, 1983)

The Policy of Trade and Transit of Nepal

Up to 1970 Nepal's foreign trade was confined to India alone. It was only after 1970 that Nepal could diversify its foreign trade to overseas countries. However, the country's foreign trade was deteriorating during the period. Growth rate in exports dropped throughout the decade due to a lack of exportable product. At the same time, imports were increasing at a rapid pace to meet rising demand for capital goods and another essential development items. Although export business is receiving special attention in the sixth plan. At the end of 1981 the TPC submitted the proposed strategy to the government for consideration. The government appointed a special committee, having representatives of the government and the private sectors, to study the recommendations and to advice the minister concerned on the formulation of a new trade policy. The council of Ministers acted favorably upon the proposals and as result new trade policy was formally announced on 13 June 1982 by the minister of commerce and Supplies. The elected democratic government of Nepal announced a new trade policy in 1992 for the promotion of Nepal foreign trade, especially the export trade. So some major components of Nepal's trade policy are: (Pradhan, 1990)

- i. Import Trade policy
- ii. Internal Trade and Supply Policy
- iii. Export Trade Policy
- iv. Transit Policy
- v. Balance of payments etc.

So, this study also analyze brief Concept of transit state, international law and transit rights of landlocked states, diversification of transport linkage regional treaties and agreements, benefits and cost for the transit state At the end it develops a short conclusion as well as searching the new possibilities on the various burning subjects on trade such as: (Pradhan, 1990)

- i. Trade possibilities in some sort of business sectors
- ii. Nepal as a transit state between China and India
- iii. Transit possibilities and barriers with neighboring countries

1.2 Statements of the Problem

This study is going to present the basic policies and agreements which are guiding Nepal's foreign trade especially with India. As well as the problem occurring on transit activities for foreign trade and displaying the status of Nepal's foreign trade and condition of landlocked country Nepal on transit and relation of Nepal with neighbor countries. There are numerous problems regarding trade and transit with India like various prospects areas are in shadow, so it needs to push in front to develop total trade. Emerging possibilities are occurring on transit with neighbouring countries. Due to being landlocked country, Nepal is facing many barriers on the sectors of trade and transit. Not found sincerely study in this field yet. direction/problem on Nepal's trade with India. Problem on transportation of Nepalese trade activities. But in this research following research problems will be taken into consideration:

-) In which direction Nepal trade is going on with India?
-) What is the impact of trade and transit treaties of Nepal on the trade with India?
-) What are the emerging problems on Nepal's trade and transit?

1.3 Objectives of the study

The major objective of the study is to analyze the impact of trade and transit policy of Nepal with India. Besides this following specific objectives are also made:

-) To analyze trade direction of Nepal with India.
-) To assess the impact of trade and transit treaties of Nepal on the trade especially with India.

) To identify the emerging problems on Nepal's trade and transits.

1.4 Significance of the Study

The research is basically related on the topic of trade and transit not found especially to focusing the scenario Nepalese Trade & Transit, so this research try to show the scenario overall trade activities of Nepal. This thesis also need for analysis the impact of policy/treaties in bilateral and multilateral trade. So this research just tries to shows the relationship of Nepal with neighbor country India and trade transaction pattern with India. The major issues and difficulties getting Nepal on trade and transit by the existing policies set by Government of Nepal to promote foreign trade and to assist to pursue through transit routes. The main objectives also this research is to elaborate and focusing on the existing policies which are governing Nepal's foreign trade and to analysis on the transit process. Various impacts were made and lead by the policies and treaties in practice. In Nepal's foreign trade how much impact is occurring for that to shows impact of trade & transit policy on the foreign trade especially with India. Because of foreign trade is very huge sector. Normally, Nepal's most of the trade is confined by India from beginning. As well as to Find the Trade & Transit barriers of Landlocked Country Nepal and to find emerging possibilities on Nepal's Trade and Transits. We know that Nepal is one of the richest countries of the world in the natural resources. We need to be developed to expend our growth in total economy. So this research obviously help to push the sectors which are need to come out in front of development and lead to reduce Nepal's trade deficit balance.

1.5 Limitations of the Study

This study is bounded by following limitation:

-) Most of Nepal's foreign trade is confined to India, so this analysis focus on Nepal's trade and transit policy and impact on trade with India.
-) Most of the validity of the study depends on the authenticity of the data available.
-) Only published and issued policies are included.
-) Data covers only 2006-07 to 2010-11 for brief analysis and others as references for the study.

1.6 Organization of the Study

The study has been organized into five parts each devoted to some aspects of the study “Impact of Trade and Transit Policy of Nepal with India”. The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of each of the parts of this study are briefly mentioned below.

The first chapter deals with background of the study focus of the study, statement of the problems, objectives of the study, limitations and chapter scheme of the study. The second chapter is devoted to theoretical analysis and brief review of related literature. The third chapter is concern with research methodology. The research design, nature and sources of data, population and sample of data, period cover, data collection a method and presentation and analysis of techniques and tools has been described. Forth chapter presents the analysis of data. To analysis data this chapter uses different charts, tables and statistical and financial tools for better understanding of data and to reach towards accurate interpretations. The fifth and final chapter include the summary of the study, findings of the study, conclusion and recommendation is also presented on the basic findings. Lastly, bibliography and appendices were indicated at the end of this study.

CHAPTER –II

REVIEW OF LITERATURE

The literature surveys provides the student with the knowledge of the status of their field of research library is a rich storage base for all kinds of published and unpublished materials including thesis, dissertation, business reports, government (periodical) publications etc. It is basically scanning of available literature in one's field of research. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of survey and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. The review of literature also minimizes the risk of pursuing the dead ends in research. Though there are some books and literature available to review in global prospect but minimum literature is available in Nepalese context, so there is lack of sufficient literature available in the Nepalese perspective. A detail glimpse regarding trade and transit between Nepal and India has been presented below:

2.1 Trade and Transit of Nepal and India

India – Nepal Transit Agreement

In order to provide a transit access to Nepal, India and Nepal signed “Treaty of Transit” on 5 January 1999. As a result, India provides maritime transit and supporting services and facilities to Nepal at Kolkata and Haldia ports, which are located in West Bengal state of India. A Protocol to the Treaty of Transit between Nepal and India specifies detailed operational modalities including entry and exit points to and from India for the transit trade of Nepal. Besides, both the countries signed a Memorandum to the Protocol to the Treaty of Transit which specifies the detailed procedures to be applied to imports to, and exports from, Nepal. (Shakya, 1998)

India – Nepal Trade Agreement

India and Nepal signed bilateral trade agreement “Treaty of Trade”, on 6 December 1991. The Validity of this Treaty of Trade in its existing form stands extended for till 5 March 2012. A Protocol is also attached to this Agreement, which defines the operational modalities including the list of bilateral trade routes. India and Nepal signed an Agreement to control unauthorised trade on 6 December 1991. This Agreement sets

out certain procedures for the control and prevention of smuggling. And India and Nepal also signed in BIPPA on 21st October 2011. (BIPPA agreement, 2011)

India – Nepal Rail Services Agreement

India and Nepal entered into a Rail Services Agreement for operating and managing the rail services for Nepal's transit trade as well as bilateral trade between the two countries. Specifically, it specifies transit trade between Kolkata / Haldia ports in India and Birgunj in Nepal via Raxaul in India and between stations on Indian Railways and Birgunj via Raxaul for bilateral trade. (Shakya, 1998)

India – Bhutan Trade Agreement

India and Bhutan signed bilateral trade agreement in 1995, which provides the broad contour of the free trade between the two countries. The Protocol to this trade agreement signed between the two countries specifies the bilateral trade routes (including transit) and detailed trading procedures. Interestingly, there are no references to transport, although the common understanding is that the free movement of vehicles between the two countries is accommodated by the Agreement. India provides transit to Bhutan through Kolkata and Haldia ports. (Shakya, 1998)

Bangladesh - Nepal Transit Agreement

Nepal and Bangladesh does not have any bilateral trade agreement. Instead, they have a transit agreement, signed on 2 April 1976, and a protocol attached to this transit agreement. This transit agreement and the protocol have given transit right to Nepal to access overseas market (3rd country market), but they do not deal with their bilateral overland trade. In order to operationalise the bilateral transit trade, Bangladesh and Nepal have accorded an agreement titled “Operational Modalities for Additional Transit Route between Nepal and Bangladesh”, which provides terms for the use of Banglabandha (Bangladesh) – Phulbari (India) – Khakarbitta (Nepal) as transit corridor for bilateral trade. India provides transit to Nepal and Bangladesh for their overland bilateral trade, where this transit corridor is exclusively used for bilateral trade between Nepal and Bangladesh and not for their extra-regional transit trade. Box 2 provides some basic features of this agreement. (Shakya, 1998)

History of Trade and Transit of Nepal

Nepal foreign trade business mostly confined with India so the research is focusing to the trade and transit with India and giving emphasis on the trade pattern. Trade is believed to have taken place throughout much of recorded human history. There is evidence of the exchange of obsidian and flint during the Stone Age. From the beginning of various civilization movements the trade taking place as remarkably. In Nepal also trade take place after the human civilization and with barter system. In the history of Nepal we found very strong trade with neighbor country internal trade also. At the period of Lichhabi period and Malla period the business or commerce was at the boom. Then also Nepal is taking part on the trading activities in different ways. After long period systematic trade was started from 1951. Till 1951, Nepal was kept in a state of virtual isolation from the outside world comparatively other countries. It was only in 1956 that the country launched its first five year plan and got into the process of development. But till 1960, no attempt was made to diversify the country's overall trade. Till 1970, the country's overall trade was confined to India alone. After the establishment of Trade Promotion Centre in 1971, the share of India's trade gradually declined and the share of overseas improved. With the view to achieve economic independence and diversify Nepal's foreign trade, especially in overseas countries, the government of Nepal introduced the Bonus System with the incentives to Nepali exporters to compensate them for the high transit cost due to the landlocked character of Nepal. Latter the government of Nepal assures stable incentives to the exporters introduced a new system the dual rate system in 1977. The dual rate system provided 33 percent incentive minus 19 to 20 percent transit cost and thus 13 percent effective profit to the exporters. After that period again government introduced a multiple exchange system to exchange the goods and services. (Shakya, 1998)

The trade statistics 2010-11 published by trade and export promotion center Nepal total export value was Rs. 6,45,62,444 thousand rupees compared to Rs. 6,09,49,603 thousand previous year. In the year 2010-11 the total import value was Rs. 39,75,35,942 thousand rupees. The total trade deficit during the year was 33,29,73,498 thousand rupees. In the total export, India alone occupied 66.40% overseas countries 32.4% percent and Tibet 1.2% .While in total imports, India occupied 65.2% percent, overseas countries 23.32% and Tibet 11.48% percent (Economic Survey of Trade Promotion

center, 2012) . Major trade partners of Nepal are India, USA, Germany, UK, Italy and Japan Respectively.

Transit refers to movement of persons and goods through the territory of transit countries. Transit state is a state, with or without a seacoast, situated between landlocked state and the sea through whose territory traffic in transit should take place. For Nepal, India is a major transit state and Nepal is a landlocked state. (Pradhan, 1990)

Nepal’s trade to be India-oriented” (NPC, 1983, 29).This policies continued until recently. Landlocked situation, Peace and Friendship and Trade and Commerce Treaties with India (1950), open door policy for Nepalese workers and vital trade links to the outside world through India strongly influence Nepal’s development policies and strategies. Still, reducing the costs of transit is a major policy challenge for Nepal to become competitive in the world economy and realize the goal of economic and diplomatic diversifications. The new economic policy of finance and service has weakened the base of traditional manufacturing that was the base of its industrial development. At this time the agreed routes for mutual with India are mentioned in table no 2.1.

Table 2.1
Transit routes with bordering country India

S.N	Route (India)
1	Pashupatinagar/Sukhia Pokhari
2	Kakarbhitta/Naxalbari
3	Bhadrapur/Galgalia
4	Biratnagar/Jogbani
5	Setobandha/Bhimnagar
6	Rajbiraj/Kunauli
7	Siraha, Janakpur/Jayanagar
8	Jaleswar/Bhitamore (Sursand)
9	Malangawa/Sonabarsa
10	Gaur/Bairgania
11	Birgunj/Raxaul
12	Bhairahawa/Nautanwa
13	Taulihawa/Khunwa
14	Krishnanagar/Barhni
15	Koilabas/Jarwa
16	Nepalgunj/Nepalgunj Road
17	Rajapur/Katerniyaghat

(Source: - Official website of Trade promotion center, 2012)

2.2 Basic introduction of existing trade and transit policies

2.2.1 Trade policy

After the establishment of TPC in 1971 Nepal started to systemize the trade with foreign countries. A comprehensive package of policy measure and set of institutional arrangements were therefore necessary to promote export trade and in particular to evaluate the business community, on which the government would have to rely, to a great extent, to expand the export effort. After the consultant basic export and import problem the team of TPC's carried out an in depth evaluation of Nepal's situations and proposed a detailed action plan for a new national export expansion programmed. The report prepared by the consultants analyzed the role and performance of the export sector in Nepal's economy, the policy measure that influenced export trade, the principal export constraints, the existing instructional arrangements for trade promotion, and the obstacles to formulating and implementing a comprehensive export strategy. (Pandey, 2005)

At the end of 1981 the TPC submitted the proposed strategy to the government for consideration. The government appointed a special committee, having representatives of the government and private sector's, to formulation of a new trade policy. The elected democratic government of Nepal announced a new trade policy in 1992 for the promotion of Nepal's foreign trade, especially the export trade.

The main objectives of the new trade policy of Nepal include (Shrestha, 2005);

- i. To gradually enhance the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere.
- ii. To diversify trade by identifying, developing and producing new exportable products through the promotion of background linkages for making export trade competitive and sustainable.
- iii. To expend trade on a sustained basis through gradual reduction in trade imbalance and to coordinate trade with other sectors by expanding employment oriented trade;
- iv. To coordinate trade with other sectors by expanding employment oriented trade

The main underlying policies of the new trade policy of Nepal include (Shrestha2005);

- i. To minimize the role of public sector and expand the role of private sector in trade.
- ii. To adopt a liberal and dynamic trade policy with the objective to improve balance of payments position by promoting exports;
- iii. To give emphasis on quality production of goods and services for both internal consumption and export purpose;
- iv. To diversity trade in terms of both commodities and country destinations;
- v. To adopt liberal procedure with a view to attract direct foreign investment;
- vi. To gradually privatize public sector trading corporation to improve their efficiency.
- Vii. To give emphasis on institutional development, information network, monitoring system and quality improvement in trade sector;
- viii. To effectively implement the treaties and agreements with various countries and international agencies.

Components of Nepal's Trade Policy (Pandey, 2005)

-) Import Trade Policy
-) Internal Trade and Supply Policy
-) Export Trade Policy

2.2.2 Transit Background of Nepal

The main transit policy of Nepal is to secure and exercise freedom of transit within the framework of the international Law for the most economical and convenient transit routes and appropriate transit facilities at each transit and transshipment points. Nepal's opinion in this regard is that transit treaty with India or any transit state should be independent or declined from mutual trade treaty or any other subject matter may have been guided by this policy. (Pradhan, 1990)

In accordance with the provisions of Treaty of Transit between Nepal and India of 1971. Nepal established a self-owned Nepal Transport and warehousing company under Nepal Company Act, 1964 and it was registered in 1971 as a foreign company in India under the Indian Company Act, 1956. (Pradhan, 1990)

The main objectives of Nepal Transit Policy include (Shrestha2005);

- i. To ensure increased transit facilities for the export and import trade of Nepal and keep the costs of transit stable.
- ii. To provide smooth and expeditious clearing and forwarding services in respect to public sector consignments imported into or exported from Nepal.
- iii. To operate warehouses and similar other storage facilities at ports, rail-heads, and transit points to facilities the export and import tariff of Nepal in a convenient manner.
- iv. To provide transit information services to the Nepalese exporters and importers.

