

ECONOMIC POLICY NETWORK

Policy Paper 20

**POLICY REORIENTATION STUDY ON
TRANSIT TRADE OF NEPAL**

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Inputs from various stakeholders during interactions at Advisory Committee meetings, and the workshop organized by the EPN Focal Unit have been incorporated in the report.

Foreword

Economic Policy Network (EPN) initiated in August 2004 is an undertaking of the Government of Nepal with an Asian Development Bank (ADB) Technical Assistance (TA) to develop and institutionalize an open, responsive and result oriented economic policy formulation process based on sound economic analysis and dialogues with the partnership of public and private sector, academia, and independent professionals, to support and consolidate the Government's economic policy reforms on poverty reduction strategy. The initial focus has been in the areas of macroeconomic management; trade, investment and employment; infrastructure development; and tourism, agriculture, and regional development through four thematic advisory committees chaired by the secretaries of the respective implementing ministries, and guided by a high-level steering committee. The present study is an outcome of the initiative under the Advisory Committee for Economic Policy on International Trade, Investment, and Employment chaired by the Secretary of the Ministry of Industry, Commerce, and Supplies.

This report has assessed the current status of Nepal's transit trade in view of the importance of time and cost effective transit transportation for trade and economic development. It also reviewed the Government policy as well as the institutional and infrastructure constraints for further facilitation of transit transport. An attempt has been made to analyze Nepal's bilateral trade/transit agreements with China and India, and other regional transit transport agreements to arrive at an appropriate transit policy in favor of Nepal's trade and economic development. The recommendations are the outcomes of consensus reached among major stakeholders through various consultations and the EPN workshop. I hope the findings and recommendations will be helpful for policy makers for future reforms.

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Vidya Nath Nepal
Consultant

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Abbreviation

| | |
|---------|---|
| ADB | Asian Development Bank |
| BIMSTEC | Bay of Bengal Initiative for Multi Sectoral Technical and Economic Co-operation |
| C&F | Cost and Freight |
| CHA | Customs House Agent |
| CIF | Cost Insurance and Freight |
| CPT | Calcutta Port Trust |
| CPY | Container Parking Yard |
| CTD | Customs Transit Documents |
| EPN | Economic Policy Network |
| ESCAP | Economic and Social Commission for Asia & Pacific |
| FEU | Forty feet equivalent unit |
| GATT | General Agreement on Tariff & Trade |
| GON | Government of Nepal |
| IC | Indian Currency |
| ICD | Inland Container Depot |
| ICCD | Import Containerized Cargo Declaration |
| IGC | Inter Governmental Committee |
| IMMTPL | Interstate Multi Modal Transport Private Limited |
| IRU | International Road Transport Union |
| JNPT | Jawahar Lal Neharu Port Trust – Bombay |
| LLDC | Landlocked Least Developed Country |
| MFN | Most Favored Nation |
| MOF | Ministry of Finance |
| MOFA | Ministry of Foreign Affairs |
| MOICS | Ministry of Industry, Commerce and Supplies |
| MOLJ | Ministry of Law and Justice |
| MPPW | Ministry of Physical Planning and Works |
| MV | Market value |
| NTCA | North Corridor Transit Agreement |
| NTWC | Nepal Transit & Warehouse Company |
| PO | Passing Officer |
| POP | Petroleum and oil products |
| PPP | Public Private Partnership |
| RITES | An Indian Consulting Company related to Indian Railways |
| SAARC | South Asian Association for Regional Cooperation |
| SADC | South African Development Community |
| SAFTA | South Asia Free Trade Arrangements |
| SASEC | South Asia Sub-regional Economic Co-operation |
| TDI | Transit Declaring Invoice |
| TEH | Terminal Handling Cost |
| TEU | Twenty feet equivalent unit |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade & Development |
| VAT | Value Added Tax |
| VDC | Village Development Committee |
| WCO | World Customs Organization |
| WTO | World Trade Organization |

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Executive Summary

Nepal had got nearest transit point through India since the British regime as per the Friendship treaty of 1923. Nepal and India signed a bilateral comprehensive treaty including trade and transit in the year 1950. The trade and transit treaty was renewed in the year 1960 and 1971. The trade and transit treaty was bifurcated and a separate transit treaty was signed in the year 1978. The new treaty recognized the transit right of landlocked country which is separate and permanent in nature than bilateral trade. In the year 1989 the transit treaty of 1978 was unilaterally abrogated by India refusing to sign separate transit treaty. However, in 1991 Nepal and India continued separate transit treaty with the major provisions of renewal. In 1999 the transit treaty was signed with the provision of automatic renewal after every seven years.

The transportation system plays key role to increase/reduce the cost of transit trade. Birgunj is a major entry and exit point of the transit trade. A recent study has shown that the transit cargo for import from Kolkata to Kathmandu via Birgunj takes 14 days and for export it takes around 7 days by road. There is direct relation of time, distance and cost to the transit cargo. The shortest distance seems Kathmandu-Birgunj-Kolkata which is 1256Km. The railways distance from Birgunj-Kolkata is 704 Km and time taken to cover it is only 2 days. The use of ICD has certainly tried to reduce the cost of transit transportation. Before the use of ICD the cost of transit transport was supposed to be Rs.78976 to 80064 per TEU and it is anticipated a reduction of at least 40% cost by the use of ICD.

The treaty with India has made the provision of three types of duty insurance policy for sensitive items covering Indian Customs Duty and other charges to protect from trade deflection in Indian markets while in transit to India. If the mode of transport is Indian railways only customs duty is insured. If it is NTWCL owned truck the insured value is equivalent to customs duty plus bond to pay difference of MV to CIF. If the mode of transports is other than above the insured amount will be market value of the goods minus CIF value of the same. This is against the spirit of WTO and discriminatory.

In relation with the transport in transit the following provisions of the treaty are worthy to reproduce here: “Goods other than those few items mentioned shall be permitted transit only by railway wagons or marine containers or pilfer-proof container trucks or any other trucks, capable of being sealed in a manner that will leave no visible trace or tampering at the point of the imports”.

The road conditions and their load bearing capacity in Nepal are very poor at present. There is almost absence of railways for carrying commercial cargo. The use of air services for commercial cargo is limited because of its high freight charges. There are few major corridors for international trade. Birgunj Customs point handles almost 70%, Biratnagar covers 17% of foreign trades, and Bhairahawa covers 20% bilateral and 5% third country trade in each year. Tatopani land customs point is mainly used to carry overland trade with China. There are 4 other customs points opened for commercial purpose with Tibet. However, these points are not in operation due to the lack of transportation facilities in side. Only the local residents within the vicinity of 30 km are enjoying the facilities of border trade as mentioned in bilateral treaty.

The People's Republic of China has completed the construction of huge railway which has connected Lhasa with mainland China and planning to connect Shi-gatshe in near future.

Nepal's transit policy always remained within the periphery of securing freedom of transit within the framework of international law and convention for the most convenient, less time consuming and cost effective transit routes with appropriate facilities. Nepal has tried not to link transit treaty with bilateral trade under her transit policy.

The basic requirement of freedom of transit through the most convenient route is set out in the Article V of GATT/WTO. Article V calls on the parties not to discriminate on the basis of ownership of goods or means of transport. The same article stipulates not to impose any kind of delay or restriction on transit. The Article allows the concerning parties to impose only reasonable service charges and fee on non discriminatory basis. One of the important international Ministerial Conference on the LLDCs by UN in 2003 on the transit related issues is the development of the Almaty Program of Action. The program of Action has offered specific actions in favor of LLDCs.

There are too many documentary requirements for transit transport at present. WTO members have made suggestions on facilitating transit by reduction of documentary requirements. The provisions of transit documents and service charges are mentioned in Article VIII of WTO agreement. So the Article VIII automatically becomes effective to transit transport. However, common guidelines are necessary for reduction of transit procedural delays.

The import Cargoes arrive at Kolkata Port or Haldia. Both ports are under the administrative jurisdiction of Kolkata Port Trust Authority. Haldia Port is about 120 km far from Kolkata. All Customs formalities are completed in Kolkata to clear cargo at Haldia port. The authorized Agent obtains delivery order against CTD and other documents with B/L from the shipping Line and also obtains duty insurance policy from prescribed insurance company or a letter of undertaking from NTWCL.

Nepal and Bangladesh signed bilateral agreement on transit in 1976. The agreement and its protocol have specified the ports, entry points, procedures and documents requirements in detail. The agreement clarified the carrier's liability in case of deflection of goods in transit in Bangladesh. There are six transit points Chittagong port, Khulna-Chalna port, Birol point, Banglabandh point, Chilhati point and Benapole in Bangladesh. Chittagong and Khulna-Chalna are sea ports and others are land border points at Bangladesh India border. Nepal is using Birol and Banglabandha points until now and Rohanpur-Singhabad is recommended instead of Birol.

The Bilateral treaty of Transit between Nepal and Bangladesh has prescribed the documents requirements and transit procedures in Bangladesh port. Transit Declaring Invoice is needed separately for export and import. All export formalities should be completed at Nepal border customs and Indian border as required according to the transit treaty with India. On arrival of the cargo in relevant Bangladesh border the customs post will compare duplicates and triplicates TDI copy received by truck driver with other copies along with the Bills of Transporter. If seal and locks are intact, border Customs officer allows moving the cargo with proper escorting for final destination.

The bilateral trade of China and India was interrupted after the war of 1962. It was resumed in 1978 and developed after they entered into a bilateral agreement based on MFN in 1984. Recently India had focused trade with mainland China. At the time of Peking visit of Indian prime minister in 2003 both leaders also agreed to open a point that is Nathu La pass in Sikkim. It is comparatively shortest one from Lhasa. Lepulekh and Shipkila passes were already in operation in Indo-China border. The Nathu La pass is in operation but is also very difficult one because of high mountains and snow fall. India seems eager to improve her export to China. China also is looking the large Indian market for her products. Both are trying to increase their export and import at present. The developing scenario opens certain opportunities to Nepal for being a transit nation in recent time.

Nepal will get some tangible and intangible benefit as a transit state. Small towns can be changed into big cities. The customs infrastructures will be improved. Creation of new dry ports will help facilitate the trade integration. The foreign investor will see prospect to invest here in Nepal. The multinational companies may produce here in large quantity to capture the big market of two big economies. The development and management of costly transport infrastructures is a critical task for this purpose for Nepal. It is doubtful whether the present technical capability can manage the task of transit transport system or not. Big investors and business houses may capture the trade and transport sectors leaving the small traders behind.

Nepal is the member of two regional groups namely SAFTA and BIMSTEC. In the age of globalization no country can develop in isolation. For the mutual betterment of the countries of the region the regional integration becomes essential. The regional integration is necessary to maximize the regional benefit through globalization. Efforts have been made to identify some points for negotiation with regional and multilateral agencies about trade facilitation through smoothening transit procedures.

There are poor road conditions between Kolkata India to Nepal borders and Banglabandh-Fulbari to Kakarvitta Nepal. This causes significant delay of traffic movement. Therefore, international road conditions have to be improved and developed.

There is inflexibility of customs operation hours and other administrative procedures in Kolkata port. Customs office is closed after 17:00. In most cases cargo that arrives after this time has to wait until the next day. There are multiple checking agencies at the border. It affects the total transit time. The extra payment in transit entry point and exit point is another irritating factor to the importers/exporters and their agents. ADB on its study (2005) indicated that such illicit payment exceeds 10% of the total transport cost along Kolkata/Haldia-Raxual-Birgunj-Kathmandu corridor.

The Customs authorities' and multi-modal transport agencies do not use the combined Transport Bills of Lading to make transit procedures easier and reduce the need of inspections. The single Bills of Lading allow door to door shipment and the issuing agent takes responsibilities for arranging the inland transport too. International shipping companies can choose appropriate and reliable transportation companies for the onward journey of the cargo in transit. The clarity in procedures may help reduce complexity and inconsistency that leads to corruption practices.

In view of many hurdles in transit transport routes allowed from Kolkata at present to Raxual in India, Fulbari-Banglabandh route has been identified as a possible alternative. However, there is load limit restriction in trucks (16.2 mt for general trucks and 19 mt for

Multi Axle trucks including truck loads) in Fulbari-Banglabandh transit route in Indian sector which covers only 54 Km. For such small distance the load limit is very restrictive. It does not facilitate transit trade. The escort system in this route is very expensive and it creates transit hassles.

Policy recommendations are as following:-

- a. There is no specific and clear transit policy as such except to follow multilateral conventions and agreements in the government documents. The provisions of bilateral transit treaties itself play role of transit policy so far. The transit documents should be standardized and harmonized at least in the regional level. Nepal is going to offer transit route to India and China and now needs clear cut transit policy. For this purpose there is a need of proper policy, planning and preparedness which should be liberal. The transit policy should be guided by the objective of transporting goods through a least cost corridor.
- b. The single transit route is full of risks, therefore, to compete in the transit cost multiple routes should be devised. The policy should be reoriented from the base of multilateral approach to receive low cost and high speed transit transport.
- c. Joint institutional arrangement like IGC, Customs Cooperation Agreement and Transit Facilitation Committee and other institutional development is suggested to address the problems at transit points.
- d. The administrative capacity building for handling transit transport is a major task of developing countries like Nepal. Modern Customs control should not be based on too many documents and hassles. It should be based on latest information and exchange of it through electronic media. There should be balance between customs control and trade facilitation in transit. Reforms in Customs and Port Authorities' bureaucracy is a must so that unnecessary fees and time will be saved.
- e. Transit transport is also concerned with physical infrastructures especially roads and railways links. The construction of high speed quality roads and broad gauge railways line is capital intensive. Bilateral agreement can be concluded to improve the quality of the roads of concerning countries by respective governments for mutual benefit. By pass roads can be developed to reduce the time and cost of transit. It is necessary to join hand with private sectors through collaborative approach for infrastructure development.
- f. The fast movement of vehicles also depends on the customs transit procedures. The documents requirement for transit cargo should be lesser than the documents required for bilateral importation.
- g. All the concerning countries should incorporate the provisions of international conventions in their laws. Nepal also should promulgate multimodal transport operations act. Nepal also should formulate her transit law. The transit legislation should be updated and harmonized with a view of cross country transit and to reduce tariff and non tariff barriers as committed with WTO.
- h. The transit transportation cost can be reduced by the application of two major reforms. (1) Reform in transit transport situation as per the International conventions.

