

# **A STUDY ON TRADE AND TRANSIT POLICIES OF NEPAL AND ITS IMPACT ON FOREIGN TRADE**

## **A THESIS**

***Submitted By:***

**Raju Luitel**

Nepal Commerce Campus

T.U. Regd.: - 7-1-25-256-97

Campus Roll No.: - 689/062

Exam Symbol No.: - 2312/064

***Submitted To:***

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirements for the degree of

Master of Business Studies (MBS)

New Baneshwor, Kathmandu

September, 2010

## **RECOMMENDATION**

This is to certify that the thesis

*Submitted by:*

**Raju Luitel**

*Entitled:*

### **A STUDY ON TRADE AND TRANSIT POLICIES OF NEPAL AND ITS IMPACT ON FOREIGN TRADE**

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

---

**(Prof. Dr. Vishnu Khanal)**  
Thesis Supervisor

---

**(Prof. Dr. Bihari Binod Pokharel)**  
Head of Research Department

---

**(Diwakar Pokhrel)**  
Campus Chief

## VIVA- VOCE SHEET

We have conducted the Viva – Voce examination of the Thesis

*Submitted By:*

**Raju Luitel**

*Entitled:*

**A STUDY ON TRADE AND TRANSIT POLICIES OF NEPAL AND  
ITS IMPACT ON FOREIGN TRADE**

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of Masters in Business Studies (M.B.S.).

### **Viva – Voce Committeep**

Chairperson, (Research Department): \_\_\_\_\_

Member (Thesis Supervisor): \_\_\_\_\_

Member (External Expert): \_\_\_\_\_

Date:.....

## DECLARATION

I hereby declare that this thesis entitled, “**A Study on Trade and Transit Policies of Nepal and Its Impact on Foreign Trade**” have submitted to the Office of the Dean, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Masters Degree in Business Studies (M.B.S.) under the guidance and supervision of **Prof. Dr. Vishnu Khanal**, Professor, Nepal Commerce Campus.

Date: August 2010

.....

**Raju Luitel**  
**Researcher**

## ACKNOWLEDGEMENT

This dissertation entitled "**Trade & Transit Policy of Nepal and its Impact on Foreign Trade**" has been prepared in this form as required by Department of Management for the partial fulfillment of the degree of Master of Business Studies. I wish to extend my deep sense of indebtedness to **Prof. Dr. Vishnu Khanal**, Nepal Commerce Campus, who provided me valuable guidance, insightful comments, encouragement and generous treatment while completing this thesis. This work would not have been come out in the present form without his inspection, valuable suggestions and guidance. And I express my sincere gratitude to staffs of Nepal Commerce Campus for their valuable suggestion and support.

I would like to express gratitude to **Prof. Dr. Bihari Binod Pokharel**, Head of Research Department, Nepal Commerce Campus, Minbhaban Kathmandu. I am grateful to **Mr. Badri Adhikari** (Senior Officer) Trade Promotion Center, for their help in providing necessary data and information for the study, and help in gathering topic related data and policy document. Similarly, I thank all librarians of Central Library of T.U., Nepal Commerce Campus and Shanker Dev Campus who assisted me by providing various books, reports and other publications.

My heart full thanks go to my friends Shambhu Chaulagai, Sudeep Ghimire, Kamal Shrestha and Ramesh Shrestha (Global Books and Stationery) for their help directly and indirectly in the preparation of this research.

At last but not the least, I wish to express ineptness to my brother Ramchandra Luitel who always encouraged and support me morally and financially. His inspiration and encouragement is very meaningful for me.

