

# Chapter I

## Introduction

### 1.1 Background

Nepal is a land-locked Himalayan Kingdom. It borders with India in the east, west and south and with China in the north. Located between latitudes 26°22' and 30° 27' and longitudes 80° 40' and 88° 12' east, with 1470181 sq. km. About 83 % of the land mass is occupied by hills and mountains, including the highest peak in the world Mt. Everest. The remaining 17% is occupied by flat land Terai in south. Total population 28 million people and percapita income less than \$562\*. The economy of the country is still largely agriculture-based. The development challenge of Nepal is formidable. The annual population growth rate is 2.25% and around 25.16\*\* of population live below the poverty line and GDP growth rate is not more than 3.53%. Nepal being one among the poorest countries of the world, its opportunities for the faster economic growth is limited. We have abundant resources for which the country enjoys competitive advantages. The exotic culture, unique social setting arts and architecture, religion and above all people themselves are the resources, if harnessed appropriately could bring about noteworthy achievements.

In 1951, the Nepalese monarch ended the century old system of rule of hereditary premiers and instituted a cabinet system of government. 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. After nearly three weeks of mass protests organized by the seven-party opposition and the Maoists, the king allowed parliament to reconvene on 28 April 2006. Now the settlement of Maoists arms and weapons also going to completed and preparing to join in interim government to accomplish the nation's common goal.

Being conscious of the need to modify the traditional connection between the markets of India and Nepal, being animated by the desire to strengthen economic co-operation between them 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 neighbouring 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. During the 33 years period, Nepal suffered from the huge trade deficit.

It is matter of great concern that despite that despite the seventeen 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 intra-SAARC trade, according the trade statistic of 2009-10 published by trade promotion centre, India alone occupied more than 88.6 % of its total exports, Bangladesh account for 7.5 %; Bhutan 3.5 %; Maldives 0.0 % ; Pakistan 0.2%; and export to Srilanka in the year was 0.2% & Afghanistan 0.0% .And total export on SAARC is 60,0949,603 thousand and it is just 73.9% 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 0.1%; Maldives 0.0%; Pakistan 0.1%; and Sri Lanka 0.0%. On the total import of Nepal, SAARC Member countries total amount is 215502488 thousands rupees and account for 57.4% of the total imports of Nepal\*\*\*.

## **1.2 Trade & Transit policy 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 is received 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 favourably 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's foreign trade, especially the export trade. So some major components of Nepal's trade policy are:

- Import Trade policy
- Internal Trade and Supply Policy
- Export Trade Policy
- Transit Policy
- 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:

- Trade possibilities in some sort of business sectors
- Nepal as a transit state between China and India
- Transit possibilities and barriers with neighbouring countries

### **1.3 Introduction on Nepal's Transit**

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.

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 neighbouring 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. (Dahal Tara , Nepal Transit : emerging possibilities)

### **1.3.1 Statement of Problem**

Research is the process to search problems, and ideas to treatment of existing problems. Mainly, in this research I am going to present all the 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 neighbour countries. The problems to be browsed on this research are:

- 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 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.

#### **1.4 Needs of Study**

Basically, I did not get any thesis or research on the topic of transit with Nepal Foreign trade. In this research I just try to show the scenario of Nepalese Trade & Transit policies which are the guidance of overall trade activities. This thesis also need for analysis the impact of policy/treaties in bilateral and multilateral trade. . So In this research I just try to shows the relationship of Nepal with neighbour country India and trade transaction pattern with India. What are the major issues and difficulties getting Nepal on the foreign trade and transit? Also I thought to show all the 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 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 Research Objectives**

The research problems (Objectives) of this study are:

1. To overview the existing trade & transit policies of Nepal.
2. To analyze foreign trade direction of Nepal
3. To show impact of trade & transit policy on the foreign trade especially with India.
4. To find the emerging possibilities and barriers on Nepal's trade and transits.

## **1.6 Limitation**

This study is bounded by following limitation:

- Most of data sources are secondary sources used in the research.
- Most of Nepal's foreign confined by India, so this analysis focus on Nepal's trade and transit policy and impact on trade with India.
- Only published and issued policies are included as much possible.
- Data covers only 2005 to 2010 for brief analysis and others as references for the study.

## **1.7 Literature Review**

- Trade policy ; Export and Import and Transit policies with treaties and agreements from TPC ( Nepal Trade Promotion Centre)
- WTO, Objectives and provisions of WTO conventions
- Journals
- Websites
- Articles
- Books etc.

## **1.8 Research Methodology (Scheme of Research)**

Research Methodology is an art of scientific inquiry. Research as a scientific and systematic search for pertinent information on a specific topic or called as systematized effort to gain new knowledge. A combination of descriptive and explorative research design has been employed in course of this study. Based on the secondary data, the study has made an attempt to derive a firm view with regard to the established objectives of this

study. Data and information with regard to trade and treaties between Nepal and foreign countries have been used from the published and unpublished research papers, books, periodicals, journals, Internet websites and official sources.

## **1.9 Organization of the Study**

This study has been divided into five chapters. A brief note on the policy of Nepal in Trade and Transit accompanied by an overview of existing policies and trade basic structure with foreign 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 reviews the literature with various aspects on Nepal's foreign trade relation. By and large, it includes the trade structure, transit position and its historical background, various aspects related with trade and transit situation between the trading partner's countries. Attempts have been made to analyze the provisions made in the bilateral trade and transit treaties in view of the economic cooperation in the fourth 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 trading countries. Chapter four 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 foreign countries i.e. the problem of increasing trend of trade deficit are discussed in this chapter. Finally, the chapter five provides the summary and conclusion of the study followed by the policy recommendations towards improving the trade structure as well as the transit relation between Nepal and foreign countries.

## **Chapter II**

### **REVIEW OF LITERATURE**

In this chapter, an attempt has been made to review the various relevant literatures in relation to support the study to receive some ideas for developing a research design.

Literature review is basically scanning of available literature in one's field of research. 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.

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. But what eager is available are studied and analyzed deriving in this research.

To review the literature in systematic way, this can be divided into two parts.

1. **Conceptual review:** This includes conceptual review of the area based on textbooks, and other reference materials such as reports, journals and magazines.
2. **Review of Related studies:** This part cover a review of thesis, research paper, articles and project works.

#### **2.1 Conceptual Review**

##### **2.1.1 Meaning of Trade & Transit**

**Trade** is a system of exchanging goods and services in between two or more parties. International trade performs the activities globally and adopting marketing activities strategies on a global scale. International business consists of all those business activities or transaction private and government that involve the crossing of national boundaries.



The goal of private business is to increase or to stature profits through maximizing foreign sales and foreign resources; government business may or may not be profit motivated. The international business comprises a large and growing position of the world's total business transaction .Trade is that wide word covers all the gist of the ; domestic marketing, export trade, multinational trade, multi-regional trade, global trade , international trade etc. It can be clear from the following figure.

**A** – Domestic Trade

**B** – International Trade

**C** – Internal and Global Trade

**D** – International Business

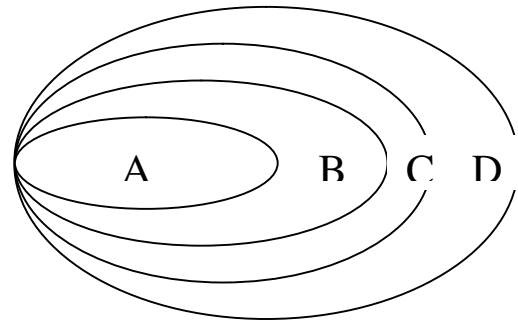


Figure 2.1

Level of Trade (Business)

As we know, Nepal is a small landlocked himalayan Country situated at the heart of Asia. It is situated in the middle between India in the west, south and east and the Tibet Autonomous Region of China in the north. Nepal has in transition period to set the new democratic Republic Nepal by Constitutional Assembly. 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). In order to liberalize and expand trade between SAARC member states, SAPTA was launched in the Region; and recently the member countries are about to establish South Asian Free Trade Area (SAFTA). Recently just successfully ended 14<sup>th</sup> SAARC conference held at Delhi with much more significant decision on the roadmap of SAARC. Nepal has recently entered the WTO regime.

This age is the age of Globalization and Liberalization in every aspect. Obviously, Nepal also moving forward on the way of global trade. Basically some sorts of reasons are outlined behind the rapid growth of international and global business:

1. Expansion of technology globally
2. Liberalization of cross border movements
3. Development of supporting institutional arrangements world wide.

Increase in global competition Trade is the voluntary exchanges of goods, services, or both. Trade is also called commerce. A mechanism that allows trade is called a market. The original form of that was barter, the direct exchange of goods and services. Modern traders instead generally negotiate through a medium of exchange, such as money. As a result buying can be separated from selling, or earning. The invention of money greatly simplified and promoted trade. Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade. Trade exists for many reasons. Due to specialization and division of labour, 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 region's size allows for the benefits of mass production. As such, trade at market prices between locations benefits both locations.

Trade originated with the start of communication in prehistoric times. Trading was the main facility of prehistoric people, who bartered goods and services from each other when there was no such thing as the modern day currency.

**Transit:** Transit commonly refers to public transport, transportation systems in which the passengers do not travel in their own vehicles. It is the gateway to entrance and exit with full systematic process for people, goods, and services. Generally this also can categorize into following points to define:

**Transport:** Transportation systems in which the passengers do not travel in their own vehicles.

**Astronomical transit:** When one celestial body appears to move across the face of another celestial body, as seen by an observer at some particular vantage point.

**Navigational transit:** When a navigator observes two fixed reference points in line and transit may also refer to transit papers a type of visa issued by a country giving a certain

individual permission to formally request entrance to that country. (Free Web encyclopaedia: [www.Google.com](http://www.Google.com))

### 2.1.2 History of Trade and Transit in Nepal

Mainly, the research focusing to foreign trade and transit policy so, in this research giving emphasis on the foreign 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 movement 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 neighbour country internal trade also. At the period of Lichhabi period and Malla period the business or commerce was at the boom. Then also Nepal 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 form 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 trade 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.

**Table:1 Major Trading Partner of Nepal - Exports**

Value in '000 Rs

S.N	Countries	F.Y.2005/06	F.Y.2006/07	F.Y.2007/08	F.Y.2008/09	F.Y.2009/10	
1	India	40,714,700	41,728,800	38,555,700	43,574,482	39,902,811	65.5
2	U.S.A	6,993,442	5,571,274	4,598,900	4,878,573	3,867,223	6.3
3	Bangladesh	234,323	521,498	4,664,363	4,710,402	3,373,718	5.5
4	Germany	2,843,770	2,573,710	2,332,051	2,785,047	2,391,036	3.9
5	Bhutan	238,275	310,958	142,688	194,826	1,554,824	2.6
6	U.K	1,184,079	998,689	1,066,347	1,429,686	1,228,188	2.0
7	France	1,297,493	903,951	1,001,164	1,144,695	1,152,930	1.9
8	China P.R	892,583	377,991	736,405	1,847,934	1,008,696	1.7
9	Canada	644,633	593,703	713,733	795,372	768,090	1.3
10	Italy	712,327	684,308	583,796	851,549	716,188	1.2
11	Japan	572,094	559,457	488,053	572,659	554,158	0.9
12	Switzerland	317,668	316,816	391,235	251,929	370,959	0.6
13	Hongkong SAR	111,755	824,782	208,021	303,463	369,414	0.6

Source:- Nepal Rastra Bank and Trade &amp; Export Promotion Centre

The trade statistics shows that in 2009-10 Nepal's total export value was 60,949,603 thousand rupees compared to 68,586,852 previous year. In the year 2009-10 the total import value was 375,605,870 thousand rupees. The total trade deficit during the year was 314,656,267 thousand rupees. In the total export, India alone occupied 65.5 %, China 1.7 % ,USA 6.3 % ,Bangladesh 5.5 ,Germany 3.9% ,Bhutan 2.6% ,U.K 2.0% and France 1.9 % of total exports. While in total imports, India occupied 57.04% , China 10.44% UAE 8.99% ,USA 1.43% , Bangladesh 0.20% , Germany 0.62% ,Uk 1.94 & France 0.44% of the total imports.. Major trade partners of Nepal are India, China, USA, UAE, Germany, UK, Italy and Japan Respectively. (Source: - Trade and Export Promotion Centre and Nepal Rastra Bank.).