2.3 India-Nepal Trade and Economic Relation

Economic relationship between Nepal and India is unique. There are historical, geographical, cultural, linguistic, ethnic, social and family links between people living in India and Nepal. Institutions relating to government and the economic activities are also more or less similar. Therefore, the trade and other related relationship between Nepal and India has its own significance. Trade relationship between these two countries often goes beyond the economic reason significantly influenced by the social-ethical norms and values. Research and studies reveal that both the countries have comparative cost advantages in trading amongst themselves for several reasons. Historic trade relation, geographical proximity, identical culture, similar agriculture productions are cited few examples quite repeatedly. Economical transport cost is seen as another important factor determining the volume of trade between these countries. In view of the rising energy costs, it is often considered that the transport costs are likely to rise so that the transport cost advantage to both these countries trading with each other is likely to increase in future. This would further increase the potential for trade between these countries. On the other hand, notes that the economic cooperation between Nepal and India is based on the movements of goods and services across Nepal-India border of about 1,600 km. The movement is free and spontaneous. This movement is further accelerated by the movement of people for economic pursuits, social and marriage relations. The cultural ties and non-existence of visa system have created a better environment for the conduction of free trade between the two countries. (Mishra, 2000)

Indo-Nepal trade has its own importance for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her landlocked geographic characteristics. Trade statistics show an increasing trend of trade in both the exports and imports. However, it is noteworthy that the trade balance is not in favor of Nepal. As such, it does not present a convincing picture in the macro-economic performance of Nepal. Both the countries have realized the significance of bilateral trade. Trade with India is likely to play further a key role in trade and industrial fronts in the future as well. Trade and transit treaties held between the two countries are continuously reflecting the fact. And, these treaties have increasingly guided the trade direction, more specifically in the case of Nepal. Taking into account these factors, this study has made an attempt to analyze some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future. Study undertaken in the field of Indo-Nepal trade relation has revealed that both the countries have a historical trade relationship and are continuing quite smoothly. An attempt has been made in this study to analyze the trade structure and trade trends between the two countries in the other section. Indo-Nepalese trade relations can be traced back to ancient times. Increased trade activities were seen between northern India and Nepal during the golden age of Guptas (beginning in 320 A.D.). During the Nepal-Tibet war of 1791, the East India Company proposed a 7-clause treaty under which imports and exports of goods between India and British India would be subject to 2.25 percent customs duty. A peace treaty of Sugauli in 1816 enabled the British to enter the Nepalese markets. In the early days, foreign trade of Nepal was limited mainly with India and Tibet. The only trade route in between India and Tibet was through Nepal. It had helped very much in developing trade of Nepal. However, major proportion of the Nepalese trade was with India. Trade with Tibet was focused for meeting the basic requirements in the Himalayan and hilly region, whereas trade with India consisted of export and import of several agricultural, mineral and forest products. Before the nineteenth century, imports from India consisted of a few items of which scrap metals, precious stones, spices, tobacco etc. were among them. Whereas Nepal exported most of her primary products like timber, rice, ghee etc. Nepal's trade with India continued till 1923 without having a trade agreement with British India. Prior to the signing of this trade agreement, British East India Company was interested to have trade relations with Nepal, for expansion of its own exports. The opening of direct India -Tibet route via Gyantse routes further promoted Nepal to develop trade with India. Moreover, the

development of good transportation system and the creation of many trade centers in the northern India further helped to enhance the trade turnover between Nepal and India. (Shrestha, 2005)

The pattern of Nepal's trade with India remained more or less the same during the 19th century and first half of the 20th century. Exports to India mainly consisted of food grains, raw jute, wool, cotton, hides and skins, musk, medicinal herbs, cardamom, metal goods, ghee, tobacco etc. Imports from India used to consist of mainly the agricultural products such as wheat, rice, gram and pulses, iron, brass, copper, cotton goods, salt and live animals besides others. India has, thus, been a major trade partner of Nepal since a long time back. Popular and cultural ties of India with Nepal have consistently been close and have reflected in trade terms continuously (Shrestha, 2005).

2.4 Transit Status of Nepal

Nepal is of roughly trapezoidal shape, 800 kilometers long and 200 kilometres wide, with an area of 147,181 square kilometres (56,827sq mi). Nepal is commonly divided into three physiographic areas: the Mountain, Hill, and Terai Regions. These ecological belts run east-west and are bisected by Nepal's major river systems. The Madhesi Plains bordering India are part of the northern rim of the Indo-Gangetic plains. They were formed and are fed by three major rivers: the Koshi, the Narayani (India's Gandak River), and the Karnali. This region has a hot, humid climate. The Hill Region (Pahad) abuts the mountains and varies from 1,000 to 4,000 metres (3,300–13,125 ft) in altitude. Two low mountain ranges, the Mahabharat Lekh and Shivalik Range (also called the Churia Range) dominate the region. The hilly belt includes the Kathmandu Valley, the country's most fertile and urbanized area. Unlike the valleys, elevations above 2,500 meters (8,200 ft) are sparsely populated. Transit refers to movement of persons and goods through the territory of transit countries. Transit state is a state, with or without a seacoast, situated between landlocked state and the sea through whose territory traffic in transit should take place. For Nepal, India is a major transit state and Nepal is a landlocked state. Today due to globalization and the resulting economic integration, all countries of the world have become part of global village. This integration of world economics has proven to be a powerful means for countries to promote economic growth and development and to reduce poverty. Transit commonly refers to Public transport, transportation systems in which the passengers do not

travel in their own vehicles, Astronomical, when one celestial body appears to move across the face of another celestial body, as seen by an observer at some particular vantage point or when a navigator observes two fixed reference points in line. Or transit also refers to movement of persons and goods through the territory of transit countries. Transit state is a state, with or without a seacoast, situated between landlocked state and the sea through whose territory traffic in transit should take place. For Nepal, India is a major transit state and Nepal is a landlocked state. Indeed thirty-eight states are landlocked states with no access to the sea. Because they do not possess a coastline, they lack direct access to marine resources and suffer generally become their export trade cannot be competitive. Normally transit refers following types of transit activities. (Shrestha, 2005)

1. Through land
2. Through water routes (including rivers and sea)
3. Through air space, etc.

2.5 Barriers and Possibilities on Transit of Nepal:

Since Nepal is a landlocked country it had to face many problems while trading with overseas nations. Of the all, the biggest problem to Nepal is the higher trade transportation and transit cost it had to bear due to its landlocked ness nature. In addition, Nepalese traders had to follow cumbersome documents, lengthy and complicated clearance and procedures regarding foreign trade and transit. Nepal has, thus, a special interest over the transit right and transit facility to develop its trade with international markets. Landlocked countries have their own features. They lack sea coasts and need to pass the territory of another state which has sea coast. They had to face higher transport cost and inadequate transportation system due to topographical difficulty. All these factors had led these nations to be deprived of international trade opportunities. And they are not becoming as competitive as the other countries which have sea coasts in foreign trade. Nepal being landlocked and mountainous nation has been facing a number of problems in transit trade. The major problems are: (Pradhan, 1990)

- i. Nepal had to face the problem of inadequate means of transport on overland route.
- ii. Nepalese trader's had to deal with many complicated formalities for transit while exporting and importing goods from third countries through India.

- iii. There is a big possibility of pilferage and damages of goods while exporting and importing goods from the overseas nations through transit route of India.
- iv. Land transport also very complicated though India for Nepalese traders.
- v. Nepalese traders had to follow the tougher insurance policy while exporting and importing goods through India.
- vi. Higher Transportation cost is another barrier.
- vii. Frequently change of policy an own interest of Neighbor country and difficulties of governmental procedures.

Beside above difficulties there are possibilities too to make easy to Nepal's foreign trade by avoiding the barriers. To make Nepal's foreign trade effortful and diversify, Nepal should review the following points pointed out as below. (Pradhan, 1990)

- i. Nepal should diversify the transport linkage.
- ii. Development of Internal Transport services.
- iii. Revision of Regional agreement, bilateral agreement and treaties. Nepal can enjoy the Khulna-Chalna port, Chittagong port of Bangladesh and can enhance the transit routes.
- iv. Nepal can enjoy the Northern route to expansion the trade with China.

2.6 Review of Related Studies

Nepal was being ruled by Rana oligarchy till 1950 when there was a revolution in which the Nepalese people and King Tribhuvan participated succeeding in overthrowing the Rana and bringing democracy to the country. King Tribhuvan fled to India and the Indian Government supported the democratic forces in Nepal. Had it not been for support from India it would have been difficult for the democratic forces in Nepal to succeed in ending the despotic regime. Most of the leaders of Nepali Congress were living in India and had close rapport with leaders of freedom movement in India. There was a time in the 1950's when India had paramount influence in not only international relations but also in domestic affairs of Nepal. Prime Minister Nehru stated in the Indian Parliament on 1950 "...we have had from immemorial times, a magnificent frontier that it so say, the Himalayas. The principal barrier to India lies on the other side of Nepal and we are not going to tolerate any person coming over that barrier." (Raj, 1999)

- i. Nehru had re-iterated in 1954“foreign policy of the Nepalese Government should be co-ordinated with the foreign policy of India”. (Raj, 1999)
- ii. B.P. Koirala became the first Prime Minister of Nepal after elections were held for the Parliament in 1958. However, King Mahendra dismissed Koirala in a coup in December 1960 and assumed the powers himself. Prime Minister Nehru was unhappy and said the step represented a “setback for democracy”. Anti-monarchical forces protesting against this step launched a movement inside the borders of Nepal and in India. As the movement was gathering momentum, Sino-Indian border conflict was to start in 1962 that was to have a profound impact on relations between Nepal and India as well. The Indian Government did not do anything to stop such activities from the Indian soil initially. The Chinese Defence Minister Chen Yi in a statement said that the Chinese people would help Nepal if it were to be attacked. (Raj, 1999)
- iii. The Chinese signed an agreement to construct a road linking Kathmandu with the Chinese border and assisted Nepal in constructing a ring road around the capital city and in setting up some industries. The Indians who had always regarded Nepal as their own backyard were unhappy but were unable to prevent the construction of the road to the border. King Mahendra also started the Panchayat System in 1962 under which powers were concentrated in the monarchy and political parties were banned. King Mahendra was very successful in the realm of foreign affairs as Nepal was able to assert its independent identity and reduce its dependence on India. On the other hand, when the Chinese were agreed to construct parts of East-West Highway being constructed along the Terai in southern part of Nepal, there were protests from the Indian side as they didn’t want the Chinese working too close to their borders. They offered to build those parts themselves. The King respected Indian sensitivity in this regard and parts of the highway in far eastern and far western sectors were built under Indian assistance. Nepal had established diplomatic relations with many countries and exchanged residential diplomatic missions in Kathmandu and their respective capitals. On the other hand, India continued to regard its relations with Nepal as being “special”. This was mainly due to open border between the two countries and the treaty of Friendship signed in 1950.

King Birendra succeeded his father in 1972 and he attempted to gather international support to declare Nepal as a “Zone of Peace”. More than 100 countries supported Nepal’s proposal except India. K.V.Rajan, former Indian Ambassador to Nepal states the Zone of Peace proposal being a “thinly disguised attempt to bury Nepal’s security obligations to India under the 1950 Treaty.” (Raj, 1999)

- iv. Nepal had purchased anti-aircraft guns, medium range SSMS, and assault rifles from China in 1988 that was regarded by India as “provocative” and a contravention of 1950 Treaty. India declared a blockade of goods to Nepal after delays in renewing Trade and Transit Treaty between the two countries that caused hardship to the people. The popular movement against the Panchayat system gathered momentum and the King had to dismantle partyless system and to transfer sovereignty to Parliament in 1990. There was an elected Government of Nepali Congress throughout most of the 1990’s headed by Girija Koirala. India made the Trade Treaty with Nepal different from Transit Treaty and made Nepal’s access to the sea guaranteed for all times, not something that had to be renewed every seven years as in the past. The hijacking of Indian Airlines aircraft from Kathmandu Airport on Christmas Eve in 1999 and its landing in Kandahar airport in Taliban ruled Afghanistan was to make profound changes in Indo-Nepal relationship. India expressed concern about threat to its security by foreign forces operating from Nepalese soil. The beginning of new millennium also marked two events, which were to affect Nepal profoundly. The first was royal massacre in June 2001 when Crown Prince Dipendra who is supposed to have committed suicide massacred the entire family of King Birendra including the Queen. His brother Prince Gyanendra succeeded him. The second was growth in the Maoist insurgency in the country. (Raj, 1999)

The relation of Nepal and India in economic and trade scope. The researcher set the research objectives in this research was: review of Indo-Nepal trade relation in brief; an overview of trade treaties held between Nepal and India; analyze foreign trade direction of Nepal; analyze the impact of Indo-Nepal trade treaty 1996, in particular, in improving trade relation between two countries; identify the scope and areas of improvement in Indo-Nepal trade relations. In this research the researcher organize in

into six chapters. A brief note on the economic relationship between Nepal and India accompanied by an overview of economic reforms and macroeconomic performance of the both countries is presented in the first chapter. This chapter further chalks out the basic framework of this study consisting of objectives, limitations and scope of the study. The second chapter deals with various aspects on Indo- Nepal trade relation. By and large, it includes the trade structure, trend and balance of payments situation between the two countries. Attempts have been made to analyze the revisions made in the bilateral trade and transit treaties in view of the economic cooperation in the third chapter. It has also been made an effort to analyze the impact of the bilateral treaties with the focus on treaties of 1990s onward. Realizing the significant role to be played by the trade-points in the future towards the development of bilateral and multilateral trade. Chapter four deals in these aspects of the both countries. Chapter five has made an attempt to draw the problems that are being realized in the contemporary situation. Moreover, the challenges and prospects for the development of trade and improving bilateral trade relation between the two countries are discussed in this chapter. Both the countries are facing the similar problems of imbalance trade i.e. the problem of increasing trend of trade deficit. Unfavorable balance of payments, indeed, could react in the national economy in many respects. Therefore, chapter six of this study identifies the scope and some areas to improve the bilateral trade. Finally, the chapter seven provides the summary and conclusion of the study followed by the policy recommendations towards improving the trade structure as well as the trade relation between Nepal and India. (Shrestha, 2005)

The basics of trade and transit to readers by his book. Including the general background, it covers trade theories and other concepts of foreign trade. It also reviews Nepal's foreign trade sector with the latest possible data and some of the important trade and transit agreements of the country. Mainly this book presenting the knowledge on : Foreign trade, trade (Internal and External), role of foreign trade in economic development, theories on trade (Foreign) , Trade barriers, import procedures, export procedures, balance of payments, balance of payments situation in Nepal, commercial policy, review of Nepal's commercial Policy, Foreign Trade Structure of Nepal, Nepal's Trade Agreements, Transit Concept, Transit Treaties of Nepal, and introduction on various organization related on trade. (Shrestha, 2005)

Shrestha (2005) includes not only the theoretical text of international business but also each and every sensitive issues of business at the levels of individual firm, countries and the whole world. This book helps the reader to gain wide knowledge about political, legal, social, competitive technological changes at national and international level. In this book also covers the subject on trade barriers in international markets, the wide area of World Trade Organization, and regional groupings such as ; EC, ASEAN and SAARC. . In this book I found the analysis on Nepalese foreign trade management, which covers the structure of Nepal's foreign trade, General information on Nepal's trade policy, Trade arrangements of Nepal with India and China, General concept and transit arrangement of Nepal and India, current trade and transit problems of Nepal, implications of WTO & SAFTA for Nepal and Nepal's Transit policies with India.

Dhungana (2005) points out some positions related on the export of Handicraft Business on his research Nepalese Handicraft export . In this report, researcher outlined some points as problems which are seeing in the way of export business. A well as in this report some prospects also presenting. The researcher set the objective in this report was: to examine the problems and prospects on handcraft export business, to make suggestion for the prospective, problems and promotion of the handcraft on the basis of the present study. The researcher pointing some major findings in this report such as : analyzing the existing trade policy, finding from the study of transit policy, findings from the analysis of problem and prospects of transit routes of Nepal. So, from this report I found some basic ideas which are occurring in the Nepal's export business. Especially this report related with handcraft business but I whole it must be interrelated with whole Nepal's foreign trade. From this report I get the chance to revise the problems and prospects seeing in the process of foreign export trade.

Dahal (2005) The author of this reports showing on the Development of landlocked Nepal as a transit country between India and China holds tremendous potential for Nepal's economic prosperity. Both the neighbours have shown keen interest in developing trade, investments and other cooperation through Nepal are territory. But, it requires Nepal to fulfill all the preconditions such as freedom of transit, fuller integration of its economy into the regional and multilateral trading system, encouragement of business competition, modernization of roads, communications, upgrading of warehouse facilities, expansion of dry ports, scientific custom handling

procedures, security of vehicles, proper banking etc. Infrastructure developments have to be accompanied with political understanding and market integration in tune with regional and global integration processes envisioned in SAFTA, and WTO. Reducing the costs of transactions is a critical precondition to make trade an engine of economic growth and poverty alleviation. But, Nepal has to see the welfare and well-being of its people and seek political stability through economic development, expansion of production and trade diversification. Otherwise, it would have to face a series of unavoidable problems such as national debt, mounting budgetary deficit, inflation and financial crisis. To address these, it has to approach major financial institutions for loan which are by no means condition free. So, author emphasis on the alternative possibilities on transit with Bangladesh and China to reduce the dependency with India.

