# A Study On Trade & Transit Policies of Nepal and its Impact on Foreign Trade

A Thesis Submitted to: Office of the Dean Faculty of Management Tribhuvan University Kirtipur, Kathmandu

Submitted by: Januka Poudel Central Department of Management Campus Roll No.: 105 (2064) Exam Roll No. :280549 T.U. Reg. No. :7-2-241-74-2003

In Partial Fulfilment of the requirement for the Master of Business Studies (MBS)

> Kirtipur, Kathmandu Nov. 2012

### **RECOMMENDATION LETTER**

This is to certify that the thesis

# Submitted by Januka Poudel

#### Entitled

### "Trade & Transit Policy of Nepal and its Impact on Foreign Trade"

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

Prof.Dr.Kundan Datta Koirala (Supervisor)

Prof.Dr.Bal Krishna Shrestha (Head of Department)

. . . . . . . . . . . . . . . . . .

**Prof.Dr.Bal Krishna Shrestha** (Head, Research Department)

Date:....

### **VIVA – VOCE SHEET**

We have conducted the viva – voce examination of the Thesis

### Submitted by

### JANUKA POUDEL

### Entitled

### Trade & Transit Policy of Nepal and its Impact on Foreign Trade

And found the thesis to be the original work of the student written according to the prescribed format. Researchers recommend the thesis to be accepted as partial fulfilment for the requirement for the degree of **Master of Business Studies (M.BS.)** 

### <u>Viva – Voce Committee:</u>

Head of Research Department	:	
Member (Thesis Supervisor)	:	
Member (External Expert)	:	
Member (Head of Department)	·····	

### DECLARATION

I hereby declare that the thesis entitled "**Trade & Transit Policy of Nepal and its Impact on Foreign Trade**" submitted to Central Department of Management, T.U. is my original work. It is done in the form of partial fulfilment of the requirement for the degree of Master of Business Studies (MBS), under the supervision of Professor Dr. **Kundan Datta Koirala** of Central Department of Management, T.U.

#### Januka Poudel

T.U. Reg. No.7-2-241-74-2003 Central Department of Management. Tribhuwan University

Date: .....

#### Acknowledgement

This dissertation entitled **"Trade & Transit Policy of Nepal and its Impact on Foreign Trade"** has been prepared in this form as required by Department of Management for the partial fulfillment of the degree of Master of Business Studies.

I wish to extend my deep sense of indebtedness to Prof. Dr.Kundan Datta Koirala, Central Department of Management, Tribhuvan University, my thesis Superviser, who provided me valuable guidance, insightful comments, encouragement and generous treatment while completing this thesis. This work would not have been come out in the present from without his inspection, valuable suggestion and guidance. And I express my sincere gratitude to staffs of Central Department of Management for their valuable suggestion and support.

I am grateful to Trade Promotion Center, Nepal Rastra Bank, for the help in providing necessary data and information for the study. Similarly, I thank all librarians of Central library of T.U., who assisted me by providing various books, reports and other publications.

I would like to express gratitude to Prof. Dr. Bal krishna Shrestha, .Head of Department of Central Department of Management, Kritipur, Kathmandu.

I would like to thanks Mr.Krishna Raj Tiwari, Mr.Ashutosh Tiwari, Mr.Rabindra Tiwari who directly or indirectly help me to complete this thesis. Last but not least I would like to thanks my friends, who help me to complete this thesis.

#### Januka Poudel

Central Department of Management T.U Regd. No. 7-2-241-74-2003 Campus Roll No.: 105/2064 Exam Roll No.: 280549

### **Table of Content**

Recommend	ation		
Viva-voce sl	heet		
Declaration			
Acknowledg	gement		
Table of Con	ntent		
List of Table			
List of Figur	e		
Abbreviation	n		
CHAPTER	I INTRODUCTION	[1-7]	
1.1	Background	1	
1.2	Trade & Transit policy of Nepal	2	
1.3	Introduction on Nepal's Transit	3	
1.4	Statement of Problem	4	
1.5 Needs of Study 5			
1.6	Research Objectives 6		
1.7	Limitation	6	
1.8	Literature Review	6	
1.9	Research Methodology (Scheme of Research)	6	
1.10	Organization of the Study	7	
CHAPTER	II REVIEW OF LITERATURE	[8-32]	
2.1	Conceptual Review	8	
	2.1.1 Meaning of Trade & Transit	8	
	2.1.2 History of trade and transit in Nepal	11	
	2.1.3 Basic introduction of existing trade and transit policies	16	
	2.1.3.1 Trade Policy	16	
	2.1.3.2 Transit policy of Nepal	18	
	2.1.4 India-Nepal trade and Economic Relation	19	
	2.1.5 Transit Status of Nepal	21	
	2.1.6 Principles of Transit and Rights of landlocked countries	22	
	2.1.7 Rights on transit of landlocked countries	24	
	2.1.8 Barriers and Possibilities on Transit of Nepal	25	
2.2	Review of Related Studies	26	