**Table: 2 Major Trading Partner of Nepal - Imports**

Value in '000 Rs

S.N	Countries	F.Y.2005/06	F.Y.2006/07	F.Y.2007/08	F.Y.2008/09	F.Y.2009/10	
1	India	107,143,100	115,872,300	142,376,500	165,119,002	214,261,109	57.04
2	China , P.R.	12,083,497	16,678,616	22,255,845	32,852,910	39,218,203	10.44
3	U.A.E	1,095,681	3,918,139	5,595,496	3,447,989	33,398,621	8.89
4	Indonesia	5,647,780	11,172,109	9,913,528	8,307,186	8,093,843	2.15
5	Thailand	2,602,072	3,459,455	4,983,493	6,637,979	7,504,724	2.00
6	U.K.	961,421	1,727,103	1,643,360	6,499,879	7,298,818	1.94
7	Japan	1,935,082	3,228,975	6,148,086	6,111,189	6,267,573	1.67
8	Korea R.	1,788,882	2,380,471	2,077,020	2,955,257	5,885,329	1.57
9	U.S.A	1,677,499	4,259,983	3,718,141	3,808,616	5,384,826	1.43
10	Argentina	1,004,623	2,256,212	3,918,526	6,478,282	5,036,656	1.34

11	Singapore	3,375,219	5,496,878	5,268,690	7,047,113	5,007,334	1.33
12	Australia	1,415,339	1,854,733	1,750,986	2,283,158	4,950,297	1.32
13	Hongkong SAR	930,930	1,029,464	1,177,360	1,612,837	4,227,410	1.13
14	Malaysia	2,474,661	2,794,632	3,833,725	4,888,939	4,207,297	1.12

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

**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.

**Historically**, Nepal had pro-actively encouraged *entrepot* trade between Tibet and India and promoted self-reliant economy and political independence. Kathmandu Valley served as an urban economy and society which produced metal works, clothes and small industrial production and traded these products between Tibet and India. Kautilay's Arthashastra states that during the rule of Kirats people of Nepal used to sell wool, herbs and handicrafts to several Indian markets. This trade was expanded during Malla period as they specialized in activities such as arts, painting, metal casting, gem cutting, wood and bronze carving, sculpture etc and exported to Tibet and India. Trade and other relationships were suspended between 618-907 A.D. and resumed from Yuan dynasty (1271-1368). Arniko help to expand cultural developments across the East and Southeast Asia. King of Kathmandu Pratap Malla and the King of Gorkha Ram Shah, tried to pread their influence in Tibet. In 1625-30 Ram Shah twice tried to expand influence in Tibet. His second effort was successful and reached to Kukurghat. He controlled Kerung for a short time. Then Pratap Malla around 1645-50 crossed over Kuti and reached to Xigaze in the leadership of Bhim Malla. A treaty between Tibet and Nepal was signed whose provisions were:

- Tibet and Nepal established joint authority in boarder trade in Kuti and Kerung.
- Nepal had comparatively more authority than Tibet.
- Kathmandu's traders were allowed to open 32 houses (Kothi) in Lahsa.
- Nepal was not obliged to pay tax to Tibet.
- There should be a leader in Lahsa to take care of Neplease.
- Nepalese should not pay tax to Tibetans while buying and selling goods.
- Tibet should hand over 1 tola gold, 3 masa silver, 1 pathi salt to king Pratap Malla.

- Nepal got the right to mint money with the king's picture and Tibet will return it by paying price on gold and silver.
- Tibet agreed to trade with Sikkim or Bhutan via Kathmandu.
- The property of dead Nepalese in Tibet should be return to Nepal.

Later king Ranajit Malla supplied mixed silver coin throughout Tibet to gain considerable benefit. This created the possibility of friction between the two countries. Again in 1775 Nepal and Tibet made a treaty to close eastern route way and used Kuti and Kerung including a number of other small routes. War between Tibet and Nepal had occurred due to various causes but were amicably settled. The land-locked geography isolated Nepal from the center of world flows of goods, people and ideas and increased costs for trade and commerce. Before the unification of several principalities into a modern state, Nepal was geographically isolated from the international social, political and economic developments. Prithivi Narayan Shah (1743-75) established the first modern state and began its internal consolidation. "The Alaichi Kothi in Patna, India, which was established during Mukhtiyar Bhim Sen Thapa's premiership, was geared towards promoting Nepal's trading interests" (*Pandey 2005, Preface*). The Anglo-Gurkha war of 1814-16 removed Nepalese control over some areas of the Terai, marked the start of British efforts to liberalize trade and especially allowed the East-India Company easier access to the north-south trade from Tibet (*Blaikie, Cameron and Seddon, 1982:30*). The an regime imposed after the Kot Massacre of 1846 by Jung Bahadur Rana ended elite rivalry for power and established hereditary succession of Prime Minister's position. "Prime Minister Jung Bahadur Rana was instrumental in getting a bilateral agreement popularly known as the Treaty of Thapathali signed between Nepal and Tibet in 1856. The agreement, envisaged the stationing of a Nepalese Bhardar or Vakil (envoy) in Lhasa while Nepalese trade agencies were established at Kuti (Nyalam), Kyerong, Shigatse and Gyanze" (*Pandey 2005, Preface*).

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 spillover 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. In the southern part of country India covered at most of part. The transit routes at southern part also fluctuated by various interests of India. Nepal is becoming victim many times with the several factors. Sometime India used these routes as their own interest. 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 neighbouring 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. At this time the agreed routes for mutual with India and China are:

**Table 2.1**  
**Transit routes with bordering countries**

S.N	Route (India)	Route (China)
1	Pashupatinagar/Sukhia Pokhari	Kuti (Nyalam) Kodari
2	Kakarbhitta/Naxalbari	Kyerong Rasuwa
3	Bhadrapur/Galgalia	Yari/Purang Humla
4	Biratnagar/Jogbani	Gyanze
5	Setobandha/Bhimnagar	Tatopani (Khassa)
6	Rajbiraj/Kunauli	Shigatse
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	

*(Resource: Trade Promotion Center)*

### **2.1.3 Basic introduction of existing trade and transit policies**

#### **2.1.3.1 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.

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;

- 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;
- To diversify trade by identifying, developing and producing new exportable products through the promotion of background linkages for making export trade competitive and sustainable.
- To expend trade on a sustained basis through gradual reduction in trade imbalance and to coordinate trade with other sectors by expending employment oriented trade;
- To coordinate trade with other sectors by expanding employment oriented trade (*Shrestha, Shyam Kumar, 2005*).

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

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

- To effectively implement the treaties and agreements with various countries and international agencies (Shrestha, Shyam Kumar, 2005).

#### **Government Policies and Acts:**

- Bonus Act, 2030 and Regulation,
- Trade and Industrial Policy
- Industrial Enterprise Act
- Industrial Enterprises Act, 2049
- Foreign Investment and Technology Transfer Act, 2049
- Foreign Investment and One Window Policy  
Foreign Investment and Technology Transfer Act
- Labour Policy
- Patent, Design and Trade- Mark Act, 1965
- Partnership (Sajedari) Act 2020 in Nepali Version
- Private Firm Registration Act, 2014 in Nepali Version
- Tourism Policy
- IT Policy (*Ministry of Industry, Commerce and Supply report*)

#### **Components of Nepal's Trade Policy:**

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

#### **2.1.3.2 Transit Policy 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 delinked from mutual trade treaty or any other subject matter may have been guided by this policy.

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.

The main objectives of Nepal Transit Policy include;

- To ensure increased transit facilities for the export and import trade of Nepal and keep the costs of transit stable.
  - To provide smooth and expeditious clearing and forwarding services in respect to public sector consignments imported into or exported from Nepal.
  - 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.
  - To provide transit information services to the Nepalese exporters and importers.
- (Shrestha, Shyam Kumar 2005)

#### 2.1.4 **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 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 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 better environment for the conduction of free trade between the two countries.

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 favour 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 per cent 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.

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 Gyanu Raja, 2003).

### **2.1.5 Transit Status of Nepal**

Nepal is of roughly trapezoidal shape, 800 kilometres (500 mi) long and 200 kilometres (125 mi) wide, with an area of 147,181 square kilometres (56,827 sq 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 Kosi, 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 Shiwalik 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.

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

### **2.1.6 Principles of Transit and Rights of landlocked countries**

Various international conventions were held in the past to develop a multilateral transit agreement to smooth international trade and to overcome the problems of landlocked nation's foreign trade. A landlocked country is one that has no coastline, meaning no direct access to sea or ocean. As of 2007 there are 43 landlocked countries in the world. Historically, being landlocked was regarded as a disadvantageous position. It cuts the country off from sea resources such as fishing, but more importantly cuts off access to seaborne trade which, even today, makes up a large percentage of international trade. Around the world, coastal regions tend to be wealthier and more heavily populated than inland ones. Countries thus have made particular efforts to avoid being landlocked. Many movement and effort were brought to avoid the disadvantage of landlocked.. It was the first time an international law-making conference had dealt unequivocally with the question of landlocked countries access to the sea. During 1967-82 in the United Nations Third Law of Sea Conference (UNCLOS/III) landlocked states tried to achieves guaranteed right of free transit to the form the sea and access to the resources of the sea.

With the right of landlocked countries in transit some transit principles are outlined below :

- Right of each landlocked state of free access to the sea for the expansion of international trade and economic development.
- Flying the flag of land-locked countries should have identical rights and enjoy treatment identical to the enjoyed by the vessels flying the flag of coastal states other than the territorial state.
- Freedom of the seas on equal terms with coastal states, countries having no sea coast should have free access to sea.
- Should be afforded free and unrestricted transit for regional and international trade for every type of goods on the basis of reciprocity?
- Shall have the right to take all indispensable measures to ensure that the exercise of the right of free and unrestricted transit shall in no way infringe its legitimate interest of any kind.
  - Special rights accorded to landlocked countries in view of their special geographical position are excluded from the operation of the most favoured nation clause.

On the basis of United Nations Third Law of Sea Conference (UNCLOS/III) landlocked states tried to achieve guaranteed right of free transit to the form the sea and access to the resources of the sea.

So, that that UN conference framed the rights as follows:

- Landlocked countries shall have the right of access to and from the sea for the purpose of exercising the right provided for this convention including those relating to the freedom of the high sea and the common heritage of mankind. To this end, landlocked states shall enjoy freedom of transit through the territory of transit states by all means of transport.
- The terms and modalities for exercising freedom of transit shall be agreed between the landlocked states and the transit state concerned through bilateral, sub-regional or regional agreements.
- Transit states, in the exercise of their full sovereignty over their territory shall have the right to take all measures necessary to ensure that the rights and facilities provided for in this part for landlocked states shall be in no way infringe their legitimate interest.

After the joining on WTO regime and SAFTA, Nepal will enjoy on full foreign with the right to access on sea. WTO also have the provision to assist to landlocked countries on technical and other terms as well as SAFTA is an arrangement to make movement of goods with reduced or eliminated tariffs and non- tariff barriers within the SAARC. Also can be hopeful of trade and cater to the special needs of the small and LDC member states by providing them special and deferential treatment. (Source: Free web encyclopaedia. [www.wikipedia.com](http://www.wikipedia.com))

### **2.1.7 Rights on Transit of Landlocked Countries**

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### **2.1.8 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 its 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:

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

- Nepalese traders had to follow the tougher insurance policy while exporting and importing goods through India.
- Higher Transportation cost is another barrier.
- Frequently change of policy an own interest of Neighbour 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.

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

## **2.2 Review of Related Studies:**

### **Nepal-India Bilateral Trade Relations (Problems and Prospects) 2003: By Gyanu**

**Raja Shrestha :-** In this research the researcher trying to describe 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 raw 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. Unfavourable 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.

**Basic of Trade and Transit (Nepalese Perspective): By Bijendra Man Shakya** – This book emphasis to provide the basics of trade and transit to readers. 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.

**International Marketing Decision (Nepalese Perspective) : By Shyam Kumar Shrestha**- The author of this book 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 and China.

**Nepal as a Transit State: Emerging Possibilities – By Tara Dahal:** 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.

**Market Access Barriers on Selected Nepal's Agriculture Product in the post WTO Accession Era –By Navin Dahal :** In this research report the researcher showing research major findings on exports of all five products face tariff peaks in the neighboring markets ( except China). Moreover, the fact that members have the right to raise their tariffs to the bound level, if circumstances so dictate, the tariff barriers are very formidable. With bound tariffs as high as 200 percent maintained by neighboring countries, they are almost like QRs. Second, though other developing (except Korea) and developed countries have not maintained high tariff barriers, the incidence of NTMs is

high. I just collect the information from this research only the barriers which are existing in the export market and what the processes to pursue into foreign market are. So this research helped me to know the condition and scenario on trade and transit activities on agriculture product after the Nepal's WTO accession.

**The Transit Regime for Landlocked States (International Law and Development Perspective) – Kishor Uprety (Senior Counsel, World Bank):-** Especially study is given emphasize to elaborate the right of landlocked countries of European and African countries. Focusing on the link between international Law and Development, this study reviews the evolutionary features of the transit regime of landlocked states. It provides a historical account of the legal and political relation. It also shows the right and responsibilities of landlocked countries on the sea route and the freedom of transit on the theory based and also delivering principles, Doctrines influencing the right of access to the sea.

**Nepalese Export business On Garment Product : By Meghraj Pokhrel :-**In this research I found the status of Nepalese Garment Industry as well as the major findings of on the limited market for Nepalese Garment, unfavourable government policies, lack of facility of procurement of raw materials, higher pricing policy, unsound financial position and unfavourable of banking policies. This research analysis on the Nepal export business and its complication . This research covers the total 5 years data.

**International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on transit Transport Cooperation : Almaty, Kazakhstan 28 and 29 August 2003 . General Assembly Distr.: Limited**

On this report the conference gathered to address the special needs of landlocked developing countries and to establish a new global framework for transit transport cooperation for landlocked and transit developing countries, taking into account the interests of both landlocked and transit developing countries, Recalling the United Nations Millennium Declaration,<sup>1</sup> in which heads of States and Governments recognized the special needs and problems of the landlocked developing countries and urged both bilateral and multilateral donors to increase financial and technical assistance to this group of countries to meet their special development needs and to help them overcome

the impediments of geography by improving their transit transport systems, Having resolved to create an environment, at the national and global levels alike, that is conducive to development and to the elimination of poverty, Having adopted the Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries. This conference report also declare many decisions produced by this meeting outlined some Declarations.

**Transit Economy: An opportunity to revive post glory – By Mr. Keshav Raj Jha :-**

According to this report the system of trade routes first originated with the nomadic people who along with their cattle, sheep, asses and goats had often moved from their places in search of fresh pastures. In course of time, the route was used by the traders as in the process asses, oxen, horses, yak were tamed and utilized for carrying goods. This was the beginning of this trade process, which was at first based on barter and exchange and later on money. In this context, the Himalayan passes were introduced and in the different period of remote past facilitated in the interaction among the people of trans-Himalayan countries.

Trade routes played a significant role in the promotion of trans-Himalayan trade; which helped to consolidate Nepal-China friendship and strengthening China's support to Nepal. From the early period, trade between Nepal and Tibet was channelled through the high passes of the Himalayas. There were at least eighteen passes in the central Himalayan region, which were used for commercial purposes, Nepali Himalayas covered 520 out of 1500 miles in the trans Himalayan range. Kuti (Nyi-Lam), Kerrong (Kyirong), Wollangchung, Khumbu, Tukuche and Karnali were the major trade routes between Nepal and Tibet.