- (2) Infrastructural development for smooth movement of cargo and reform such as the detention charges and inventory charges can be reduced by increasing the administrative efficiency.
- i. To solve the problems of transit routes as stated in the constraints chapter, the alternate fast track routes should be identified and developed. For this purpose following suggestions are made:-
 - i. An extremely new least cost and easy route is suggested to facilitate transit transport from Kolkata to Birgunj.
 - ii. Rohanpur-Shinghabad-Barackgang railway line can be alternate route instead of Radhikapur-Birol route which will facilitate to reach Mongla port in Bangladesh.
 - iii. There are problems to effectively use Panitanki-Fulbari-Banglabandh corridor. They should be addressed positively.
 - iv. Nepal should negotiate with India to operationalize JNPT/Navasewa Port for west bound cargoes which has already been agreed, in principle, between the two countries.
 - v. Nepal should offer transit facility to India and China for their bilateral trade.
 - vi. The government should not let down the effective use of Birgunj ICD as was envisioned before.
 - vii. SASEC idea of regional integration may be speeded up, which also presupposes to resolve the transit issues.
 - j. A comprehensive study is suggested for the identification of alternate air-sea-bridge route from Biratnagar to the nearest port Sayedpur of Bangladesh. Such alternate transit transport modality has to be studied at the earliest. It is necessary to develop east west railway linkage so that it will facilitate East Indian States to transport their goods to Western States through Nepalese route which becomes more cost effective and less time consuming. Thus, the dependency can be changed into inter-dependency. To make the transit points, provided by Bangladesh operational, a tripartite agreement with India, Bangladesh and Nepal is recommended.
 - k. There is a need of developing manpower in transit transport and foreign trade sector. In this regard, establishment of an Institute of Foreign Trade covering all aspects of foreign trade including transit transport is recommended either in government sector or with PPP modality.
 - l. As both Nepal and India have been reducing tariff rate significantly after 1990, it is advisable to harmonize even tariff rates with 10 percentage point plus minus with exceptions for some sensitive items so that fear of deflection of trade felt by Indian side will be addressed and transit procedures will be further simplified.
 - m. A feasibility study on Dakshinkali-Hetauda fast track corridor has been undertaken by ADB and Galchi-Rasuwagadi sector of Birgunj-Saprubesi corridor is being constructed with the financial assistance of ADB. It is recommended that this corridor be updated and constructed as an alternative to Kath-Kodari highway without time and cost variation.

Chapter 1

Introduction

1.1 Background

Landlocked countries are defined as those countries without direct access to the oceans. LLDCs are generally among the poorest of the developing countries, with the weakest growth rates and records of social development. Of the 31 landlocked developing countries in the world, more than half are classified as LDCs.

Nepal is surrounded by India in south, east and west and Tibet, the Autonomous region of People's Republic of China in the North. Hinterland countries like Nepal lack the access of seaport and fall into the separate category with special problems particularly in trade. The seaport is known as the gateway of prosperity that the landlocked countries are deprived of. The absence of seaport deprives the landlocked countries of the competitive global business. The sea freight is almost same to all countries. However, the extra transit cost, sometimes, is exorbitantly high up to 40% in Nepal's case that inflates the price of both imports and export, has to bear as a landlocked country. There are 31 landlocked developing countries in the world among which 16 are categorized as least developed. The geographical position of the landlocked countries is known as the major cause to reduce their overall capacity of economic development. The long distance from high sea keeps them in isolation from the world market. The main purpose of connectivity with high sea is to enhance trade and development through it. The trade GDP ratio of Nepal at present is 35%. Nepal's trade was traditionally directed towards India. Until 1960 Nepal used to export only primary product to her major partner and import manufactured goods from India. There was significant growth in foreign trade of Nepal during the period of 1990-2001 with the record of 24.1% increase per annum. But it declined in the year 2002 and it was continuing because of the termination of quota system under MFA by US government and new Trade Treaty with India which introduced quota system for export of some products into India. The sign of recovery was noticed due to the increase of Carpet export though the export of readymade garments went on declining. Nepalese foreign trade performance is shown below:-

Nrs. in million

| Years | Exports | Imports | Trade balance | Balance % of GDP |
|-------|---------|----------|---------------|------------------|
| 1990 | 5156.2 | 18324.9 | -13968.7 | 13.2 |
| 1995 | 17639.2 | 63679.5 | -46040.3 | 21.9 |
| 1999 | 49822.7 | 108504.9 | -58682.2 | 16.0 |
| 2000 | 55654.1 | 115687.2 | -60033.1 | 15.3 |
| 2001 | 46944.8 | 107389.0 | -60442.2 | 14.9 |
| 2002 | 49930.6 | 124352.1 | -74421.5 | 17.1 |
| 2003 | 53910.7 | 136277.1 | -82366.4 | 16.5 |
| 2004 | 58236.2 | 132166.8 | -73950.6 | 14.3 |

Source:- Nepal Rastra Bank

The above table reveals that the negative balance of trade is increasing in each year as the percentage of GDP. The imports have increased significantly in each year. It increased at the

average rate of 14.4%. However, the export increased very slowly resulting negative trade balance in each year.

The transit transport cost has highly affected the export competitiveness of Nepal. As a rule landlocked countries like Nepal are also dependent on export trade for their economic development. In such critical situation the transit transport sector has to play a lead role to facilitate exports, among others in the economic transformation of the country.

The UN General Assembly has passed various resolutions to reaffirm the right of access of land locked countries and called for action oriented programs in favor of the landlocked countries. The resolution 1028 (11) of 20 Feb.1957 recognized the need of freedom of transit to all such states. The UN has called upon its members to realize the development need of landlocked countries and to provide adequate transit facilities. Special UN agencies were formed and they tried to reduce the difficulties of landlocked countries. The United Nations Conferences on Trade and Development (UNCTAD) since its inception in 1964 has been trying to address the problems of landlocked countries like Nepal.

Nepal had been dependent on trade and transit particularly on India and China since long days back. She has got nearest transit point, Kolkata since the British regime which had concluded the Friendship Treaty with the Rana ruler in 1923. Nepal and India signed bilateral treaty in the year 1950 covering different sectors of relationship including trade and transit. In the year 1960 and 1971 trade and transit treaty were renewed between India and Nepal. In the year 1978 separate transit treaty was signed as transit right of landlocked countries is of permanent nature and different with that of bilateral trade issues. The 1978 treaty was unilaterally abrogated by India in the year 1989 and refused to sign separate transit treaty. However, in the year 1991 Nepal and India concluded separate transit treaty again. And the treaty is being renewed every seven years with some modifications till now. Timely modifications are natural. However, it is remarkable that India has been delaying to renew this treaty in time for non-transit reasons.

There are fifteen entry/exit points mutually agreed in Nepal for the purpose of using Indian transit routes as mentioned in the treaty. However, only seven points have been practically operational at present. Article 1 of the Treaty states that “The contracting parties shall accord to “traffic in-transit” freedom of transit across their respective territories through routes mutually agreed upon. No distinctions shall be made which is based on flag or vessels, the place of origin, departure, entry, and exit destinations, ownership of goods or vessels.” Nepal is a transit receiving country. However, there is a possibility of delivering the transit facilities by land linking to her neighbors in future.

ESCAP a Commission under UN systems has considered the problems of its landlocked members and recommended measures to meet the specified needs of landlocked countries in 1956.

On the recommendation of UNCTAD in October 1964 a committee was formed to draft a convention relating to transit trade of landlocked countries. UNCTAD convened first conference of this type. Since 1967 to 1982 many round dialogues were held and third Law of Sea Conference was concluded in 1982. Article 125 of the Law of Sea states the transit right of land locked countries as follows:-

- Land locked 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 transports.

- The terms and modalities for exercising freedom of transit shall be agreed between the landlocked states and the transit state concerned through the bilateral, sub regional and 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 right and facilities provided for in this part for landlocked states shall be in no way infringe their legitimate interest.

Above provisions are being the guiding principles of bilateral transit agreement between Nepal and India. The bilateral treaty on transit between the both neighbors is subject to periodical renewal and sometimes it is pressurized by political interest of transit providing country. In the global context many changes have taken place particularly after 1990. All landlocked countries joined the forum of “Small and Vulnerable Economies” of UN to improve trade and transit access.

Article V of GATT/WTO also sets out the basic requirement of freedom of transit through the most convenient route and further requires that no discrimination be made on the basis of flag of vessels, place of origin, departure entry, exit, or destination, and ownership. It further stipulates the obligation not to impose procedural delays or restrictions on transit.

International Ministerial Conference of landlocked and transit states and donor countries and International Financial and Development Institutions on transit transport cooperation in Almaty in 2003 has committed to work towards minimizing the current marginalization and enhancing the beneficial integration of trade of landlocked countries into the global economy. They recognized that a major reason for the marginalization of LLDCs from global trading system is high trade transaction costs. Trade and transport are inextricably linked. Transport costs are a key determinant of international trade competitiveness.

It became the subject of history that Nepal also was the provider of transit facilities to Tibet and the neighboring states of India. Nepal became the receiver of transit facilities after the East India Company occupied the Indian sub continent. From the early period, trade between Nepal and India was channeled through land border points. Now bilateral agreement between Nepal and India governs the implementation of transit right of landlocked Nepal. Particularly after 1960s Nepal started to diversify her trade. Several measures have been taken for diversification of production of goods and services and destinations or markets. Thus, from the emergence of democracy Nepal has been trying to diversify her exports product wise and country wise. Nepal’s trade liberalization policy has removed almost all trade barriers for last one and half decade. However, the traditional transit facilities with closed mindset and without timely reform cannot meet the growing demand of the economy to reduce the transit, transport and transaction costs. Keeping these facts in view many agencies have conducted different studies before and the present one is another endeavor in the series focusing the need of policy reorientation on transit issues.

1.2 Objective of the Study

The Policy Reorientation Study on Transit Trade has the following objectives:-

- To examine the current status of Nepal's transit trade in view of time and cost effective transportation for trade and economic development.
- To review the government policy as well as the institutional and infrastructural constraints for the development of facilities for transit transport.
- To assess Nepal's readiness to serve as a land link for bilateral trade between India and China in light with the impact on trade, industry and service sectors.
- To study Nepal's bilateral transit agreements with India and Bangladesh and other regional trade agreements for recommending appropriate transit policy.
- To identify the special need for reorienting of transit policy towards realizing market access opportunities in the context of Nepal's accession to WTO, SAFTA and BIMSTEC.
- To specify areas for reorienting of transit policy for addressing the present weaknesses and constraints relating to policy-frame work, institutional capability and physical infrastructures.
- To recommend an appropriate transit policy based on it's envision for it's prospective implication to Nepal's Trade and economic development and for materializing transit point services for the bilateral trade between the fastest developing economies in the world.
- To prepare a policy action matrix containing (a) constraints, policy, legal, institutional, administrative etc. (b) recommend policy improvements (c) activities (d) indicators of achievements(e) responsible agencies.(f) time frame - long term, short term, and immediate.

1.3 Methodology

The study is basically a desk study. The following methods are applied in this study:-

- Collection and review of literatures.
- Extensive interviews and interactions with stakeholders both from public and private sectors and the study, therefore, is the product of a highly participatory process. Intensive discussions were held with the concerned senior officers of MOICS.
- Advisory Committee meeting was held under the Chairmanship of the Secretary, MOICS and the comments were incorporated in the draft to be presented at the workshop organized by EPN.
- Final report incorporating comments from the Workshop was presented at the Advisory Committee meeting for final validation and ultimately was submitted to the EPN Focal Unit.
- It has been the efforts of the consultant to make the report as reflective of the opinion of the representatives of various stakeholders as could possibly be, based on the inputs derived from the meetings and the workshop and the personal interviews conducted with various agencies. The study aimed at doing justice to the opinion, suggestions expressed by the participants at dialogues in different stages.

1.4 Limitations of the Study

This is supposed to be a desk study and the field situation has been abstracted only from the concerning literatures, while a study like this needs to have field visit and vision. Policy

reorientation in the subject like this is very sensitive topic which requires bilateral government's understanding. The study has done best efforts to find out the constraints on transit and transport and to develop policy reform measures in the limited time-frame. Certainly a month's duration of a short term study like this cannot do justice to the specialized issue of this nature without field visits. Policy reorientation study on transit issue is indeed a complex process involving economic, political, institutional, diplomatic and other factors.

- Our experience also shows that it is difficult to gauge the impact of political mix up at times to provide transit facilities by transit countries. Yet the consultant hopes that in the liberalized politico-economic situation of the present time policy reorientation on transit trade will be carried forward particularly by transit countries including Nepal if required to provide the facilities to India and China.

1.5 Expected Out Put of the Study:-

- The study has the target of drafting a comprehensive transit policy with identifying issues that need to be addressed in order to facilitate the trade and transit transport.
- Identification of policy improvement in transit transport and thereby to reduce transaction cost in trade sector.
- Assessment of Nepal's readiness to serve as a land link for the bilateral trade between India and China.
- Preparation of a policy action matrix.

Chapter 2

Review of Present Transit Policy and System of Nepal

2.1 Nepal's Transit Policy

Nepal's transit policy always remained within the periphery of securing freedom of transit within the frame work of international law, convention and agreements for the most convenient and cost effective transit routes with appropriate facilities. Nepal tried not to link transit treaty with mutual trade agreements and any other bilateral treaty with any transit states under her policy. Nepal's transit policy is to secure appropriate infrastructural facilities in the harbor/port in the minimum time and reasonable service charges with full security. In fact, main actor of transit affair is transit giving country than transit receiving country in this connection. As Nepal has offered to give transit facility to India and China for promotion of their bilateral trade, now Nepal should demand the facilities with transit countries which she can also reciprocate on demand by them. The transit treaties with India, China and Bangladesh need to be guided with this policy. To implement the transit treaty with India Nepal has established Nepal Transit Warehouse Company under Company Act and it was registered as foreign company in India. It takes care of all transit cargo at Kolkata in co-operation with Nepalese Consulate General Office in Kolkata.

The basic requirement of freedom of transit through the most convenient route is set out in the Article V of GATT/WTO in addition to UN resolution. No discrimination is accepted on the entry and exit or destination. Article VIII calls on the parties not to discriminate on the basis of ownership of goods or means of transport. The same article stipulates not to impose any kind of delay or restriction on transit. The Article allows the concerning party to impose only reasonable service charges and fee on non discriminatory basis. UN General Assembly and UNCTAD Resolutions also keep the same spirit.

In Nepalese context, Nepal requires transit facilities from India for transporting goods from rest of the world to Nepal. Nepal has been dealing with transit issues at bilateral level with India and Bangladesh; however, recently the transit transport issues have also become multilateral and regional in the context of globalization of trade.

2.2 Transit Transport System of Nepal

Nepal is one of the geographically handicapped countries of the world having limited road network inside. The road is the primary mode of transport for domestic and international trade. The road conditions and their load bearing capacity are very poor. There is almost absence of railways for carrying commercial cargo. The use of air services for commercial cargo is limited because of its freight charges. There are few major corridors for international trade. Birgunj, ICD Birjung, Biratnagar, Bhairahawa, Nepalgunj, Mahendranagar and Mechi are the major corridors in south and Tatopani is in the north. Birgunj Customs point handles almost 70% of foreign trade, Biratnagar covers 17%, and Bhairahawa covers 20% bilateral and 5% third country trade in each year. The remaining percentage of foreign trade is covered by other customs points.