2.2 Review of Related Studies

2.3	Resea	arch Gap	32
CHAPTER	<b>III</b>	RESEARCH METHODOLOGY	[33-37]
3.1	Resea	arch Design	33
3.2	Sourc	es of Data	33
3.3	Popul	ation and Sampling	34
3.4	Data (	Collection Techniques	34
3.5	Data A	Analysis and Presentation Techniques	35
CHAPTER	<b>IV</b>	DATA PRESENTATON AND ANALYSIS	[38-93]
4.1	Nepal	's Foreign Trade Regulation / Policy	38
	4.1.1	Policy typology	38
	4.1.2	Trade Policy 1992	39
	4.1.3	Recent Renewal of Indo-Nepal Trade Treaty	46
	4.1.4	Trade Policy 2009	52
	4.1.5	Trade Facilitation Measures	54
4.2	Patter	n/ Direction of Nepal's Foreign Trade	55
	4.2.1	India-Nepal Bilateral Trade Relation	63
	4.2.2	Trade of Nepal and India: Growth and Trends	66
4.3	Trans	it policy/Treaties/Agreements of Nepal	71
	4.3.1	The treaty of transit between Nepal and India	71
	4.3.2	Transit Provisions	76
	4.3.3	The treaty of transit between Nepal and Bangladesh	77
	4.3.4	The transit relation between Nepal and China	78
4.4	Impac	ct of Trade and Transit Treaties on Bilateral Trade with India	79
	4.4.1	Impact on Structure and Trend of Nepal's Trade	79
4.5	Emerg	ging possibilities on Trade & Transit of Nepal	82
	4.5.1	Prospects on Foreign Trade	82
	4.5.2	Prospects on Transit	85
4.6	Trade	& Transit Problem of Nepal	87
4.7	Majo	r Finding of the study	90
CHAPTER	RIV S	SUMMARY /CONCLUSION AND RECOMMENDATIO	N[94-99]
5.1	Sun	nmary	94

5.2	Conclusion 96			
5.3	<b>B</b> Recommendations 97		97	
	5.3.1	Major Policy Prescriptions	97	
	5.3.2	Recommendations for improving foreign trade structure	98	
	5.3.3	Recommendations for improve internal/external transit sys	tem	99

Bibliography

Appendix

## List of Table

Table Number	Heading of Table	Page
Table 2.1	Transit routes with bordering countries	16
Table 4.1	Total Foreign Trade Balance of Nepal	55
Table 4.2	Foreign Trade Composition of Nepal (Export)	57
Table 4.3	Foreign Trade Composition of Nepal (Import)	58
Table 4.4	Major Export Trade Partners of Nepal	60
Table 4.5	Major Import Trade Partner of Nepal	61
Table 4.6	Nepal's Trade Share and Trade Deficit	62
Table 4.7	Exports and Import of Selected commodities with India	64
Table 4.8	Growth Pattern of Trade with India	67
Table 4.9	Trade balance with India	70
Table 4.10	Specified land routes	73

# List of Figure

<u>Figure Number</u>	Heading of Table	Page
Figure 2.1	Level of Trade (Business)	9
Figure 4.1	Total Foreign Trade Balance of Nepal	56
Figure 4.2	Foreign Trade Composition of Nepal 2005/06 (Export)	57
Figure 4.3	Composition of Total Foreign Trade of Nepal (Import)	59
Figure 4.4	Growth of Export to India	67
Figure 4.5	India share in Nepal total export	68
Figure 4.6	Trend of Import from India	68
Figure 4.7	Share of India in Nepal's Import	69
Figure 4.8	Trade Balance with India	70