Nepal Government in its budget estimates for the fiscal year 2062/2063 B.S. has also announced the construction of seven highways to develop Nepal as a transit point between India and China. The proposed highways are expected to link India and China through Kanchanpur, Darchula and Taklakot in the north. The next route would be through Nepalgunj to Taklakot. It is not a bad idea but needs careful scrutiny and diversification. Equal emphasis should also be given to Rasuwa pass as well as other routes in the hills, which will take the development infrastructure to all the possible parts of the country in a balanced manner.

**Problem and Prospects of Nepalese Handicraft Export (2006) : By Binaya Dhungana :-** The researcher pointing out some positions related on the export of Handicraft Business . 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 handicraft export business, to make suggestion for the prospectives, problems and promotion of the handicraft 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. Specially this report related with handicraft 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.

**Nepalese Hand knotted woollen carpets : Export problem and prospects (2006) : By Krishna Prasad Poudel : -** In this report researcher shows the various aspects of Nepal 's foreign trade. 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 woollen carpets have not its won 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.

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. From this report I am covering the Nepal possible route for trade with neighbour countries.

### **2.3 Research Gap**

There is the gap between this research and previous researches. 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 indicated 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 I am focusing the feature of the factors of Nepal's Trade & Transit Policy and landlocked countries about free access on sea coast. Then in this I am 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.



## **Chapter III**

### **RESEARCH METHODOLOGY**

The introductory part of this study has been already presented in the first chapter. Beside this, the relevant and pertinent literature available to support the study has been reviewed in second chapter. Now it is necessary to choose the appropriate research methodology that helps to carry out this study with view to attain the overall objective to overview the all existing trade policies and policies on transit with neighbour country India and to examine the possibility on the transit with other neighbouring countries like China (Tibet) and Bangladesh. It also analysis and present the burning issues on the state of transit facing by the landlocked country like Nepal. And it's challenges and opportunities on Nepalese economy. This study attempts to identify, analyze and compares the facts and figure of the Nepal's policies on trade and transit with India and other emerging possibilities on the perspective of transit with nearby countries.

In this chapter, an effort has been made to provide a description of data type sought for meeting study objective together with procedure employed for collecting and analysis the data. This chapter comprises the research design sources of data, population and sample data collection techniques and data analysis tools.

#### **3.1 Research Design:**

The basic objectives of this study are to overview the existing trade and transit policies and 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 is the combination of primary and secondary research and it is a kind of survey research. The result are arranged, tabulated, analyzed and interpreted according to need of the study for attaining the started objectives.

#### **3.2 Sources of Data**

In connection with this topic mainly secondary data sources have utilized. Primary data have been collected from the different sources; interview from the various business

persons involves in export – import business, persons who are playing to set the policies on the topic of above mention, the people who are active on the border (transit points) and from the online and open questionnaire methods and respondents were some of expert committee members participated in different negotiation round.

Secondary data are based on different published and unpublished documents such as:

- Books published by different writers (National and International)
- Thesis's
- Articles, Bulletins
- Reports
- Treaty and Agreements published by governments.
- Internet browser.
- Magazines, Newspapers etc.

### **3.3 Population and Sampling :**

The universes of data are government officials, officials of Trade Promotion Centre, Member of trade Union, Officials of Ministry of Industry, Commerce and Supplies. A detailed list of personnel consisting officer level is prepared to collect necessary information's, ideas and documents. Some experts will also consult to review the situation and to know the important on sensitive list. The persons from various organizations will be selected on the basis of their involvement and experiment in the certain area. In addition a time schedule is also prepared to contact them. Some of them are to make personal contact while for some personnel indirect contact will be established.

### **3.4 Data Collection Techniques:**

This has been conducted on the basis of the information's collected from the questionnaire, interviews, textbooks, magazines, periodicals, newspaper, bulletins etc. A structure questionnaire was designed to collect the required information; primary data have been collected from the interviews and questionnaire methods. Especially this research is based on secondary data. So the data collection primarily focuses on secondary data sources. The major sources of secondary data collection used in this report are as per follows:

- TPC (Trade Promotion Centre)
- MoIC&S (Ministry of Industry, Commerce and Supply)
- FNCCI (Federation of Nepal Chamber of Commerce & Industries)
- NRB (Nepal Rastra Bank)
- CBS (Central Bureau Statistic)
- NPC (National Planning Commission)

For the sake of designing the contents of the questionnaire, suggestions and ideas have been collected from experienced scholars. Mainly following types of tools were conducted to collect primary data.

**a) Focus Group Meeting:**

Focus group meeting were conducted to gather the information from the experts who are engaged in the field of Trade policies making and Foreign Trading activities and expert on transits.

**b) Observation:**

Under observation method, in this research I have to records the responded's overt behaviour, taking note of the physical condition and events. OI have given Non-Participative observation to observe the real scenario to analysis the facts which are gather on the process on the research. This observation is not disguised. I have used observation diary, checklist, and score cards to gather primary data in this research. And in non-mechanical tools camera, scanners and computers for data collection.

Secondary data are collected by visiting own selves on different institutions and offices to gather books published by different writers (National and International), articles, Magazines, newspapers, reports, Nepal government gazette and especially from Internet browser.

**3.5 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, I am going to analysis 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 mainly used 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:

**Outline:** After the collecting all the relevant information's I have to outline on the categories as per its natures.

**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.

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

**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 I am presenting total export and import trade balance yearly.

**Ratio:** Ratio is the quantitative relation between any two variable. Too variable is necessary for the ratio. Suppose X and Y are any two variables then ratio relation between these two variables are given:

$$\text{Ratio} = \frac{X}{Y}$$

**Standard Deviation and Correlation:** Standard Deviation is the most popular and most useful measure of dispersion and gives uniform, correct and stable results. The chief chrematistics of standard deviation is that it is based on mean, which gives uniform and dependable results. Correlation used in this research for impact analysis as per requirement whether trade pattern correlated or not with existing trade and transit policy of Nepal.

## **Chapter - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Nepal's Foreign Trade Regulation / Policy**

Policy means the set of rules and guidelines to regulate and govern the activities. A policy is a plan of action to guide decisions and actions. The term may apply to government, private sector organizations and groups, and individuals. The policy process includes the identification of different alternatives, such as programs or spending priorities, and choosing among them on the basis of the impact they will have. Policies can be understood as political, management, financial, and administrative mechanisms arranged to reach explicit goals.

##### **4.1.1 Policy typology**

Policy addresses the intent of the organization, whether government, business, professional, or voluntary. Policy is intended to affect the 'real' world, by guiding the decisions that are made. Whether they are formally written or not, most organizations have identified policies. Policies may be classified in many different ways: Distributive policies, Regulatory policies, Constituent policies and miscellaneous policies.

As a small, landlocked country wedged between two larger and far stronger powers, Nepal maintains good relations with both China (People's Republic of China) and India. Nepal formally established relations with the PRC in 1956, and since then their bilateral relations have generally been very good. Because of strong cultural, religious, linguistic, and economic ties, Nepal's association with India traditionally has been close. India and Nepal restored trade relations in 1990, after a break caused by India's security concerns over Nepal's relations with the PRC. Nepal's trade activities systemize after the starting to develop national plan in 1956. After the establishment of TPC in 1971, the trade pattern of Nepal moving toward with widely. The policies issued by nation in different period and revised according to the time required. Now the existing trade policies of Nepal are set at 1992. Nepal has the common trade policies to foreign countries. Especially I emphasized to policies with India because most of the foreign trade is confined with neighbour country. The trade policies of Nepal with India are presented as below:

#### **4.1.2 Trade Policy 1992**

Trade activities are much more directed by the trade and industrial policy of a country. The trend of foreign trade, in particular, moves in accordance with the trade policy adopted by the country. Therefore, the import and export trade largely depend upon the trade policy. The main objectives of Nepal's Trade Policy 1992 are outlined below:

- a. To 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.
- b. To diversify trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable.
- c. To expand trade on a sustained basis through gradual reduction in trade imbalances.
- d. To co-ordinate trade with other sectors by expanding employment-oriented trade.

#### **I. Basic Policy**

- a. The role of public sector will be minimized and used as a catalyst to expand the role of private sector in trade.
- b. A liberal and dynamic trade policy will be pursued with the objective to improve balance of payments position by promoting exports to increase foreign exchange earnings as well as by fulfilling internal demand of economic and quality products.
- c. Production of quality goods and services will be increased for internal consumption as well as for exports through effective and appropriate utilization of economic resources.
- d. Special efforts will be made to promote and diversify trade both in the range of commodities and country destinations.

- e. Liberal procedures will be adopted for encouraging interactions between trade and industry for sustained export promotion and for fulfilment of internal demand through increased domestic production. Emphasis will be given on modernizing management and technology, on promoting market and on attracting direct foreign investment in order to identify and develop new products as well as raise the production and quality of the traditional products.
- f. The public sector trading corporations will gradually be privatized taking into considerations the development and efficiency of the private sector.
- g. In support to above policy measures, necessary steps-as pre-conditions-relating to foreign exchange, monetary and fiscal policies will be taken up towards (full) convertibility of the Nepalese currency in trade and service sectors. For this purpose, major changes will be made in the administrative procedures to make them simple, transparent and dynamic.
- h. Taxation system will be simplified by introducing necessary changes in order to foster competition in trade.
- i. Emphasis will be laid on institutional development and information network as well as on monitoring system and quality improvement for the promotion of foreign trade.
- j. The existing trade treaties and agreements with various countries and international agencies will be effectively implemented, and new ones will be concluded, as and when necessary, for the promotion of international trade.

## **II. Export Policy**

- a) The production and quality of exportable products will be raised to make them competitive in the international market.
- b) Necessary efforts will be made to increase and diversify exports of goods and services with the objective of increasing foreign exchange earnings.
- c) Exports will be promoted by raising the production and quality of traditional as well as new products. Similarly, more emphasis will be placed on the export of

profitable but processed and finished products. For the export promotion of these products, new market will be identified.

- d) Foreign exchange earnings will be increased and opportunities for gainful employment will be created by identifying and increasing the production of new products.
- e) Service-oriented activities will be promoted to increase foreign exchange earnings.
- f) Encouragement will be given to the export of hydro-electricity on a profitable basis.
- g) For the effective utilization of manpower, stress will be given to the development of appropriate and potential skills to promote service sector as well as export of skilled manpower in an organized way.
- h) Appropriate monetary, foreign exchange and fiscal policies will be formulated and necessary changes will be made in the administrative procedures to make them liberal, simple and dynamic in order to implement above policies on an efficient, smooth and transparent basis.

### **III. Export Strategy**

- a) Licenses will not be required for the export of products other than banned or quantitatively restricted items. (*Sources: as listed in Annexure No. 1*). In the case of quantitatively restricted products arrangement for issuance of export license will be made in consultation with the private sector. Quantitative restrictions in the export of such products will gradually be removed through appropriate taxation measures.
- b) For export promotion, improvements will be made in the existing transit transport network and its infrastructure. Administrative procedures will also be made transparent, smooth and efficient.
- c) For the promotion of exports, container service will be introduced and the existing bonded warehousing system will be further expanded and improved.



- d) The duty drawback scheme for the refund of import duty paid on the importation of raw materials and intermediate goods required for the production of exportable products will be effectively implemented. In this context, duty on import of raw materials will be fully exempted taking into consideration the needs, or the bonded warehousing system will be introduced for the storage of such materials.
- e) Exports will be free from all charges except the service charge. However, the provisions of per 4.1 above will be applicable in respect of the export of essential products.
- f) For the promotion of exports, Export Promotion Zone (EPZ) will be established. No duty will be levied on the raw materials and auxiliary imports used by industries established in such EPZ. Industries exporting more than 90 percent of their production will be granted similar facilities as given to the industries established in EPZ.
- g) As a preparatory step towards full convertibility of the Nepalese currency in trade and services, exporters will have to sell in the stipulated percentage the amount of foreign exchange earned through exports of goods and services to commercial banks at a rate fixed by the market mechanism and the remaining balance to Nepal Rastra Bank at an exchange rate fixed by the Government. No license will be required and no quantitative restriction will be imposed on the imports of raw materials (except stipulated) required for the export-oriented and import-substituting industries. But for the import of such materials, foreign exchange will be made available by the commercial banks at the rate fixed by market mechanism. Exporters will be allowed to open a foreign exchange account in the banks for the purpose of spending certain percentage of one's foreign exchange earnings in trade promotion activities.
- h) Export Valuation System will gradually be abolished after the full convertibility of the Nepalese currency.
- i) Quality will be tested from time to time in order to improve the standard of exportable products and necessary information will be made available for this purpose.

- j) Simple and convenient procedures relating to pre-and post-shipment credits will be adopted on a priority basis.
- k) Income tax on income from exports will be fully exempted, and income earned from exports to India on the basis of letter of credit or agreed banking document will also be free from income tax.
- l) Emphasis will be given in the development of packaging technology to maintain the quality standard of export products.
- m) Nepalese missions abroad will be geared up towards export promotion activities, and trade missions will be opened and institutionalized on the basis of feasibility.
- n) No quantitative restrictions will be imposed on the exportable products carried by tourists while returning from Nepal.
- o) Export procedures and documentation, thus formulated, will be short and simple.
- p) An annual indicative export plan and programme on the basis of feasibility will be formulated with the co-operation of private sector to promote exports.
- q) Necessary information and training relating to technology, marketing and export procedures required for export promotion will be provided on an institutionalized basis and arrangements will also be made for the participation in national and international trade fairs for market promotion.
- r) Regular monitoring will be made to avoid distortions in exports and imports. Strong actions will be taken in case of misuse of facilities.
- s) Export promotion, research and development and training schemes will be developed on institutional basis for developing new exportable products and for raising the quality and production of the traditional exportable products.