Tatopani land customs point is mainly is used to carry overland trade with China. There are 4 other customs points opened for commercial purpose. However, these points are not in

operation due to the lack of transportation facilities in side. Only the local community within the vicinity of 30 km is enjoying the facilities of barter trade from these points as mentioned in bilateral treaty. The People's Republic of China has recently completed the construction of huge railway which has connected the Lhasa with mainland China and connecting Shi-gatshe in near future. The reengineering of road conditions in Nepal and transit state will open new era of transit transport to Nepal.

Nepal has also signed similar type of transit treaty with Bangladesh in April 1976. The transit route Kakarvitta-Phulbari-Banglabandh was opened in 1997 for commercial use with and through Bangladesh. While using this transit route Nepal has to utilize 45km road of Indian territory to reach Banglabandh. Rohanpur-Singhabadh transit point is said to be the most practical route to Nepal to and from Bangladesh in comparison to Radhikarpur-Birol route in addition to Fulbari-Banglaband route. Nepal should negotiate with India to use this route. The bilateral treaty with Bangladesh is not working smoothly. It is because that the cargo should have to pass the Indian Territory to use transit facilities provided by that agreement. There is a need of trilateral agreement with India Bangladesh, and Nepal to materialize the bilateral agreement.

Nepal is a transit receiving country so far. She has to depend on the provisions of bilateral agreements and international conventions. The major transit transport of third country import and export is carried through Indian port Kolkata which is the nearest one. The transit transport is governed by the bilateral treaty signed between the two countries. According to the protocol of transit treaty concluded in 1991 and renewed periodically, the Trustee of Kolkata Port shall provide storage facilities on lease to an undertaking of Nepal government as per relevant law. The lease rent shall be determined by the trustee from time to time. The transit cargo shall be subject to levy all charges by the trustee. The lessee is permitted to own or operate a number of trucks and barges in the port area in connection with the storage of cargo in transit in specified areas. Normal rule which are applicable to the trucks plying in the port should be complied with. Commissioner of Customs provides the Customs Agents license to the transit cargo operator i.e. lessee for the purpose of clearance at the Port of Kolkata of traffic in transit to or from Nepal. The lessee with the permission of the owner may handle the cargo under the supervision of Indian customs officer. The protocol has stated that the both countries may add any provisions with mutual agreement to facilitate the movement of traffic in transit and use of additional means of transport. Nepal and India are connected by 6 major border road networks. They are Kakarvitta-Panitanki, Biratnagar-Jogbani, Birgunj-Raxaul, Bhairawa-Sunauli, Nepalgunj-Rupediya, Mahendranagar-Banbasa. There is only one cross border Broad gauge railway line at Raxaul-Birgunj ICD.

2.3 Provisions of Transit Transport in the Transit Treaty with India

The protocol of the transit treaty between Nepal and India has stated that the 15 entries and exit points for the use of traffic–transit are specified. Kolkata shall include Haldia too. The protocol of the treaty is the agreed provisions which are mandatory to both parties. In relation with the transport in transit the following provisions are worthy to reproduce here:

“Goods other than those mentioned in the protocol shall be permitted transit by railway wagons or marine containers or pilfer-proof container trucks or any other trucks, capable of being sealed in a manner that will leave no visible trace or tampering at the point of the importer.”

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

2.4 Issues of Transit Procedures

There are too many documentary requirements for transit transport at present. WTO members have made suggestions on facilitating transit by means of reducing documentary requirements. The provisions of transit documents and service charges and fees facilities are made in Article VIII of WTO agreement. So the Article VIII automatically becomes effective to transit transport as well. However, common guidelines need to be developed for reduction of documents and procedural delays in transit.

2.4.1 Transit Procedures in India

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

- a) Leased jetties, warehouses and open shed in Calcutta.
- b) Seven border crossing points including Raxual, ICD Birgunj, Jogbani, Sunauli, Panitanki, Nepalgunj, and Banbasa including a transit route for Bangladesh is allowed for practical purposes for the time being. (Agreed in 2006)
- c) Nepal to Nepal transit through India
- d) India to India transit through Nepal (Agreed in 2006)

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

along with authority letter to the agent. The authorized Agent obtains delivery order against B/L from the shipping line and also obtains duty insurance policy from prescribed insurance company or a letter of undertaking from NTWCL. The Customs Agent submits the following documents:-

- Six Copies CTD (Red for Private, green for Govt. imports)
- Duty insurance policy for specified sensitive commodities and letter of Undertaking for other goods.
- Original delivery order or B/L
- Original letter of authority
- Original invoice
- Original packing list
- Certified copy of L/C
- Certificates of origin (original)
- Marine insurance policy (not compulsory)
- Duty insurance or letter of undertaking for containers.
- Original import license if required
- General cargo insurance Kolkata–Nepal (Not compulsory)
- Additional documents for special cargo such as health, phytosanitary certificates for plant and animals

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

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

2.4.2 Transit Procedures through Bangladesh Routes

Nepal and Bangladesh signed bilateral agreement on transit in 1976. The agreement and its protocol have specified the ports and entry points and procedures and documents requirements in detail. The agreement clarified the carrier's liability in case of deflection of goods in transit in Bangladesh. The following six points of entry have been allowed for the movement of traffic in transit by all means of transportation:

- Chittagong port
- Khulna-Chalna port
- Biral point
- Banglabandh point
- Chilhati point
- Benapole

Chittagong and Khulna-Chalna (Mongla) are sea ports and others are land border points at Bangladesh India border. Nepal is using Birol and Banglabandha points. Benapole is near Kolkata. Birol point is connected with meter gauge rail line at Bangladesh which was under use after GOI allowed rail connection through Radhikapur to Birol as per the letter of exchange between India and Nepal. The benefit of this route is the thorough movement of meter gauge rail from Fulbari India to Chittagong Bangladesh and also Indian railways station located at Nepal India border without any transshipment en-route. In comparison to Kolkata route (771 Km from Jogbani) this route (958 Km from Jogbani) is longer. Radhikapur-Birol crossing point was used for some time but due to the lack of trilateral procedural arrangements it became expensive and inefficient and is not in use any more. The only available route of Phulbari-Banglabandh from 1997 is in operation to some extent. A bilateral agreement was signed between India and Nepal to open the Kakarvitta-Panitanki India Nepal to Phulbari-Banglabandh the shortest route (44 Km) from Nepal border to Bangladesh border and Mongla port. This transit route was allowed for only one point that is Panitanki/Kakarvitta with application of following operational conditions and procedures:-

- Transit permitted only on Saturdays and Sundays
- Permitted only 25 trucks at a time
- Permitted only for containerized trucks which can be sealed
- Maximum of four groups each way per day
- Permission to Nepal registered trucks only
- Cargo movement on day time with security escorts
- Gross weight of trucks should not exceed 16.2 tons.
- Drivers and assistants should hold ID card of GON
- Goods are not examined unless seal broken or there are valid reasons
- No transit to Negative list items
- Nepal has to appoint authorized Customs Agent to handle export and import in transit
- Goods should be insured to the satisfaction of Indian Customs.

A by pass road was made open through Bagdugra and Ghosepure to facilitate the transit transport. NTWCL was allowed to issue letter of undertaking to the Indian customs and appointed as a Customs Agent to handle the transit Cargo. In India same transit procedures which are in practice in Kolkata, are applied to this route too. The Bilateral treaty of Transit between Nepal and Bangladesh has prescribed the documents requirements and transit procedures in Bangladesh port. Transit Declaring Invoice is needed separately for export and import. Mostly all formalities of transit procedures are applied in this route too. All export

formalities of export should be completed at Nepal border customs and Indian border as required according to the transit treaty with India. On arrival of the Cargo in relevant Bangladesh border the customs post will compare duplicates and triplicates TDI copy received by truck driver with other copies along with the Bills of Transporter. If seal and locks are intact border Customs officer allows moving the cargo for final shipment.

2.5 Issues of Sensitive Goods

It is agreed that the principle of non-discrimination can not be applied to all type of consignments. Some sensitive goods may be subject to special provisions which is against the spirit of WTO and discriminatory. However, the contracting parties should publish the list of such sensitive items. If there is a possibility of diversion of transit goods in transit providing country, the Article of treaty has suggested alternate methods such as transportation of transit goods by locked and sealed containers only. Indian Customs authority always claimed the diversion of third country consignment in transit to Nepal and uses their theory of sensitive list but they never make the list public. Goods that require trans shipment are kept under additional inspections. Most of the cargos in transit to Nepal first arrive at Kolkata and then are transshipped by road transport to Nepal. The sensitive items are required to have evidence of duty insurance. Recently the inland container depot has come in operation. It is hoped that all sealed containers will directly be unloaded in ICD Birgunj and dispatched to the final destinations.

2.6 Review of Transit Trade in View of Time and Cost

The total foreign trade of Nepal for the fiscal year 2003/2004 is estimated to be about Rs.193169 millions and trade deficit is recorded to the extent of Rs. 84336 millions.

Imports and exports are increasing with the increased trade balance gap. The share of foreign trade with India is about 58% of total foreign trade of Nepal, whereas the trend with third countries has been declining. The import from India is around Rs. 81651 million and export to India is only Rs. 31244 millions creating a trade gap of Rs. 50407 millions. India also is the transit providing country that can affect the foreign trade of Nepal. The trade composition of Nepal is shown in the following table:-

Foreign Trade Composition of Nepal

Value in 000 Rs.

| S.N | Direction of trade | F.Y.2001/02 | % | 2002/03 | % | 2003/004 | % |
|----------|----------------------|------------------|--------------|------------------|--------------|------------------|--------------|
| A | Exports total | 47386788 | (100) | 50011122 | (100) | 54416614 | (100) |
| 1 | India | 27956200 | (58) | 78430000 | (53) | 31244300 | (57) |
| 2 | Overseas | 18409236 | (39) | 21981475 | (44) | 20941661 | (39) |
| 3 | Tibet | 1021352 | (2.2) | 1599647 | (3.2) | 2230653 | (4.3) |
| B | Imports Total | 108634801 | (100) | 128226134 | (100) | 138752735 | (100) |
| 1. | India | 56522100 | (52) | 70925200 | (55.3) | 81651900 | (59) |
| 2 | Overseas | 47584045 | (44) | 52965298 | (41) | 53234748 | (38) |
| 3 | Tibet | 4428656 | (4.1) | 4336636 | (3.4) | 3866087 | (2.8) |
| C | Trade deficit | 61248013 | | 78217012 | | 84336121 | |
| 1 | With India | 28665900 | | 44494200 | | 50407600 | |
| 2 | With Overseas | 29174809 | | 30983823 | | 32293087 | |
| 3 | With Tibet | 3407304 | | 2738989 | | 1635434 | |

Source: Trade Promotion Center (Statistical presentation)

The time taken in transit and the charges incurred there can directly affect the foreign trade of any landlocked country like Nepal. To review the time and cost of transit trade of Nepal, we need to discuss the flow of transit traffic in major customs points.

A recent study has shown that the average train rake arrived in Raxaul for a couple of months in 2004 seemed to be 30/rakes/month and their weight seemed to be 76454 tons. The ICD in operation will positively help grow the flow of traffic. The total number of railway containers arrived in Birgunj was 2862 (2764 TEU + 98 FEU) in the year 2004. The average TEU per annum was anticipated to be 20,000 in Birgunj ICD. In the year 2003/2004 Birjung was the major cargo handling point of Nepal. In the year 2004/005 near about 305816.7 tons of general cargo and 15019.00 tons of P.O.L products was handled at this point. The time taken to an import processing from Kolkata to Birgunj in normal period is estimated in a recent study is as following:-

| S.N. | Description of port and time taken | Time taken |
|------|------------------------------------|------------|
| 1 | Time at the port Kolkata | 5 days |
| 2 | Transit between Kolkata-Raxul | 4 days |
| 3 | Transit between Rax-BRG | 1 day |
| 4 | Clearance at Birgunj | 1 day |
| 5 | Birgunj- Kathmandu | 3 days |
| | Total time frame for import | 14 days |

The same study has specified the export time frame in transit processing in the same route. The time taken in normal period is given below:-

| S.N. | Description of places time taken | Time taken |
|------|--|------------|
| 1 | Transportation from Kathmandu to Birgunj | 1 day |
| 2 | Transit from Birgunj to Kolkata | 4 days |
| 3 | Stay at Kolkata port at least | 2 days |
| 4 | Total time frame for export | 7 days |

Thus, the transit cargo for export takes 7 days for shipment to Kolkata whereas the import cargo takes not less than 14 days for final shipment from Kolkata to Kathmandu the final destination. The unnecessarily long time taken by transit transportation automatically causes extra cost to import and export. There is direct relationship between time frame and the transit cost of the cargoes.

The transportation system also plays role to increase the cost of transit transport of the goods in transit. The high speed railways link is virtually cost effective. The traditional highways covering a huge area to meet the road demands of local people are obviously expensive.

The paragraph 9 of import procedures in the Memorandum of the Treaty of Transit with India has made the provisions of three type of duty insurances policy, covering Indian customs duty and other charges to protect from deflection of goods in Indian markets, which add cost to exporters and importers. This system insures the loss of import duty accruing from deflection of transit cargo while in transit in India. The provision of duty insurance is an important part of cargo clearance of traffic in transit in India. The following are the provisions of duty insurances as per the memorandum:-

| S.N. | Mode of transport | Insured value |
|------|--------------------------|---|
| 1 | Railways | Customs Duty |
| 2 | Road trucks of NTWC/NTC | Customs duty plus NTWC bonds to pay differences of MV-(CIF + Customs duty) |
| 3 | Road trucks other than 2 | MV-CIF |

These all measures are for the purposes to safeguard the Customs Duty of Government of India and to check the deflection of goods in transit into Indian market. In the beginning the market value was fixed in highest level in certain goods. A 2% premium rate of insurance was fixed. Later on or from the beginning of 1991 the Indian tariff reduction was started as a result of which the market value fixed by customs for Nepalese Cargo went on revision. In 1996 the Commissioner of Kolkata Customs issued a public notice fixing of flat rate of 1.75% of the CIF value for the purpose of duty insurance. It was again revised in 1997 by fixing the market value 1.5 times of CIF value for the specified sensitive goods and 0.75 times of CIF value for other commodities. After the new treaty of 1999 the insurance is made applicable only to the specified sensitive goods insurance premium is fixed at the rate of 0.30% on the insured value calculated on the basis on difference between the market price and CIF value of the product, rest of the imports in transit require to submit the bond of NTWCL. At present Indian Insurance Company of Kolkata is issuing duty insurance policy to the satisfaction of Commissioners of Customs Kolkata. Other branch offices of that company are not allowed to issue the duty insurance policy.