Poudel (2006) shows the various aspects of Nepal's foreign trade on his research. Especially researcher set the objective as: to examine the problem and prospects on woollen carpet exporting; to examine on international market of woollen carpet and the market share of Nepalese carpet and its contribution to the national economy. With the setting above objectives researcher pointing out some major findings as per: finding the tough competition for Nepalese woollen carpet in comparison to the market share ; Nepalese exports and manufactures have not their own distribution cells in foreign countries except on trade fairs. ; 93% of the export of the Nepalese woollen carpet is base on direct selling through the individual effort of entrepreneur and remaining 7% through agent ; the effort made by government to promote the market of Nepalese carpet to making policies entrepreneurs side efforts are only limited to participation on seminars and exhibition : the different problems in carpet production, export process and marketing. : The diversification of market is not done successfully; Nepalese hand knotted woolen carpets have not its own trademark, brand name and copy right certificate. India has sold Nepalese carpet with other brand name. So from this report I get the knowledge about the major problems in the Nepal's export business. As well as what are the prospects of Nepal's export in general.

Sapkota (2011) focus in the agreement between Nepal and India 'BIPPAs'. The Nepal-India BIPPA remains in force for ten years and will be automatically extended thereafter unless one of the countries intends to terminate it. The overarching objective

of BIPPA is to increase Foreign Direct Investment (FDI) inflows. In this respect, latest studies show that investment protection agreements like BIPPA indeed have positive impact on FDI, especially when it flows to low income countries from relatively high income and high exporting countries. The impact is higher in countries with weak domestic institutions because investors feel relatively more confident investing in the country following investment protection agreements. Regarding employment, there is evidence that, on average, foreign investors pay relatively higher wages and employ more workers than domestic counterparts in sectors such as manufacturing. The BIPPA has definitely given more confidence to Indian investors on investment protection and have shielded them from losses due to arbitrary policy changes. BIPPA has guaranteed investment certainty to some extent at the policy level, it urgently needs to fix other factors restraining. Most debates over BIPPA are based on misinformation and faulty comprehension of the scope and depth of the agreement. While the private sector has openly welcomed BIPPA, selfish political leaders are politicizing it just to make themselves heard. In a nutshell, BIPPA is in our national interest and might help increase FDI by enhancing foreign investors' confidence in Nepali economy. However, it cannot be a substitute for the badly needed policy reforms on improving overall investment climate. In this way writer shows the various opportunities and present status of Nepal in trade export-import business as well as the conditions about transit routes.

2.7 Research Gap

Most of the previous research studies were based on trade between Nepal and India and describe the impact of SAFTA and SAPTA. Most of them have indicate the research on many more other topics but especially on the transit there is not enough analysis and not showing the impact of transit on trade. Mainly in this research is focusing the feature of the factors of Nepal's Trade direction toward India & Transit Policy and landlocked countries about free access on sea coast. This research is going to indicate some of the possibilities on foreign trade and transit to empower the Nepal foreign trade and trying to display the impact of Nepal's trade and transit policy to foreign trade.

Many research studies have been conducted by the different students, experts and research about Trade. Some studies are related to single country and some are comparative in nature.

The previous studies mentioned above are mostly concerned with trade but emphasis was not given to the transit policy. Many previous studies conducted with the help of old data may be less relevant in recent circumstance. So, it bridges the gap of time enabling is to analyze and evaluate new practices of impact of transit policy on trade with India.

Therefore, this research study on “Impact of Trade & Transit of Nepal with India” will be an effort to analyze in detail about the Impact in present situation with the help of various related transit & trade policies as well as it will be beneficial to scholars student teacher lecturer professors business and concerned parties.

CHAPTER -III

RESEARCH METHODOLOGY

Research methodology is the way to solve systematically about the research problem. It is the process of aiming at the solution of problem through the planned and systematically dealing with collection, analysis and interpretation of fact and figures. For the purpose of achieving the objectives, the following methodology has been adopted which included research design, population and sample , nature of data, data gathering procedure and presentation and analysis techniques.

3.1 Research Design

The study has tried to evaluate and examine Nepal as a transit state on between two economic tiger countries China and India. And also to find the major difficulties and issues facing on the transit by landlocked countries like Nepal. The research will be based on analytical research which analyze and overview the present trade policies and also used exploratory research to find the basic existing burning barriers (Issues). So, the design of research has aimed to see the views and reviews of national policies. This research belongs to scenario of trade of Nepal which needs authenticate data so secondary data is arranged, tabulated, analyzed and interpreted according to need of the study for attaining the stated objectives.

3.2 Sources of Data

In connection with this topic mainly secondary data sources have utilized. Secondary data are based on different published and unpublished documents such as:

- i. Economic Survey of Nepal
- ii. Annual Budget, speeches of the research year.
- iii. Data published by Trade promotion centre, Nepal Rastra Bank ,etc.
- iv. Thesis work related to caption subject, articles, bulletins, newspaper etc.
- v. URL of MOF, Trade promotion centre, NRB etc.

3.3 Data Analysis and Presentation Techniques

Data analysis is the ordering, breaking down to constituent parts, and manipulating the data in order to obtain answers to the research questions or test the hypothesis. Data analysis involves estimating the values of unknown parameters of the population and testing of hypotheses for drawing inferences. Data analysis may be broadly categorized into descriptive analysis and inferential analysis. Mainly, researcher analyses on descriptive and analytical in this research analysis. It is largely the study of distribution of one variable. Descriptive analysis provides critical information such as characteristics of trade pattern, features and merits or demerits of transit situation etc. Descriptive analysis is for summarizing and comparing data and information. It provides the researcher a useful, clear and informative description of a mass of numerical information. Basically, this research use Table and Graphs, Percentages, Central Tendency etc. to analysis data and logics. Analytical research analysis focuses on:

i. **Outline**

After collecting of all the relevant information's outline has been made on the categories of information as per its natures.

ii. **Tabulation**

Tabulation involves converting the raw data into tabular forms. Tables provide easy analysis of data. It may make ease to manipulate and present numeric as well as outlined data in attractive and understandable forms. In this research table shows the data and trend of business activities with India and foreign countries year by year.

iii. **Graph**

Graphical presentation of numerical data which present the easy display of trend analysis.

iv. **Statistical Tools**

Since the study is basically in descriptive in nature, simple statistical tools such as percentage, percentage change (increase or decrease), mean, standard deviation, ratio have been used for analysis of data. Statistical tools used in this analysis are as follows:-

Percentage:

It shows the total graph of total business activities. In this research the researcher is presenting total export and import trade balance yearly.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

Presentation and analysis of the data is major part of the study and the effectiveness of this thesis is highlighted by the authenticate secondary data presentation and analysis.

4.1 Direction of Nepal's Foreign Trade with India

Nepal encounters unique problems owing to its open border to India and special trading arrangements with Tibet, autonomous region of China. We can divide trade patterns of Nepal into three categories. First can be categorized as the standard trading practices with India and overseas. These trades are managed through banking channel and customs entry forms are accompany with essential supporting documents. Second type of trading pattern with India is reflected as an undocumented trade. Recognizing the long traditional relation and open border between Nepal and India, local purchase is allowed for the citizen of both countries where packing list, payment certificate and other supporting documents are lacking. Third type of trade is a trade with Tibet under Barter system. One is allowed to import goods against his export of daily necessary goods to Tibet under the system. This facility is provided for the people residing within 30 Kilometer of boarder. The problem lies with the traditional pattern of carrying out the business between India or Tibet, autonomous region of China and Nepal, the verification of value at the clearance point cannot be done properly and it may be resulted in under-valuation of goods in Nepal. It is matter of great concern that despite that despite the twelve years of existence, SAARC has not been able to promote trade among its members. Actually speaking, need for expanding intra-regional trade was realized only during the sixth SAARC summit held in Colombo in 1991, when the Srilanka government called for establishing SAPTA. In Nepal SAARC information was maintained separately only after that year. In the overall trade with foreign countries are also Nepal bearing deficit. The trend of trade growth is going to increasing as well as it leading by deficit trade. The pattern or structure of Nepal's foreign trade is presented below:

4.1.1 Total Foreign Trade Balance of Nepal

As we know, Nepal is a small Country situated at the heart of Asia and middle between India in the west, south and east and the Tibet Autonomous Region of China in the north. Nepal Covers about 147181 sq.km.of land, of which 83% if occupied by high mountains and rolling hills and the rest 17% by the Terai Region called “Green basket” of Nepal. Nepal is one of the members of South Asian Association for regional cooperation (SAARC) and World Trade Organization (WTO). The trade statistics shows that in 2010-11 Nepal’s total export value was Major trade partners of Nepal are India, USA, Germany, UK, Italy and Japan Respectively. Nepal lacks genuine exportable items. There are only two or three major items for export i.e. readymade garments and woolen carpet, with account for more than 75% of total overseas trade.

Table 4.1
Total Foreign Trade of Balance of Nepal

Values in '000 Rs.

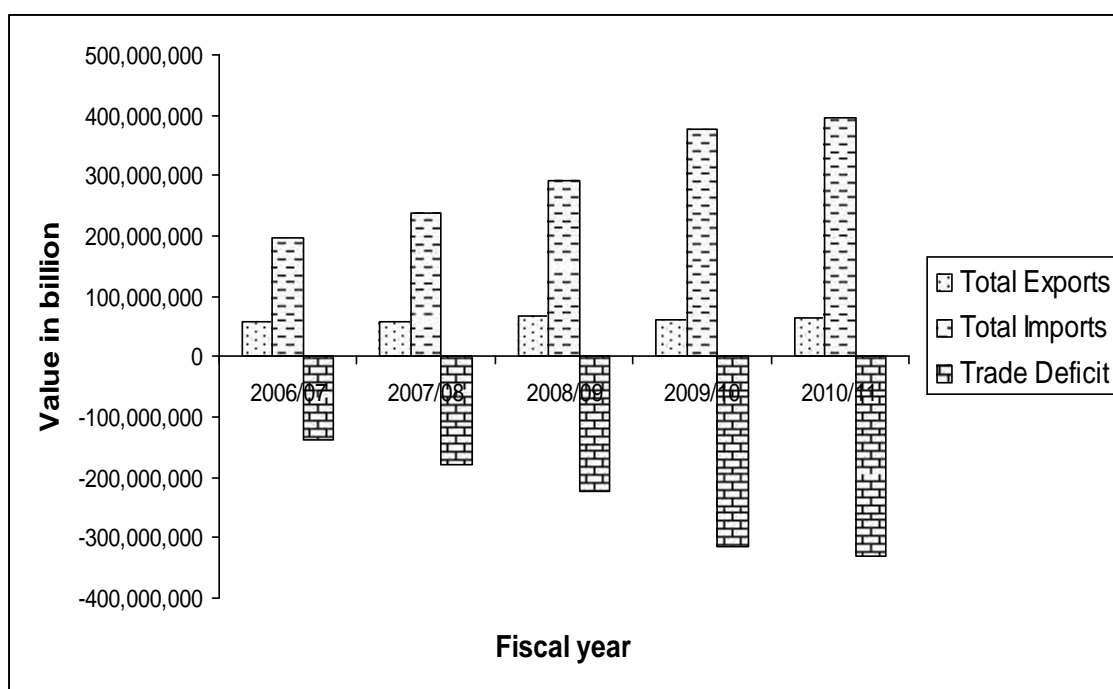
Fiscal Year	Total Exports	% in Total	Total Imports	% in Total	Total Trade	Trade Deficit	% change in trade
2006/07	59,073,097	23	197,676,512	77	256,749,609	(138,603,415)	37.4
2007/08	58,474,359	19.8	237,030,276	80.2	295,504,635	(178,555,917)	28.8
2008/09	68,596,852	19.1	291,000,944	80.9	359,597,796	(222,404,092)	24.6
2009/10	60,949,603	14	375,605,870	86	436,555,473	(314,656,267)	41.5
2010/11	64338500	14	396175500	86	460514000	(331837000)	5.46

Source:- Economic Survey of Nepal 2011/12 and Trade & Export Promotion Centre, 2011.

Table 4.1 shows that total foreign trade balance of Nepal with other countries is an increasing Trend. As per table no 4.1 Total trade occurred on 2006/07-2010/11 was 256.75 billion, 295.51 billion, 359.59 billion, 436.56 billion and 460.51 billion. Similarly total import business was 197.68 billion (77% on total trade) , 237.03billion(80.2% on Total Trade), 291billion (80.9% on total trade), 375.61 billion (86% on total trade), 396.17 billion (86% on total trade) and total export business was 59.07 billion (23% on total trade), 58.48 billion (19.8% on total trade),68.59 billion (19.1% on total trade), 60.94(14% on total trade) and 64.33 billion (14% on total trade) on respective year .it seems that Nepal’s Total trade business is in increasing trend but

always total export is smaller than import as a result of that trade deficit on 2006/07-2010/11 occurred by 138.60billion, 178.55 billion, 222.40 billion, 314.65 billion and 331.83 billion respectively. As a result total export in trend is decreasing same way Import is in increasing trend obviously if there is export is more than import, there must be trade deficit. So, Nepal all the year is suffering from trade deficit in foreign trade.

Figure 4.1
Total Foreign Trade of Balance of Nepal



Above bar diagrams represents the figure of total import, export and deficit occurred in respective FY 2006/07-2010/11. As per above figure we can easily analysis that import business increasing on increasing rate and export business is decreasing on comparison with previous year data and trade deficit on foreign trade increasing due to get negative variation .

In this study total trade is categorized into three sectors. Mostly Nepal’s trade is with India. Other remaining activities are with others countries. So in this study Nepal foreign Trade is analysis on the two parts as per:

1. Trade balance and deficit with India
2. Trade with others Countries

4.1.2 Total Export Trade Balance of Nepal

Nepal is small landlocked country and export trade is also locked by geographical location. As it is situated in the middle between India and China. west ,south and east area of Nepal locked by India and north by China .India is the major country which alone occupied the more than 60% of export trade and remain with other China, USA, Germany, France, United Kingdom etc. Total Export trade balance of Nepal in the period of 2006/07 to 2010/11 has been presented below:-

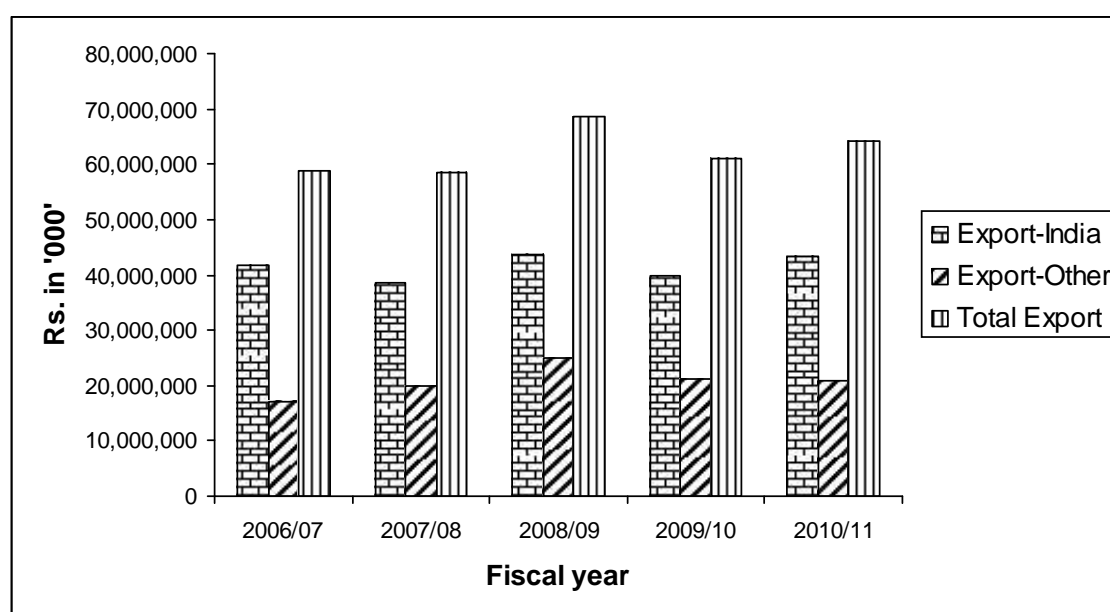
Table 4.2
Total Export Trade Balance of Nepal

Values in '000

Fiscal Year	Export-India	Export-Other	Total Export
2006/07	41,728,800	17,198,297	58,927,097
2007/08	38,555,700	19,918,659	58,474,359
2008/09	43,574,482	25,022,370	68,596,852
2009/10	39,902,811	21,046,792	60,949,603
2010/11	43360400	20978100	64338500

Source:-Economic Survey of Nepal 2011/12 and Trade and Export Promotion Centre Nepal

Figure 4.2
Total Export Trade balance of Nepal



Above table 4.2 and figure 4.2 shows that major export of Nepal routed on India. As per sample data taken for research study published by trade and export promotion centre

Nepal of the period of 2006/07 to 2010/11 India alone take part with value of 41.72billion, 38.55billion, 43.57 billion, 39.90 billion and 43.36 billion out of Nepal total export values of 58.92billion, 58.47billion, 68.59billion, 60.94billion and 64.33 billion respectively. Remaining Exports has been made to USA, Germany, France united kingdom, china and other overseas countries of 17.19 billion, 19.91 billion, 25.02 billion, 21.04 billion and 20.97 billion respectively.