#### **IV. Deemed Export**

If any producer earns foreign exchange by selling one's own products to projects run under bilateral or multilateral aid or if such finished or semi-finished products are sold to EPZ, such sales will be granted facilities at par with exports. Customs duty, sales tax and excise duty levied on such sales will be refunded and the

income generated from such sales will be exempted from income tax. In addition, foreign exchange earned from such sales can be sold at the rate fixed by the market mechanism after submitting the stipulated percentage amount to Nepal Rasta Bank at the rate fixed by the Government.

## **V. Import Policy**

Imports will be planned as a medium of export development and promotion to create competitive industrial and trade environment, and also to ease the supply of materials required for the country through the optimum utilization of available resources. In this context, quantitative restrictions will be replaced gradually by such a fiscal measure as to encourage competition in production. Similarly, imports will gradually be tied up with exports.

## **VI. Import Strategy**

- a. Imports will gradually be tied up with exports with a view to creating a well organized and sustained foreign trade sector by narrowing the gap between exports and imports.
- b. The existing import licensing and control system will be simplified. Quantitative restrictions on imports will gradually be replaced through the tariff media.
- c. Imports of all products other than banned or quantitatively restricted items as listed in Annexure no. 2 will be made free.
- d. An annual indicative plan will be formulated to manage imports through auction to allocate required foreign exchange for it and to monitor its utilization.
- e. Import procedures and documentation will be made short and simple.
- f. Special efforts will be made to reduce transit costs and also to minimize pilferage and demurrage.
- g. Import of all goods except some limited items will be allowed through purchase of foreign exchange at the rate fixed by the market mechanism in order to make Nepalese currency fully convertible and to gradually tie up exports and imports.

- h. Necessary vigilance will be made to prevent deflections in foreign trade.

## **VII. Import Licensing Arrangement**

As distortions can be minimized by regulating imports through various policy measures than be made under full control of the government, some items are restricted while some others placed under the auction system requiring licenses, and the imports of the remaining items are made free, in the process of making import trade free. Under the system, imports of raw materials, consumer goods, industrial machinery, services etc. have been made free.

- a. Import formalities will be as follows:
- b. Import license will be required for the import of quantitatively restricted products, products in excess of the number or quantity fixed under the personal effects and the products under the auction system for the commercial purposes.
- c. Imports of all products other than those mentioned in annexure of policy presenting below above are made free.

## **VIII. Foreign Exchange Arrangement**

- a. The foreign exchange required for import purposes will be made available as follows:
- b. Nepal Rastra Bank will make foreign exchange available at the rate fixed by the Government for import of goods as per notification issued by Nepal Government in the Nepal Gazette, and to meet the Government expenses. Import of such products will be allowed as spelt out under the annexure of policy in the process of increasing the convertibility percentage of the foreign exchange.
- c. Foreign exchange required for the import of goods under auction will be made available by Nepal Rastra Bank. In the process of increasing convertibility percentage of foreign exchange, goods which are under the auction will be gradually allowed to be imported under the annexure of policy and the number of such goods will be gradually reduced and brought under the purview of market mechanism.
- d. Commercial banks will make foreign exchange available at the rate fixed by the market mechanism for the payment of all imported goods including industrial raw

materials, spare parts and services and for payments of foreign loans and interests of the non-governmental sector. Nepal Rastra Bank will not make a separate foreign exchange provision for this purpose.

#### **IX. Internal Trade Policy**

A conducive environment will be created for the timely supply and distribution of internally produced and imported products as well. In this context, no restrictions will be imposed on the movement of such products for internal trade. This system will be applicable to the movement of exportable products also.

#### **X. Miscellaneous**

- a. Procedures relating to imports will be made short and simple through improvements in the transportation, customs and go down procedures.
- b. Improvements will be made to make the import valuation system relevant. For this purpose, necessary framework will be prepared.
- c. In line with these policies, necessary improvements or amendments will be made on all relevant laws, regulations and notifications relating to exports and imports.
- d. Regular monitoring will be done for the smooth and uninterrupted conduct of export and import trade.

#### **4.1.3 Recent Renewal of Indo-Nepal Trade Treaty**

##### **A. Renew in 1996:**

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 1971, 1978, and 1991 with the most recent one being in 1996. The key features underlying the Trade Treaty between two countries are as follows:

- Exemption from basic customs duty as well as quantitative restrictions on imports of primary products from each other on a reciprocal basis;
- Access for Nepalese manufacturing exports to Indian market free of basic custom-duties and quantitative restrictions on the basis of non-reciprocity;

- Preferential entry on goods imported from India to Nepalese market without any quantitative restrictions;
- Payment in Indian currency.

Renewed 1996 Trade Treaty was liberal than the previous agreements on two main grounds. First, it provided much improved access of Nepalese exports to Indian market by removing the former 50 percent rules of origin (ROO) condition. Under the treaty terms, either country can export goods to the other, without respect to the origin of raw material inputs in the process, as long as there is some local value added in manufacturing. Second, the negative list is relatively very small. The “Gujral Doctrine”, which defines the principles guiding India’s relations with smaller neighbours as one of non-reciprocity in favour of the latter, was one of the underlying forces for the signing of such liberal Trade Treaty between two countries. India sought for amendments in 1996 Trade Treaty by expressing its concern of trade deflection of third country goods and import surge of selective sensitive from items from Nepal to its market.<sup>7</sup> The 1996 Trade Treaty was renewed effective from 6 March 2002 by incorporating new amendments to address India’s concerns. Some of these include:

- (i) Rules of Origin (ROO) provision;
- (ii) Imposition of Tariff Rate Quota (TRQs); and
- (iii) Submission of information regarding the basis of calculation of ROO to the Indian government by Nepal on an annual basis.

ROO provisions made in renewed Trade Treaty requires Nepalese manufacturing exports to fulfil two criteria for their preferential access to the Indian market free of customs duties normally applicable and quantitative restrictions. These include:

- (i) domestic content requirements defined in terms of value added, which has been fixed at 25 percent of the ex-factory price of articles produced in Nepal in the first year (6 March 2002 to 5 March 2003) and shall be moved up to 30 percent for subsequent years (6 March 2003 onwards); and
- (ii) Requirements in terms of change in tariff heading (CTH) at four digit level of the harmonized system code. In case of Nepalese manufacturing exports which could not fulfil CTH criteria, ROO provision instead requires that they have undergone a “sufficient manufacturing process within Nepal”. Decision

to provide preferential access for such Nepalese products to Indian market will be made on a case by case basis.

TRQs are imposed on Nepal's four export items to India. They include: vegetable ghee; acrylic yarn; copper; and zinc oxide. Under the proposed TQRs arrangement, Nepal's exports of these products to Indian market will face two-level tariff. They will be allowed Duty free entry into India for the fixed volume of quota and all subsequent exports will attract normal India's MFN duties. As per the amended clause of the renewed Trade Treaty, India has provided Nepal a fixed annual quota for the export of these products at 1 million tons for vegetable ghee; 10 thousand tons for acrylic yarn; 7.5 thousand tons for copper; and 2.5 thousand tons for zinc oxide. India has made an arrangement of importing vegetable ghee from Nepal only through its State Trading agency – Central Warehousing Company (CWC).

### **B. Indo-Nepal Treaty of Trade, 2002**

This treaty is a continuation of the Treaty of Trade, 1996 rather in a revised form with the inclusion and exclusion of some of the provisions in the Articles. After a series of meetings in Delhi from 27th February to 2nd March 2002, an agreement was reached to extend the validity of all the twelve Articles of the India-Nepal Treaty of Trade, and Protocols to Articles I, II, III, IV and VI in their present form for a period of five years with effect from 6th March 2002. And, it was also agreed that the revised Protocol to Article V and the new Protocol to Article IX of the Treaty would also be valid for the same period. Some of the major provisions made in the Treaty can be identified as follows:

1. Preferential access to the Indian market free of customs duties normally applicable and quantitative restrictions for all articles manufactured in Nepal, except the mentioned articles, provided they fulfil the qualifying criteria.
  - (a) The articles are manufactured in Nepal wholly from Nepalese materials or Indian materials or Nepalese and Indian materials ;or
  - (b) (i) The articles involve a manufacturing process in Nepal that brings about a change in classification, at four digit level, of the Harmonized Commodities Description and Coding System, different from those, in which all the third country origin materials used in its manufacture are classified; and the

manufacturing process is not limited to insufficient working or processing as indicated in “B”, and

- (c) (ii) From 6th March 2002 to 5th March 2003, the total value of materials, parts or produce originating from non-Contracting Parties or of undetermined origin used does not exceed 75 per cent of the ex-factory price of the articles produced, and the final process of manufacturing is performed within the territory of Nepal. From 6th March 2003 onwards, the total value of materials, parts or produce originating from non-Contracting Parties or of undetermined origin used does not exceed 70 per cent of the ex-factory price of the articles produced, and the final process of manufacturing is performed within the territory of Nepal.
  - (d) Preferential access to the Nepalese articles not fulfilling the conditions of 1 (b) (i) but fulfilling the condition 1 (b) (ii) on a case by case basis.
  - (e) Normal access to other articles manufactured in Nepal which do not fulfil the qualifying criteria specified with MFN treatment.
2. Import of articles in accordance with (1) above shall be allowed by the Indian customs authorities on the basis of a Certificate of Origin to be issued by the agency designated for this purpose by His Majesty’s Government of Nepal in the format prescribed at -“D” for each consignment of articles exported from Nepal to India.
  3. For each consignment of articles manufactured in the small-scale units in Nepal, on the basis of a Certificate issued by His Majesty’s Government of Nepal that the relevant conditions applicable to the articles manufactured in similar Small Scale Industrial Units in India for relief in the levy of applicable Excise Duty led for such parity. Government of India will extend parity in the levy of Additional Duty on such Nepalese articles equal to the treatment provided in the levy of effective Excise Duty on similar Indian articles under the Indian Customs and Central Excise Tariff.
  4. “Additional Duty” rates equal to the effective Indian excise duty rates applicable to similar Indian products under the Indian Customs & Central Excise Tariff will continue to be levied on the imports into India of products manufactured in the medium and large scale units in Nepal.
  5. In regard to additional duty collected by the Government of India in respect of manufactured articles other than those manufactured in “small” units; wherever it



is established that the cost of production of an article is higher in Nepal than the cost of production in a corresponding unit in India, a sum representing such difference in the cost of production, but not exceeding 25 per cent of the “additional duty” collected by the Government of India, will be paid to His Majesty’s Government of Nepal provided His Majesty’s Government of Nepal has given assistance to the same extent to the (manufacturers) exporters.

6. Export of consignments from Nepal accompanied by the Certificate of Origin will normally not be subjected to any detention or delays at the Indian customs border check posts and other places en route. However, in case of reasonable doubt about the authenticity of Certificate of Origin, the Indian Customs Authority may seek a clarification from the certifying agency.
7. The importing country may request for consultations in the Joint Committee to take appropriate measures in the event of imports in such a manner or in such quantities so as to cause or threaten to cause injury to the domestic industry or a significant segment of it relating to the article.
8. Provisions made for some of the articles allowed to entry into India with free of customs duties on fixed quota basis are as follows:

<b>Nepalese article</b>	<b>Quantity in MT per year</b>
1. Vegetable fats (Vanaspati)	100,000 (One hundred thousand)
2. Acrylic Yarn	10,000 (Ten thousand)
3. Copper products under & Heading 85.44 of the H. S. Code	Chapters 74 7,500 (Seven thousand five hundred)
4. Zinc Oxide	2,500 (Two thousand five hundred)

However, it is stated in the Treaty that imports of the above four commodities into India in excess of the fixed quota will be permitted under normal MFN rates of duty. ( 9) And, they will be permitted through the land Customs Stations (LCS) at Kakarbhitta/Naxalbari, Biratnagar/Jogbani, Birganj/Raxaul, Bhairahawa/Nautanwa, Nepalgunj/Nepalgunj Road and Mahendranagar/ Banbasa . Furthermore, the following articles are not being allowed under preferential entry from Nepal to India on the basis of Certificate of Origin:

1. Alcoholic Liquors/ Beverages and their concentrates except industrial spirits,
2. Perfumes and Cosmetics with non-Nepalese / non-Indian Brand names,

### 3. Cigarettes and Tobacco

With regard to the articles that are not to allow under preferential treatment a provision has been made stating the Government of India, in consultation with His Majesty's Government of Nepal, may modify the list of articles. However, Nepalese beers can be imported into India on payment of the applicable liquor excise duty equal to the effective excise duty as levied in India on Indian beers under the relevant rules and regulations of India. This Treaty made an amendment in some Articles of the earlier treaty. Noticeably, the Treaty introduced the value addition norms while exporting to India and also adopted quantitative restrictions on some commodities or articles such as vegetable ghee, acrylic yarn, copper products and zinc oxide. The salient features of this Treaty can be viewed as:

- Detailed Rules of Origin incorporated to encourage genuine industrialization in Nepal and to provide greater clarity and transparency
- Value addition norm - a very low value addition percentage has been agreed to by India of a maximum ceiling for third country inputs fixed at 75 per cent for one year from 6th March, 2002 and 70 per cent thereafter, (i.e. a domestic value addition requirement of only 25 per cent for the first year and 30 per cent thereafter)
- Certain sensitive items will be allowed continued entry into India free of customs duty on the basis of a special and liberal quota. No ceiling prescribed for imports of these items into India on MFN basis.
- Safeguard clause introduced with provision for the affected country to take appropriate remedial measures only if joint consultations on surge do not yield

#### **4.1.4 Trade Policy 2009**

A new and comprehensive Trade Policy with a wider vision is necessitated in order to expand the international trade by addressing the challenges of utilizing the market opportunities in goods and services trade and protection of intellectual property rights. Accordingly, this Trade Policy has been formulated by giving impetus to the promotion of the export sector as the main policy thrust and achieving sustained trade development

taking into consideration the changed paradigm of internal and international business environment. The main objectives of Nepal's Trade Policy 2009 are outlined below:

**1. Main Objective:**

To support the economic development and poverty alleviation initiatives through the enhanced contribution of trade sector to the national economy.