Customs are closed in holidays at Kolkata. If Customs Agent requires the service of Customs official in holiday to work overtime he should pay extra IC 600 per shift. No other charges are paid in transit. However, the cargo is subject to pay heavy demurrage after the lapses of 7 days for clearance. So the cargo clearance in holiday is a common phenomenon in Kolkata. All documents are endorsed at the time of cargo delivery. Customs Agent visits to Customs office to get seal cover envelop which will be submitted at Indian border customs. The Customs officials after recording all details of cargo delivers the original copy of CTD to Customs Agent and makes a seal cover containing a key, duplicate and triplicate copies of CTD and also the railway receipt of cargo dispatched. The seal cover is sent to the border Customs by post but to avoid delay the Customs officials deliver it to the Agent who has good compliance record. Customs Agent dispatches it through couriers to concerned Indian border Customs office. The Indian border Customs office compares the original copy with the seal covered duplicate and triplicate and examines the one time lock of the cargo and if he is satisfied permits onward transportation. If the seal and lock are not intact and there is suspicion the officer examines the consignments to ensure the correctness of goods and documents before endorsing the CTD. The Indian border customs supervises the cargo movement to ensure that the cargo crossed the Indian border and certifies the CTD The original CTD is given to Importer the duplicate is sent to Indian Customs house and triplicate to Nepalese Customs house after import clearance it is sent back to Indian border Customs office with endorsement This is the normal process of Transit transportation through Indian port.

2.7 Transit Transport in View of Time and Distances

Nepal is connected to major Indian sea ports with roads and railways. Recently one Inland Clearance Depot came into operation in Sirsia Birgunj. This paved the way for direct train service. Third country containers of 20 feet and 40 feet of international standard were carried on flat wagons in this ICD. The ICD has modern facilities too.

2.7.1 Road's Distance and Time Taken in Transit

The road systems in India are well developed for internal use. The high speed roads with by pass are limited. The transit transport of India and Bangladesh and the distance to major sea port in relation to time is shown below:-

| S.N | Name of road corridors | Distance km | Time taken days + | Km/day |
|-----|--|-------------|-------------------|--------|
| 1 | Kath-Birgunj-Kolkata port | 1256 | 5-7 | 195 |
| 2 | Ktm-Kakarvitta-Panitanki-Phulbari-Banglabandh-Dhaka-Chittagon port | 1567 | 7-9 | 174 |
| 4 | Kathmandu-Bhairahawa-Kolkata | 1314 | 6-8 | 165 |
| 5 | Kathmandu-Bhairahawa-Delhi | 1191 | 4-6 | 198 |
| 6 | Kathmandu-Biratnagar-Kolkata | 1197 | 4-6 | 199 |
| 7 | Kathmandu-Nepalgunj-Lukhnow-Delhi | 1279 | 4-7 | 183 |

+ Expected days to cover the distances

Sources: Puskar Bajracharya SAARC Regional multi-modal transport study

Delays and unpredictability, however, are even more worrisome than costs. From the port of departure to the destination, consignments can take weeks and sometimes months.

2.7.2 Railways Distance and Time Taken

Nepal was not directly connected by Indian railways since long time. Janakpur-Jaynagar narrow gauge rail is only one railway line in Nepal. In Rana regime there was Raxual Amalekhgunj railway but it was stopped after operation for few years. Most of the Indian border cities are connected with either meter gauge or broad gauge railways but Nepal has no own railways. Recently Birgunj Sirsia ICD is connected by broad gauge railway line with Raxual. The railways lines available to Nepal for transit purpose are given below:-

| S.N | Railways corridors available | Distance Km | Time taken Days | Km per day |
|-----|--|-------------|-----------------|------------|
| 1. | Birgunj ICD – Raxual-Sugauli-Motihari - Samastipur-Barauni-Asansol-Burdhaban-Kolkotta. | 704 | 2 days | 352 |
| 2 | Birgunj-Sugauli-Sonpur-Mugalsaria-Allahabad-Itarsi-Jalgoun-Manmad-Mumbai | 2368 | 5-7 | 300 |
| 3 | Bhairahawa-Sunauli-Nautanuwa-Lukhnow-Allahabad-Itarsi-Manmad-Mumbai | 2168 | 4-6 | 300 |

Source:-Puskar Bajracharya SAARC Regional Transport Multimodal Study 2005

2.7.3 Calculation of Costs in Transit

The most obvious problem is higher transportation costs. Typically 1000 km on land translates comparably to 10,000 km of sea freight. While remote regions of coastal economies also face formidable problems in their development, the situation of LLDCs is even worse. It is estimated that crossing a border creates the same impact on trade volume as crossing 1000 km of land. The main reason is that, beyond transportation LLDCs trade is also affected by the requirement of regimes put in place by transit countries to safeguard their interest in areas such as customs, revenue, transportation and safety etc. Calculation of tentative cost from Kolkata to Birgunj ICD is reflected below.

Transit cost components Kolkata-Birgunj before the use of ICD

Amount Nrs

| S.N | Cost components | Import. Cost per TEU | Export Cost per TEU |
|-----|----------------------------------|----------------------|---------------------|
| A | Terminal handling at Kolkata | | |
| 1 | Destuffing cargo | 15968 | 16224 |
| 2 | Direct delivery of sea container | 7456 | |
| 3 | Extra shifting of containers | 1600 | |
| 4 | Ground rent | 168 | |
| 5 | Detention of containers | 1680 | |
| B | Transport cost | | |
| 1. | Container trucks | 19200 | 8800 |
| 2 | Sea container | 28800 | 17600 |
| C | Inventory cost | 11650 | 7250 |
| D | Transit loss | 24150 | 13750 |
| E | Transit insurance charges | 3600 | |
| F | Handling cost at Birgunj | 960 | 960 |

Sources:- RITES Report on Multi-modal Transit

Another situation is the well equipped ICD and the targeted cost component after its full-fledged operation. The expected cost components are shown below:-

Expected cost components after full-fledged operation of ICD

| S.N | Cost components | Import cost per TEU | Export cost per TEU |
|-----|---------------------------------|---------------------|---------------------|
| A | Terminal handling at Kolkata | | |
| 1 | Handling charges | 7456 | 7736 |
| 2 | Extra shifting charges | 1600 | |
| 3 | Ground rent | | |
| 4 | Container detention | | |
| B | Transport cost | 12960 | 8000 |
| C | Inventory cost | 7616 | 6941 |
| D | Transit loss | 3000 | 6850 |
| E | Transit insurance charges | 1450 | |
| F | ICD handling charges at Birgunj | 2952 | 2720 |
| | Total Charge cost | 37034 | 32247 |

The above tables reveal that, in principle, the transit cost will be reduced near about by at least 40% after the full-fledged operation of ICD Birgunj. Certain cost such as detention charges extra shifting charges can be reduced only by reforming the administrative procedures. Transport cost can be reduced by developing the high speed transport routes and transport vehicles. The containers handled in Birgunj ICD in the year 2004/05 (July-June) is given below:

| S.N. | Capacity of a container | Numbers handled containers | |
|------|-------------------------|----------------------------|------|
| | | TEUs | FEUs |
| 1 | Less than 15 tons | 321 | 71 |
| 2 | 15 to 20 tons | 1096 | 31 |
| 3 | Above 20 tons | 3098 | 363 |

Source: Collected from ICD

The above table reveals that TEU containers carrying more than 20 tons are increasing slowly, at the same time FEU containers carrying more than 20 tons are also increasing. It is because the cost effectiveness lies more on the FEU containers than TEU. The ICD in full fledge operation can be cost effective and time saving in the long run. Now Birgunj ICD

seems to be in partial operation and it has not been running in full capacity for various reasons.

2.8 Status of Regional Transit Transport Systems

In this era of globalization no country can develop in isolation. Moreover, interdependency has become necessary condition for each country for development. Nepal being a landlocked country has to depend on transit facilities with her neighbors. In the context of regional transit transport it was already agreed to improve four major cross border points (Jogbani-Biratnagar, Raxaul-Birgunj, Sunauli-Bhairawa and Rupedia-Nepalgunj) between India and Nepal in SASEC. The main objective of regional cooperation in transit transport sector is to improve the efficiency in term of speed, quality of movement across intra-regional level. The SAFTA arrangement under SAARC would increase intra-regional trade with improved transit transport facilities. Contracting states agree to consider the adoption of trade facilitation for mutual benefit has included as agreed to provide transit facilities for efficient intra SAARC trade especially for the landlocked contracting states. However, detailed procedures have yet to be negotiated. The development of the concept of BIMSTEC will positively open new opportunity of facilitation in this region. However, negotiation regarding transit facility has yet to be conducted among member countries in this connection. Public private partnership in this region especially in the areas of transport would also be the land mark in this region. Harmonization of transit transport legislation is necessary in the context of transport improvement in regional level. Similarly, simplification of procedures and formalities is needed to improve the regional transport and transit facilities. In the regional and sub-regional level it is necessary to develop high speed cross border rail and road systems keeping in view the proposed Asian Highway network.

2.9 Time and Cost by Rail and Roads in Bangladesh Transit Route

Bangladesh railways has not been able to supply enough wagon on Meter gauge and Broad gauge systems to meet the increasing demand. Indian railways wagon move in good number from the Indo-Bangladesh border point at Singhabad-Rohanpur (the shortest routes). The duration of transportation depends on road distance and also on the delay in customs clearance as well as transshipment operation at crossing point. The cost and time from railway depends upon the availability of wagon; transshipments and the weight and distance. The roadways and railways time and cost are given in the following table:

| 1. | Normal roadways from | Time taken | Freight charges (Can be fluctuated) |
|----|-------------------------------|------------|-------------------------------------|
| | Biratnagar – Kakarvitta | 3 hours | Nrs. 4500 /truck |
| | Kakarvitta – Banglabandh | 2 hours | Nrs. 3500 /truck |
| | Bangladandh – Dhaka city | 10 hours | Tk. 8000 /truck |
| | Dhaka – Mongla Port | 15 hours | Tk. 10000 /truck |
| 2. | Railways from | Time taken | Freight Charges |
| | Jogbani – Radhikapur | 2 days | Rs. 150/ton |
| | Birol – Chittagong | 12 days | Tk. 585/ton |
| | Birol – Naopara Khulna | 3 days | Tk. 455/ton |
| | Raxaul – Singhabad – Rohanpur | 2 days | Tk. 410/ton |
| | Rohanpur – Naopara | 1 days | Tk. 430/ton |
| | Naopara – Mongla | 6 hours | Tk. 90/ton |

Source: Figures based on Ramatualla's study report Nov 7, 2000.

The above table shows that the Raxaul – Singhabad – Rohanpur – Naopara – Mongla route is the shortest and cheaper than other routes.

2.10 Comparison of Cost between Different Mode of Transport

It was expected that the direct container rail service between Kolkata to ICD Birgunj certainly can offer incentive to transit transport. if other behavior of importers did not impose negative impact. The incentive depends upon the frequency of the service available and cost incurred there. Improved transport service is important for increased volume of trade. It is essential to compare transit transport cost incurred in using railways and roadways from Kolkata to Birgunj. The following table shows such cost of both modes of transit transport :-

Comparison of Transit, Transport and Common Costs of import cargo from Kolkata to Birgunj by Rail and road.

| | | Amount IC | | | |
|-----------|---|-----------------------|------------|----------------|------------|
| A. | Common cost items | Road ways (Non – CPY) | | Railways | |
| | | 20' (20mt) | 40' (30mt) | 20' (20mt) | 40' (30mt) |
| | 1. Liner THC | 4759 | 6948 | 3087 | 4445 |
| | 2. CPT Wharfage | 3828 | 5464 | 2223 | 3334 |
| | 3. CHA | 3500 | 5500 | 2500 | 4500 |
| | 4. Sub Total | 12087 | 17912 | 7900 | 12279 |
| | | | | | |
| B. | Transportation Cost | 30500 | 46000 | 18835 | 33429 |
| | | | | | |
| C. | Transit Cost items | | | | |
| | 1. Container insurance | 743 | 1115 | - | - |
| | 2. Shipping line bond | 300 | 300 | | |
| | 3. CTD Seal Cover courier | 150 | 150 | - | - |
| | 4. Customs insurance on sensitive goods | Applicable | | Not applicable | |
| | 5. Loading Expenses | 1000 | 1500 | - | - |
| | 6. Vehicle detention charge at border | 500 | 800 | - | - |
| | 7. Raxaul customs clearance | 1200 | 1800 | - | - |
| | 8. ICD Destuffing charges | - | - | 2790 | 4379 |
| | 9. Sub total | 3893 | 5665 | 2790 | 4379 |
| | | | | | |
| | Total Transit Transport Cost | 46480 | 69577 | 29605 | 50087 |
| | | | | | |
| D. | The cost on road is more than rail by: | | | | |
| | 1. Freight | 11665 | 12571 | - | - |
| | 2. Common charges | 4187 | 5633 | - | - |
| | 3. Transit Cost | 1103 | 1286 | - | - |

Notes: Above cost calculations are abstracted for references from IMMTPL.

In the above table three sets of cost components of total transit transport cost can be observed. (i) common cost items which are incurred to both Nepalese and Indian importers at Kolkata (ii) transport cost which depends upon the distance of the place (iii) the transit cost items which are incurred to Nepalese importers only. Such transit cost items of expenses are container insurance charges, shipping line bonds, duty insurance cost, ICD seal cover, courier charges, loading expenses and vehicle detention charges etc. The table reveals that the transport and transit cost by road ways is more than railways. The total cost of roadways for TEU (non CPY) is IC 46480 and transit cost of the same is IC 3873. For FEU it is IC 69577

and IC 5665 respectively. The total cost of railway transit transport is IC 29605 and transit cost is IC 2790 for TEU and it is IC 50087 and 4379 for FEU respectively. The share of transit cost on total transit transport cost ranges between 8% to 9% only in a ideal situation. This, however, does not include detention charges at port and ground, vehicles entry fee at ICD, C&F handling charges/commission/Nepal customs clearings expenses have not been included. In addition to this, illicit expenses of 10 percent of total transit transport cost to be incurred by exporters/importers has not been included on this. If the importer uses TEU non CPY road transport he should pay IC 46480 upto Raxaul, while he should pay only IC 29605 for the same if he uses railways transport upto Birgunj ICD. In this situation, the cost incurred in road ways transport transit is 57% more than railways.

Chapter 3

Assessment of Nepal's offer to Provide Transit Facility to China and India for their Bilateral Trade.

3.1 Development of Present Context

Since long back Nepal was having foreign trade with India and China. Nepal as a land-locked country has some compulsion to depend on neighboring countries for her foreign trade. She has to depend on India for transit transportation. The transit providing countries generally impose very cumbersome transit procedures, time consuming customs formalities, charges and safety measures etc. which may be seen unnecessary for transit receiving countries. For long time the relation of China and India remained cool. The economic growth of both countries has brought them together for the improvement of bilateral relation which opened the market opportunities to each other. For India China is in third rank on import and six on export. These recent developments in trading sector are being fruitful to both nations. The strength of traditional transit routes are being evaluated by both neighboring countries. Nepal was used as the transit point in the days back by them. The development of roads in Chinese side, Indian side and Nepal has opened the possibilities of the use of the traditional route in modern context. On the request of neighbors it is expected to provide transit route to India and China through Nepal. Trade liberalization in the modern world has created opportunities for trade integration and search for efficient effective supply chain and wide connectivity. So the land locked countries are now going to change their status by being land linking countries providing their land for transit use to their neighbors. Nepal's willingness of being transit point will bring opportunities to the national economy. As a result, attention of foreign investors may draw due to convenient transport linkage with big markets in addition to growth of service sector through this activity.