4.1.3 Total Import Trade Balance of Nepal

India has traditionally enjoyed a substantial favourable balance of trade vis-à-vis Nepal. Among the several reasons for this are Nepal's underdeveloped industrial base, narrow range of exports, facility of easy import of daily use items from India, including import of inputs for some of Nepal's major exports such as ready-made garments, and unauthorized trade through the long and open border. The statistics as recorded by Government of Nepal indicating the balance of trade of Nepal, both with India, and in over-all terms, are given below. It can be seen from the Government of Nepal figures, that while India continues to have a favourable balance of trade with Nepal, the Nepalese trade deficit with India has been increasing steadily due to the amount of export is always very lower than import. As well as Nepalese export to India also increasing. The Import Trade balance of Nepal is presented below:

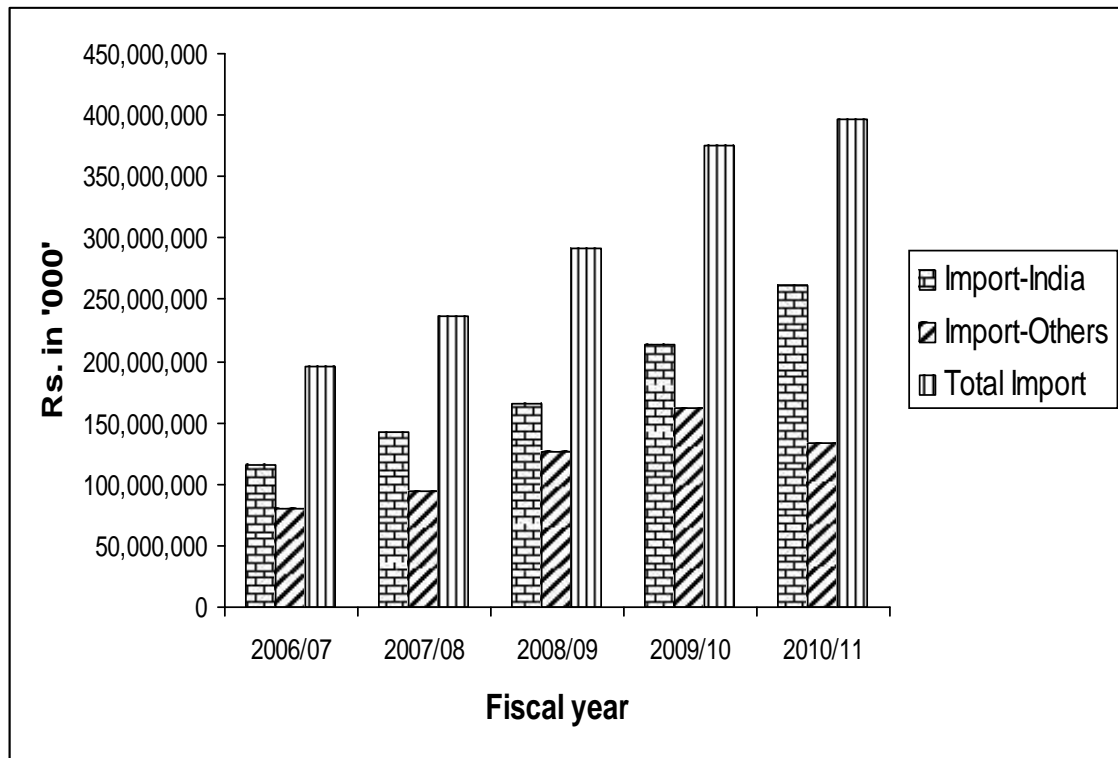
Table 4.3
Total Import Trade Balance of Nepal

Values in '000

Fiscal Year	Import-India	Import-Others	Total Import
2006/07	115,872,300	79,936,112	195,808,412
2007/08	142,376,500	94,653,776	237,030,276
2008/09	165,119,002	125,881,942	291,000,944
2009/10	214,261,109	161,344,761	375,605,870
2010/11	261,925,200	134,250,300	396,175,500

Source: Economic Review of Nepal 2011, trade and promotion centre and Economic Survey, 2011/12.

Figure 4.3
Total Import Trade Balance of Nepal



Above table 4.3 shows that the total import business of Nepal is mostly confined with India and at the increasing rate. In 2006/07 India share in import was 59.17% and 40.83% and 8.1% with overseas and Tibet respectively but in 2009/10 India share decreased on 57% and increased by 31.4% and 11.6% with overseas and Tibet respectively. Graphically also can present as displaying below as composition of Nepal Import trade pattern.

4.1.4 Growth Trends on Total Trade

Nepal and India shares some common characteristics. Both the countries are developing and are members of SAARC. Both of them have adopted economic liberalization policy for achieving economic development at a desired level. Moreover, both the countries are committed towards diversifying trade related activities through trade liberalization policy. Nepal and India, being neighboring countries and situated in the South Asian region (SAR), are facing identical problems in many respects and also the problem of achieving an accelerated economic growth. Furthermore, both the countries are facing the problem of negative trade balance. As such, they often struggle with the

management of foreign currency, which depends much upon their respective foreign trade structure i.e. the quantum of export and import and their growth. And it is noteworthy that trade relation depends much more on the structure and growth of a country's trade. Trade balance and growth or decline Export and Import in total business and share of India in total export /Import Business of Nepal is presenting below by the help of table and diagram.

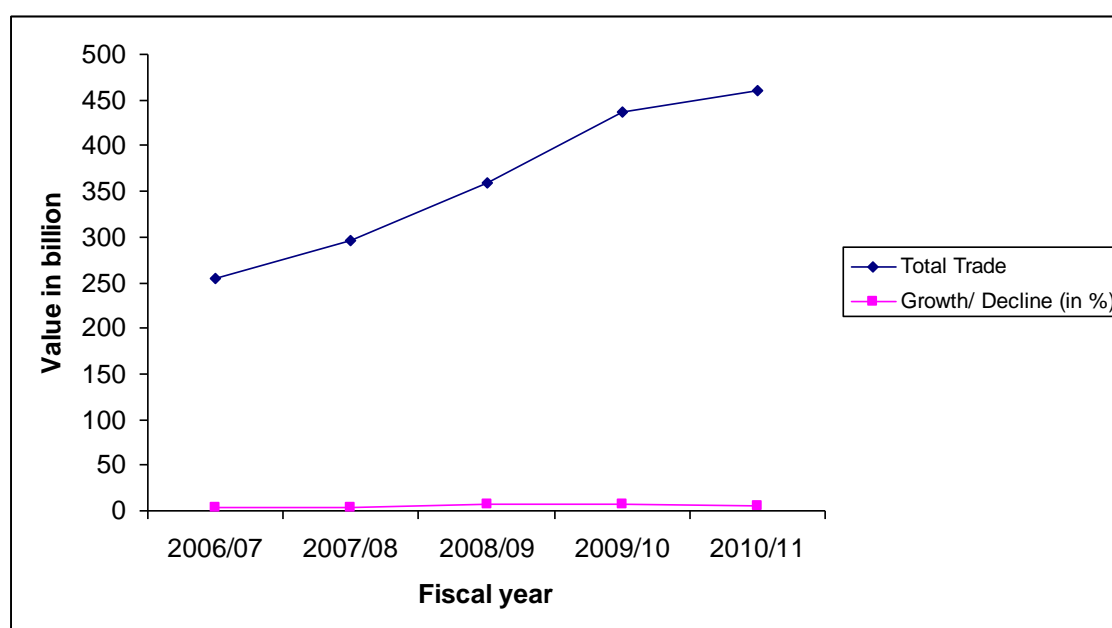
Table 4.4
Growth Trends on Total Trade

Values on Billion

Fiscal Year	Total Export	Growth/ Decline (in %)	Total Import	Growth/ Decline (in %)	Total Trade	Growth/ Decline (in %)
2006/07	58.93	-8.50	195.81	3.51	254.737	3.43
2007/08	58.47	-4.53	237.03	4.12	295.504	4.08
2008/09	68.60	10.12	291.00	4.19	359.597	6.41
2009/10	60.95	-7.65	375.60	8.46	436.550	7.70
2010/11	64.33	-11.15	396.17	5.47	460.514	5.49

Source :- *Economic Survey 2011/12 and Trade Promotion centre 2011.*

Figure 4.4
Growth Trends on Total Trade



Growth and decline in total trade means the fluctuation on export and import business on bilateral trade .By reference of table 4.4 and Figure no 4.4 the growth of Nepal Total Trade is positively fluctuate In 2006/07 to 2010/11 .Total trade data of Nepal shows that it is increasing at increasing rate by 254.737 billion to 460.514 billion on the sample research period, by the help of these data it can be easily analyzed that Nepal total foreign trade has been grown but the growth pattern was not so satisfactory and only import trade has been increased. Growth indicator is positively decreasing and it is highly very fluctuating, it means that Nepal foreign Trade is growing but not in the satisfactory .Total import has been increased by 195.81 billion, 195.81 billion, 237.03 billion, 291 billion, 375.60 billion and 396.17 billion on period 2006/07 to 2010/11 respectively and total export only 58.93 billion, 58.47 billion, 68.60 billion, 60.95 billion and 64.33 billion during the period respectively. Growth rate of foreign trade got down by 3.43%,4.07%,6.41%, 7.60% and 5.49% during the period of 2006/07 to 2010/11 respectively and main reason for fluctuation of growth pattern or being having the reason for Total trade growth fluctuation is impact of higher import from other countries and not able to made export too.

4.1.5 Nepal Trade Partners and Major Commodities

The leading export partners of Nepal have been India, USA, Germany, France United Kingdom, Italy, Canada, Japan, Singapore, Switzerland, Belgium, Spain, Turkey, Bhutan, Bangladesh, , and Netherlands over the last few years. Germany was the major country to import goods and commodities from Nepal for 2008-09 and 2009-10. But India has been the major country to import from Nepal since 1997/98. USA stands to be the second country in Nepal's export followed by Germany and other countries for the last couple of years. The major commodities exported by Nepal to the countries other than India include; cotton, readymade garments, woollen carpets, hide and skins, gold and silver ornaments, pulses, handicrafts, tea, cardamom, herbs, niger seeds and perfume oil.

The detail trading share of different countries are presenting into following tables. The table 4.5 shows that the total amounts of the export and import of goods/commodities.

Table: 4.5
Major Trading Partner of Nepal F.Y. 2006/07-2010/11(Exports)

Value in '000 Rs

S.N	Countries	F.Y.2006/07	F.Y.2007/08	F.Y.2008/09	F.Y.2009/10	F.Y. 2010/11
1	India	41,728,800	38,555,700	43,574,482	39,902,811	42868108
2	U.S.A	5,571,274	4,598,900	4,878,573	3,867,223	4392600
3	Bangladesh	521,498	4,664,363	4,710,402	3,373,718	3471938
4	Germany	2,573,710	2,332,051	2,785,047	2,391,036	2768972
5	Bhutan	310,958	142,688	194,826	1,554,824	425484
6	U.K	998,689	1,066,347	1,429,686	1,228,188	1389528
7	France	903,951	1,001,164	1,144,695	1,152,930	1206172
8	China P.R	377,991	736,405	1,847,934	1,008,696	746023
9	Canada	593,703	713,733	795,372	768,090	820351
10	Italy	684,308	583,796	851,549	716,188	758783
11	Japan	559,457	488,053	572,659	554,158	652352
12	Switzerland	316,816	391,235	251,929	370,959	215288
13	Hongkong	824,782	208,021	303,463	369,414	179455
14	Australia	209,046	175,860	432,743	333,140	304824
15	Singapore	179,602	230,409	509,185	305,665	349865
16	Turkey	174,801	107,728	472,458	276,970	865692
17	Belgium	191,078	249,661	313,351	265,807	244631
18	Netherlands	246,419	288,241	249,273	258,139	300991
19	U.A.E	147,269	176,444	575,787	255,032	326300
20	Spain	382,556	357,667	214,190	181,061	279556
21	Denmark	94,105	110,820	215,273	175,945	192884
22	Malaysia	47,787	78,833	81,302	110,324	76416
23	Austria	162,189	88,009	78,345	100,969	163061
24	Sri Lanka	3,123	35,147	161,544	100,263	7568
25	Pakistan	126,944	80,681	86,003	78,971	142338
26	Brazil	25,687	40,630	73,340	73,961	54217
27	Taiwan	56,953	70,446	55,072	71,187	80936
28	New Zealand	29,550	31,664	26,575	70,870	26501
29	Sweden	63,228	54,706	58,520	63,332	64254
30	South Africa	17,787	31,867	71,667	62,486	50865
	Sub Total	58,124,060	57,691,268	67,015,247	60,042,356	63425453
	Other Countries	803,037	783,091	1,581,605	907,247	1136991
	Grand Total	58,927,097	58,474,359	68,596,852	60,949,603	64562444

Source:- Nepal Rastra Bank and Trade & Export Promotion Centre (2011)

Table 4.5 represents the total Export trade with the major Trade partners of Nepal during the period of 2006/07 to 2010/11. From the above table we can easily analysis that India is the major country which alone imports more than 60 % of total export of Nepal and similarly

U.K, Germany ,USA ,Singapore are the major trade partners which counts as a higher importer from Nepal on Total Export trade .

Major trading imports partners of Nepal has been shown at table 4.6.