**2. Objectives:**

- To create a conducive environment for the promotion of trade and business in order to make it competitive at international level.
- To minimize trade deficit by increasing exports of value added products through linkages between imports and exports trade.
- To increase income and employment opportunities by increasing competitive of trade in goods and services and using it as a means of poverty alleviation.
- To clearly establish interrelationship between internal and foreign trade, and develop them as Complimentary and supplementary to each other.

**3. Main Strategies:**

- Creating a conducive atmosphere for making trade competitive at international level.
- Reducing trade deficit through export promotion
- Increasing income and employment opportunities.
- Establishing interrelationship between domestic and foreign trade.

**4. Policy and Working Policies:**

- Enhancing the role and professional capacity of government and private sector entities.
- Reducing transaction costs through procedural simplification and institutional strengthening.
- Developing policy, institutional and physical infrastructures relating to foreign trade.
- Developing policy and institutional networks for the protection of intellectual property rights and promotion of export of services.
- Providing additional incentives to export oriented industries.
- Opportunities available under bilateral, regional and multilateral trade promotions.
- Establishing Special Economic Zones for export promotion.
- Developing employment oriented skills and entrepreneurship in trade sector.
- Increasing income and employment opportunities through promotion of trade in services
- Developing special thrust areas.
- Promoting identification, selection, production and trading of new exportable goods of comparative advantage.
- Linking export oriented industries with domestic markets.
- Encouraging exports of goods or services produced for domestic consumption by expanding their production.

**5. Institutional Arrangement:**

- a) **Board of Trade :** A Board of Trade will be constituted at the central level with participation of the private sector to provide necessary assistance in the policy

formulation for trade promotion, trade facilitation, policy monitoring and inter-agency coordination as follows:

- Minister/Minister of State for Commerce: Chairperson
- Assistant Minister for Commerce: Member
- Member, National Planning Commission (Trade): Member
- Governor, Nepal Rastra Bank: Member
- Secretary, Ministry of Commerce and Supplies: Member
- Secretary, Ministry of Industry: Member
- Secretary, Ministry of Finance: Member
- Secretary, Ministry of Tourism and Civil Aviation: Member
- Secretary, Ministry of Education: Member
- Secretary, Ministry of Health and Population: Member
- Chairperson, Federation of Nepalese Chambers of Commerce and Industries: Member
- Chairperson, Nepal Chamber of Commerce: Member
- Chairperson, Confederation of Nepalese Industries: Member
- Chairperson, National Industries Trade Association: Member
- Chairperson of bilateral chamber of commerce of the
- Concerned country having highest volume of imports from Nepal: Member
- Executive Director, Trade Promotion Institute: Member
- Two experts nominated from amongst the professors or Reader's having expertise in trade or balance of payment and Engaged at the level of Central Department of a University: Member
- Four experts or personalities nominated by the Minister for Commerce from amongst the persons involved in industrial and trade sectors: Member
- Director General, Department of Commerce: Member-  
Secretary

**b) Trade Promotion Institute:** The existing Trade and Export Promotion Centre will be converted into Trade Promotion Institute to function as an autonomous organization capable of providing services as per demands of the market.

**c) Special Economic Zone and Export Processing Zone:**

- Special economic zones and export processing zones, along with their requisite infrastructures, will be established for the promotion of export trade.
- Private sector will be encouraged in the development, establishment and operation of special economic zone and export processing zone.

**6. Foreign Trade Promotion Programmers':**

- Transit and logistics programmers': The following programmers' will be launched in order to make export trade more competitive through minimization of transaction costs:

- Laws relating to multimodal transport system will be brought into immediate implementation for effective operation of the established dry ports.
- The existing Nepal-India Rail Service Agreement will be reviewed and revised, and brought into effective implementation. Moreover, initiatives will be taken to expand the rail service to other feasible places.
- Export processing and special economic zone promotion programmers' : Feasibility study will be carried out with the involvement of private sector for establishing export processing zones close to the currently constructed dry ports in order to make the export trade competitive. The following provisions will be made for the establishment of such zones :
  - Publicity and promotion programs
  - Human resource development programs

#### **4.1.5 Trade Facilitation Measures**

This section reviews trade facilitation issues that have emerged mainly after the renewal of Trade Treaty in March 2002 and suggests measures to address. While doing so, some other trade facilitation issues that prevailed even before renewal of Trade Treaty are also discussed.

- Simplified Implementation of ROO Provision
- Quota Administration through Indian Private Traders
- Setting up Food Testing Facilities at Border
- Setting Up More Entry Points for Quarantine Checks
- Agreement on Rail Link for Operation of Inland Container Depot (ICD)
- Overcoming Disadvantage of Being Landlocked

#### **4.2 Pattern/ Direction of Nepal's Foreign Trade :**

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 Kilometre 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:

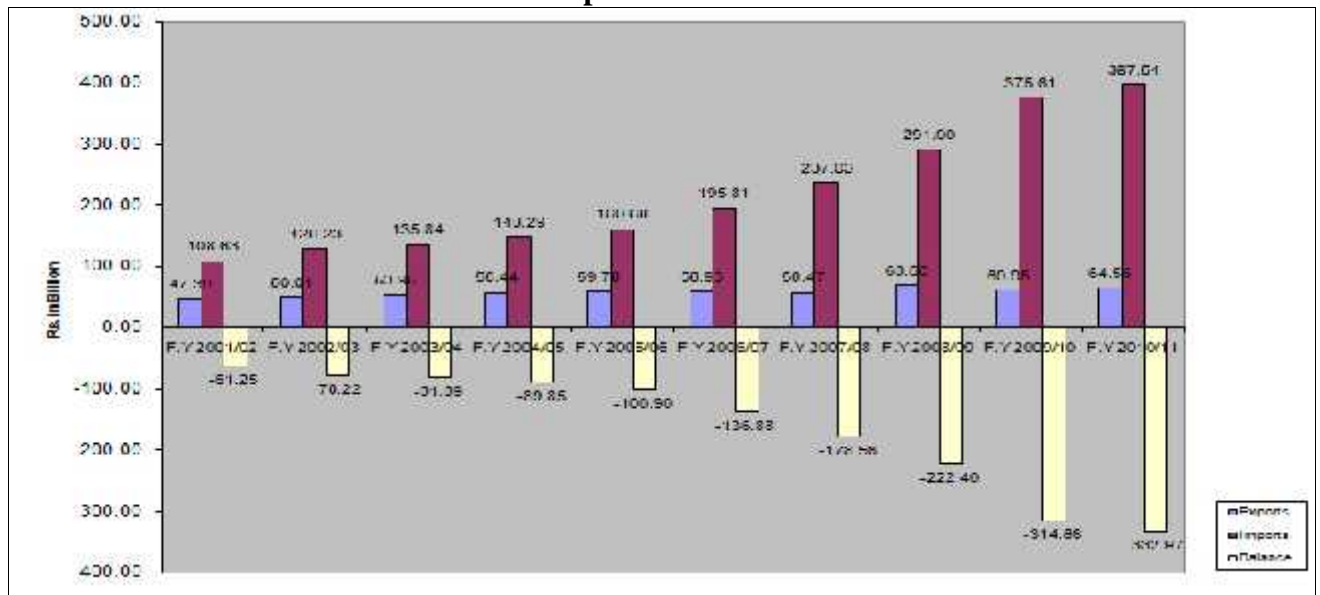
**A) Total Foreign Trade Balance of Nepal**

**Table 4.1, Total Foreign Trade Balance of Nepal**

Value in '000 Rs.							
Fiscal Year	Exports	% in Total	Imports	% in Total	Total Trade	Total %	Trade Deficit
2001/02	47,386,788	30.37	108,634,801	69.63	156,021,589	100.0	61,248,013
2002/03	50,011,122	28.06	128,228,134	71.94	178,239,256	100.0	78,217,012
2003/04	53,949,414	28.43	135,840,335	71.57	189,789,749	100.0	81,890,921
2004/05	58,443,821	28.27	148,294,229	71.73	206,738,050	100.0	89,850,408
2005/06	59,776,874	27.12	160,677,924	72.88	220,454,798	100.0	100,901,050
2006/07	59,073,097	23.01	197,676,512	76.99	256,749,609	100.0	138,603,415
2007/08	58,474,359	19.79	237,030,276	80.21	295,504,635	100.0	178,555,917
2008/09	68,596,852	19.08	291,000,944	80.92	359,597,796	100.0	222,404,092
2009/10	60,949,603	13.96	375,605,870	86.04	436,555,473	100.0	314,656,267

*Source:- Trade and Export Promotion Centre & Nepal Rastra Bank.*

**Figure 4.1, Total Foreign Trade Balance of Nepal**



In total trade it covers import and export of the business. From the above table and figure we can present here the data as per in FY 2005/06 import is more than export. Total deficit in that year is showing 100.90 billion, in FY 2006/07 status is little bit increasing and total deficit lead by 136.88 billion Rupees, in FY 2007/08 figure shows that import is increasing but export is decreasing then previous year and trade deficit 178.56 billion, in FY 2008/09 again import is going upward but export also increasing by around 17.3 % as previous year but in total trade deficit is increasing and suffered by 222.40 billion and in FY 2009/10 import is increasing & export is decreasing as previous year in amount and quantity as per result trade deficit also increasing by around 92 billion and suffered by 314.65 billion in this year. In 2010/11 total trade deficits reached 332.97 billion 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.

In this study total trade is categorised into three sectors. Mostly Nepal’s trade is with India. China is another nearby country so it also occupying little bit share. Other remaining activities are with overseas countries. So in this study Nepal foreign trade is analysis on the three parts as per:

1. Trade with India
2. Trade with Overseas Countries
3. Trade with China (Tibet)

## B) Foreign Export Trade Composition of Nepal

**Table 4.2, Foreign Trade Composition of Nepal (Export)**

Value in '000

Rs.

Direction	2006/07	% in total	2007/08	% in total	2008/09	% in total	2009/10	% in total	2010/11	% in total
<b>India</b>	41,728,800	70.8	38,555,700	65.9	43,574,482	63.5	39,902,811	65.5	42,868,108	66.4
<b>Overseas</b>	15,995,514	27.2	18,974,170	32.5	22,870,587	33.4	19,666,518	32.3	20,768,858	32.2
<b># China P.R.</b>	1,202,783	2	944,489	1.6	2,151,783	3.1	1,380,274	2.2	925,478	1.4
<b>Total</b>	<b>58,927,097</b>	<b>100.0</b>	<b>58,474,359</b>	<b>100.0</b>	<b>68,596,852</b>	<b>100.0</b>	<b>60,949,603</b>	<b>100.0</b>	<b>64,562,444</b>	<b>100.0</b>

[# Includes trade with Honking SAR and Macau](#)

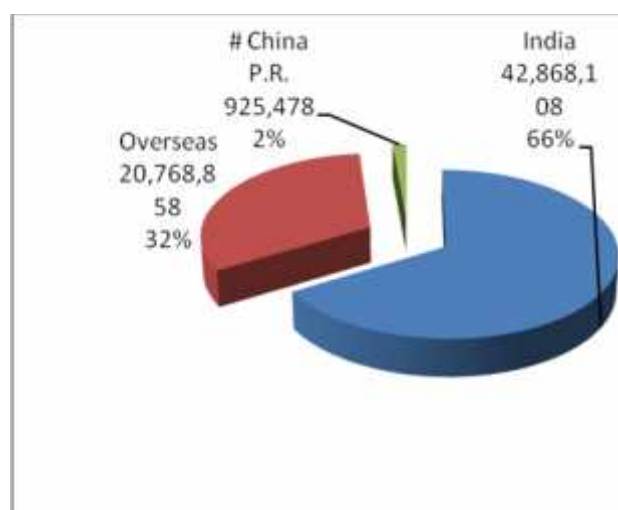
Source:- Trade and Export Promotion Centre & Nepal Rastra Bank

**Figure 4.2, Foreign Trade Composition of Nepal 2010/11 (Export)**

We know trade composition covers trade on export and import. Present situation of Nepal's trade composition is showing through above figure 4.2 and table 4.2

Above table shows the situation of Nepal's export business with foreign countries especially with India and Overseas or with China. Above

figures shows that the export trade with India is going to increase and decreasing the export trade with overseas countries and increase with China .With the above figures of export composition of Nepal Business as well as following table shows that the import business with foreign countries. From the table 4.2 in FY 2010/11 export is occupied 66 % by India and 32 % & 2 % to overseas and China respectively.