3.2 Overland Trade of China and India

History of this region shows that Nepal was transit nation to run business between Tibet and India. The bilateral trade of China and India was interrupted after the war of 1962. It was resumed in 1978 and developed after they entered into a bilateral agreement based on MFN in 1984. India had focused trade with main land China because the trade with Tibet was negligible. A Memorandum of Understanding was signed during the visit of Chinese Prime Minister Mr. Li-Peng in 1991 as a result of which the border trade was resumed. Two border points were made operational from the north east of India for India-China overland trade which was confined for the goods of daily use of local resident at the nearby border. The trade is carried within June to October leaving rest of the month's trade less due to high altitude covering with snow. At the time of Peking visit of Indian Prime Minister in 2003 both leaders agreed to open third point that is Nathu La pass in Sikkim. Lepulekh and Shipkha passes were already in operation in India-China border. It is comparatively shortest one from Lhasa. Recently the Nathu La pass has been operational. However, it is very difficult one because of high mountains and snow fall. India's trade with mainland China is increasing every year. The trend of India-China trade is shown in the following table:-

Bilateral trade of China and India (US \$ Million)

| S.N. | Trade/FY April-March | 2001/02 | 2002/03 | 2003/04 |
|------|----------------------------|---------|----------|----------|
| 1 | India's Total Export | 43826.7 | 52719.4 | 63843.0 |
| 2 | India's Exports to China | 951.9 | 1975.5 | 2955.1 |
| 3 | Percentage growth | 14.5 | 107.5 | 49.5 |
| 4 | Share % in total Export | 2.2 | 3.7 | 4.6 |
| 5 | India's Total Import | 514133 | 61412.1 | 78149.6 |
| 6 | India's imports from china | 2036.4 | 2792.0 | 4053.2 |
| 7 | Percentage growth | 35.6 | 37.1 | 45.2 |
| 8 | Share % in total Import | 4.0 | 4.5 | 5.2 |
| 9 | India's Total trade | 95240.0 | 114131.5 | 141992.6 |
| 10 | Percentage growth | 0.1 | 19.8 | 24.4 |
| 11 | Share % in total Trade | 3.1 | 4.2 | 4.9 |
| 12 | Exchange rate Us\$1=IIC | 47.69 | 48.39 | 45.99 |

Source:- Report of Study Committee on Transit point NPC 2005

The above table reveals that in recent years India's Trade with China is increasing. The share in total is also increasing in considerable amount. Import from China is increasing in faster way than before. So India seems eager to improve her export to China. India can probably reach to Central Asian countries which are rich in natural resources such as petroleum and gas economically only through this route. China also is looking the large Indian market for her products. Both are trying to increase their export and import at present. The developing scenario opens certain opportunities to Nepal for being a transit nation. The major commodities of trade have been presented in the Annex 3.

3.3 Prospect of Development of Transit Transport Corridors

The transport infrastructures in northern Nepal are not satisfactory. The southern part of the country has relatively developed road network which provides rail road connectivity in the border. The rail and roads connection with India provides access to Indian seaport. Recently China has completed the construction of Railway connecting Lhasa to Beijing. This railway service will be extended upto Shi-gatshe in near future. Now, Lhasa is well connected by roads to major cities of mainland China. In the year 1962 Kodari highway established transport connectivity to north border by road. It established overland link with People's Republic of China. The road has followed the river trail and it is not so wide and subjected to the problem of land slide in each year in rainy season. It cannot accommodate heavy traffic of huge vehicles. So it will not be comfortable to the forthcoming transit point. There is a need of developing this road. Department of Roads has prepared a plan to develop connectivity with Indian and Chinese road-railway network. Department of Roads has identified eight potential north-south road corridors which are given below:-

Potential north south roads corridors

| S.N | Transit road corridors | Total length km | Existing Km | Need for construction |
|-----|---|-----------------|-------------|-----------------------|
| 1 | Mohana-Dhangadi-Atari-Baitadi-Darchula-Tinkar | 415 | 308 | 107 |
| 2 | Nepalgunj-Surkhet-Jumla-Hilsa-Yari-Purang | 581 | 213 | 368 |
| 3 | Bhairahawa-Pokhara-Jomsom-Korala(Lizhi) | 467 | 272 | 195 |
| 4 | Birgunj-Galchi-Rasuwa-Saprubeshi | 340 | 318 | 22 |
| 5 | Birgunj-Naubise-Kathmandu-Tatopani Nylamu | 393 | 393 | - |
| 6 | Janakpur-Dolakha-Lamabagar-China border | 295 | 241 | 54 |
| 7 | Rani-Itahari-Hile-Kimathanka-China border | 419 | 229 | 190 |
| 8 | Kechana-Taplejung-Olangchunggola-(Rio) | 460 | 268 | 192 |

Source:- Study committee on transit point National Planning Commission 2005

The above table states that the shortest potential transit routes are Birgunj-Saprubeshi and Janakpur-Lamabagar. Bhairahawa-Pokhara-Jomsom Korala routes and Birgunj Galchi Saprubeshi roads are under construction and are supposed to be completed within few years. Mohana Tinkar pass road also is under construction and in Surkhet-Jumla sector and only 107 km is remained for further constructions. After completion this road will bear importance of religious tourism connecting Mansarowar in Tibet. The Jomsom Lomanthang Korala road is only 80 km which is targeted for completion within two years. This pass is only 5000 meters from sea level and very potential for transit purpose. Government of China has committed for the construction of the road from Rasuwagadi to Chinese border. Chinese side has revised the survey and reduced the length of road from 22km to 16 km. The rest part of the road is already connected with highway.

ADB is conducting feasibility study of Dakshinkali-Hetauda fast track road and is going to improve Galchi-Rasuwagadi part of Birgunj-Saprubeshi corridor under their financial assistance this year. World Bank had initiated studies on alternate low cost corridors from Hetauda to Kathmandu but it could not be materialized.

3.4 Benefit and Cost for Transit State

Nepal will get less tangible and more intangible benefits as a transit state. Small towns can be changed into big cities. The customs infrastructures will be improved. Creation of new dry ports may help facilitate the trade integration. It is certain that China will extend rail link to Shi-Gatse very soon, the second biggest city, tourist hub and Seat of Panchen Lama. Distance of Nepal border from Shi-gatshe is 500 km. Thereafter, if it is extended to Nepal border, one dry port may be constructed in Panchkhal or other suitable place in the long run. This is a dream, which may be realized in near future. Recent media news says that China has already been requested to connect Nathu La pass in Sikkim by railway which is 450 km from Lhasa. However, Nepal could be a better choice than Sikkim to reach to hub of Indian market i.e. Central India for China. GON may like to request the Chinese Government to connect the Nepal border at the earliest, which will facilitate in making Nepal transit state among others. If Nepal happens to be the transit state the foreign investor will see prospect to invest in Nepal. The multinational companies may produce in large quantity to capture the big markets of two big economies. It might increase the possibilities of increase in foreign investment in service sector industries. The creations of investment opportunities will strengthen the tax base. The opportunities of mass scale production targeting the huge market eventually will contribute to poverty reduction. Nepal's north side is less developed than the south. Now in a changed political situation, it requires a people centered and decentralized development

strategy, a strong focus on improving this north-south connectivity and needs remote areas to link the economic growth hubs emerging in the mid hills and terai to these areas. This will improve development inputs and improve well being of people with greater efficiency.

To address special problems of remote settlement, government must implement more specific and targeted development program for these reasons. The above transit corridors may also serve one criteria for dividing development region or to make federal zones to Nepal's upcoming restructuring plan of the country physically by political parties. In addition to Nepal's development strategy to reduce poverty, these corridors will also help national integration. Nepalgunj-Surkhet-Jumla-Hilsa-Yari-Purang or Mohana-Dhangadi-Attari-Baitadi-Darchula-Tinkar corridor may yield millions of rupees and indirect benefit by facilitating millions or flood of Indian religious tourists to Mansarovar or Kailash perennially. One prerequisite for this would be establishment of a small Consulate Office in Surkhet or Dhangadi by People's Republic of China to provide visa facility to tourists. It is noticed that some Indian tourists are going to Mansarovar now via Kathmandu.

The transport connectivity among the neighbors contributes to trade integration at regional and sub-regional level. The development of transport infrastructure helps improve supply chain and enhance consumption and supply in regional and sub-regional level. The major benefit to Nepal is to have potential transit status and benefit from economic diversification and expansion. It can enhance the relation with both the neighbors. The northern neighbor China with a population of 1.24 billion and southern neighbor India with a population of 1.05 billion together represent the largest market in the world. Nepal can be benefited with the growing relationship of these countries. The opportunity of being transit point not only connect both neighbors but also opens the access to the central Asia and Russia that are rich in natural resources such as petroleum and natural gas. The development of high speed railways and roads will certainly reduce the time and cost of transit transport.

The new concept of Nepal being transit state also opens up new area of regional cooperation, it is because two big countries are linked through land bridge of Nepal. It will contribute to the concept of Asian Highway also that can connect South and North including Western part of China and beyond up to Central Asia. The maps showing in this connection are given in Annex 5.

Being a transit state is full of challenges. Acting as a transit state for overland trade is not without the absences of disadvantages. The development and management of costly transport infrastructures is a critical task. Nepal government has to develop a lot of infrastructure with huge investment for which donor agencies need to be mobilized. It is doubtful whether the present technical capability can manage the task of transit transport traffic or not. Present transporters or service providers if don't enhance their institutional capacity and competitiveness, they may loss their employments and income. National industries that are enjoying benefit in the name of protection to national industries may have lost their sole benefit. Big investors and business houses may capture the trade and transport sectors leaving the small traders behind. Thus, it is important for Nepal as how to ensure the interest of small business and trade and national security, protect national economy from cut throat competition and control cross border smuggling of goods. To facilitate transit trade between India and china through Nepal a model Transit Declaration Form at the first entry or exit point is given in the Annex 4.

Chapter 4

Transit Policy in View of Accession to SAFTA, BIMSTEC and WTO

4.1 Transit Policy in View of Regional Integration of Trade

Nepal is the member of two regional groups namely SAFTA and BIMSTEC. (South Asia Free Trade Arrangement and Bay of Bengal Initiative for Multi Sectoral Technical and Economic Co-operation). Both the agreements are related to economic, trade and tariff matters and are ready for enforcement. In this age of globalization no country can develop in isolation. For the growth and prosperity of the countries of this region interdependency and the regional integration has become essential. It is necessary to maximize the regional benefit through globalization. For a LLDC like Nepal it is much better to negotiate through regional or multilateral mechanism than bilateral.

The SAARC concept also gave the birth of the concept of Quadrangle cooperation and development in the sub-regional level. The South Asia Sub-regional Economic Cooperation (SASEC) is such initiative. It is moving ahead with the development target of potential trade and economic linkage between four countries Bangladesh, Bhutan, India and Nepal. Development of direct linkage in spite of using Choke point for transit transport is one of the core areas of cooperation of SASEC. Asian Development Bank has conducted many studies to explore comfortable transit route with sufficient infrastructures for trade facilitation. The transport connectivity is very important for the nations at regional or sub-regional level. Similarly, transit transport is the gateway of development of any country specially for the landlocked country like Nepal. Nepal should take care of the regional and sub-regional agreements at the time of formulation the policy. SAFTA and BIMSTEC both are targeting in the increase of regional trade with reduced and lifted tariff barriers and create tariff wall to others. In regional context the issue of transit should be addressed under SAFTA. The Article 8 of the SAFTA relates to trade facilitation but it does not explicitly deals with the details of issue of transit. The Article 8 Sub-article (g) of SAFTA states that transit facilities for efficient intra-SAARC trade especially for the land locked states. Details have yet to be negotiated with member states in view of trade facilitation of land-locked states. There are many reforms to be done. Such as lifting tariff or non tariff barriers on cargoes, development of hard infrastructures, simplification of formalities, reduction in requirements of documents and harmonization of customs procedures are major sectors to be negotiated in regional level.

Only framework agreement has been done in BIMSTEC and negotiations on trade facilitation measures have not taken place so far. The Nepalese government has to be prepared to focus transit issues for facilitating trade through this window as well during the negotiation. It is observed that negotiations in regional forum may be easier than bilateral negotiations in issues like trade, transit and transport matters.

4.2 Transit Policy in View of WTO

Nepal has got membership of World Trade Organization in April 23, 2004. There are certain obligation and benefit of being a member of WTO. In the outset of getting membership Nepal is assured the right of transit as per WTO agreement among other benefits. Article V of the GATT states basic requirement of freedom of transit through the most convenient transit route. The agreement further states that no discrimination will be made on the basis of vessel,

flag, place of origin, ownership of goods or means of transport. The Article further points out that the liability of the transit country is not to impose unnecessary restrictions on transit matters. As mentioned above Nepal has no seaport, therefore, she has been receiving transit facilities from India and since 1997 both India and Bangladesh jointly providing this facility in a limited way. Nepal being a landlocked country it is her compulsion to receive transit facilities for trading with the rest of the world particularly neighboring countries. The Nepalese goods would have to bear extra cost of transport in transit and it is difficult to compete in the world market. So Nepal should develop cheapest and high speed transit transport system. Many countries including Japan, Canada and Republic of Mongolia have made proposal on Article V of GATT. The proposal relates to simplification of transit procedures and use of international standards for trade facilitation. They have made suggestions on trade facilitations by reduction and simplification of documents requirements and procedures for transit. The simplification of documents and procedures resembles to the provisions of Article VIII and it is automatically applied to transit. The documents for transit should be lesser than the documents for importation. Realizing the facts Nepal India transit treaty has tried to reduce the documents, but in practice the documents to be submitted at transit port have not been reduced. As both India and Nepal are members of WTO they should search for the cheapest and shortest transit transport route to facilitate international trade. Nepal, therefore, may also like to seek and utilize the benefit through international window like WTO, SAFTA and BIMSTEC etc. for this purpose. India always put forward the issue of leakage of third country goods into Indian markets. This issue has come in each time of renewal of bilateral agreements without proper other control mechanism except addition in documents and extra procedural controls and it is note worthy that such attempts are not working positively. The Indian Customs has made a list of sensitive goods so that such goods are under closer examination than others and released with full value and duty security. However, such lists are not made public to Nepalese importers and they are always in risk of involvement of huge amount of money. This, in fact results increase in the cost of import and export.