Table 4.6
Major Trading Partner of Nepal F.Y. 2006/07-2010/11 (Imports)

Value in '000 Rs

S.N	Countries	F.Y.2006/07	F.Y.2007/08	F.Y.2008/09	F.Y.2009/10	F.Y. 2010/11
1	India	115,872,300	142,376,500	165,119,002	214,261,109	259162277
2	China , P.R.	16,678,616	22,255,845	32,852,910	39,218,203	45635962
3	U.A.E	3,918,139	5,595,496	3,447,989	33,398,621	13615677
4	Indonesia	11,172,109	9,913,528	8,307,186	8,093,843	8403085
5	Thailand	3,459,455	4,983,493	6,637,979	7,504,724	7039735
6	U.K.	1,727,103	1,643,360	6,499,879	7,298,818	2040553
7	Japan	3,228,975	6,148,086	6,111,189	6,267,573	3957915
8	Korea R.	2,380,471	2,077,020	2,955,257	5,885,329	5737191
9	U.S.A	4,259,983	3,718,141	3,808,616	5,384,826	3930988
10	Argentina	2,256,212	3,918,526	6,478,282	5,036,656	7369341
11	Singapore	5,496,878	5,268,690	7,047,113	5,007,334	3347521
12	Australia	1,854,733	1,750,986	2,283,158	4,950,297	1829768
13	Hongkong	1,029,464	1,177,360	1,612,837	4,227,410	993792
14	Malaysia	2,794,632	3,833,725	4,888,939	4,207,297	4962553
15	Switzerland	479,342	592,684	2,013,740	2,743,879	2594083
16	Ukraine	123,891	644,518	2,029,459	2,499,366	445606
17	Germany	2,432,693	3,430,346	2,244,435	2,321,819	2330043
18	Saudi Arabia	2,592,689	2,677,690	8,683,695	1,832,945	3172754
19	France	585,518	833,606	2,417,042	1,662,686	1322207
20	Taiwan	795,973	1,231,952	1,752,847	1,519,883	1450077
21	Finland	60,677	20,913	76,637	1,214,488	606892
22	New Zealand	841,128	817,854	887,780	1,091,571	1038232
23	Italy	922,615	593,136	457,882	949,066	771544
24	Bangladesh	286,477	491,211	418,014	764,830	1104150
25	Brazil	1,267,138	468,305	77,117	620,858	1184859
26	Qatar	682,624	644,864	855,644	563,336	469013
27	Canada	1,098,106	2,631,355	927,281	551,039	1089558
28	Netherlands	642,995	696,265	758,479	511,998	768096
29	Denmark	764,933	501,731	357,910	438,665	524660
30	Russia	812,297	1,131,565	1,086,928	436,032	647369
	Sub Total	190,518,166	232,068,754	283,095,227	370,464,500	387545501
	Other Countries	5,290,246	4,961,522	7,905,717	5,141,370	9990441
	Grand Total	195,808,412	237,030,276	291,000,944	375,605,870	3975235942

Source:- Nepal Rastra Bank and Trade & Export Promotion Centre (2011)

4.1.6 Total Trade Deficit of Balance of Nepal

Nepal is a small developing country which is severally facing the trade deficit balance on foreign trade. Trade Deficit is the condition of Total import trade is higher than the Total export trade of a particular year and Nepal total trade deficit balance for the period of 2006/07 to 2010/11 has been presented below:-

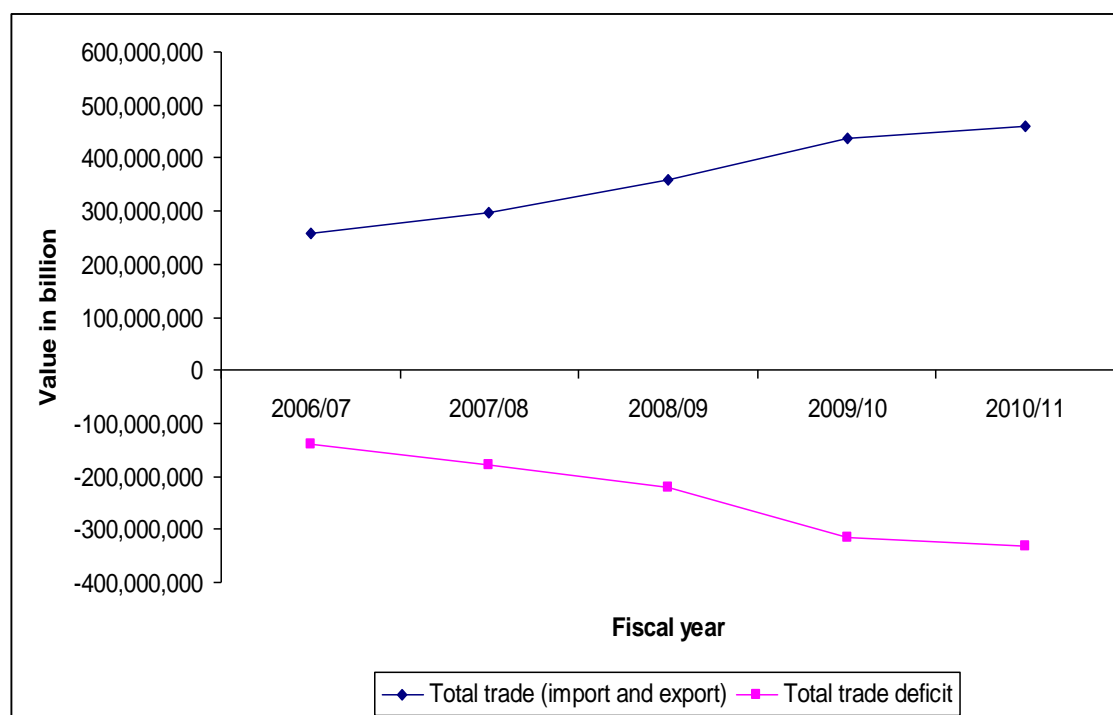
Table 4.7
Total Trade Deficit of Balance of Nepal

Values in '000Rs

Fiscal Year	Total Trade (import & Export)	Total Trade Deficit	Trade Deficit in %
2006/07	256,749,609	(138,603,415)	53.98
2007/08	295,504,635	(178,555,917)	60.42
2008/09	359,597,796	(222,404,092)	61.85
2009/10	436,555,473	(314,656,267)	72.08
2010/11	460514000	(331837000)	72.06

Source:- Economic Survey of Nepal 2011/12 and Trade promotion centre 2011

Figure 4.5
Total Trade Deficit of Balance of Nepal



It can be seen from the above table 4.7 that Nepalese total trade business and trade deficit has been increasing rate. From above figure 4.5 we can easily see that our total trade business is increasing at increasing rate due to not able to maintain total import and exports business at balance total trade deficit balance also increasing with chasing the total trade business. In the year 2006/07 total trade was 256.75 billion out of which 138.6 billion suffered as a trade deficit which counts 53.98% of total trade. Over the year 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 Nepal's deficit balance were counts of 53.98%, 60.42% , 61.85%, 72.08% and 72.06% respectively .

4.1.7 Trade Deficit Balance with India

India has traditionally enjoyed a substantial favorable balance of trade vis-à-vis Nepal. Among the several reasons for this are Nepal's underdeveloped industrial base, narrow range of exports, facility of easy import of daily use items from India, including import of inputs for some of Nepal's major exports such as ready-made garments, and unauthorized trade through the long and open border. The statistics as recorded by Government of Nepal indicating the balance of trade of Nepal, both with India, and in over-all terms, are given below. It can be seen from the Government of Nepal figures, that while India continues to have a favourable balance of trade with Nepal, the Nepalese trade deficit with India has been increasing steadily due to the amount of export is always very lower than import. As well as Nepalese export to India also increasing. The Trade deficit balance with India is presented below:

Table 4.8
Trade Deficit of Balance of Nepal with India

Values in '000Rs

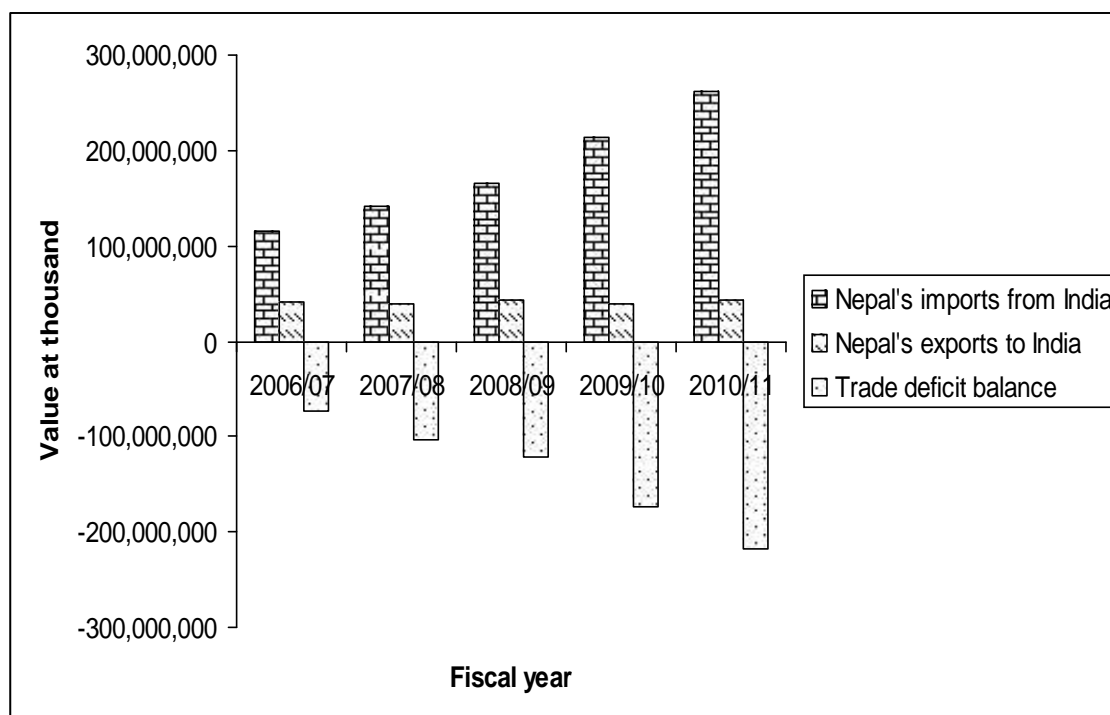
Particular	2006/07	2007/08	2008/09	2009/10	2010/11
Nepal's imports from India	115,872,300	142,376,500	165,119,002	214,261,109	261925200
Nepal's exports to India	41,728,800	38,555,700	43,574,482	39,902,811	43360400
Trade deficit balance	(74,143,500)	(103,820,800)	(121,544,520)	(174,358,298)	(218564800)

Source: Trade and Export Promotion Centre 2011/12 & Nepal Rastra Bank

It can be seen from the above figures that since 2006/07 the Nepalese exports to India have been growing at a rate which far exceeds the growth rate of Nepal's overall exports. In general, both imports and exports of Nepal have increased over the years.

In the year 2006/07 Nepal suffered by 74.14 billion as deficit, Over the year 2007/08, 2008/09, 2009/10 and 2010/11 Nepal's deficit balance were 7143500, 103820800, 121544520, 174358298 and 218564800 in thousand respectively. It shows that the policy is not in the favor of the Nepal in trading sector. Various factors are playing deem role in policy making procedure. Most of energetic factor is Nepal's dependency and conditions setting by India while preparing policies.

Figure 4.6
Trade Deficit Balance with India



From above table 4.8 in 2006/07 trade deficit with India was 68.42 billion and 2010/11 is being 174.36 billion. It means trade deficit is increasing by around 2.5 times within 5 years tenure.

Here in the trade composition, it is fruitful to shows the exports of major's commodities to overseas from Nepal. As well as it is better to describe all the sectors in which Nepal's trade is confined.

4.2.1 India-Nepal Bilateral Trade relation

From above chapter and paragraph also we come to know that the trade relation with India is closely tie with Nepal. Popular and cultural ties with Nepal have consistently

been close and have reflected to historical, geographical, cultural and linguistic links between the two nations. Some points which are assist able to show the India-Nepal Bilateral Trade features are outlined below:

At present the trade with India is increasing in slow pace than before. Mainly, in the export - import business major commodities export to India and import from India are given below:

Table 4.9
Exports and Import of Selected commodities with India

Commodities (Export)	Commodities (Import)
Pulses ,Ghee, Herbs, Ginger, Dined Ginger, Linseed, Cotton Seed, Fruits, Vegetables, Wheat flour, Vegetable Goods, Hessian, Sackings, Twines, Live Animals, Rice bran Oil, Turpentine, Cinnamon, Cardamom, Catechu , Stone and Sand, Rosin, Brooms , Noodles, Biscuits, MarbleSlab, Cattle Feeds, Barns, Oil Cakes, Hides and Skins, Tooth Paste, Polyester Yarn, Readymade Garments, Handicraft Goods, Veneer sheets, Toilet soap, Hazmola, Kachha, Iron Scrapes, Bristle, Others	Live Animals, Textiles, Readymade Garments, Raw cotton, Threads, Fruits, Vegetables , Milk Products, Tea, Coffee, Cumin Seed and Pepper, Salt, Sugar, Rice, Pulses, Wheat, Tobacco, Chemicals, Enamel and Other paints, Cement , Pipe and Pipe fittings, Sanitary wares, Bitumen, Electrical Equipments, Medicines, Writing and printing papers, Books and Magazines, Cosmetic Goods, Chemical Fertilizers, Insecticides, Hand Tools, Agri Equipments and Parts, Vehicle and Spare Parts, Tyres, Tubes and Flaps , Coal, Machinery and Parts, Glass Sheet and Glassware, Radio , TV, Decks and parts, Shoes and Sandles, Wire Products, Others

Sources: Trade and Export Promotion Centre 2011/12.

Some sort of causes and reasons some products are banned or restricted to import and import for foreign trade mainly with India. Some products are banned as for export some for import and some products are quantitatively restricted for export. Products which are banned and that which is quantitatively restricted for exports are outlined below.

A) Products Banned for Exports

Articles of Archaeological and Religious Importance:

- i. National and foreign coins of archaeological value
- ii. Idols of gods and goddesses, palm leaf inscription (Tad Patra), plant leaf inscription (Bhojpatra)
- iii. Scroll (Thanka paintings) of historical importance

I. Conserved Wildlife and Related Articles

- i. Wild animals
- ii. Bile and any part of wild animals
- iii. Musk
- iv. Snake skin, lizard skin

II. Drugs

- i. Marijuana, opium, hashish (as defined in the Single Convention on Narcotics, 1961)

III. Articles of Industrial Importance

- i. Explosive materials and the related fuse or materials needed for fuse
- ii. Materials used in the production of arms and ammunition.

IV. Industrial Raw Materials

- i. Raw hides and skin (including dry salted)
- ii. Raw wool
- iii. All imported raw materials, parts and capital goods

V. Other Products

- i. Log and Timber

The Ministry of Commerce will decide from time to time the goods to be included under the category of quantitative restrictions and volume of their exports. The Ministry of Commerce will interpret as to which of the products listed above will be permitted to export.

B) Products Banned for Imports

- i. Products injurious to health
- ii. Narcotic drugs like opium and morphine
- iii. Liquor containing more than 60 percent alcohol
- iv. Arms and ammunition and explosives (except under import license of Nepal Government)
- v. Materials used in the production of arms and ammunition
- vi. Guns and cartridges
- vii. Capes without paper
- viii. Arms and ammunition and other explosives
- ix. Communication equipment: wireless, walkie-talkie and similar other audio communication equipment (except under import license of Nepal Government)
- x. Valuable metals and jewelleryes (except permitted under bag and baggage regulations)
- xi. Beef and beef products
- xii. Any other product notified by Government of Nepal in the Nepal Gazette.

4.3.1 Transit policy/Treaties/Agreements of Nepal

The main transit policy of Nepal is to secure and exercise freedom of transit within the framework of the international Law for the most economical and convenient transit routes and appropriate transit facilities at each transit and transshipments points. Goods when exported and imported to and from the third country by sea cargo, the consignment have to be passed through India and Bangladesh for transit route. Nepal has signed transit agreements with India and Bangladesh. The overall objectives of the Nepal's transit policy, treaties agreements are presenting below.

The main objectives of Nepal Transit Policy include (Shrestha. 2005);

- I. To ensure increased transit facilities for the export and import trade of Nepal and keep the costs of transit stable.
- II. To provide smooth and expeditious clearing and forwarding services in respect to public sector consignments imported into or exported from Nepal.
- III. To operate warehouses and similar other storage facilities at ports, rail-heads, and

transit points to facilities the export and import tariff of Nepal in a convenient manner.

- IV. To provide transit information services to the Nepalese exporters and importers.

4.3.2 The treaty of transit between Nepal and India

Government of Nepal and the Government of India (hereinafter also referred to as the Contracting Parties), animated by the desire to maintain, develop and strengthen the existing friendly relations and co-operation between the two countries, Recognizing that Nepal as a land-locked country needs access to and from the sea to promote its international trade, and recognizing the need to facilitate the traffic in transit through their territories, have resolved to extend the validity of the existing treaty of transit. According to the Treaty of Transit following arrangements have been made in 1999.

- I. Nepal and India both will provide freedom of transit across their respective territories through mutually agreed routes. While providing freedom of transit, no distinction will be made in regard to flag of vessels place of origin, departure, entry and exit etc.
- II. Each country, while providing freedom of transit, can take all indispensable of its legitimate interest of any kind as well as for the protection of its essential security interest.
- III. For the convenience of transportation, facilities such as transshipment warehousing, breaking bulk and change in the mode of transportation as well as the assembly, the traders on route to destination can use disassembly, or re-assembly of machinery and bulky goods.
- IV. Transit facilities will be exempted from any customs duties as well as from all customs duties as well as from all transit duties except reasonable transportation charges required for the services to be rendered regarding such transit facilities.
- V. On the basis of mutual agreement, the government of India has agreed to provide the following sheds and open space for the Nepali cargoes at Calcutta and haldia ports. All these facilities are leased from the port trust of Calcutta on commercial terms.
- VI. For the convenience in transit, both the countries have agreed to provide 15

specified land routes. Roads passing through Calcutta Airport, Barasat and Raiganj may be provided as an alternative route out of Calcutta in respect of all routes specified above passing through Raiganj, with prior endorsement on the Customs Transit Declaration by the appropriate Customs authority They are as presenting as below :

Table 4.10
Specified Land Routes

S.N.	Land Customs Station	Route
1.	Sukhia Pokhari	Road connecting Calcutta – Dunlop Bridge – Barrackpore – Krishna Nagar – Malda – Raiganj – Dalkola – Siliguri – Sukhia Pokhari.
2.	Naxalbari (Panitanki)	Road connecting Calcutta – Dunlop Bridge – Barrackpore – Krishna Nagar – Malda – Raiganj – Dalkola – Bagdogra – Panitanki.
3.	Galgalia	Road connecting Calcutta – Dunlop Bridge – Barrackpore – Krishna Nagar – Malda – Raiganj – Dalkola – Krishnaganj – Thakurganj –Galgalia.
4.	Jogbani	Road connecting Calcutta – Dunlop Bridge – Barrackpore – Krishna Nagar – Malda – Raiganj – Dalkola – Purnia – Araria – Farbesganj – Jogbani.
5.	Bhimanagar	Road connecting Calcutta – Dunlop Bridge – Barrackpore – Krishna Nagar – Malda – Raiganj – Dalkola – Purnia – Araria – Farbesganj – Bhimanagar.