## C) Foreign Import Trade Composition of Nepal



**Table 4.3, Foreign Trade Composition of Nepal (Import)**

Value in '000

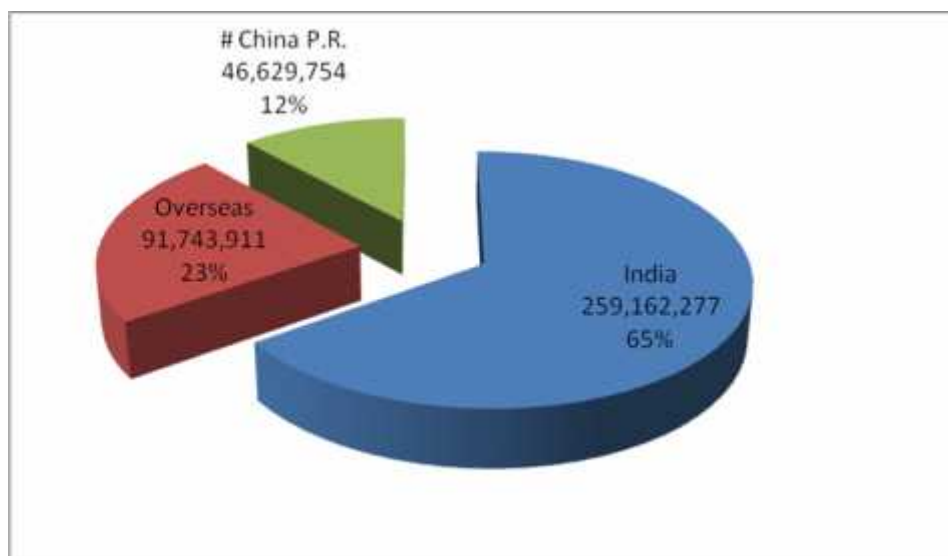
Direction	Rs.									
	2006/07	% in total	2007/08	% in total	2008/09	% in total	2009/10	% in total	2010/11	% in total
<b>India</b>	115,872,300	59.2	142,376,500	60.1	165,119,002	56.7	214,261,109	57	259,162,277	65.2
<b>Overseas</b>	62,217,948	31.8	71,220,571	30	91,416,151	31.4	117,899,148	31.4	91,743,911	23.1
<b># China P.R.</b>	17,718,164	9	23,433,205	9.9	34,465,791	11.9	43,445,613	11.6	46,629,754	11.7
<b>Total</b>	<b>195,808,412</b>	<b>100.0</b>	<b>237,030,276</b>	<b>100.0</b>	<b>291,000,944</b>	<b>100.0</b>	<b>375,605,870</b>	<b>100.0</b>	<b>397,535,942</b>	<b>100.0</b>

[# Includes trade with Honking SAR and Macau](#)

*Source:- Trade and Export Promotion Centre & Nepal Rastra Bank.*

Above table 4.3 shows that the import business is going to increase with India and decreasing with overseas countries and increasing with China. It shows that the foreign trade of Nepal is now also mostly confined with India. In 2006/07 India share in import was 59% and 31.8 %,9% with overseas and China respectively but in 2010/11 India share increasing up to 65.2% and 23.1%,11.7 % decrease with overseas but increasing with China respectively . Graphically also can present as displaying below as composition of Nepal Import trade pattern.

**Figure 4.3**  
**Composition of Total Foreign Trade of Nepal (Import)**  
**F.Y.2010/11**



#### **D) Nepal Trade Partners and Major Commodities**

The leading export partners of Nepal have been India, USA, Germany, Bangladesh, France United Kingdom, Italy, Canada, Japan, Singapore, Switzerland ,Belgium, Spain, Turkey, Bhutan, , and Netherlands over the last few years. Germany was the major country to import goods and commodities from Nepal for 2004-05 and 2005-06. 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, ginger seeds and perfume oil. The detail trading share of different countries are presenting into following tables. The table 4.4 shows that the total amounts of the export and import of goods/commodities.

**Table: 4.4, Major Export Trade Partners of Nepal, FY 2009-2012**

Value in '000 Rs

S.N	Countries	F.Y 2009/10	F.Y 2010/11	F.Y 2011/12
1	India	39,902,811	42,868,108	50,933,222
2	U.S.A	3,867,223	4,392,600	5,551,916
3	Germany	2,391,036	2,768,972	2,965,891
4	Bangladesh	3,373,718	3,471,938	2,578,080
5	U.K	1,228,188	1,389,528	1,461,905
6	France	1,152,930	1,206,172	1,062,887
7	China P.R	1,008,696	746,023	985,693
8	Italy	716,188	758,283	792,245
9	Canada	768,090	820,351	782,059
10	Japan	554,158	652,352	767,227
11	Turkey	276,970	865,692	548,770
12	Bhutan	1,554,824	425,484	543,836
13	U.A.E	255,032	326,300	440,792
14	Netherlands	258,139	300,991	411,447
15	Australia	333,140	304,824	354,270
16	Vietnam	49,754	82,305	276,534
17	Spain	181,061	279,556	273,516
18	Hongkong SAR	369,414	179,455	255,482
19	Belgium	265,807	244,631	247,215
20	Kuwait	2,232	77,233	246,526
21	Pakistan	78,971	142,338	225,907
22	Switzerland	370,959	215,288	219,901
23	Denmark	175,945	192,884	199,851
24	Austria	100,969	163,061	176,016
25	Malaysia	110,324	76,416	113,589
26	Singapore	305,665	349,865	108,144
27	Brazil	73,961	54,217	107,969
28	Russia	33,876	117,119	95,152
29	Taiwan	71,187	80,936	73,747
30	Korea R	41,324	87,826	38,532
	Sub Total	59,872,591	63,640,748	72,828,603
	Other Countries	1,077,012	921,696	1,250,738
	<b>Grand Total</b>	<b>60,949,603</b>	<b>64,562,444</b>	<b>74,089,060</b>

Source:- Trade and Export Promotion Centre &amp; Nepal Rastra Bank.

**Table 4.5, Major Import Trade Partner of Nepal, FY 2009-2012**

Value in '000 Rs

S.N	Countries	F.Y 2009/10	F.Y 2010/11	F.Y 2011/12
1	India	214,261,109	259,162,277	321,346,419
2	China , P.R.	39,218,203	45,635,962	52,924,945
3	U.A.E	33,398,621	13,615,677	32,540,181
4	Thailand	7,504,724	7,039,735	8,098,446
5	Indonesia	8,093,843	8,403,085	7,740,468
6	Argentina	5,036,656	7,369,341	6,529,625
7	Malaysia	4,207,297	4,962,553	5,978,247
8	Korea R.	5,885,329	5,737,191	5,461,033
9	U.S.A	5,384,826	3,930,988	4,885,225
10	Saudi Arabia	1,832,945	3,172,754	4,538,443
11	Japan	6,267,573	3,957,915	4,479,354
12	Ukraine	2,499,366	445,606	3,462,359
13	Singapore	5,007,334	3,347,521	2,646,484
14	Germany	2,321,819	2,330,043	2,569,290
15	Brazil	620,858	1,184,859	2,510,432
16	Taiwan	1,519,883	1,450,077	2,270,523
17	Australia	4,950,297	1,829,768	1,996,628
18	Vietnam	281,436	1,035,585	1,980,528
19	Switzerland	2,743,879	2,456,573	1,914,382
20	U.K.	7,298,818	2,040,553	1,899,390
21	France	1,662,686	1,322,207	1,639,948
22	Russia	436,032	647,369	1,511,754
23	Bangladesh	764,830	1,104,150	1,502,817
24	Italy	949,066	771,544	1,279,641
25	Netherlands	511,998	768,096	1,035,074
26	Canada	551,039	1,089,558	905,949
27	New Zealand	1,091,571	1,038,232	841,303
28	Finland	1,214,488	606,892	554,646
29	Egypt	403,626	838,911	502,747
30	Turkey	404,577	1,849,869	420,301
	Sub Total	366,324,729	389,144,890	485,966,578
	Other Countries	9,281,141	8,391,053	12,194,496
	<b>Grand Total</b>	<b>375,605,870</b>	<b>397,535,942</b>	<b>498,161,074</b>

*Source:- Trade and Export Promotion Centre & Nepal Rastra Bank.*

**E) Nepal's Trade Share and Trade Deficit**

**Table 4.6, Nepal's Trade Share and Trade Deficit, FY 2006-2011**

Figure in '000' Rs

Direction	F.Y. 2006/07	F.Y. 2007/08	F.Y. 2008/09	F.Y. 2009/10	F.Y. 2010/11
India	74,143,500	103,820,800	121,544,520	174,358,298	216,294,169
# China P.R.	16,515,381	22,488,716	32,314,008	42,065,339	45,704,277
Others	46,222,434	52,246,401	68,545,564	98,232,630	70,975,053
Total	136,881,315	178,555,917	222,404,092	314,656,267	332,973,498

Source:- Trade and Export Promotion Centre & Nepal Rastra Bank.

**Table 4.6a, Foreign Trade Composition of Nepal, FY 2009-2012**

Value Billion Rs.

	Total Exports	Total Imports	Total Trade	Trade Deficit	Export: Import Ratio	
F.Y. 2009/10	60.95	375.61	436.56	314.66	1:	6.2
<i>Share % in Total Trade</i>	<i>14.0</i>	<i>86.0</i>				
F.Y. 2010/11	64.56	397.54	462.10	332.98	1:	6.2
<i>Share % in Total Trade</i>	<i>14.0</i>	<i>86.0</i>				
F.Y. 2011/12	74.09	498.16	572.25	424.07	1:	6.7
<i>Share % in Total Trade</i>	<i>12.9</i>	<i>87.1</i>				
Percentage Change in F.Y. 2010/11 compared to previous year	5.9	5.8	5.9	5.8		
Percentage Change in F.Y. 2011/12 compared to previous year	14.8	25.3	23.8	27.4		

Source:- Trade and Export Promotion Centre & Nepal Rastra Bank.

From the above table we can say that Nepal's trade with India is in increasing rate but the condition with overseas is not satisfactory. Because of the policy is to increase the trade with foreign countries beside India. But import business is increasing with China too. It

also not in positive aspects for reduces Nepalese trade deficits. From above table 4.6 in 2006/07 trade deficit with India was 74.14 billion and 2010/11 is being 216.29 billion. It means trade deficit is increasingly by around 3 times within 5 years tenure. Trade deficit with other (overseas) countries in 2006/07 was 46.22, 52.24, 68.54, 98.23 and 70.97 billion up to 2010/11 respectively. It shows that trade deficit with other (overseas) countries increasing till 2009/10 but this last year it is decreasing by 27% then previous year. Having the small amount of trade on total trade of Nepal China also suffering from deficit. Deficit balances with China from 2006/07 to 2010/11 are 16.51, 22.48, 32.31, 42.06 and 45.70 billion respectively. The trend of trade deficit with China is in increasing rate in these years.

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. Major, we can say Nepal's trade is confined with three sectors which are necessary to describe individually to describe total Nepal's trade pattern.

1. Trade with India
2. Trade with Tibet
3. Trade with Overseas countries

#### **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 4.7, 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, Marble Slab, 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: Nepal Rastra Bank*

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:

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

#### **1. Conserved Wildlife and Related Articles**

- Wild animals
- Bile and any part of wild animals

- Musk
  - Snake skin, lizard skin
2. Drugs
- Marijuana, opium, hashish (as defined in the Single Convention on Narcotics, 1961)
3. Articles of Industrial Importance
- Explosive materials and the related fuse or materials needed for fuse
  - Materials used in the production of arms and ammunition
4. Industrial Raw Materials
- Raw hides and skin (including dry salted)
  - Raw wool
  - All imported raw materials, parts and capital goods
5. Other Products
- Mamira
  - 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**

- Products injurious to health
- Narcotic drugs like opium and morphine
- Liquor containing more than 60 percent alcohol
- Arms and ammunition and explosives (except under import licence of Nepal Government)
- Materials used in the production of arms and ammunition
- Guns and cartridges
- Capes without paper
- Arms and ammunition and other explosives



- Communication equipment: wireless, walkie-talkie and similar other audio communication equipment (except under import license of Nepal Government)
- Valuable metals and jewelleryes (except permitted under bag and baggage regulations)
- Beef and beef products
- Any other product notified by Government of Nepal in the Nepal Gazette.

#### **4.2.2 Trade of Nepal and India: Growth and Trends**

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. India has already become the member of World Trade Organization (WTO) to seek advantages of trade specialization and competitive international trade. Nepal, on the other hand, has already applied for the membership of WTO and is expected to become a member in the near future. Nepal and India, being neighbouring 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. The growth of export to India is presented as per following diagram.

**Table 4.8, Growth Pattern of Trade with India, FY 2006-2011**

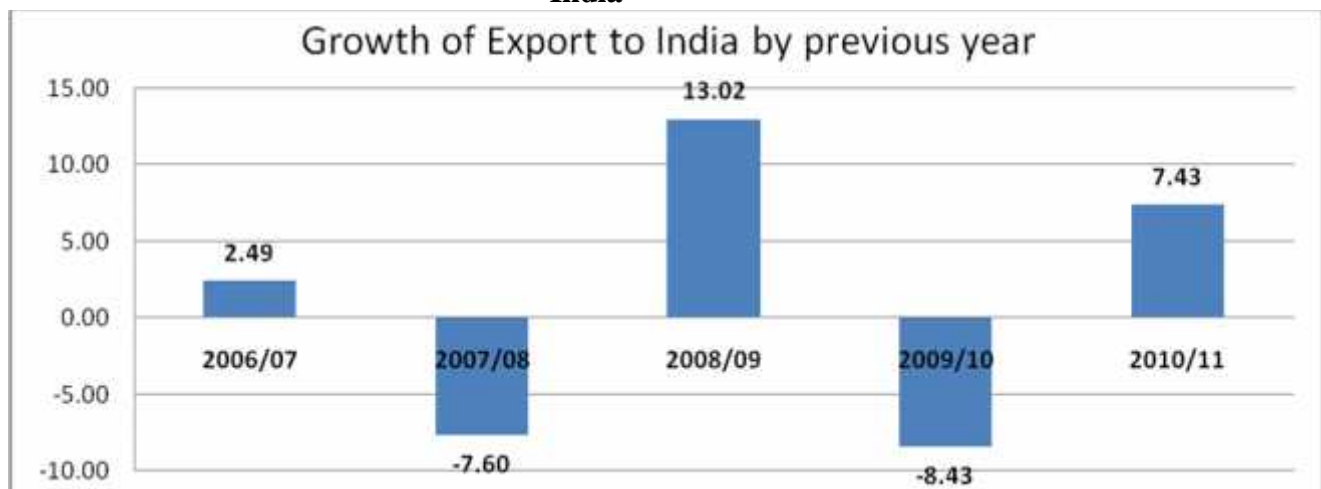
Figure in '000' Rs

Particular	2006/07	2007/08	2008/09	2009/10	2010/11
Exports to India	41,728,800	38,555,700	43,574,482	39,902,811	42,868,108
Growth from previous year	2.49	-7.60	13.02	-8.43	7.43
Total exports	<b>58,927,097</b>	<b>58,474,359</b>	<b>68,596,852</b>	<b>60,949,603</b>	<b>64,562,444</b>
Growth Rate as previous year	-1.42	-0.77	17.31	-11.15	5.93
<b>India's share</b>	70.8	65.9	63.5	65.5	66.4
Imports from India	115,872,300	142,376,500	165,119,002	214,261,109	259,162,277
Growth from previous year	8.15	22.87	15.97	29.76	20.96
Total imports	<b>195,808,412</b>	<b>237,030,276</b>	<b>291,000,944</b>	<b>375,605,870</b>	<b>397,535,942</b>
Growth Rate as previous year	21.86	21.05	22.77	29.07	5.84
<b>India's share</b>	59.2	60.1	56.7	57	65.2