4.3 International Standard on Transit

There are many international practices and conventions for the use of international standard relating to transit transport. The Customs Convention on the International transport of goods under TIR Carnet (TIR convention held on 14 Nov 1975 Geneva) and ATA Carnet (convention Brussels 6 December 1961) are major convention on transit transport of containerized vehicles. The convention on Temporary import was concluded at Istanbul on 26 June 1990. The TIR Carnet is related with road transport document which permits containerized and some time bulk cargo to move through harmonized and simplified administrative procedures as per the convention. In the same manner the provisions of ATA Carnet is made to facilitate import without keeping in view the means of transport goods that are allowed duty free entrance temporarily. For these Carnet arrangements there are some requirements:-

- Goods in Carnet should travel in secured containerized vehicles.
- Duties and taxes “In risk” during the journey should be covered by internationally valid guarantee.
- Goods should be accompanied by internationally accepted Carnet and taken into use in the country of departures serving as control document in the country of departure, transit and destination.
- Customs control measures of country of departure should be accepted by the country of transit and destination.

This type of Carnets certificates are issued by the International Road Transport Union (IRU) of Geneva with the help of the participating country that acts as guarantor. The International Road Transport Union provides TIR plate for the authorized vehicle. There is the absence of such Carnet system at regional level in South Asia. This is time to devise this kind of arrangement in SAFTA or BIMSTEC level.

4.4 Transit Provisions under Revised Kyoto Convention

The Convention has made provision for safe, secure and standard transit customs procedures. Nepal is not still the signatory of this convention. India has signed it with certain reservation on transit provision. WCO always persuades the members to sign the convention. WCO suggests the members if they are unable to sign these agreements due to multilateral/bilateral agreement, however, they should consider practicing the provision of Revised Kyoto Convention as International Customs transit Standard to facilitate trade.

4.5 Provisions of Almaty Program of Action 2003 (Ministerial decision)

This conference was arranged by UN comprising of LLDCs, transit countries and donor agencies. Almaty Program of Action is the latest development in transit related issues of land locked least develop countries. The action program has offered specific action in five areas.

- Infrastructural development and maintenance of it.
- Transit policy frame work and international trade facilitation in order to secure access for LLDCs to and from sea by all means of transport without any hindrance.
- Reduction of trade transaction cost to improve competitiveness.
- Address problems related to delay and loss along transit route.

4.6 Transit Transport Practices of few African Countries

Transit transport system is focal point for facilitation of intra-regional trade, and transport connectivity which is combined with high speed cross border movement of goods. It is very important from the point of view of regional trade integration. Trade agreements of least developed countries has shown concern on the transit problems which are the outcome of too many regulatory process, lack of modern facilities, procedures and hassles at customs points. To mitigate such problems, multi-modal transport system bilateral transit transport modalities have been developed. Two least developed and land locked African countries Zambia and Zimbabwe are major transit countries to southern and east Africa. Central Asia is becoming the land bridge for over land trade between Asia and Europe. The regional transit agreements such as NTCA (North corridor transit agreement concluded between Burundi, Rwanda, Uganda, Kenya and Congo) are the good examples for regional cooperation. NTCA has established joint Transit Transport Coordination Authority to monitor the implementation of the agreement and safeguard the interest of the signatories. At the same time they share the operation cost of the Authority. The Authority provides to the member countries everything possible for the development and maintenance of the transport infrastructures for safe and secured transit corridor. Each country levy tolls for maintenance of their section of the road. They have managed ICD in better way. Trade facilitation and transit management can also be learned with the experience of these countries.

Another Example can be sited SADC (Southern African Development Community) comprising of Mozambique, Namibia Seychelles, South Africa, Swaziland, Tanzania,

Zambia, Angola, Botswana, Congo, Lesotho, Malawi, Mauritius. This regional organization has concluded transport agreement through strategies for transport based development. The target is to be met through transport linkage creation of investment climate friendly and enhancement of private participation. The regional arrangement motivated donors and multilateral institutions have initiated to invest in this region especially in transport sector that leads to the development of trade as well as transit facilities.

4.7 Experience of Central America in Transit Transport

An example of Central American Economic Integration is also note worthy here. Guatemala, El Salvador, Honduras and Nicaragua, signed General Treaty on Central American Economic Integration in 1960. Article XV deals with the provisions of Transit and Transport. The treaty tries to ensure full freedom of transit through the territory of signatory without deduction, discrimination or quantitative restriction. Transit operation shall be carried out by the route prescribed by law applicable in the territory of transit. The transit goods shall be exempted from all kind of duties. But such transit cargo may be liable for the service charges applied as the service rendered there.

4.8 Some Points for Negotiation with Regional and Multilateral Organizations like SAFTA, BIMSTEC and WTO etc

Nepalese authorities have to participate and negotiate in different bilateral, regional and international forums. They need a lot of homework for taking part in such negotiations. At times, negotiators do not get much time for detailed preparation. Keeping in view of such difficulties some outlines have been suggested below to bear in mind before participating in such international/regional/bilateral forums for negotiation on trade facilitation including transit matters.

- Secure access to and from the sea by all means of transport including transit receiving country's mode of transport such as trucks and with minimum port clearance fees.
- Reduce cost and improve the quality of service to increase export competitiveness.
- Reduce the cost of delivery of imports in the territory of transit providing countries.
- Address problems of customs and port authority's bureaucracy, delays and uncertainties in trade routes and seek least cost alternate corridors.
- Address the issue of loss, damage, pilferage and deterioration en route.
- Request to open the way for export expansion i.e. to provide preferential entry of LLDC's goods.
- Address the issue of safety of roads, transport and security of people along the corridors.
- Address the issues of infrastructures like rail, road, pipelines and transmission line etc.
- Seek technical and financial international assistance to improve infrastructure and policy matters.
- Harmonize procedures, documents and load bearing standards of trucks, system of EDI within the region.
- Try to reduce fees and formalities connected with importation and exportation, as envisioned in Article VIII of WTO in relation with traffic in transit as well.

Chapter 5

Constraints for Further Facilitations of Transits trade

5.1 Status of constraints for Transit Trade Facilitation

The transit transportation and trade is surrounded by a lot of constraints or impediments. Being a land-locked country Nepal has to face multiple types of problems. Such problems may be in policy, institutional, infrastructure, legal and procedural matters. Major impediments are given below:-

5.1.1 The Policy Constraints

There is no specific transit transport policy of Nepal as she is not a transit giving country so far except as mentioned in 2.1 above. Being a transit receiving country she has to bear prohibitive transit cost at present which naturally obstructs flow of trade and increases the cost. Unnecessary delays at different stages and need of plethora of documents and different charges legal and informal at different parts irritate not only the traders but observers like us. It is felt that our negotiators are frequently transferred and there is lack of confidence in negotiation with the foreign counterparts. They do not have sufficient information and preparation in the process of negotiations in the relevant forums. As a receiving country we must negotiate efficiently to get better concession from the other side. There is a lack of efforts in identification of high speed railway line and roadways'. Government policy and action plan of transport development inside the country and achieving the easiest and cheapest route for facilitating foreign trade is lacking, for example north-south corridors already identified in this report. The GOI has agreed, in principle, to provide Bombay ports, which has not been implemented so far. Without this facility west bound cargo has to move via Singapore or Colombo, which naturally causes extra time and cost for our cargoes.

5.1.2 Institutional Constraints

Transit providing and transit receiving countries need continuous touch in transit trade matters. The problems of transit transportation arise at any time without any pre-information. So to address the day to day problems there is a need of joint institutional set up such as IGC meetings, Customs co-operation mechanism or other committees between two countries. These committees comprise of different institutions. Experience shows that these meetings are practically held in the agenda of transit countries and not the vice versa. Presently IGC meetings hardly meet in time as expected every six months in the treaty.

There is no joint arrangement of the use of electronic information. There is a lot of scope to improve electronic exchange of information. It may be noted that dispatch information of railway has to be waited for days even after arrival of the train from Kolkata to Birgunj. The transit transportation job is very risky one and it needs responsible corporate transportation organization with good reputation. The cost of undertaking can be reduced by the use of well established transport system which is lacking in transit system of Nepal. Another institutional constraint is the lack of the mechanism of regular review of documents for export and import. Customs and commercial organizations and freight forwarders also need to be reoriented to facilitate transit trade.

Regular formal meetings between NCG, KPT and Kolkata Customs at Kolkata do not take place frequently to sort out operational problems.

Birgunj ICD was constructed with the assistance of the World Bank and GOI. This is a rare project to reduce transit cost and time in which almost one billion rupees were spent. Unfortunately, such an important infrastructure has been under utilized. It is the finding of the consultant that a nexus of vested interest groups has not cooperated to fully operate the dry port.

At the same time there is a lack of knowledge of transit transportation to the importer/exporter too. There is no any specific institution that provides technical or specific training to the transit operators, freight forwarders or importer or exporters in the country.

5.1.3 Constraints on Infrastructure

There are poor road conditions between Kolkata India to Nepal borders and Bangbandh-Fulbari to Kakarvita Nepal. This causes significant delay of traffic movement. That is why the transit time to Kolkata is required for exports is not less than 7 days and some time it exceeds. Transit transport operators note that it should not take more than two to three days for such a distance. The bad road conditions in Bihar contribute about one day delay for transit transport. Overloading in trucks also play role for delay in transit transport. Overloaded trucks do not move at day time to avoid penalties. This reduces the penalties at the cost of transit transportation. So there is a lack of high speed railways and roadways for transit transportation. Realizing the fact the 11th session of SAARC council of Ministers (Colombo 1992) decided to improve transport infrastructures to facilitate the trade. Although the Committee on Economic Co-operation deputed a study on existing transport infrastructures but the improvement has not been materialized still now. The Tenth Development Plan realized the inability to bring Kakarvitta-Fulbari-Banglabandh corridor into proper operation. However, Government of Nepal accorded important priority to develop connectivity in the region. Nepalese and Indian Governments have entered into an agreement to develop facilities, infrastructures and support at four major Customs point of Nepal corresponding Customs stations of India. ADB has agreed under the Sub regional Transport facilitation Project, to construct road based ICD at Kakarvitta with modern facilities.

In infrastructural development public private partnership is always high sounded in development speeches, but it is hardly materialized. Customs warehouses and yards at Biratnagar and Bhairawa were constructed by the government and contracted out to private operator on lease. But there is no enthusiasm of participation by private sector in infrastructure development, as the entrepreneurs are basically interested to involve in quick return activities.

There are bottlenecks in physical infrastructures including gaps in road and rail links, narrow bridges and maintenance of them. There is lack of simple transshipment facilities in the border areas. The wagons are not available at proper time.

In Indian and Bangladesh side there is incompatibility of rail gauge and varying load bearing standards of vehicle. There are problems on cross border transshipment and complicated and time consuming procedures causing delays and congestion.

5.1.4 Administrative Constraints

There is inflexibility of customs operation hours in Kolkata port. Customs office is closed after 17.00. In most cases cargo that arrives after this time has to wait until the next day. There are a lot of administrative hurdles in Kolkata port. There are multiple checking agencies at the border. It affects the total transit time. The transit facilitation speed depends on the administrative capacity of the concerned country. The extra payment in transit entry point and exit point is another irritating factor to the importers/exporters and their agents. ADB on its study (2005) indicated that such illicit payment exceeds 10% of the total transport cost along Kolkotta/Haldia-Raxual-Birgunj-Kathmandu corridor. This is considered a major constraint which arises out of corrupt administrative set up in transit transport. There are multiple checking agencies which impede the transit transport. The available important ports Chittagong, Kolkata and Mongla are not efficient in operation, in fact, they are river ports. They have insufficient hinterland linkages.

Nepalese importers have to pay the penalty charges not only for delaying portion of cargo but also on the whole cargo, particularly in large and bulk cargo, when these are transported part by part or partial shipment.

Demurrage charge is taken at Kolkata port for transit goods lying uncleared due to conditions beyond the control of the importer like labor strikes.

There is no provision of allotment of railway wagons on priority basis for the loading and transportation of Nepal's transit cargo at Kolkata/Haldia ports as importers are facing problems due to the insufficient and delayed supply of wagons.

There is the absence of timely clearance of documents by Kolkata customs in those cases where minor discrepancies in documented tonnages, pieces, amount and date which do not tally with the L/C details submitted to them. Such minor discrepancies delay the clearance of documents and cause to demurrage charge at the port. According to the treaty Nepali cargoes are not subject to state tax of Indian States. However, IRs. 7200 is charged by the Bihar State on imported vehicles which is illegal and financial burden to Nepalese importers.

5.1.5 Lack of Co-ordinations in Information Sharing

There is no system of transmission of customs data between transit receiving country and transit giving country. This is causing non conformance by customs authorities and resulted delay in release of goods though, in practice, if adopted it is very simple. There is no clear cut mechanism of data exchange between Nepalese and Indian Customs. The coordination is needed not only among border customs and central government at Delhi and Kathmandu but also it is needed with state governments en route and final destinations to facilitate transit transport. Also this lacks among government departments and related private sector organizations. Advanced cargo information systems has not been implemented properly which has impeded the transit clearance in time.

5.1.6 Procedural Constraints

The transit procedures are not uniform in line with Kyoto convention and WTO rules. Transit documents and other procedures are not compatible with international standards. There is no definite regional level standard. Customs cooperation under SAARC has made provisions of

Bilateral Agreement on Customs cooperation; however, it is not practiced by its member states. The Customs authorities, multi-modal transport agencies do not use the combined Transport Bills of Lading to make transit procedures easier and reduce the need of inspections. The single Bills of Lading allow door to door shipment and the issuing agent takes responsibilities for arranging the inland transport too. Use of International shipping companies can choose appropriate and reliable transportation companies for the onward journey of the cargo in transit. There is a need of improvement in transit procedures, reductions in the number of documents and too many signatures. An efficient monitoring can help to reduce illicit payments here and there. Similarly the clarity and transparency in procedures may help reduce complexity and inconsistency that leads to corruption practices.

5.1.7 Legal Constraints

The legal framework of Nepalese Customs is not updated in line with WTO system of Customs Valuations so far. Nepal is not the signatory of Kyoto Convention and Convention of Harmonization of Classification and Coding System. However she is to adopt the system as per international practices. To address the immediate constraint she can improve the legal systems. Harmonization of legal system can be achieved within the framework of regional organization. The requirement of common provisions can be incorporated in bilateral agreement. The provisions of transit transport has not been mentioned in the Customs Acts of the concerning countries. Loading standard is not mentioned in the act. Although the Article V of WTO/GATT agreement has stated the provision of freedom of transit but the member countries have not incorporated the provisions in their national legislation. Article VIII of the same agreement has made the provisions of charges and fees not on the basis of ad valorem but such charge are levied on the basis of services provided in the port. The transit providing and receiving countries have not improved the legal provisions still now in this regard. There is no multi-modal transport operation act so far in Nepal. The another legal constraints is unilateral notification of GOI on transit and customs matter that effect transit transport of Nepal.