6.	Jayanagar	<p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Kulti – Jasidih – Kiul – Mokamah – Barauni – Musari Garari – Samastipur – Darbhanga – Jayanagar. (or)</p> <p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Kodarma – Nawadah – Biharsharif – Bakhtiyarpur – Gandhi Setu (Patna) – Hajipur - Musari Garari – Samastipur – Darbhanga – Jayanagar.</p>
7.	Bhitamore	<p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Kulti – Jasidih – Kiul – Mokamah – Barauni – Muzaffarpur – Sitamarhi – Bhitamore. (or)</p> <p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Kodarma – Nawadah – Biharsharif – Bakhtiyarpur – Gandhi Setu (Patna) – Hajipur – Muzaffarpur – Sitamarhi – Bhitamore</p>
8.	Raxaul	<p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Kulti – Jasidih – Kiul – Mokamah - Barauni – Muzaffarpur – Motihari – Sugauli – Raxaul. (or)</p> <p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Kodarma – Nawadah – Biharsharif – Bakhtiyarpur – Gandhi Setu (Patna) – Hajipur – Muzaffarpur – Motihari – Sugauli – Raxaul.</p>
9.	Nautanwa (Sonauli)	<p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur – Nautanwa- Sonauli.</p>
10.	Barhni	<p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur – Basti – Barhni.</p>

11.	Jarwa	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur Basti – Balrampur – Jarwa.
12.	Nepalgunj Road	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Jaunpur – Sultanpur – Lucknow – Baharaich – Nepalgunj Road. (or) Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur Basti – Baharaich – Nepalgunj Road.
13.	Tikonia	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Jaunpur – Sultanpur – Lucknow – Baharaich – Tikonia. (or) Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur Basti – Baharaich – Tikonia.
14.	Gauriphanta	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Jaunpur – Sultanpur – Lucknow – Baharaich – Gauriphanta. (or) Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur Basti – Baharaich – Gauriphanta.
15.	Banbasa	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Jaunpur – Sultanpur – Lucknow – Shahjahanpur – Bareilly – Pilibhit – Banbasa.

(Sources: Trade and export Promotion center 2011)

- VII. Subject to Indian laws and regulation, ships carrying Nepali cargoes can use the flag of Nepal. In this regard, treatment no less favorable than that accorded to ships of any other foreign country will be provided.
- VIII. Notwithstanding the fore going provisions, either Contracting Party may maintain or introduce such measures or restrictions as are necessary for the purpose of:
- Protecting public morals;
 - Protecting human, animal and plant life;
 - Safeguarding national treasures;
 - Safeguarding the implementation of laws relating to the import and export of gold and silver bullion; and
 - Safeguarding such other interests as may be mutually agreed upon.
- IX. While using transit facilities, wither of the country can take action against the import and export of narcotics and psychotropic substances or to prevent infringement of industrial, false marks, false indication of origin other methods of unfair competition.
- X. Both the countries will consult each other regularly implement the Treaty effectively and harmoniously.
- XI. After the expiry of the Treaty of Transit, this Treaty may be renewed for further periods of seven years by mutual consent, subject to some modifications, if necessary.

According to recent change of Treaty on Trade and Transit with India covered the following provision on the sector of transit.

4.3.3 Provisions of Transit Transport in the Transit Treaty with India

The protocol of the transit treaty between Nepal and India has stated that the 15 entries and exit points for the use of traffic–transit are specified. The Protocol of the treaty is the agreed provisions which are mandatory to both parties. In relation with the transport

in transit the following provisions are worthy to reproduce here: "Goods other than those mentioned in the protocol shall be permitted transit by railway wagons or marine containers or pilfer-proof container trucks or any other trucks, capable of being sealed in a manner that will leave no visible trace or tampering at the point of the importer."

The containers and individual packages are sealed and locked by Indian Customs. If the trucks breakdown, the nearest Indian Customs officer shall be approached with the least possible delay. The protocol has stated that any modifications in the provisions can be made by the mutual agreement. Both countries will take all steps to prevent deflection of their mutual trade to third countries and to ensure compliance with procedures for the transit of goods across their territories (Nepal, 2006).

4.3.3.1 Issues of Transit Procedures

There are too many documentary requirements for transit transport at present. WTO members have made suggestions on facilitating transit by means of reducing documentary requirements. However, common guidelines need to be developed for reduction of documents and procedural delays in transit.

4.3.3.2 Transit Procedures in India

Nepal and India side by side have signed an agreement for cooperation to control unauthorized trade which was supposed to reduce cross boarder smuggling and procedures of transit transport would be simplified. However, the transit procedures remained the same and transit procedures are also looked as the means of controlling the cross-border smuggling of goods. The geographical situation of Nepal provides scope of transit through three countries India, and Bangladesh and remotely China. The Chinese ports are too far and economically unattractive at present and road conditions are not good for frequent use. This is subject of further study in the changing context. Transit through Bangladesh needs trilateral transit agreements. That is why practically Nepal has to depend on India for transit transport at present. These realities and proximity prompted to enter into transit treaty between two countries for last five decades. Under prevailing transit treaty following are the infrastructural arrangements:-

- i. Leased jetties, warehouses and open shed in Calcutta.
- ii. Seven border crossing points including Raxual, ICD Birgunj, Jogbani, Sunauli,

Panitanki, Nepalgunj, and Banbasa including a transit route for Bangladesh is allowed for practical purposes for the time being (Agreed in 2006).

- iii. Nepal to Nepal transit through India. India to India transit through Nepal (Agreed in 2006).

The import Cargoes arrive at Kolkata Port or Haldia. Both ports are under the administrative jurisdiction of Kolkata Port Trust. Haldia Port is about 120 km far from Kolkata. All Customs formalities are completed in Kolkata to clear cargo at Haldia port. The bilateral treaty its protocol and memorandum as mentioned above prescribe the cargo clearance procedures, processing of documents, mode of transport, transit route, border entry points and duty insurance requirements. The treaty has specified the number of documents required for customs processing. The processing of documents is started only after the filling of Import General Manifest by the shipping Line according to rotation number and Line numbers. Customs Transit Declaration form should be submitted to Kolkata Customs. Import General Manifest is submitted before the arrival of vessel. In most cases IGM is filled after the arrival of vessel. Considerable time is lost in locating the cargo with a correct Bill of Lading or delivery order. The importer has to submit all necessary original and endorsed documents along with authority letter to the agent. The authorized Agent obtains delivery order against B/L from the shipping line and also obtains duty insurance policy from prescribed insurance company or a letter of undertaking from NTWCL.

The Customs Agent submits the following documents:-

- i. Six Copies CTD (Red for Private, green for Govt. imports).
- ii. Duty insurance policy for specified sensitive commodities and letter of Undertaking for other goods.
- iii. Original delivery order or B/L
- iv. Original letter of authority
- v. Original invoice
- vi. Original packing list
- vii. Certified copy of L/C
- viii. Certificates of origin (original)
- ix. Marine insurance policy (not compulsory)

- x. Duty insurance or letter of undertaking for containers.
- xi. Original import license if required
- xii. General cargo insurance Kolkata–Nepal (Not compulsory)
- xiii. Additional documents for special cargo such as health, phytosanitary certificates for plant and animals

For the clearance of containerized cargo some additional procedures are required and the shipping Line asks for the separate insurance policy to cover the cost of the containers too. In the Nepal-India Railway Service Agreement 2004 it has been specified that only five documents that are necessary to be submitted with ICCD in Indian Customs of Kolkata. The Assistant Commissioner of Customs after verification of CTD along with other documents orders to stamp the CTD as a receipt of documents. The Customs clearance normally takes two to four days. Only one copy of all documents, three copies of invoice and 5th and 6th copies of CTD are retained at Kolkata and other copies are given back to the Clearing Agents. Appropriate preventive officer checks the one time lock or loading of truck and container after de-stuffing marine container or loading from the open shed. The examiner or appraiser examines normally the seal number and conditions of one time lock and in other cases allow de-stuffing after checking 5% packets. They issue Pass Out order if all details are found correct. The Passing Officer makes necessary endorsements on the backside of CTD by monitoring seal and in case of bulk cargo the lock and key number. The port retained 4th copy of CTD and copies of other documents. After completion of all formalities transit pass is given to the driver to allow crossing the border. Recently after the objection made by Raxual Customs, Copy of CTD also is being provided to the driver.

The transit export cargoes are also processed in the same manner. Twenty two documents including export CTD (in yellow color) are completed. After export clearance Customs Agent is given permit to move the cargo to Indian border customs. He approaches Indian Customs with cargo and submits necessary documents. After examination of documents and seal Indian border customs office endorses all four copies of export CTD and retains fourth copy there. Duplicate and triplicate are sent to Kolkata by post. The provision of duty insurance for export is the same as applicable to import. If seal and documents are intact the examining officer endorses all documents

and allows the cargo to move for shipment. If any discrepancies exist percentage base examination is conducted. (Nepal 2006)

4.4 Impact of Trade and Transit Treaties on Bilateral Trade with India

Trade and Transit Treaties with India and other overseas countries carry significant meaning particularly to Nepal. The treaties provide guidelines and also scope for furthering bilateral trade. A general overview on the impact of foreign, Indo-Nepal bilateral trade and transit treaties specifically on the trade structure and the trend of trade of Nepal is discussed in the following sections.

4.4.1 Impact on Structure and Trend of Nepal's Trade

The provisions on the Treaty of Trade and Transit between Nepal and foreign countries especially with India considerably determine the direction of Nepalese international trade. There have been ups and downs in the structure and trend of Nepalese export, in particular, since the first formal Treaty of Trade and Commerce, 1950 with India and foreign countries. Impact of the subsequent Trade and Transit Treaties provides varying scenarios in the export and import trade of Nepal. Following analysis is based on the data published by TPC & Nepal Rastra Bank managing on annexure part of this study.

A) Period between 1950 and 1970

The share of India was more than 95 percent in the total trade transactions of Nepal during the period of 1963/64 to 1966/67. Evidently, the total trade transactions with other countries were less than 5 per cent. Imports from India were 98.5 percent of the total import in the year 1964/65 whereas the percentage went on decreasing in the subsequent years. In 1970/71 it was 97.6 percent, in 1971/72 it was 96.8 percent, in 1972/73 it was 92.3 percent, in 1974/75 it was 93.2 percent and in the year 1975/76 it was 91.5 percent of the total imports. Nepal's export to India was 98.3 percent of the total exports of Nepal in 1970/71. It went on decreasing in the subsequent years with a lower scale. (Source: Total Foreign Trade Balance of Nepal, by Trade Promotion Centre 2011-Annex I)

B) Period between 1965 and 1975

The share of India in total import of Nepal was 88.2 percent in 1965/66. It declined over the period and reached finally to 51.3 percent in 1974/75. On the other hand, the share of third countries in total import of Nepal was only 11.8 percent in 1965/66. It climbed steadily over the period and reached to 48.7 percent in 1974/75. Likewise, the share of India in total export of Nepal was 81.9 percent in 1965/66. It steadily decreased during the period and reached to 45.3 percent in 1974/75. On the other hand, the share of other countries gradually picked up during the same period. The share in the total export was 18.1 percent in 1965/66, which increased to 54.7 percent in 1974/75. As a result, the share of India in Nepal's total trade decreased from 85.9 percent (1965/66) to 49.8 percent (1974/75) and that of the other countries, it increased from 14.1 percent (1965/66) to 50.2 percent (1974/75). (Source : Total Foreign Trade Balance of Nepal, by Trade Promotion Centre 2011-Annex I)

C) Period between 1991 and 2000

The share of India in the total export of Nepal was 61.7 percent in 1990/91. The share declined further in 1995/96 and reached to 40.3 percent. However, the share of India in Nepal's total export increased a little bit in 1996/97 and registered 43.5 percent. The trend went on declining from that year. As such, it was 24.7 percent in 1998/99. It further declined in 1999/2000 and revealed just 11.7 percent. On the total import of Nepal, the share of India was 49.2 percent in 1990/91, which went on at a decreasing rate. The share of India in the total import of Nepal was, thus, 42.5 percent in 1995/96, 39.1 percent in 1996/97, 33.1 percent in 1997/98 and 26.1 percent in 1998/99. The share came down still a little bit in 1999/2000 and stood at 25.5 percent. (Source : Total Foreign Trade Balance of Nepal, by Trade Promotion Centre 2011-Annex I)

D) Period between 2001 and 2005

In the year 2000/2001, the share of India in the total export of Nepal was 21 percent. It decreased in the successive years and, thus, revealed 10.6 percent and 9.6 percent for the year 2001/02 and 2002/03. Situation in such a share improved marginally in 2003/04 revealing 12.5 percent. The share percentage was 17.7 percent and 18.5 percent for 2004/05 and 2005/06. On the other hand, the share of India in the total import of Nepal remained in between 30 percent to 35 percent during that period. Such

a share was 31.5 percent in 2000/01, which increased in 2001/02 showing 35.2 percent. In 2002/03 it was 33.3 percent, in 2003/04 it was 35.4 percent, in 2004/05 it was 30.8 percent and it was 32.8 percent in 2005/06. (Source: Total Foreign Trade Balance of Nepal, by Trade Promotion Centre 2011-Annex I)

E) Period between 2005 and 2010

It is interesting to note that the trend of the total trade, i.e. export and import, between Nepal and India has increased in the year 2006/07 and decrease onward. Of course, it may be due to the outcome of favorable provisions in the Indo-Nepal Trade Treaty of 2006. The share of India in the total export of Nepal was 70.8 percent in 2006/07. The trend shrinks gradually in the successive years. It was 65.9 percent in 2007/08 while it was 63.5 percent, 65.5 percent 2008/09 and 2009/10 respectively. The share of India in the total import of Nepal was 59.2 percent in 2006/07, which gradually increased revealing 60.1 percent in 2007/08 and decreased by 56.7 percent and 57 percent in 2008/09 and 2009/10 respectively. Treaty of Trade 2006 has indeed played a crucial role in the foreign trade structure of Nepal. The average exports per annum from Nepal to India during the period of 2005/06 to 2009/10 show 66.76 percent out of the total export Nepalese trade. It can, thus, be noted the phenomenal impact of the Treaty on the trade structure of Nepal. Similarly, the import structure also presented a different scenario but at a lower scale. The average imports from India were 59.94 percent during the period of 2005/06 to 2009/10. (Source: Total Foreign Trade Balance of Nepal, by Trade Promotion Centre 2011-Annex I)

The trend analysis of Indo-Nepal bilateral trade evidently indicates that the trade and transit treaties held between these countries determine the volume of trade on the one hand, and the direction of trade on the other. It can be seen, particularly, the level of exports from Nepal to India fluctuating as the provisions in the treaties changes such as; the Articles relating to material content, value addition norms, restrictions of the specific goods and articles and the quantity restrictions of certain items. Among the positive implications of the Indo-Nepal Trade Treaties, one of the most important has been to widen the basket of Nepalese export commodities to India. Besides the traditional Nepalese exports like jute goods, pulses, ginger, oil cakes, cardamom, rosin, skin and hide and skin, a number of new commodities have been added to the Nepalese export basket including vanaspati, toothpaste, acrylic and polyester yarn, Ayurvedic medicine, soap, turpentine, brooms and handicrafts, copper wire and other copper

products, paper and wax products. A total of 184 odd Nepalese products are being exported to India at present. Trade structure analyses in the above sections indicate that there has been a significant correlation between the Indo-Nepal Trade and Transit Treaties on the Nepalese trade. Specifically, the liberal provisions in the treaties have contributed significantly in the expansion of trade between Nepal and India. Export trade of Nepal, as compared to the import trade, can be seen fluctuating very speedily. It is to be noted that export trade has a significant impact on the balance of payments. The share of India is always remain in top position because the close relation on cultural, and geographical and other many more of Nepal with India. Not only this the policy adopted by Nepal and India also pushed to make this situation.