**Raju Luitel**

Nepal Commerce Campus

# TABLE OF CONTENTS

	<i>Page No.</i>
VIVA-VOCE SHEET	
RECOMMENDATION	
DECLARATION	
ACKNOWLEDGEMENTS	
TABLE OF CONTENTS	
LIST OF TABLES	
LIST OF FIGURES	
ABBREVIATIONS	
<b>CHAPTER I: INTRODUCTION</b>	<b>1-10</b>
1.1 Background	1
1.2 Trade & Transit Policy of Nepal	3
1.3 Introduction on Nepal's Transit	4
1.4 Trends of Foreign Trade	5
1.5 Statement of Problem	6
1.6 Need of the Study	7
1.7 Objectives of the Study	8
1.8 Limitations of the Study	8
1.9 Research Methodology (Scheme of Research)	9
1.10 Organization of the Study	9
<b>CHAPTER II: REVIEW OF LITERATURE</b>	<b>11-46</b>
2.1 Conceptual Review	12
2.1.1 Meaning of Trade & Transit	12
2.1.2 History of trade and transit in Nepal	14
2.1.3 Basic introduction of Existing Trade And Transit Policies	20
2.1.3.1 Trade Policy	20
2.1.3.2 Government Policies and Acts	21
2.1.3.3 Transit policy of Nepal	22
2.1.4 India-Nepal trade and Economic Relation	23
2.1.5 Transit Status of Nepal	25
2.1.6 Principles of Transit and Rights of Landlocked Countries	26
2.1.7 Rights on transit of Landlocked Countries	28
2.1.8 Barriers and Possibilities on Transit of Nepal	30
2.1.9 Meaning of Foreign Trade	31
2.1.10 Importance of Nepal's Foreign Trade	32
2.1.11 Problems of Nepal's Foreign Trade	34
2.2 Review of Related Studies	36
2.2.1 Review from Books, Articles and Journal	36
2.2.2 Review of Theses	43
2.3 Research Gap	46

<b>CHAPTER III: RESEARCH METHODOLOGY</b>	<b>47-51</b>
3.1 Research Design	47
3.2 Sources of Data	48
3.3 Population and Sampling	48
3.4 Data Collection Techniques	49
3.4.1 Focus Group Meeting	49
3.4.2 Observation	50
3.5 Data Analysis and Presentation Techniques	50

<b>CHAPTER IV: DATA PRESENTATION AND ANALYSIS</b>	<b>52-112</b>
4.1 Nepal's Foreign Trade Regulations and Policies	
4.1.1 Policy Typology	52
4.1.2 Trade Policy 1992	53
4.1.3 Recent Renewal of Indo-Nepal Trade Treaty	60
4.1.4 Trade Facilitation Measures	66
4.2 Direction of Nepal's Foreign Trade	66
4.2.1 India-Nepal Bilateral Trade Relations	75
4.2.2 Trade of Nepal and India: Growth and Trends	78
4.2.2.1 Share of India in Nepal's Imports	81
4.2.2.2 India-Nepal Trade Balance	82
4.2.3 Plan-wise Foreign Trade Composition	84
4.3 Transit Policies, Treaties and Agreements of Nepal	85
4.3.1 The Treaty of Transit between Nepal and India	86
4.3.2 Transit Provisions	93
4.3.3 The Treaty of Transit between Nepal and Bangladesh	93
4.3.4 The Transit Relations between Nepal and China	95
4.4 Impact of Trade and Transit Treaties on Bilateral Trade with India	95
4.4.1 Impact on Structure and Trend of Nepal's Trade	
4.5 Emerging Possibilities on Trade & Transit of Nepal	100
4.5.1 Prospects on Foreign Trade	100
4.5.2 Prospects on Transit	103
4.6 Trade & Transit Problems of Nepal	106
4.7 Major Findings of the Study	109

<b>CHAPTER IV: SUMMARY, CONCLUSION AND RECOMMENDATIONS</b>	<b>113-120</b>
5.1 Summary	113
5.2 Conclusion	116
5.3 Recommendations	118
5.3.1 Policy Related Recommendations	118
5.3.2 Foreign Trade Structure Related Recommendations	119
5.3.3 Internal/External Transit System Related Recommendations	120