5.1.8. Cost and Time Constraints

Transit cargo has to bear with different type of visible and invisible cost components. The study here tries to deal with visible cost components only. A study on Multi-modal Transit Transport and Trade Facilitation Project conducted by RITES India has explained the transit cost cycles in detail above in 2.7.3. Handling charges and transit transport cost are known as major cost components before running Birgunj ICD, destuffed cargo used container trucks and the handling charges increased more than the directly delivered sea container.

The time taken on transit has been given in 2.6 above. The longer the time taken in transit implies high cost to the cargo. On the other hand, many studies have mentioned long time is taken on transit. It is obvious that it affects the costs. No one can be convinced in that it takes 14 days from Kolkata to Kathmandu and 7 days for Kathmandu to Kolkata for a cargo in transit in normal situation but it is experienced by Nepalese traders.

5.1.9 Constraints on Transit Transport Route

There are many hurdles in different transit transport routes in India. In the transit route Kolkata/Haldia-Raxual sector there are two routes as per annex A point 8 of the transit treaty. One is Kolkata-Jasidih-Kiul-Barouni-Raxul. In this route road at Kiul is very narrow and

takes time in transit. Another route is Kodama Ghati which passes through hills and is very difficult for long truck tailors. So there is a need of a new route identification. Likewise there is problem in Chittagong Birol with meter gauge railways and the Brahmaputra River (Jamuna) which should be crossed by Ferry (It is noticed that recently the bridge construction has been completed). It is very expensive one. So to solve the problem of this route alternate route should be identified for trade via Bangladesh. There is load limit restriction in trucks (16.2mt for general trucks and 19 mt for Multi Axle trucks including truck loads) in Phulbari-Banglabandh transit route in Indian sector which covers only 54 Km. For such small distance the load limit is very restrictive. It does not facilitate transit trade. The escort system in this route is very expensive and it creates transit hassles. The present system of cargo loading and unloading at the zero point of India-Bangladesh border is creating problems though the land port facility at Banglabandh is located just few meters away from the border. Similarly the Charter Vessels carrying Nepalese cargo has to wait 10 to 15 days for allotment of proper berth in Kolkata. Such activities always result into increase demurrage charges. So for the smooth and fast movement of transit cargo is concerned alternate facilities are required in the port.

No attempts are made to find out possible air-sea-bridge as an alternate modality of transit between Nepal and Bangladesh. Air cargo from Biratnagar to the nearest airport Sayedpur (Bangladesh) can be more cost effective than from Kathmandu or land route. A serious study in this regard is lacking. There is a lack of tri-partite agreement between India, Nepal and Bangladesh on transit matter.

Kolkata and Chittagong are both river based ports. Loading capacity is higher in Chittagong. However, all import cargoes have to be transhipped at either Singapore or Colombo and carried in small ships from both ports for mainline operation in big vessels. In the same manner small ships carry the export cargo from these ports and transhipped either in Singapore or Colombo port in big vessels. All these activities incur extra cost.

India had allowed to use Changrabandh-Burimari route for transit purpose to Bhutan. The route later on came into operation for Indian cargo too. That made the point busy and operational. Fulbari-Banglabandh route is in operation only for Nepalese cargoes. The port has not been fully developed as Indian cargo is not allowed from this point.

Instead of Radhikapur-Birol alternate transit point Rohanpur-Singhabad is very feasible because the bridge at Jamuna river is recently completed and there is broad gauge rail connection with Indian border. This point has not been allowed by India in the existing transit treaty.

5.1.10 Constraint on transit treaty

Access to the high sea without any impediments is the right of a land-locked country. International Convention such as UN, GATT, WTO, SAFTA and revised Kyoto Convention and decision of Almaty Conference 2003 have spelt out it clearly. Bilateral agreements can facilitate it without keeping in risk to the economy of transit country. The present transit treaty seems to be control driven and with fear of trade deflection in India. The automatic renewal provision in the treaty is full of arbitrary conditions. It keeps the transit receiving countries in the risk of termination, without financial justification and thereby political reason. Provision of automatic renewal in the treaty has not been agreed in time in the past. This is against the spirit of international convention and practices and message of this to

traders, investors and other actors of economic sectors are negative. Sometimes, there are constraints in using cost-effective corridors due to bilateral protocols and agreements.

5.1.11 Lack of Mobilization of Private Sector in Transit transport

Post operation and transit transport handling is a technical job which can be handled effectively by private sector. In the present situation, private sectors are not involved in such activities. Government involvement in transit transport should be only promotional. The private sector operator can reduce cost and time of transit transport system, if they are involved from the beginning of policy making process which is lacking so far.

5.2 Prospect of Attaining Easy and Low Cost Transit Transport

In the midst of impediments and constraints there are prospects of improving present status of transit transports. The traditional relationship with neighboring countries is one of the major strength to improve the present facilities to meet demand of foreign trade. In addition to bilateral arrangement with India, compliance of the provisions of Article V and Article VIII of GATT/WTO agreement and further negotiation in trade facilitation in WTO and regional forums will exhibit the prospects of improvement of transit transportation system of Nepal. The prospect of regional and sub-regional arrangement of trade facilitation also shows new prospects for further development. Nepal is emerging as a transit point between India and China, the huge neighboring countries which are expected to provide liberal facilities. Under SASEC the sub-regional transport development is being initiated by ADB. It also helps develop low cost transport system, that is, priorities are provided for the improvement of transit transport. There are following areas of improvements and, therefore, exhibits prospects of attaining easy and low cost transit transportation facilities in Nepalese context:-

- It is hoped that traditional link with India will facilitate the Nepalese traffic in transit if we negotiate effectively with them.
- Possibility of development of high speed connectivity in sub-regional level.
- Prospect of research and study to find out the shortest and safest transit route in low cost
- Prospect of development of new transit routes for the mutual benefit of transit receiving and transit providing countries.
- Possibility of harmonization even in tariff rates with 10 percentage point plus minus with some exceptions like vehicles, cigarettes or alcohols etc. so that there will be no deflection of goods between India and Nepal, which naturally avoids suspicion of deflecting the goods in transit and will allow to reduce some number of documents and to reduce duty insurance premiums as well. It may be noted that the present Transit Treaty and its protocols and memorandum were designed where there was closed economy in India and had slightly liberal tariff regime in Nepal. Therefore, in the changed context the protocols and memorandum need to be rewritten.
- There is possibility of reducing unnecessary documents requirements in the transit ports and customs.
- The possibility of harmonization of formalities and procedures in ports, as regional arrangements are fully operational.
- Prospect of development of corporate transportation system to make the transporters responsible for undertaking for the goods in transit, for example deflection or pilferage of cargoes transported by railways should be taken responsibility by railways and not by the traders. Now railway does not take such responsibility.

Chapter 6

Recommendation on Transit Policy Improvements

6.1 Recommendation on Policy

Nepal is a transit receiving country so far and she has never experienced the problems of transit country. Generally there arise many bilateral issues between transit provider and transit receiver. Since a long time Nepal is using Indian transit facilities as per the bilateral agreement. Now, it is the right time to look at the days back in history and offer transit facility to India and China as expected by them. It may also be mentioned that while in the process or negotiation for renewing the transit treaty between Nepal and India in 2006, Nepal has offered Indian traffic in transit through Nepal as requested by India. It is not decided so far about formalities to be fulfilled by India in this connection. Recent discussions to provide transit service between India and China for their bilateral trade and Nepal's consent to allow Indian traffic in transit through Nepal are important events. Recommendations on policy improvement on transit arrangement are mentioned as following:-

6.1.1 Prepare Transit Policy

Except as mentioned above in 2.1, there is no specific and clear transit policy as such in the government because Nepal is basically transit receiving country. Nepal is also the member of many multilateral and regional organizations, therefore, she can negotiate through the window of these institutions. Until now only the provisions of transit treaty with India has played a role of transit policy. Now, Nepal is going to offer transit route to India and China and needs clear cut transit policy. Honoring provisions of multilateral resolution and bilateral treaty Nepal should adopt the policy of reciprocity in transit agreement. Thus, transit receiving and providing countries should have win-win position. However, in practice, policy makers and administrators have to ensure the benefit and minimization of adverse impacts. For this purpose, there is a need of proper policies and procedures. If we take the transit policy experience with India there is a possibility of convincing the other side to control deflection of goods in transit by harmonizing tariff policy itself between the two countries i.e. tariff rate with 10 percentage point plus minus even if the levying of customs tariff is a sovereign matter. Of course there may be few items of sensitive nature which may not be possible to harmonize their tariff rates. However, LLDCs like Nepal are supposed to get preferential treatment for their exports making them more competitive. Similarly they expect technical and financial international and bilateral assistance in terms of knowhow and money for infrastructure and policy improvements including in transit matters.

The transit policy should be guided by the objective of transporting goods through least cost corridor. For this purpose focus should be given to develop North-South high quality roads, i.e. develop roads at least with one railway connection.

6.1.2 Competitive Transit Policy

Modern age is the age of competitiveness. The trade and industries can survive if they can compete in the market. The single transit route seems full of risk so to compete in the transit cost multiple routes should be explored. The policy should be reoriented making it liberal so as to provide or receive low cost and high speed transit transport. To serve this purpose

regular research and field studies should be conducted. The policy of finding alternate route should be carried. Joint studies by both transit providing and receiving countries are suggested to address the problems of transit transport and update by using modern technology and international practices. For example, Bombay port is undoubtedly cost effective for west bound cargo of Nepal. India has already allowed using these ports, in principle, and only procedural details have to be worked out. So far as Bangladesh route is concerned, it is understood that Rohanpur-Singhabad is better alternative than Radhikapur-Birol route. However, detailed procedures have to be developed. It is noted that once this route was used by Nepal and found cost effective and easier.

6.2 Institutional Strengthening

Problems on transit may come up at any time which can be addressed with the mutual cooperation of transit providing and the receiving countries if both are ready for better institutional arrangement including at the transit point. Joint institutional arrangement is suggested for this purpose. Proposed Customs Co-operation Agreement with India is long waited which has not yet been finalized. To simplify the customs procedures it is very essential especially for transit purpose. Information of the goods in transit can be passed to each other before hand to ensure the fast movement of the cargo. The theft or pilferage in the transit transportation can be traced out with joint efforts and exchange of information. All field offices, customs ports and freight forwarders and other related institutions should be reoriented to facilitate the transit trade. Present IGC should meet every six months as scheduled in the treaty.

There is a need to develop a mechanism for organizing regular formal meetings between NCG (Nepalese Consulate General), KPT and Kolkata Customs at Kolkata that will help to sort out operational problems.

The only dry port in the country at Birgunj has to be fully operational and the nexus of vested interest group, those who want to see the failure of ICD i.e. truck owners, customs agents and staffers in both sides has to be dismantled by the government with the cooperation of other stakeholders.

There is a need of developing manpower in transit transport and foreign trade sector. In this regard, establishment of an Institute of Foreign Trade covering all aspects of foreign trade including transit transport is recommended either in government sector or with PPP.

6.3 Recommendations on Improving Administrative Capacity

The administrative capacity of Nepalese Customs and transit managers is not high and efficient as expected. They are lacking basic knowledge of handling the problems of transit. The administrators are not oriented and conscious on cost and time of transit. The administrative capacity building is a major task of developing country like Nepal. The Indian side may be requested to make arrangements at border customs for scrutinizing the delayed submissions of CTD so as to levy penalty charges only on the portion of delayed entry of cargo and not the whole cargo. The following recommendations are made on this issue:-

6.3.1 Reorientation on Trade Facilitation Measures

Trade facilitation can not be carried out in vacuum. There are certain basic principles of trade facilitation which should be followed. Transparency of procedures, dissemination of information, non-discrimination, simple rules and procedures, co-operation with each other, consistency and predictability constitute the trade facilitation principle. Mr. Wilson Mann and Otsuki has derived indicators of trade facilitation that can measure in four major categories that is (1) port efficiencies (2) customs environment (3) regulatory environment (4) e-business usage. These reflect the areas of trade facilitation too. As this is a transit issue positive attitude of the other side is also extremely important.

6.3.2 Reorientation on Customs Control

Modern Customs control should not be based on too many documents and hassles creation. It should be based on modern information and exchange of it through electronic media. Therefore, there should be balance between Customs control and trade facilitation so that unnecessary documents can be avoided. In fact, trade facilitation should get the priority.

6.3.3 Waiver of demurrage charges at Kolkata port for transit goods lying uncleared due to conditions beyond the control of the importers like labor strikes.

6.3.4 GOI may be requested to allot railway wagons to Nepal cargo in transit on priority basis.

6.3.5 There is a need to expedite timely clearance of documents by Kolkata Customs where there are only minor discrepancies in documents so that it may not cause demurrage charge at the port.

6.3.6 It is suggested to eliminate IRs. 7200 charge levied by the Bihar State on imported vehicles of Nepal. It is not the subject of State taxes according to the treaty. Indian states on transit route usually demand documents for state tax purpose. Such hurdles need to be removed immediately by negotiation between two central governments.

6.4 Recommendations on Improving Infrastructures

Transit trade is always concerned with efficient transport infrastructures. Physical infrastructures especially roads and railways links are necessary. The construction of high speed quality roads and broad gauge railways line is capital intensive affair. It will engage a lot of capital and labor and time for the construction. The development of any country depends on the physical infrastructures. The load bearing quality of existing roads in Nepal can be improved to meet the present need of the country. Bilateral agreement can be concluded to improve the quality of the roads of concerning countries by the respective government for mutual benefit. By pass roads can be developed to reduce the time and cost of transit. For this purpose a research group of transit transport expert can be formed. Regular maintenance and construction of high quality and high speed roads and railways is suggested. The border Customs facilities should also be improved so that the clearance cost can be reduced. In addition to this the following reforms are suggested:-

- There is a need of additional customs infrastructures at Araniko highway and upcoming Galchi Saprubeshi road and other possible points

- There is a need of bilateral understanding of road improvement and railways upgradation in Indian side. The railways lines and roads should be upgraded keeping in mind the transit route to Nepal as well
- As Lhasa has been connected with railway line and Shi-gatshe is going to be connected in near future. Nepal need to request China to connect Nepal border by Chinese railways, the distance is only near about 500 km from Shi-gatshe.
- Border Customs of both China–Nepal and India–Nepal should develop the Customs infrastructures such as Customs yards, sheds, warehouses etc.
- Ensure the efficient transit transport infrastructures. It is very essential to attract transit traffic. The cost and time effective transport system is the backbone of transit facilities. So the North-South road should be further broadened in double lane from the existing single base.
- Keeping in view of delay in getting railway wagon in Kolkata in time, efforts should be made to purchase ourselves by the government or on PPP certain wagons to facilitate transit transport.
- Diplomatic effort should be made to connect Nepal with Asian railways covering east-west and at least one in the north-south corridor.