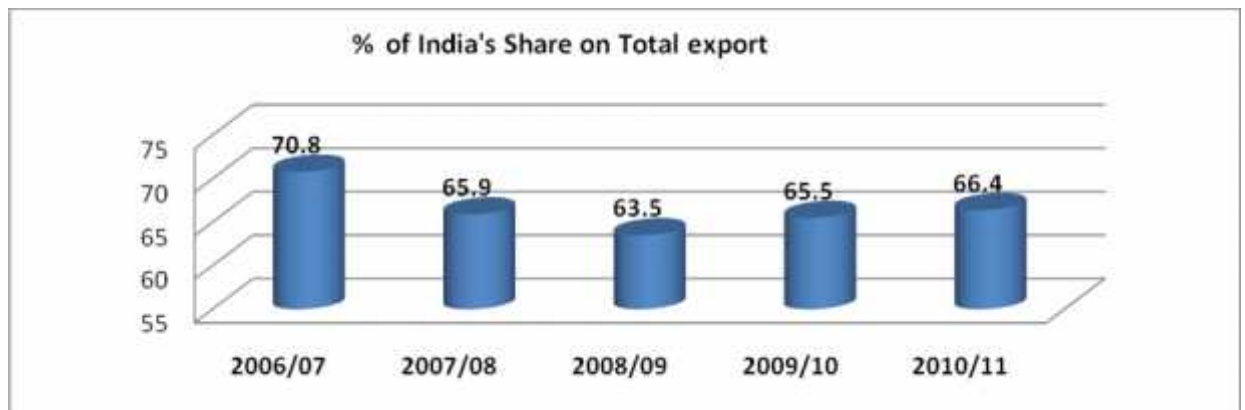
Source:- Trade and Export Promotion Centre & Nepal Rastra Bank.

By reference of table 4.8 the growth of Nepal's export to India also highly fluctuated. In 2006/07 export to India growth then previous year by 2.49% but in 2007/08 growth rate is going down as decline position by 7.60%. Then after 2008/09 to 2009/10 growth rate is increasing upward 13.02% and -8.42 % respectively but in 2010/11 position coming 7.43% growth rate to export to India. This statistic is presenting as per following chart.

**Figure 4.4, Growth of Export to India**

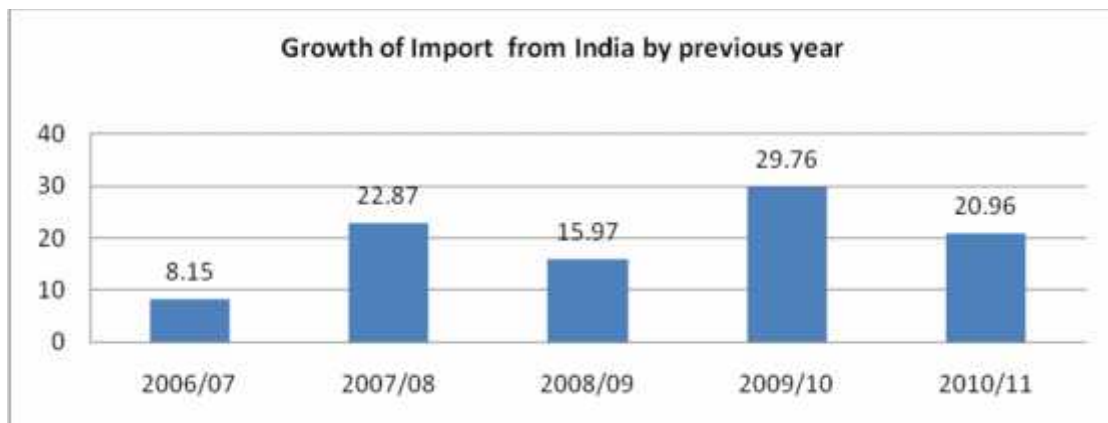


**Figure 4.5, India share in Nepal on Total export**



From above table 4.8 we can say that India's share in Nepal total export an increasing rate. In 2006/07 India share was 70.8% but next year its share is decline on 65.9% but then after the rate increasing as 63.5%, 65.5% and 66.4% till 2010/11 respectively.

**Figure 4.6, Trend of Import from India**

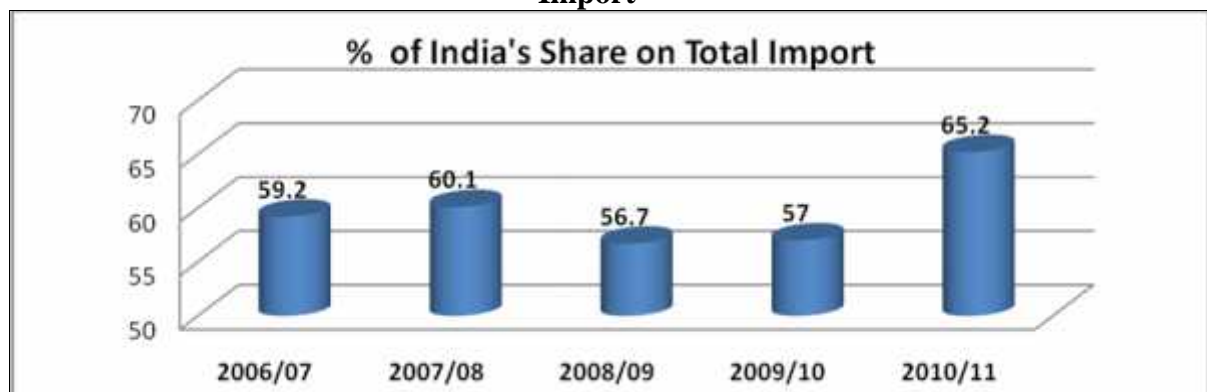


Growth and decline in total trade means the fluctuation on export and import business on bilateral trade. With reference of table 4.8 and graph 4.6 shows that import trade growth rate is fluctuated continuously with India. From the above chart the growth rate of import from India is 8.15 % of previous year in 2006/07. Than after it takes 22.87%, 15.97%, 29.76% and declined by 20.96 % in last 2010/11 year respectively. So we can say that growth rate on import from India is fluctuated slowly but last year 2010/11 the of declining is very high and import declined by 20.91% in this year.

## Share of India in Nepal's Import

In the total of import of Nepal, India play very crucial role. India occupied very large scale on this topic. India's share in total import of Nepal is presenting on numerically on table 4.8 and graphically presenting on the figure 4.7. From the above table and figure 4.7 we can say that the share of India in import business of Nepal is in increasing slowly. Statically, shows that in 2006/07 India share was 59.2% then coming years 60.1%, 56.7%, 57.0% and 65.2% till year 2010/11 respectively. So, Nepal foreign trade is most of the space capture by India in both sector import and export. The share of India in export business is increasing year by year. But Nepal trade policy regard to reduce trade deficit by increasing export to India and overseas countries and reducing import too.

**Figure 4.7, Share of India in Nepal's Import**



## India-Nepal Trade Balance

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 Trade balance with India is presented below:

**Table 4.8,  
Trade Balance with India**

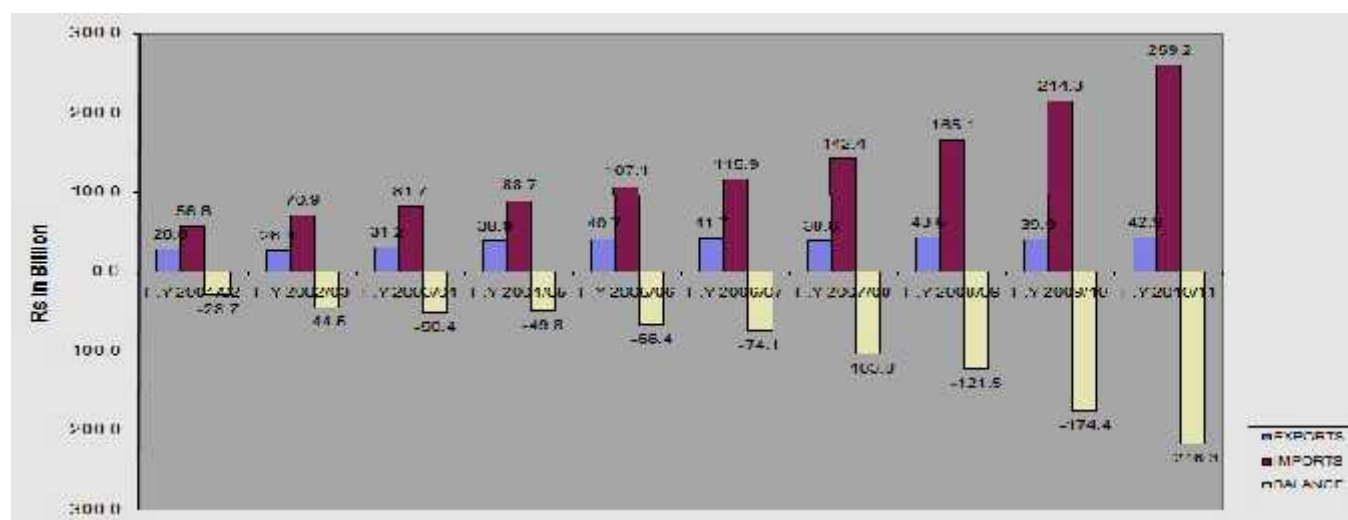
Figure in '000' Rs

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	259,162,277
Nepal's exports to India	41,728,800	38,555,700	43,574,482	39,902,811	42,868,108
Trade deficit balance	74,143,500	103,820,800	121,544,520	174,358,298	216,294,169

*Source: - Trade and Export Promotion Centre & Nepal Rastra Bank*

It can be seen from the above figures that since 2001/02 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 2002/03 Nepal suffered by 44.49 in billion as deficit, over the year 2003/04, 2004/05 and 2005/06 Nepal's deficit balance were 47.96, 46.38, and 68.29 in billion respectively. Similarly 74.1, 103.8, 121.5, 174.4, 216.3 billions on 2006/07, 2007/08, 2008/09, 2009/10, & 2010/11 respectively. It shows that the policy is not in the favour 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 4.8, Trade Balance with India**



### **4.3 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;

- To ensure increased transit facilities for the export and import trade of Nepal and keep the costs of transit stable.
- To provide smooth and expeditious clearing and forwarding services in respect to public sector consignments imported into or exported from Nepal.
- 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.
- To provide transit information services to the Nepalese exporters and importers. . (Shrestha, Shyam Kumar , 2005).

#### **4.3.1 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.

1. 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 vassals place of origin, departure, entry and exit etc.

2. 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 legitimate interest of any kind as well as for the protection of its essential security interest.
3. 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.
4. 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.
5. 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 halide ports. All these facilities are leased from the port trust of Calcutta on commercial terms.

i) ***COVERED ACCOMMODATION***

- |                              |   |
|------------------------------|---|
| 'A' Shed Kidder pore Docks - | Covering approximately 3135 sq. m (including 'A' Annex) |
| Shed No. 27, Kidder pore -   | Covering approximately 3700 sq. m                       |
| Calcutta Jetty Shed No. 8 -  | Ground Floor  |

ii) ***OPEN SPACE***

- |  |                                    |
|--|------------------------------------|
| Open land at Circular Garden Reach Road -      | Covering approximately 4972 sq. m. |
| Residential cum office Land space at Hilda -   | Covering approximately 2000 sq. m. |
| Open land space at Haldia Dock interior zone - | Covering approximately 6985 sq.m.  |

6. 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	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Kulti – Jasidih – Kiul – Mokamah – Barauni – Musari Garari – Samastipur – Darbhanga – Jayanagar. (or)  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.



7.	Bhitamore	<p>Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Kulti – Jasidih – Kiul – Mokamah – Barauni – Muzaffarpur – Sitamarhi – Bhitamore. <b>(or)</b></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. <b>(or)</b></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)	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur – Nautanwa- Sonauli.
10.	Barhni	Road connecting Calcutta – Vivekananda Bridge – Dankuni – Mogra – Bardwan – Panagarh – Asansol – Dhanbad – Barhi – Aurangabad – Sasaram – Varanasi – Ghazipur – Gorakhpur – Basti – Barhni.
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 –

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

*Sources: ANNEXURE 'A' Treaty between Nepal and India in Transit*

7. 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.

8. 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.
9. 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.
10. Both the countries will consult each other regularly implement the Treaty effectively and harmoniously.
11. 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.

#### **4.3.2 Transit Provisions**

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-Hilda 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 under the Treaty of Trade and Treaty of Transit include the following:

- India allows freedom of transit for Nepalese third-country trade across its territories through routes mutually agreed upon,

- Permission for the movement of Nepalese trucks to and from the nearest 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.

### **4.3.3 The treaty of transit between Nepal and Bangladesh**

Government of Nepal and Government of the People's Republic of Bangladesh shall designate the following points of entry and exit for movement of traffic-in-transit through her ports and other territory, by all means transportation:

- Khulna-Chalna Port
- Chitagong Port
- Biral
- Banglabandh
- Chilhati
- Benapole

On the treaty between Nepal and Bangladesh following arrangement have been made:

1. The Government of the people's Republic of agrees to provide warehouses, transit sheds and open space at the ports and other agreed points of entry and exit referred to in clause I above for the storage, handling and breaking bulk of traffic-in-transit.
2. The above mentioned warehouses, transit sheds and open space shall be given on long term lease by the Government of the People's Republic of Bangladesh to His Majesty's Government of the People's Republic of Bangladesh to Government of Nepal on such terms and conditions as may be mutually agreed upon.
3. With regard to the points of entry and exit in Nepal for her trade with third countries through Bangladesh Government of Nepal agrees to authorize all such

points which she has been using to conduct her trade with third countries through India.