4.5 Emerging Possibilities on Trade & Transit of Nepal

4.5.1 Prospects on Foreign Trade

Due to various reasons total Nepal foreign trade is suffering from great deficits. With the deficit trade balance many prospective of trade in the foreign country also not going to remove. Nepal stands as a unique country of its own. Natural scenarios have made the country a beautiful. Studies reveal that the country possesses several mines and minerals along with huge water resources. Labour force is at the increasing rate. Comparatively, labour is cheap. The country is heading towards the industrialization regime. Preparation of basic infrastructure at the required level for this purpose is underway. Available resources and facilities can be used for the economic growth and development. But the country is still facing the problems of adequate capital to invest for seeking beneficial outcomes on the one hand, and the desired level of entrepreneurship and skills. Than also some prospective area to raise Nepal's foreign trade in toward balancing sectors are outline below:

A) Hydroelectric Power

Nepal is well endowed with enormous hydropower resources. The country has a total hydropower potentiality of 83 thousand MW of which 50 percent could be economically harnessed. Out of the potential only 697.85 MW has been exploited by the end of 2010/11, i.e. 0.84 percent of total capacity (Economic survey, 2011/12). The completion of Kaligandaki hydropower plant (144MW), and Indrawati III hydropower plant (7.5 MW) at the private sector's ownership has added 151.5 MW. The total installed

capacity has reached to 697.85 MW (0.84 percent of total capacity), including private and others, by the end of FY 2011/12. Out of total, 113.6MW i.e. 19.4 percent of the total power production has been generated by the private sector. Hydropower generation can be seen as one of the most significant potential area to cooperate and also to invest in case of Nepal for not only meeting domestic needs but also generating the power for export. Hydropower Development Policy 2011 has encouraged the private sector to be involvement in the hydropower development. Furthermore, the policy has identified hydroelectricity as export commodity. It has further encouraged operating on the basis of BOOT (Build-Operate-Own-Transfer) or BOT (Build-Operate- Transfer) model to attract local and foreign investors. In addition, it underlines the need for bilateral and multilateral assistance to export electricity besides electricity generation. In this respect a Power Trade Agreement was signed on 5 June 1997 between Nepal and India, which opened up the possibilities of private sector participation in power generation, and export of power between the two countries.

Obviously, hydropower generation has been seen as one of the prominent area for the potential export trade. A number of projects have been initiated with the private sector participation since the promulgation of the Electricity Act, 1992. Some of the medium size hydropower projects are already in advanced stage, which include Khimti-I (60MW), Upper Bhote Koshi (36 MW), Upper Marsyandi (43 MW), Chilime (20 MW), Indrawati (5MW). Other major projects on which preliminary studies have been undertaken include Chisapani (10800 MW), Upper Arun (335 MW), Pancheshwor (6480MW), Lower Arun (308 MW), and Upper Karnali (300 MW) hydroelectric projects. Another major project West Seti Hydel project (750 MW) is being taken up by a private sector. There are still a number of feasible projects in the hydroelectric power sector. Some of the feasible identified projects in this sector include; Arun III, Kali Gandaki II, Budhi Gandaki, Budhi Ganga, Likhu Khola, Dudh Koshi, Tamor Mewa, Kabeli and Rahughat. The Tenth Plan (2002-2007) has envisaged developing the electricity as export goods and has set a target to generate 842 MW. The Plan states that the water resource development and management will be based on river basin approach. Electricity development will be based upon the comparative national benefits and will be developed under public, private or their joint investments. The Plan has encouraged private sector participation in both i.e. power development for domestic consumption and export as well as in present interim 3 years plan lunched by

government. The Government expectation to produce electricity with in this plan is 5000 MW. So the prosperity in this sector is blossoming.

B) Tourism Industry

Tourism stands out most important sector in which Nepal has a comparative advantage and vast potential due to its rich cultural heritage, and unrivalled natural scenic beauty. Tourism has emerged as one of the most dynamic and promising sectors in the country providing employment opportunities, and income generation for small and large entrepreneurs. This sector provides a room for economic cooperation in a number of areas like tourism infrastructure, hotels and resorts, games and amusement centres etc. Tourism products like holiday homes, mountain sports, adventure travel and amusement parks are some other potential areas. The construction and operation of hotels and resorts offer very promising prospects for profitable investment. Similarly, investment in popular tourist activities and recreations are perceived to be successful undertakings. Foreign direct investment has been encouraged in capital-intensive tourism industries such as hotels, resorts and in the areas, which transfer modern technology and skills. There is tremendous potential for cooperation with Nepal for foreign countries in the field of water resources.

C) Education and Training

The mode and model of trade is changing rapidly in recent years. Trade also demands a fair amount of education and training in the respective field and areas. India is extending cooperation in the education and training since long back. In accordance with the changing scenario, both the countries can promote mutual understanding and cooperation through a process of wide sharing of knowledge and professional talents in both academic pursuits and technical specializations.

D) Mineral Exploration and Exploitations

Mineral resources, which can be commercially exploited, are identified as limestone, magnetite, dolomite, silica, clay, construction stone, iron ore, lead and zinc etc. Several major limestone deposits have been identified in Nepal and exploitation of some of these deposits for the manufacture of cement and agricultural and industrial lime is already underway. Major limestone deposits are found in Okhare, Udaipur and Surkhet.

A large deposit of magnesite has been identified and exploited for the production of dead burnt magnesite. Talc deposits have been identified and one deposit is being exploited. Two large silica sand deposits are found in Nepal and these could be exploited for the production of sodium silicate. An important marble deposit is being exploited for the production of slabs. A commercial deposit of lead and zinc has been identified and initial steps have been taken to exploit it. Mineral exploration and exploitation in some of the areas identified offer promising prospects for cooperation and investment.

E) Information and Communication Technology

Developments in the areas of information and communication technology (ICT) are growing rapidly. The demand for ICT is likely to increase in the future as well. This has been one of the prominent service trades having potential of high value addition. Nepal has well-educated and trained manpower in this sector. An Information Technology Park has also been established to facilitate and promote such activities. A couple of joint venture in this sector has already been emerged. In view of the comparative cheap labour and the growing demand for information technology, the private sector also obtains a good opportunity to invest in this service trade. This sector offers a wide scope to go hand in hand to serve common interests.

4.5.2 Prospects on Transit

Nepal one of the landlocked country locked by India and China. In the transit sector Nepal can established as a transit state between both great economic power China and India, especially on a local public transportation system. Recently, the government of Nepal has constituted a committee to give concrete manifestation to make Nepal a transit country between India and China. Nepal's nearest seaport is Calcutta in India which is 1,150 kilometers away. Administrative hassles and time consuming handling of customs often delay in the shipment of goods. Dependence on a single seaport has made Nepal vulnerable to regular interruption of transit and trade. Economic blockade imposed by India in March 1989 is still vivid in the memory of Nepalese business community and people as to how a lack of perennial transit could inflict problems on a small landlocked country. Economic growth, export expansion and the utilization of foreign direct investment (FDI) have generated the demand for transport and

communication facilities. Mounting costs of transit and transport have increased the costs for import and export and posed additional barrier for Nepal's development. To realize Nepal's potential for a transit state, development disparity between Kathmandu and the periphery and the urban and rural areas has to be bridged by modern transportation and infrastructure developments. Nepal's northern neighbor, China, has never been a transit state for Nepal for third country trade and the movement of people and goods. High Himalayas in the north of Nepal pose formidable barriers, Tibet is sparsely populated and the great distances between Nepal and China's industrial heartland cities make trade highly costly. In fact, "China's industrial heartland is on its eastern sea-bound, 5,000 km away by train from Tibet." Just this year Chinese completed a Shanghai-Lhasa railways line and Chinese authorities are trying to expand this rail lines to other Tibetan towns. There are 28 passes on the Nepal-China border but only 3 of them are open and functional throughout the whole year. This has set critical limitation on Nepal's growing commercial interaction with China. Unless the Chinese develops supermarkets and sound infrastructures in border areas, market integration will not occur very soon. So far, Nepal has not signed any transit agreement with China. China's national goals of sustaining high economic growth rate, reducing regional inequalities and exploiting the rich resources of western region will probably increase imports and exports in the future which will likely to increase the economic activities of Nepal in the northern region. To expand economic cooperation China-Nepal Non-Governmental Cooperation Forum was set up in 1996. Nepal also serves as a transit country for the Indian and the Chinese trades through land routes. The Raxual-Kathmandu-Khasa road links the three countries. This link road is 390 kilometers. But the Barhabise-Kodari part of northern road is not well enlarged and well maintained. Therefore, it has created barriers in transport during rainy season. If Syaprubesi section of highway, which is 92 kilometer long and links to Rasuwa, is constructed distance will be shortened and there is every possibility that transit importance of Nepal will be significantly increased. The Raxual-Trishuli-Rasuwa (265 kilometers) will be the shortest road connecting Nepal's southern with northern borders. The Chinese are helping to build a 22-kilometer road that links Syprubeshi with the Chinese border and is expected to augment growing cooperation between Nepal and China. Nepal-India Transit Treaty was signed in 1971. With the signing of this treaty, Nepal Transit and Warehousing Company Limited (NTWC) have been established by the government to provide transit facilities for Nepalese exports and imports to and from

abroad. This transit agreement with India is periodically renewed. Nepal has only one dryport at Birgunj. It does not have well-equipped storage facilities. The system of tax and revenue collection is not scientifically managed either. An agreement has recently been signed with India to modernize the custom offices and upgrade other facilities of Biratnagar, Birgunj, Bhairahwa and Nepalgunj. It is equally essential to develop an internet and intranet system to link together industrial and business facilities as a part of efforts to more efficiently manage the transit economy. To make Nepal transit country, it needs to develop good link roads, transportation and communication and storage facilities and develop good neighborly political understanding with both India and China. Bangladesh has also offered Nepal an access to its seaports Chittagong, Khulna and Chalna. Nepal and Bangladesh are separated by a narrow piece of Indian Territory of about 15 kilometers in the Southeast. To promote trade between Nepal and Bangladesh, Nepal has been given Radhikapur route and importers and exporters have to liaison with Indian authorities. Bangladesh at the request of Nepal, has constructed an Inland Container Depots (ICDs) at Bangladesh. High cost and time-consuming overland transportation across national borders, distance from major world markets and inadequate transport infrastructure have increase costs to trade transactions of landlocked countries.

4.6 Trade & Transit Problems of Nepal

Nepal trade with foreign countries is suffering great deficit from long back period. There are various causes leading to make such situation. Here we can point out some problems occurring on the Nepal's foreign trade.

Generally, foreign trade indicates the activities of Export and Import business. On this business main problems can categorised in to following way:

Market barriers: - Under this heading many problems are existing in the field of foreign trade such as: Lack of research, tough competition, lack of proper promotion tools and lack of advance Information Technology system used in Nepalese marketing sectors.

Policy related problems: - Under this heading many problems are existing in the field of foreign trade such as: pegged exchange rate regime; complicated documentation procedure; higher transaction cost; limited freedom on foreign exchange;

lack of trained human resources; absence of adequate legal provision; non-implementation of the announced policy etc.

Problem of Production: - There is not any specialized product to promote Nepalese foreign trade. Under the production section many obstacles are remaining in Nepal. Some major problems related with production are: Lack of Capital; Lack of Labour; Lack of Technology and social & environmental problems.

And other major problems of foreign trade are outlined below:

- i. Nepal lacks genuine exportable items. There are only two or three major items for export i.e. readymade garments and woollen carpet, with account for more than 75% of total overseas trade.
- ii. It seems to feel that the research and development activities regarding the development of exportable products in Nepal is quite lacking. There is only one government agency undertaking such responsibility- TPC but it lacks such activities.
- iii. Information, which are essential for better decision making are seriously lacking in Nepal. Most of the information on policy approach and fundamental decision are not transparent in Nepal. They are stored in the dark basket by the responsible authorities, both government and private sectors.
- iv. Nepal's trade with SAARC member countries is not satisfactory. India alone accounts for more than 98% of total intra SAARC trade. Quota system imposed by India for certain goods also other barriers in Nepal's trade.
- v. Trade deficits also another problem to strengthen upcoming trade balance. It negatively impacting on total Nepal foreign trade.
- vi. Lack of knowledge about foreign countries trade policy to Nepalese trade policy makers to forecast and plan the trade activities.
- vii. Transit /Landlocked position is another great barrier in Nepal's foreign trade.
- viii. Unauthorized trade on border side also impacting negatively on total trade structure.

Transit, which is unquestionable right of landlocked country like Nepal and which is essential for the flow of trade, is seriously constrained by the neighbouring SAARC member country India. Transit of Nepal comprises of several problems as follows:

- i. The snowy range of Himalayas stands as a transit barrier between these two giant countries. Tibet which is one of the nearest neighbours of Nepal is still not developed as other areas of china.
- ii. Due to uncomfortable geo-political position of Nepal, it has to accept Calcutta port to entry and exit Nepali cargo for which compelled to accept India's hard conditions too. The Freedom of transit which was accorded by the Trade and Transit Agreement of 1960 has not brought yet into actual practices.
- iii. The Nepalese transit-traffic is subject to the Indian customs act of 1962 this imposition of the Indian Customs Act for Nepal bound cargo is not justifiable. The Nepalese do not have their separate Custom zone. The security problem is out of Nepal's hand. The institutions created in Nepal for transit are not able to deal with such policy issues with the Calcutta authorities.
- iv. Operation at Calcutta Port pose serious difficulties to Nepalese shippers due to lack of physical infrastructure, congestion in the berths, jetties and warehouses, frequent labour unrest, lack of adequate security, bureaucratic procedures, delays in clearance shortage of railway wagons, and a host of other problems.
- v. As well as the problem of Internal transit route also very strong in Nepalese business. Transportation system is not well managed and not accorded rules and regulation.

4.7 Major Findings of the study

Major Finding from the review of Trade & Transit Policy and its impact of trade structure of Nepal especially with India:-

- i. After the established of TPC in 1971, the trade pattern of Nepal moving toward widely. Ttrade policies of Nepal are set at 1992. Nepal has the common trade policies to foreign countries.
- ii. Trade policy 1992 enhance the contribution of trade sector to national economy by promoting internal & external trade, diversity trade by identifying, developing and producing new exportable product, expend trade to reduce trade imbalance, coordinate trade with other sectors by expending employment oriented trade.
- iii. Trade policy 1992, outline policies on Basic trade, export, import, deemed

export, Import licensing arrangement, foreign exchange arrangement, and internal trade policies.

- iv. Trade Deficit of Nepal increased widely .Total deficit suffered by 332.67 billion till 2010/11, and increasing trade deficit shows that Nepal total trade is increasing but only import takes high account to increase total trade but trend of total export is decreasing . So, Nepal's total trade is in increasing trend but always total export is smaller than import. Obviously it is the reasons to get negative variation.
- v. Nepal all the year suffering from trade deficit in foreign trade because Nepal's internal production sector is not such strong and not sufficient to provide required consumer and other goods/Commodities.
- vi. Nepal- India trade and economic relation are being very close. Since the beginning we found India alone confined the Nepal foreign trade. Open boarder and cultural aspects are the major factors.
- vii. The people's movement for the republican Nepal 2006 just going to settle down. The role of India in this movement is remarkable by alliance all the major parties and playing the role of facilitating and supporting.
- viii. During this trade period , Nepal suffered from the huge trade deficit with India as well as Overseas countries. The rate of export to India is not in same trend .And import from India is also slowly decreasing mode. But it means trade is not decreasing only the trend of import from India in the rate of previous year is decreasing but value of import is increasing rapidly. In the overall all foreign trade of Nepal India occupied very large space in both import and export sector. India also a leading country from where Nepal import more goods/commodities rather than export. So, Nepal is suffering great deficit with India which we can overview from above presented tables and graphs. Some products are banned to export to India as well as import to Nepal also. Due to technical and other reasons these mentions on above part of the study are not in the processes of the exchange.
- ix. From the above analysis many weaknesses of Nepal in the sector of trade are outlined. Such as market barriers and problem in production. such as Lack of research, tough competition, lack of proper promotion tools, lack of advance Information Technology system, Lack of Capital; Lack of Labour; Lack of Technology and social & environmental problems, pegged exchange

rate regime, Complicated documentation procedure, higher transaction cost, limited freedom on foreign exchange, lack of trained human resources, absence of adequate legal provision and non-implementation of the announced policy etc.