# Abbreviation

ASEANAssociation of South East Asian NationsBOOTBuild-Operate-Own-TransferBOTBuild-Operate-TransferBPKIHSBP Koirala Institute of Health SciencesCBSCentral Bureau StatisticCTHChange in Tariff HeadingCWCCentral Warehousing CompanyECEconomic CommissionECAFEEconomic Commission for Asia and Far EastEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesGDPGross Domestic ProductGDPGross National ProductGOIGovernment of IndiaICDInformation and Communication Technologyie.Information StationsLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMulti Fiber NationMulti Fiber NationMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	A.D	Amino- Domino
BOTBuild-Operate-TransferBPKIHSBP Koirala Institute of Health SciencesCBSCentral Bureau StatisticCTHChange in Tariff HeadingCWCCentral Warehousing CompanyECEuropean CommissionECAFEEconomic Commission for Asia and Far EastEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGOIGovernment of IndiaICDInformation and Communication Technologyie.Information TechnologyIE.Information StationsLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMulto Multi Fiber NationMulti Fiber NationMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	ASEAN	Association of South East Asian Nations
BPKIHSBP Koirala Institute of Health SciencesCBSCentral Bureau StatisticCTHChange in Tariff HeadingCWCCentral Warehousing CompanyECEuropean CommissionECAFEEconomic Commission for Asia and Far EastEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGNPGross National ProductGOIGovernment of IndiaICDInformation and Communication Technologyie.Information TechnologyIcXLast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	BOOT	Build-Operate-Own-Transfer
CBSCentral Bureau StatisticCTHChange in Tariff HeadingCWCCentral Warehousing CompanyECEuropean CommissionECAFEEconomic Commission for Asia and Far EastEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross National ProductGOIGovernment of IndiaICDInformation and Communication Technologyie.Information Technologyie.Information TechnologyICSJand Customs StationsLDCLeast Developing CountriesMINMulti Fiber NationMulto SMinistry of Industry, Commerce and SupplyMWMega wattNMTTFPNegal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	BOT	Build-Operate-Transfer
CTHChange in Tariff HeadingCWCCentral Warehousing CompanyECEuropean CommissionECAFEEconomic Commission for Asia and Far EastEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGOIGovernment of IndiaICDInformation ZoneICTInformation Add Container DepotICTInformation Technologyie.That isITInformation StationsLDCLeast Developing CountriesMFNMulti Fiber NationMolC&SMinistry of Industry, Commerce and SupplyMTMetric TonNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	BPKIHS	BP Koirala Institute of Health Sciences
CWCCentral Warehousing CompanyECEuropean CommissionECAFEEconomic Commission for Asia and Far EastEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGNPGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyLCSLast Developing CountriesMFNMulti Fiber NationMolC&SMinistry of Industry, Commerce and SupplyMTMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	CBS	Central Bureau Statistic
ECEuropean CommissionECAFEEuropean Commission for Asia and Far EastEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGNPGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMulti Fiber NationMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	СТН	Change in Tariff Heading
ECAFEEconomic Commission for Asia and Far EastEPZExport Promotion ZoneEPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGNPGross National ProductGOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.Information TechnologyILCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMICXSSMinistry of Industry, Commerce and SupplyMTMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	CWC	Central Warehousing Company
EPZExport Promotion ZoneFDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGNPGross National ProductGOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.Information TechnologyICSInd Customs StationsILDCLeast Developing CountriesMFNMulti Fiber NationMulti Siber NationMITMetric TonMWAga wattNMTTFPNapal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	EC	European Commission
FDIForeign Direct InvestmentFNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGNPGross National ProductGOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMGIC&SMinistry of Industry, Commerce and SupplyMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	ECAFE	Economic Commission for Asia and Far East
FNCCIFederation of Nepal Chamber of Commerce & IndustriesFTAFree Trade AgreementGDPGross Domestic ProductGNPGross National ProductGOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMeric TonNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	EPZ	Export Promotion Zone
FTAFree Trade AgreementGDPGross Domestic ProductGNPGross National ProductGOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isTTInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonNMTTFPNega wattNMTTFPKational Transit and Trade Facilitation ProjectNPCNational Planning Commission	FDI	Foreign Direct Investment
GDPGross Domestic ProductGNPGross National ProductGOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNational Pransit and Trade Facilitation ProjectNPCNational Planning Commission	FNCCI	Federation of Nepal Chamber of Commerce & Industries
GNPGross National ProductGOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyILCSInformation TechnologyLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonNMTTFPNega wattNMTTFPNational Planning Commission	FTA	Free Trade Agreement
GOIGovernment of IndiaICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyICSInd Customs StationsLCSLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCMational Planning Commission	GDP	Gross Domestic Product
ICDInland Container DepotICTInformation and Communication Technologyie.That isITInformation TechnologyICSInformation TechnologyLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCMational Planning Commission	GNP	Gross National Product
ICTInformation and Communication Technologyie.That isITInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonNWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	GOI	Government of India
ie.That isITInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	ICD	Inland Container Depot
ITInformation TechnologyLCSIand Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	ICT	Information and Communication Technology
LCSland Customs StationsLDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	ie.	That is
LDCLeast Developing CountriesMFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	IT	Information Technology
MFNMulti Fiber NationMoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	LCS	land Customs Stations
MoIC&SMinistry of Industry, Commerce and SupplyMTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	LDC	Least Developing Countries
MTMetric TonMWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	MFN	Multi Fiber Nation
MWMega wattNMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	MoIC&S	Ministry of Industry, Commerce and Supply
NMTTFPNepal Multi-modal Transit and Trade Facilitation ProjectNPCNational Planning Commission	MT	Metric Ton
NPC National Planning Commission	MW	Mega watt
C	NMTTFP	Nepal Multi-modal Transit and Trade Facilitation Project
NR Nepali Rupees	NPC	National Planning Commission
	NR	Nepali Rupees

NRB	Nepal Rastra Bank
NTM	National Trade Measurement
NTWC	Nepal Transit and Warehousing Company Limited
PM	Prime Minister
ROO	Rules of Origin
PRC	People's Republic of China
SAARC	South Asian Association for Regional Cooperation
SAPTA	South Asian Preferential Trade Arrangement
SAR	South Asian Region
TPC	Trade Promotion Centre
TRQ	Tariff Rate Quota
TU	Tribhuvan University
UNCLOS/III	United Nations Third Law of Sea Conference Third
USA	United State America
WTO	World Trade Organization
WWW	World Wide Web