4. The Truck and other vehicles owned or hired by the owner of goods or his agent shall be allowed to carry the traffic-in-transit, other than those mutually agreed prohibited cargo, by road from the agreed point of entry to a port, transshipment or breaking point in Bangladesh and back.
5. The port facilities such as the free period of storage, port charges and clearance procedures in respect of traffic-in-transit at the port of Bangladesh shall not be less favourable than the prevailing rates and practices therein.
6. Transit Liaison Officers from Nepal shall be stationed, if necessary, at the major ports of Bangladesh for the convenience of the traffic-in-transit and to facilitate the smooth and speedy movement of traffic-in-transit.

Above Customs and other procedures in respect of goods entering Bangladesh for transit to Nepal by land. And many other provisions are set for the entering goods and services through air route, sea route or land route.

#### **4.3.4 The transit relation between Nepal and China**

In the past, Nepal had traditional trade with the Tibet Autonomous Region of China, which was based on the barter system. But in the recent years, traders between Nepal and the Tibet have gone beyond traditional barter system. Presently, both the countries have identified the items to be exported from the respective countries and will provide import and export licenses for the identified commodities. The trade between the two countries will be based on the principle of equilibrium. For conducting trade between the two countries they have agreed to use the following three trading points:

- 1 Kodari/Nyalam
- 2 Rasuwa/Kyerong and
- 3 Yari/Purang

In future, the possibilities to be a transit points between China and India is very strong to Nepal. If Nepal can develop as a transit state, the possibilities to growth total economic of the country are not very far.

#### **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 per cent in the total trade transactions of Nepal during the period of 1956/57 to 1959/60. Evidently, the total trade transactions with other countries were less than 5 per cent. Imports from India were 98.5 per cent of the total import in the year 1964/65 whereas the percentage went on decreasing in the subsequent years. In 1965/66 it was 97.6 per cent, in 1966/67 it was 96.8 per cent, in 1967/68 it was 92.3 per cent, in 1968/69 it was 93.2 per cent and in the year 1969/70 it was 91.5 per cent of the total imports. Nepal's export to India was 98.3 per cent of the total exports of Nepal in 1964/65. It went on decreasing in the subsequent years with a lower scale.

###### **B) Period between 1971 and 1980**

The share of India in total import of Nepal was 88.2 per cent in 1970/71. It declined over the period and reached finally to 51.3 per cent in 1979/80. On the other hand, the share of third countries in total import of Nepal was only 11.8 per cent in 1970/71. It climbed steadily over the period and reached to 48.7 per cent in 1979/80. Likewise, the share of India in total export of Nepal was 81.9 per cent in 1970/71. It steadily decreased during the period and reached to 45.3 per cent in 1979/80. 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 per cent in 1970/71, which increased to 54.7 per cent in 1979/80. As a result, the share of India in Nepal's total trade decreased from 85.9 per cent (1970/71) to 49.8 per cent (1979/80) and that of the other countries, it increased from 14.1 per cent (1970/71) to 50.2 per cent (1979/80).

**C) Period between 1981 and 1990**

The share of India in the total export of Nepal was 61.7 per cent in 1980/81. The share declined further in 1985/86 and reached to 40.3 per cent. However, the share of India in Nepal's total export increased a little bit in 1986/87 and registered 43.5 per cent. The trend went on declining from that year. As such, it was 24.7 per cent in 1988/89. It further declined in 1989/90 and revealed just 11.7 per cent. On the total import of Nepal, the share of India was 49.2 per cent in 1980/81, which went on at a decreasing rate. The share of India in the total import of Nepal was, thus, 42.5 per cent in 1985/86, 39.1 per cent in 1986/87, 33.1 per cent in 1987/88 and 26.1 per cent in 1988/89. The share came down still a little bit in 1989/90 and stood at 25.5 per cent.

**D) Period between 1991 and 1995**

In the year 1990/91, the share of India in the total export of Nepal was 21 per cent. It decreased in the successive years and, thus, revealed 10.6 per cent and 9.6 per cent for the year 1991/92 and 1992/93. Situation in such a share improved marginally in 1993/94 revealing 12.5 per cent. The share percentage was 17.7 per cent and 18.5 per cent for 1994/95 and 1995/96. On the other hand, the share of India in the total import of Nepal remained in between 30 per cent to 35 per cent during that period. Such a share was 31.5 per cent in 1990/91, which increased in 1991/92 showing 35.2 per cent. In 1992/93 it was 33.3 per cent, in 1993/94 it was 35.4 per cent, in 1994/95 it was 30.8 per cent and it was 32.8 per cent in 1995/96.

**E) Period between 1995 and 2001**

It is interesting to note that the trend of the total trade, i.e. export and import, between Nepal and India has increased from the year 1996/97 onward. Of course, it may be due to the outcome of favorable provisions in the Indo-Nepal Trade Treaty of 1996. The share of India in the total export of Nepal was 23.1 per cent in 1996/97. The trend escalated gradually in the successive years. It was 32 per cent in 1997/98 while it was 35.1 per cent, 42.6 per cent and 47.7 per cent in the year 1998/99, 1999/2000 and 2000/01 respectively.

The share of India in the total import of Nepal was 26.6 per cent in 1996/97, which gradually increased revealing 30.7 per cent, 36.7 per cent, 36.6 per cent and 41.2 per cent in 1997/98, 1998/99, 1999/2000 and 2000/01 respectively. Treaty of Trade 1996 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 1991/92 to 1996/97 show 16.3 per cent out of the total export Nepalese trade. But the average exports from Nepal to India jumped to 43.6 per cent during the period of 1997/98 to 2001/02. It can, thus, be noted as 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 31.8 per cent during the period of 1991/92 to 1996/97. The ratio increased to 37.5 per cent during the period of 1997/98 to 2001/02.

**F) Period between 2001 and 2006**

It is remarkable that the trend of the total trade, i.e. export and import, between Nepal and India has increased from the year 1996/97 onward. Of course, it may be due to the outcome of favourable provisions in the Indo-Nepal Trade Treaty of 1992 and revision in 1996 and 2002. The share of India in the total export of Nepal was 59.0, 38.8 and 2.2 percent in 2001. The trend escalated gradually in the successive years. It was 68.3, 30.4 and 1.3 percent in 2005-06 of to India, Overseas countries and Tibet respectively. The share of India overseas countries and Tibet in the total import of Nepal was 52.1, 43.8 and 4.1 percent in 2001-02, which gradually increased revealing 67.1, 29.5 and 3.4 percent in 2005-06 respectively. Treaty of Trade 1996 has indeed played a crucial role in the foreign trade structure of Nepal. So, India now also occupied large space on the trade space of Nepal. It's share in total export business 2001-2006 by 59.00%, 52.85%, 57.91%, 66.89% and 68.3% respectively. Same the way in import sector also 52.12%, 55.31%, 57.96%, 59.1% and 67.1% till 2006 respectively. Especially in 2005 garment WTO/USA cut off the quota system to export them from Nepal it supported to rise trade deficit.

**G) Period between 2006 and 2011**

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. Then 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 per cent could be economically harnessed. Out of the potential only 373.6 MW has been exploited by the end of 2000/01, i.e. 0.5 percent of total capacity. The completion of Kaligandaki hydropower plant (144 MW), 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 585.6 MW (0.67 percent of total capacity), including private and others, by the end of FY 2001/02. Out of total, 113.6 MW 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 2001 has encouraged the private sector to be involvement in the hydropower development. Furthermore, the policy has identified hydro electricity 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 be 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 (60 MW), 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 (6480 MW), 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, Burhi Gandaki, Burhi Ganga, Likhu Khola, Dudh Koshi, Tamur 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, magnesite, 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, Udaypur 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 kilometres 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 neighbour, 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 Raxaul-Kathmandu- Kasha road links the three countries. This link road is 390 kilometres. 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 kilometre 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 Raxaul-Trishuli-Rasuwa (265 kilometres) will be the shortest road connecting Nepal's southern with northern borders. The Chinese are helping to build a 22-kilometer road that links Syaprubesi 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 dry port at Birganj. 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, Bhairahawa 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 neighbourly 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 kilometres 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:

- 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.
- 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.
- 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.
- 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.
- Trade deficits also another problem to strengthen upcoming trade balance. It negatively impacting on total Nepal foreign trade.
- Lack of knowledge about foreign countries trade policy to Nepalese trade policy makers to forecast and plan the trade activities.
- Transit /Landlocked position is another great barrier in Nepal's foreign trade.
- 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:

- 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.

- Nepal has trade and transit agreements with the People's Republic of Bangladesh. But main obstacles in using the Bangladesh transit route lies in the Radhikapur/Birala crossing between India and Bangladesh, where Nepal has no liaison office. Beside this, Nepal traders have to hold valid passport and Visa to launch trade with and through Bangladesh. And a Bangladesh Transit route suffers from several basic logistic problems.
- 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.
- 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.
- 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.
- 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 trade structure of Nepal especially with India:-

- After the established of TPC in 1971, the trade pattern of Nepal moving toward widely.
- Existing trade policies of Nepal are set at 1992. Nepal has the common trade policies to foreign countries.
- 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.



- Trade policy 1992, outline policies on Basic trade, export, import, deemed export, import licensing arrangement, foreign exchange arrangement, internal trade policies.
- First treaty on trade made in 1950, it was renewed in 1961 and renewed in 1971, 1978, 1991, 1996 and most recent revision in 2002.
- Revision in 1996 on the treaty of Transit & transit some major key features are outlined below :
  - Exemption from basic customs duty as well as qualitative restriction on import
  - Access to Nepalese product o Indian market free of basic custom duties
  - Preferential entry on goods imported without any qualitative restriction and payment in Indian currency.
- This revision also focuses on rules of origin, imposition of tariff quota and submission of information regarding the basis of rules of origin.
- Nepal's trade policy/treaty is a continuation of the treaty of 1992 and 1996. After the series of meeting in Delhi from 27<sup>th</sup> Feb. to March 2002. In this revision all 12 articles of treaty, protocol to article I, II, III, IV, and VI in their present form for the period five year with effect from 6th march 2002 and also revised protocol V and IX.
- From the above study total deficit in that year is showing 61.25 billion, in FY 2002/03 status is little bit increasing and total deficit lead by 78.22 billion Rupees, in FY 2003/04 figure shows that import is increasing but export is decreasing then previous year and trade deficit 81.89 billion, in FY 2004/05 again import is going upward but export also increasing by around 5% but in total trade deficit is increasing and suffered by 89.85 billion and in FY 2005/06 both import and export are increasing in amount and quantity as per result trade deficit also increasing by around 13 billion and suffered by 102.77 billion in this year. 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.
- Total foreign trade pattern shows that the trend of total trade is increasing. As a result total export in trend is decreasing as per 30.4%, 28.1%, 28.4%, 28.3% and 26.9% in the period of FY 2001/02 to 2005/06 respectively. Same way Import is in increasing trend as per 69.6%, 71.9%, 71.6%, 71.7% and 73.1% in the period of FY 2001/02 to 2005/06 respectively. 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.

- 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.
- The people's movement for the democracy 2005/06 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.
- During the 51 years 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.
- 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.
- 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 used seacoast (Port) but while using those countries are getting very difficulties.
- 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 I can draw that Nepal is facing many bordering and other route problems. While preparing the policies and treaty, the weakness to set the favourable provision is clearly displayed. 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.
- 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.

## Chapter V

### SUMMARY /CONCLUSION AND RECOMMENDATION

This chapter indicates the summary and conclusions derived from the in-dept study and critical analysis of Nepal Trade & Transit policy and its 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 world wide 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 labour, 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 1971, 1978, and 1991 with the most recent one being in 1996. 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-Hilda 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 Conclusion**

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 1961 and renewed in 1971, 1978, 1991, 1996 and most recent revision in 2002. Revision in 1996 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 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. Obviously if there is export is more then 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 area 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 ration. 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**

- Setting up of a Research and Policy Group to improve Trade Composition and Trade Imbalance between India and Nepal.

- 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.
- Strengthening Cooperation between the Chambers of Commerce and Industry Associations.
- Collaborative Research Study on Learning the Lessons from India on WTO Negotiations and Implementation of WTO Agreements.
- Export and import regularity law patent design and trade mark law, new company act and foreign direct investment law have been executed through ordinance.
- During membership of world trade organization it has been committed there for the goods trade opportunity to provide the tariff reduction as mentioned.

### **5.2.2 Recommendations for improving foreign trade structure**

- Should improve the quality product and ease the process to pursue outside the country.
- Should be attracting the investment in the production sectors to produce commodities which leads the trade with foreign countries.
- Should give emphasis to find the new exportable good along with some sort of readymade garment, Cotton product and Carpet products.
- 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.
- Should increase the promotion activities on foreign countries by using exhibitions, and using other media of promotion.
- Should try to get the maximum technical as well as others opportunities as per being a member of WTO.
- Should focus on the prospects areas of business to promote foreign trade.
- Setting up of R & D Facilities in Nepal with Indian Assistance specifically for Quality Improvement, Designing, Innovation and Product Development.
- Constitution of a Joint Task Force for Simplification of Administrative Procedures.



- Should encourage an investment by Business Sector in Trade Points.
- Promote the financial status in the nation the diplomatic body in the foreign nation will be activated in the diplomatic way.
- Should make the strict provision to control the unauthorised trade in boarder side of both countries Nepal and India.

### **5.2.3 Recommendations for improve internal/external transit system**

- Should make the favourable policy and make easy transit procedures with nearby countries.
- Should improve the internal transportation system and infrastructure to push foreign trade in positive way.
- 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 ease to use.
- Modernize transport-related legislation.
- Prepare an express procedure for transit of containerized cargo by rail.
- Promote the benefits of the multi-modal transport concept on the Nepal/Calcutta corridor.
- Should make the steps to cover more space on the sea port which are in now Nepal using as port.

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