- x. Nepal is one of the landlocked countries. To promote foreign trade main barrier is its geographical location. Various provisions and rights are set on the various conventions and treaties for the landlocked countries to use seacoast (Port) but while using those countries are getting very difficulties.
- xi. In the transit system to Nepal foreign trade is finding very difficult. Various barriers are occurred on the way to precede the commodities and pursue civilian of Nepal. From the above treaties analysis it can draw that Nepal is facing many bordering and other route problems. Especially due to India's setting unnecessary condition and provision Nepal is being compulsion to support their version. Presently, Nepal getting total 15 land route to pursue India and 3 routes to China. While using these routes, many administrative and procedural difficulties are existing there. Loosing goods, threat of losing and capturing by unwanted people and long transportation cost, and transport permit are major barriers on this process. While using china routes geographical location and lack of infrastructure to connect with china are the major difficulties on this process. But while using Bangladesh sea port, its rules to enter foreign civil and permit to pursue there for transportation means are not feasible yet. Presently, Nepal using Calcutta Port as a sea coast. Operation at Calcutta Port pose serious difficulties to Nepalese shippers due to lack of physical infrastructure, congestion in the berths, jetties and warehouses, frequent labour unrest, lack of adequate security, bureaucratic procedures, delays in clearance shortage of railway wagons, and a host of other problems With the deficit trade balance many prospective of trade in the foreign country also not going to remove. Nepal stands as a unique country of its own. Natural scenarios have made the country a beautiful. Studies reveal that the country possesses several mines and minerals along with huge water resources. Comparatively, labour is cheap. The country is heading towards the industrialization regime. Preparation of basic infrastructure at the required level for this purpose is underway. So various prospective such as in Hydroelectric production , Mines and Minerals industries, Tourism Industry, Expansion of Information System Industries

and Education and training sectors are the emerging areas to develop and expansion Nepal foreign trade in balance.

- xii. Recently various provision set by WTO and other countries also impacting Nepal's foreign trade such as cut off quota system in readymade garment, quantitative restriction on export some product to India etc.
- xiii. To implement the transit treaty with India Nepal has established Nepal Transit Warehouse Company under Company Act and it was registered as foreign company in India. It takes care of all transit cargo at Kolkata in cooperation with Nepalese Consulate General Office in Kolkata.

CHAPTER -V

SUMMARY/CONCLUSION AND RECOMMENDATION

This chapter indicates the summary and conclusions derived from the in-depth study and critical analysis of Nepal Trade & Transit policy with India and impact on trade.

5.1 Summary

Nepal is a landlocked Himalayan countries locked by India in south, east and west and china at northern part. This age is the age of Globalization and Liberalization in every aspect. Obviously, Nepal is moving forward on the way of global trade. Basically some sort of reasons are behind the rapid growth of international and global business such as expansion of technology globally, liberalization and worldwide institutional arrangement. Increase in global competition Trade is the voluntary exchanges of goods, services, or both. Trade is also called commerce. Trade exists for many reasons. Due to specialization and division of labor, most people concentrate on a small aspect of production, trading for other products. Trade exists between regions because different regions have a comparative advantage in the production of some tradable commodity, or because different regions have comparative advantage in the production of some tradable commodity, or because different region's size allows for the benefits of mass production. So, to guide the trade and commerce activities many policies and treaties are in practice. Transit refers to movement of persons and goods through the territory of transit countries. Transit state is a state, with or without a seacoast, situated between landlocked state and the sea through whose territory traffic in transit should take place. For Nepal, India is a major transit state and Nepal is a landlocked state. Due to geographical disadvantage Nepal is facing various obstacles while operating trade with foreign countries. To control and guide the trade many treaties and policies were formed. Nepal's Trade and transit policies also formed in many times and revised it in different period also for especially with India and other overseas countries. Initially, Nepal signed its first treaty of trade with independent India in 1950. However, it was only renewed treaty in 1961 that established bilateral free trade agreement (FTA) between Nepal and India. They were subsequently modified and renewed in 1991, 1998, 2011 and the most recent one being in 2011 Oct. is Nepal and India BIPPA agreement. Mainly, from this research the output is trade dominated by India from long time before.

So, most focuses is given to treaty with India in this research. Objectives set by Nepal trade treaties are such as : to enhance trade sector to contribute national economy by promoting internal and external trade ; to diversify trade by identifying , developing and producing new exportable product through promoting backward linkage ; to expand trade on sustained basis to reduce trade imbalance and to coordinate trade with other sectors to expending employment oriented trade. As per trade transit policies are occurring on the practice with various objectives. From this study it's can summarize that Nepalese trade deficit with India has been increasing steadily due to the amount of export is always very lower then import. As well as Nepalese export to India also increasing. There are 22 land border points specified as agreed routes for mutual trade between India and Nepal under the terms of the Indo-Nepal Treaty of Trade. Under the Treaty of Transit and the Protocol to the Treaty of Transit, the Calcutta-Haldia port complex has been specified as port of entry for Nepal's third-country trade by sea. However, 15 land-border points have been specified for the passage of Nepal's third-country trade. The transit facilities provided by India to Nepal found as per : allows freedom of transit for Nepalese third-country trade across its territories; permission for the movement of Nepalese trucks to and from the merest railway stations to pick up the export and transit cargo to Nepal; traffic in transit is exempted from customs duty and from all transit duties or other charges, except charges for transportation and service charges; facilities are provided for warehousing and for storage of goods in transit awaiting customs clearances before inward transportation to Nepal, through Indian Territory etc. Among the positive implications of the Indo-Nepal Trade Treaties, one of the most important has been to widen the basket of Nepalese export commodities to India. Besides the traditional Nepalese exports like jute goods, pulses, ginger, oil cakes, cardamom, rosin, skin and hide and skin, a number of new commodities have been added to the Nepalese export basket including vanaspati, toothpaste, acrylic and polyester yarn, Ayurvedic medicine, soap, turpentine, brooms and handicrafts, copper wire and other copper products, paper and wax products. A total of 184 odd Nepalese products are being exported to India at present. Export trade of Nepal, as compared to the import trade, can be seen fluctuating very speedily. It is to be noted that export trade has a significant impact on the balance of payments. Due to various reasons total Nepal foreign trade is suffering from great deficits. With the deficit trade balance many prospective of trade in the foreign country also not going to remove. Nepal stands as a unique country of its own. Natural scenarios have made the

country a beautiful. Studies reveal that the country possesses several mines and minerals along with huge water resources. Labour force is at the increasing rate. Comparatively, labour is cheap. The country is heading towards the industrialization regime. Preparation of basic infrastructure at the required level for this purpose is underway. Available resources and facilities can be used for the economic growth and development. But the country is still facing the problems of adequate capital to invest for seeking beneficial outcomes on the one hand, and the desired level of entrepreneurship and skills. With the above all prospects on trade some problems also remaining on the operation of these activities. some major barriers are : Lack of research, tough competition, lack of proper promotion tools, lack of advance Information Technology system used in Nepalese marketing sectors, Lack of Capital, Lack of Labour, Lack of Technology and social & environmental problems etc.

5.2 Conclusions

From the analysis of various aspects of the topic in this research some key findings are concluded. To guide and promote the foreign trade various policies and treaties are set and governed to all those activities. We know Nepal is geographically located as landlocked, due to this disadvantages many other problems and obstacles are occurring on the process of sea through trade with overseas countries. To govern trade activities existing trade policy 1992 is in operation. First treaty on trade made in 1950, it was renewed in 1971 and renewed in 1981, 1998, 2011, on the treaty of Transit & transit some major key features such as exemption from basic customs duty as well as qualitative restriction on import, access to Nepalese product on Indian market free of basic custom duties, preferential entry on goods imported without any qualitative restriction and payment in Indian currency etc. At present the scenario of Nepalese foreign trade concluded as that the trend of total trade is increasing. During the 51 years period, Nepal suffered from the huge trade deficit with India as well as Overseas countries. As a result total export in trend is decreasing as per 23%, 19.8%, 19%, 14% and 14% in the period of FY 2006/07 to 2010/11 respectively. Same way Import is in increasing trend as per 77%, 80.2%, 80.9%, 86% and 86% in the period of FY 2006/07 to 2010/11 respectively (Source: Economic Survey of Nepal 2011/12 and Trade Promotion centre).

Obviously if there is export is more than import, there must be trade deficit. So, Nepal all the year suffering from trade deficit in foreign trade because Nepal's internal production sector is not such strong and not sufficient to provide required consumer and other goods/Commodities. Especially trade with India occupied the large space in the arena of the Nepal's foreign trade. Nepal is bearing great deficit on trade continuously with India. Some points are found which are set on policy on the benefits of India rather than Nepal, on this situation the diplomacy is not strong of Nepal. From the study total volume of trade is increasing with India too but deficit also increasing with same ratio. From the analysis of Impact of Nepal trade policy and bilateral trade with India evidently indicates that the trade and transit treaties held between these countries determine the volume of trade on the one hand, and the direction of trade on the other. It can be seen, particularly, the level of exports from Nepal to India fluctuating as the provisions in the treaties changes such as; the Articles relating to material content, value addition norms, restrictions of the specific goods and articles and the quantity restrictions of certain items. A total of 184 odd Nepalese products are being exported to India at present. Trade structure analyses in the above sections indicate that there has been a significant correlation between the Indo- Nepal Trade and Transit Treaties on the Nepalese trade.

Specifically, the liberal provisions in the treaties have contributed significantly in the expansion of trade between Nepal and India. Export trade of Nepal, as compared to the import trade, can be seen fluctuating very speedily. It is to be noted that export trade has a significant impact on the balance of payments. From this study some comparative advantages sectors which are fruitful to develop and expansion on the sector of trade are also outlined. Nepal stands as a unique country of its own. Natural scenarios have made the country a beautiful. Studies reveal that the country possesses several mines and minerals along with huge water resources. Comparatively, labour is cheap. The country is heading towards the industrialization regime. Preparation of basic infrastructure at the required level for this purpose is underway. So various prospective such as in Hydroelectric production , Mines and minerals industries, Tourism Industry, Expansion of Information System Industries and Education and training sectors are the emerging areas to develop and expansion Nepal foreign trade in balance. But some problems are remaining on the processing of these activities. Production, Marketing, Policy and transit related various obstacles are found from the study which are need to

minimize to expansion the trade and imbalance the Nepal's great deficit with India as well as foreign other countries.

5.3 Recommendations

Based on the analysis of secondary data and major findings of the research following pertinent recommendations and suggestion have been prescribed for the betterment of Nepalese foreign trade and to reduce the deficit balance structure to concern parities especially to government.

5.3.1 Major Policy Prescriptions

- i. Setting up of a Research and Policy Group to improve Trade Composition and Trade Imbalance between India and Nepal.
- ii. Nepal should make the stands on the benefits of countries rather than applying all the hard and difficult conditions put by other contractors on the process of treaties or policy making.
- iii. Strengthening Cooperation between the Chambers of Commerce and Industry Associations.
- iv. Collaborative Research Study on Learning the Lessons from India on WTO Negotiations and Implementation of WTO Agreements.
- v. Export and import regularity law patent design and trade mark law, new company act and foreign direct investment law have been executed through ordinance.
- vi. During membership of world trade organization it has been committed there for the goods trade opportunity to provide the tariff reduction as mentioned.

5.3.2 Recommendations for improving foreign trade structure

- i. Should be attracting the investment in the production sectors to produce Commodities which leads the trade with foreign countries.
- ii. Should give emphasis to find the new exportable good along with some sort of readymade garment, Cotton product and Carpet products.
- iii. Should move the steps on finding the new destinations for business within the World. It means find the new trade partner beside India, USA and others which exist at present. Should encourage the private sectors and investors to invest in the production as Product or services and push them to promote export business.
- iv. Should increase the promotion activities on foreign countries by using exhibitions, and using other media of promotion.

- v. Should try to get the maximum technical as well as others opportunities as perbeing a member of WTO.
- vi. Should focus on the prospects areas of business to promote foreign trade.
- vii. Setting up of R & D Facilities in Nepal with Indian Assistance specifically for Quality Improvement, Designing, Innovation and Product Development.
- viii. Constitution of a Joint Task Force for Simplification of Administrative Procedures.
- ix. Should encourage an investment by Business Sector in Trade Points.
- x. Promote the financial status in the nation the diplomatic body in the foreign nation will be activated in the diplomatic way.
- xi. Should make the strict provision to control the unauthorized trade in boarder side of both countries Nepal and India.
- xii. Should improve the quality product and ease the process to pursue outside the country.

5.3.3 Recommendations for improving internal/external transit system

- i. Should make the favorable policy and make easy transit procedures with nearby countries
- ii. Should improve the internal transportation system and infrastructure to push foreign trade in positive way.
- iii. Should make the provision to expansion the areas on sea port site and take the steps to use other sea ports which are comparatively cheap and easy to use.
- iv. Modernize transport-related legislation.
- v. Prepare an express procedure for transit of containerized cargo by rail.
- vi. Promote the benefits of the multi-modal transport concept on the Nepal/Calcutta corridor.
- vii. Should make the steps to cover more space on the sea port which are in now , Nepal using as port.

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ANNEX-I

TOTAL FOREIGN TRADE BALANCE OF NEPAL

Fiscal Year	Value in '000 Rs.						
	Exports	% in	Imports	% in	Total Trade	Total	Trade deficit
1978/79	1,193,425	39.7	1,813,576	60.3	3,007,001	100.0	620,151
1979/80	1,177,694	37.6	1,950,949	62.4	3,128,643	100.0	773,255
1980/81	1,125,944	29.8	2,658,400	70.2	3,784,344	100.0	1,532,456
1981/82	1,525,475	33.4	3,046,024	66.6	4,571,499	100.0	1,520,549
1982/83	1,325,337	26.4	3,692,253	73.6	5,017,590	100.0	2,366,916
1983/84	1,665,328	26.6	4,594,140	73.4	6,259,468	100.0	2,928,812
1984/85	1,473,637	23.5	4,806,419	76.5	6,280,056	100.0	3,332,782
1985/86	1,144,606	15.8	6,085,976	84.2	7,230,582	100.0	4,941,370
1986/87	1,684,747	20.6	6,493,671	79.4	8,178,418	100.0	4,808,924
1987/88	2,749,285	25.8	7,907,638	74.2	10,656,923	100.0	5,158,353
1988/89	3,099,351	24.9	9,371,461	75.1	12,470,812	100.0	6,272,110
1989/90	3,004,284	21.8	10,800,853	78.2	13,805,137	100.0	7,796,569
1990/91	4,094,866	24.2	12,817,162	75.8	16,912,028	100.0	8,722,296
1991/92	4,149,653	22.6	14,208,355	77.4	18,358,008	100.0	10,058,702
1992/93	5,129,040	23.3	16,914,717	76.7	22,043,757	100.0	11,785,677
1993/94	7,343,914	24.7	22,377,173	75.3	29,721,087	100.0	15,033,259
1994/95	13,838,033	31.5	30,158,859	68.5	43,996,892	100.0	16,320,826
1995/96	17,271,268	33.4	34,425,379	66.6	51,696,647	100.0	17,154,111
1996/97	19,077,495	27.3	50,735,639	72.7	69,813,134	100.0	31,658,144
1997/98	17,681,253	21.8	63,324,840	78.2	81,006,093	100.0	45,643,587
1998/99	19,758,388	20.7	75,896,306	79.3	95,654,694	100.0	56,137,918
1999/2000	22,861,951	19.8	92,874,671	80.2	115,736,622	100.0	70,012,720
2000/01	27,402,244	23.6	88,894,771	76.4	116,297,015	100.0	61,492,527
2001/02	35,826,572	28.0	92,314,090	72.0	128,140,662	100.0	56,487,518
2003/04	49,561,028	30.4	113,687,149	69.6	163,248,177	100.0	64,126,121
2004/05	55,245,900	31.7	118,786,609	68.3	174,032,509	100.0	63,540,709
2005/06	59,776,874	27.12	160,677,924	72.9	220,454,798	100.0	100,901,050
2006/07	58,927,097	23.13	195,808,412	76.9	254,735,509	100.0	136,881,315
2007/08	58,474,359	19.79	237,030,276	80.2	295,504,635	100.0	178,555,917
2008/09	68,596,852	19.08	291,000,944	80.9	359,597,796	100.0	222,404,092
2009/10	60,949,603	13.96	375,605,870	86.1	436,555,473	100.0	314,656,267
2010/11	64562444	13.97	397535942	86.0	462098386	100.0	332973498

Source:- Trade Statistics 2011, Trade promotion Centre 2011 and economic survey, 2011/12.