**BIBLIOGRAPHY**  
**APPENDICES**

## LIST OF TABLES

<i>Table No.</i>	<i>Title</i>	<i>Page No.</i>
2.1	Transit routes with bordering countries	19
4.1	Total Foreign Trade Balance of Payment of Nepal	68
4.2	Foreign Trade Composition of Nepal (Export)	69
4.3	Foreign Trade Composition of Nepal (Import)	71
4.4	Major Export Trade Partners of Nepal	72
4.5	Major Import Trade Partner of Nepal	73
4.6	Nepal's Trade Share and Trade Deficit	74
4.7	Exports and Import of Selected commodities with India	76
4.8	Growth Pattern of Trade with India	79
4.9	Trade balance with India	83
4.10	Plan-wise Scenario of Total Foreign Trade	85
4.11	Specified land routes	88



## LIST OF FIGURES

<i>Figure No.</i>	<i>Title</i>	<i>Page No.</i>
2.1	Level of Trade (Business)	12
4.1	Total Foreign Trade Balance of Payment of Nepal	68
4.2	Foreign Trade Composition of Nepal 2008/09 (Export)	70
4.3	Foreign Trade Composition of Nepal 2008/09 (Import)	71
4.4	Growth of Export to India	80
4.5	India share in Nepal total export	80
4.6	Trend of Import from India	81
4.7	Share of India in Nepal's Import	82
4.8	Trade Balance with India	83

## **ABBREVIATIONS USED**

A.D	Amino- Domino
ASEAN	Association of South East Asian Nations
BOOT	Build-Operate-Own-Transfer
BOT	Build-Operate-Transfer
BPKIHS	BP Koirala Institute of Health Sciences
CBS	Central Bureau Statistic
CTH	Change in Tariff Heading
CWC	Central Warehousing Company
EC	European Commission
ECAFE	Economic Commission for Asia and Far East
EPZ	Export Promotion Zone
FDI	Foreign Direct Investment
FNCCI	Federation of Nepal Chamber of Commerce & Industries
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNP	Gross National Product
GOI	Government of India
ICD	Inland Container Depot
ICT	Information and Communication Technology
ie.	That is
IT	Information Technology
LCS	Land Customs Stations
LDC	Least Developing Countries
MFN	Multi Fiber Nation
MoI	C&S Ministry of Industry, Commerce and Supply
MT	Metric Ton
MW	Mega watt
NMTTFP	Nepal Multi-modal Transit and Trade Facilitation Project
NPC	National Planning Commission

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

## BIBLIOGRAPHY

### Books:

- Baral, L. R.** (2000). *SAARC: Problem of Becoming a Community; The Regional Paradox*. Adroit Publishers. Delhi:
- Blaikie, Piers, John C. and David S.** (1982). *Nepal in Crisis: Growth and Stagnation at the Periphery*. Oxford University Press. Delhi:
- Karan, P. P. and Hiroshi Ishii,** (1996), *Nepal: A Himalayan Kingdom in Transition*. United Nations University Press. Delhi:
- Koirala, K.D.** (1997). *Fundamentals of Marketing Decision*. M.K. Publishers & Distributors. Kathmandu:
- Kothari, C.R.** (1990). *Research Methodology, Methods and Techniques*. Willey Eastern Limited. New Delhi:
- Pandey, N. N.** (2005). *Nepal-China Relation; Institute of Foreign Affairs*. Kathmandu.
- Pandey, N. N.** (2005). *Trade Facilitation: Nepal's Priorities*. Institute of Foreign Affairs. Kathmandu:
- Panta, G.D and Joshi. S.** (2004). *Introduction to qualitative Technique and Nepalese Economy*. Nabin Prakashan. Kathmandu:
- Pradhan, G. M.**(1990). *Transit of Landlocked Countries and Nepal*. Nirala Publication. New Delhi:

**Shakya, B. M.** (1998) . *Basic of Trade and Transit*. Educational Books Centre.  
Kathmandu:

**Shreshta, S.K.** (2005) . *Internal Marketing Decisions, Nepalese Perspective*. Buddha  
Academic Publishers and Distributors Pvt. Ltd. Kathmandu:

**Shrestha, B. N.** (2003). *Border Management of Nepal, Tibet (Blaikie, Cameron and  
Seddon, 1982:30)* Bhumichitra Co. P. Ltd. Kathmandu:

**Shrestha, S. K.** (1994). *Export Marketing in Nepal*. ABC Publication. Kathmandu:

**Thapa, G.** (2008). *Dictionary of Marketing*. Buddha Publication. Kathmandu:

**Vijaya K. M.** (1792-1906). *A Documentary History of Nepalese Quinquennial Missions  
to China*, Nice Printing Press. New Delhi:

#### **ARTICLES & JOURNALS:**

Bakht, Z. and B. Sen (2001). *Border Trade in the South Asian Growth Quadrangle*.  
*Paper prepared for ADB: Inception Meeting of the Trade, Investment and Private  
Sector Cooperation (TIPWG), Identification and Prioritization of Sub-regional  
Projects in South Asia*, Calcutta, India.

**Dahal T.** (2004) *Nepal as a Transit State: Emerging Possibilities*

**Karmacharya, B.K.** (2001). *Nepal's Formal and Informal Trade with India: A Review*,  
*Paper prepared for ADB: Inception Meeting of the Trade, Investment and Private  
Sector Cooperation (TIPWG), Identification and Prioritization of Sub-regional  
Projects in South Asia*, Calcutta, India.

**Lohani, P. C.** (2005). “*Nepal-China Relationship: Future Directions*”. Paper Presented  
at a seminar organized by China Study Center, Kathmandu.

**Mishra, T. P.** (2000). *Nepal and Trans-Himalayan Trade: A Brief Survey, Friendship*, vol.1., No.1, China Study Center, Kathmandu.

**Shrestha, B. N.** (2062) . *Is Nepal Capable to Become a Transit Point?*. Kathmandu: Mulyankan Monthly, Vol. 133.

**10th plan, 2063.** National Planning Commission, Kathmandu

**Dahal N.(2005).** *Market Access Barriers on Selected Nepal's Agriculture Product in the post WTO Accession Era*

*Nepal Overseas Trade Statistics Nepal Government 2007/2008*

*Nepal Rastra Bank, Annual Reports, Kathmandu*

*Nepal Trade Directory, Kathmandu 2009*

**Shakya, B. (26Dec.2001):** *Nepalese garment industry under changing global trading environment*

**Shrestha, G. R.** (2003). *Nepal-India Bilateral Trade Relations (Problems and Prospects)*

**Uprety, K.** (2001). *The Transit Regime for Landlocked States (International Law and Development Perspective)* (Senior Counsel, World Bank)

**Theses:**

**Dhungana, B.** (2006). *“Problem and Prospects of Nepalese Handicraft Export.”* An Unpublished MBS Dissertation. Kathmandu: Shankar Dev Campus.

**Dhal, S.** (2001): “*A Study on Nepalese foreign Trade & It’s Changing Scenario (2001).*”  
An Unpublished MBS Dissertation. Kathmandu: Shankar Dev Campus.

**Khatiwada, B. K.** (2009): “*A Study on Problems and Prospects of Nepalese Foreign Trade.*” An Unpublished MBS Dissertation. Kathmandu: Nepal Commerce Campus.

**Pokharel, B.N.** (2010): “*A Study on Tourism Marketing and Promotion in Listed Asian Market by Nepal Tourism Board.*” An Unpublished MBS Dissertation.  
Kathmandu: Nepal Commerce Campus.

**Regmi, S. K.** (1993) “*Thesis of Doctor of Philosophy, Management of Export Trade in Nepal.*” submitted to central Campus T.U. Kathmandu.

**Shretha, P.** (2005), “*The Role of Advertising in Sale*” submitted to Nepal commerce campus. Faculty of Management T.U.

**Sharma, P.N.** (2009). “*Nepalese Hand Knotted Woolen Carpets: Export Problem and Prospects.*” An Unpublished MBS Dissertation, Nepal Commerce Campus.

**Websites:**

[www.fncci.org](http://www.fncci.org)

[www.Google.com](http://www.Google.com)

[www.moics.gov.np](http://www.moics.gov.np)

[www.nrb.com.np](http://www.nrb.com.np)

[www.tpcnepal.org.np](http://www.tpcnepal.org.np)

[www.Wikipedia.com](http://www.Wikipedia.com)