6.5 Recommendation on Increasing Co-operation

The transit receiving and providing countries are related in trade and transit matters in day to day affairs of transit arrangement. So mutual co-operation should be increased to facilitate transit transport. There should be institutional arrangement as mentioned above in each port to look after the problems which arise in Customs or in port or in Dry port. Information of any cargo can be passed on mutually agreed basis. The authorities of port and customs and concerning agencies of transit receiving country should meet time to time to monitor the hassles created in transit clearance for the faster movement of cargo.

6.6 Recommendation on improving procedures

It is proved that transit procedures play major role for trade facilitation. The fast movement of freight vehicle depends on the Customs procedures, service charges and other safety measures. The documents requirement for transit cargo destination to export should be lesser than the documents required for importation. So it is suggested that the combined bill of lading or transport bills and Customs Transit Declaration may be sufficient for transit cargoes. The procedures of transit as well as the customs clearance at customs should be simple, uniform and as per international standard. So the priority should be given for bilateral or trilateral agreement with China and India and Bangladesh to make the procedures simple, uniform and compatible with international standard. The prevailing procedures are already established and need modifications to make it compatible with the provisions of WTO and international conventions. In the case of Chinese cargo entering into Nepal for the final destination to India or the Indian cargo intending the final destination to China the transit procedures should be simple. The proposed declaration form is mentioned in the Annex 4.

Indian customs are using EDI System. All information from Kolkata customs can be interchanged electronically to Raxaul at every stage. So complete submission of documents can be made at one place and sent to points like Raxaul customs.

6.7 Recommendation on Legal Arrangements

All the countries of this region are members of WTO. They are bound to follow the rules and principles internationally accepted. The international conventions on transit transport have not been mentioned in the legislation of the countries. The problem of language with China may be one of the hassles in transit trade. So there is a need of the law or rules on transit trade and customs that should be developed in common language that is in English. All the concerning countries should incorporate the provisions of international conventions in their laws. Nepal also should formulate her transit law. The transit legislation should be updated and harmonized with a view of cross country transit and to harmonize tariff to the extent possible and reduction of non tariff barriers. The transit services charges and insurance claims or other charges if not harmonized can play the role of non tariff barriers. Multi modal transit Operation Act must be promulgated by the concerned states. This act should open the door for issuing Bill of Lading at ICD and import of goods on CIF basis to ICD.

Notification relating to transit transport should be provided beforehand to Nepal Government. Thereafter it should be informed to the importers/exporters and freight forwarders.

6.8 Recommendation on Reducing Transit Cost and Time

The major transit costs components are transit handling charges and the transit transportation cost. The transit transportation cost can be reduced by the application of two major reforms. (1) Reform in transit transport situation as per the International conventions. (2) The cost components can be reduced by the infrastructural reform. Such as the detention charges and inventory charges can be reduced by increasing the administrative efficiency. Transportation cost can be reduced by the development of transport infrastructures with high speed railways and road transports. Duty insurance rate may be lowered as there is no claim, in practice. The present rate was fixed when there was high tariff in India. As India has lowered tariff rate every year after 1990 the duty insurance rate should be further reduced.

Similarly, excessive time taken for exports and imports in transit from Kathmandu to Kolkata and vice versa can be reduced by improving procedures and documents as recommended in the report with the co-operation of customs and ports including private sector institutions like freight forwarders' association.

6.9 Recommendation on Identification of New Transit Transport Routes

To solve the problems of transit routes as stated in constraints section, the alternate fast tracks should be identified For this purpose following suggestions are made:-

- There are two routes at present in Kolkata/Haldia-Raxual corridor. Both routes have proved quite difficult and time consuming. Hence, a new route Kolkata – Dunlopbridge – Barrackpore – Krishnagar – Malda – Raigunj – Dalkola – Purnia – Muzafarpur – Motihari – Raxual is suggested to facilitate transit transport. Now, chartered vessels carrying Nepalese cargo have to wait for 10/15 days to get berth in Kolkata. To solve this problem it is necessary to provide facilities of priority berth. It should be proposed with the Indian counterpart.
- Two time transshipment of cargo through Birole Parbatipur sector in Bangladesh and to use Radhikapur route is full of hassles. To correct this Rohanpur - Shinghabad

railway line can be alternate route which will be easy to reach Mongla port in Bangladesh. This route was once used on the request of Government of Nepal and was found very effective too.

- There have been some problems in Panitanki-Phulbari-Banglabandh corridor. Treaty allows only 16.2 mt trucks and Multi axel trucks of 19 mt including the load of trucks. The route to Banglabandh is only 54 km. It is recommended to increase the truck load from 16.2 mt to 18 mt and 19 mt to 22 mt. The escorting system from Panitanki to Banglabandh should be removed as it is extremely expensive. In place of bank guarantee for the goods in transit Government undertaking or bond should be allowed. The road and customs yard at Banglabandh should be improved. The Indian and Bangladeshi side may be requested to permit entry of Nepalese freight vehicles from zero point in Indian border to few meters away at Banglabandh where there is land port facilities to load and unload the goods.
- A comprehensive study is suggested for the identification of alternate air-sea-bridge route from Biratnagar to the nearest airport Sayedpur, Bangladesh. Such alternate transit transport modality has to be studied at the earliest.
- It is necessary to develop east west railway linkage so that it will facilitate East Indian States to transport their goods to Western and Northern States of India through Nepalese route which becomes more cost effective and less time consuming. Thus, the dependency can be changed into inter-dependency.
- To make the transit points, provided by Bangladesh operational, a tripartite agreement with India, Bangladesh and Nepal is recommended.
- Develop at least 5 regional north south corridors targeting road connectivity from southern sea to China and Central Asia, through Nepal.
- Bangladesh has developed ICD at Dhaka which is equivalent to Chittagong for practical purposes. A study and negotiation on development of a new transit route from ICD Dhaka to ICD Birgunj is suggested.
- Under SASEC recommendation there is a provision of creating transit transport hub at Siliguri. It is suggested to take initiative to operationalize the recommendation.
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- The alternative gateway would be Chennai for east-bound cargo which will avoid to send our cargo to Singapore or Colombo from Kolkata or Chittagong for transshipment in big vessels and JNPT (Navasewa)/NSICT for west bound cargoes. Chennai does not give significant offer in terms of shipping services right now and is in far distance to use land route. However, in the long run once this port is developed as a hub port by India it will be extremely useful for east bound cargo. Navasewa on the other hand offers superior services to west bound cargo. So it is recommended to use JNPT (Navasewa) as an alternate route as early as possible.

6.10 Recommendations on the Provision of Transit Treaty

All provisions of transit treaty should keep balance with transit facilitation and control of deflection of trade or pilferage. The traditional notion of the treaty particularly long procedures cannot meet the present need of trade liberalization and development. The right of

transit should be protected by the simple and automatic continuation of the treaty. Any other bilateral issues should not affect the part of transit treaty. As transit facility to a land-locked country is of permanent nature as mentioned in multi-lateral resolutions and agreements there should not be any kind of “if”, “but” and “unless” to provide automatic renewal of the treaty on transit.

6.11 Recommendation on Providing Transit Facilities to India and China:

As has been discussed earlier in Chapter III above, it is recommended to provide transit facility to India and China for their bilateral trade. This will help promote investment and service sector, develop infrastructure in remote areas and reduce poverty in these neglected areas hitherto.

6.12 Recommendation on Private Public Partnership in Transit Transport Operation

Join hand with private sectors through collaborative approaches for infrastructure development. Public sector should facilitate private sector capacity building task to handle transit transport and should make bilateral and multilateral or trilateral negotiations to improve transit infrastructure. Private sector on the other hand should take responsibilities of managing transit transport and land port facilities and other financial and operational services at the border and inside the country. Appropriate modalities can be developed in consultations with the government. Facilitate private sector capacity to contract, handle, and transport the country's foreign trade. Interact on a continual basis with private sector through trade associations. Private sector to keep government informed through trade association of constraints and realistic needs. Private sector should be encouraged for providing efficient and effective banking and financial services at borders and storage and warehousing facilities. Private sector can manage and improve container operation and facilities, which has not been very effective in terms of utilization and maintenance of infrastructure. Improve port efficiency, joint planning and upgrading of port with private sector participation.

Conclusion

Nepal's nature of land-lockedness is different with that of many countries.. Basically, we are locked by one country. The modes of all transport to and from Nepal has to pass only through landmass i.e. there seems no possibility of navigating even small ship up to Nepal border like in some other landlocked countries where transit is facilitated by big rivers in the absence of sea, which is a subject for further study. Transporting by land is ten times expensive than by ocean. With this background, Nepal has been doing her trade through Kolkata, which is the nearest sea port from Nepal.

There are several multilateral resolutions, conventions and agreements to deal with the problem of land-locked countries. This issue has also been recognized by regional organizations like SAFTA etc. These resolutions and agreements emphasize right of access to sea for land-locked countries. This is the basis of our transit policy. Details are worked out with bilateral transit treaties, though in a controlled way, focusing trade deflections than trade facilitations.

Nepal has been doing third country trade through India under a Transit Treaty, which used to be combined with trade treaty until 1978. Since then, a separate Transit Treaty is in existence. Protocol and memorandum of this treaty are guided by mindset of closed economy with high tariff wall on the other side. Now, India has also been transformed to a quite liberal economy with very much reduced tariff and other liberal regime. However, the language of provisions of these protocols and memorandum have not been changed correspondingly for quite long time. Therefore, we should take initiative to negotiate to rewrite these documents to suit the present day liberal regime requirement.

As both Nepal and India have been reducing tariff rate significantly after 1990, it is advisable to harmonize even tariff rates with 10 percentage point plus minus. Nepal can take initiative to this effect because Nepal will benefit more by its effects. If this is realized transit protocols and memorandum will be simplified further, duty insurance premium will be reduced, and time including cost will be saved in the process. Thus, trade will be facilitated and Nepalese resources will be saved. As both Nepal and India are WTO members, they are supposed to reduce tariff rate further.

It is ironical not to be able to fully operationalize the Birgunj ICD by us. The government may take strong steps to effectively run it as soon as possible. Let us not apply Nepalese proverb "Maal Payera Chal Napaune" or do we like to be simpleton?

Alternative transit routes like Bombay, which has been agreed by India, in principle, and Rohanpur-Singhabad has to be operational by negotiating details with India and Bangladesh. These will naturally reduce cost for East-bound bulk cargoes and trade through Bangladesh route.

Provision of automatic renewal of transit treaty with India is in compliance with permanent nature of transit facility and understanding of UN resolutions and WTO agreements. If there are operational problems in between, this can be solved through IGC meetings. Therefore, it is suggested to remove any "if", "but" and "unless" with regard to automatic renewal of the treaty.

Fulbari-Banglabandh route has been only decorative or having only sentimental value for us until now. The reason for this is procedures allowed for this route is one step forward and one step backward. Therefore, we should renegotiate with India to make this route practically operational as suggested in this report.

Development of transit corridors is also a development strategy for Nepal. This may also help to restructure the country physically. This is not only designed to give transit facility to India and China. If India and China ask transit facility through Nepal it is recommended to provide with liberal and simple procedures.

The decision to open Nathu-La pass between Sikkim and Tibet was made in 2003 whereas government of India requested Nepal to provide transit facility through Nepal to Tibet in 2004. Trade through Nathu-La pass is recently opened. There are Lipulek and Sipkila passes already in operation. However, there are not perennial routes which are covered by snow in two third of the year and have very high altitude. However, openness does not necessarily harm the trade, as some suspect that it only harms Nepal. One has to be competitive and this is only the solution. It is interesting to note that India is asking transit facility with Bangladesh to their own north-east States. In financial term cost is important and not the sentiments.

Realistically this study in addition to policy matters has also tried to scrutinize the difficulties being faced by exporters and importers through India in detail and Bangladesh to some extent. Identification of transit routes and modalities through individual SAFTA, BIMSTEC countries and China has yet to be made which needs further field study which is beyond the scope of this study.

Most actions like transit procedure, harmonization, or the introduction of new technologies, require collective actions or some form of partnership. Participants in these partnership would include LLDCs, transit countries, international organizations, and private stakeholders, e.g. logistic operators.

In summary, Nepal's transit policy should be able to make transit transaction competitive, efficient, cost-effective and less time consuming by mobilizing government, private sector and transit providing countries. It is important that as transit facility has to be received from the other sovereign countries, negotiating capacity of the government has to be enhanced by us.

Policy-Action matrix

| S.N | Constraints | Recommendations | Activities | Indicators | Responsible Agency | Time Frame |
|-----|--|--|---|---|----------------------------|----------------------|
| 1 | Lack of clear policy | Prepare transit policy on the basis of multilateral conventions, liberal economic policy and on the basis of experiences with India. Policy should be guided by the objective of using least cost corridor. | Prepare transit policy also as a transit receiving and transit providing country in the new context. | Prepared well defined transit policy and transit facilitated | MOICS | Medium term |
| 2 | Lack of transit policy that furthers competitiveness | <ul style="list-style-type: none"> ▪ Develop transit transport policy to compete in the present context and develop alternate transit routes. ▪ Request to reduce customs bureaucracy and fees for the Nepalese exports/imports to and from India. | <ul style="list-style-type: none"> ▪ Develop transit policy to enhance competitive and efficient transit facilities and environment to face present challenges | <ul style="list-style-type: none"> ▪ New transit routes negotiated for transit transportation. ▪ GOI requested to reduce formalities and fees etc. ▪ Alternative and competitive transit routes developed. | MOICS | Medium |
| 3 | Institutional weakness | <ul style="list-style-type: none"> ▪ Strengthen Institutional arrangement as recommended in the text. ▪ Establish an Institute of Foreign Trade | <ul style="list-style-type: none"> ▪ Joint institutional arrangements to solve problems of transit transport and existing institutions should be strengthened. The ICD at Birgunj has to be fully operational. ▪ Develop infrastructure, curriculum and financial plan and establish institute. | <ul style="list-style-type: none"> ▪ Institutions improved. ▪ Institute of Foreign Trade established to develop man power in foreign trade sector. | MOICS, FNCCI, Universities | Medium Medium |
| 4 | Administrative weaknesses | Reorient trade facilitation than other considerations like over emphasizing deflection of trade. Details are enumerated in the text. | <ul style="list-style-type: none"> ▪ Redraft the transit procedures emphasizing trade facilitation in the treaty. ▪ Reorient the administrators of both the concerning countries towards trade facilitations. | <ul style="list-style-type: none"> ▪ Well defined transit procedures in line with international conventions. ▪ Administrators reoriented. | MOICS | Short |

| | | | | | | |
|---|--|--|---|---|---|-------------------------|
| 5 | Fear of trade deflection than trade facilitation | Need of reorientation on trade facilitation than Customs Control | Redefine Customs control in line with WCO. Revise the procedures which is only control oriented. Maintain balance with trade facilitation and control. | Reduced time and cost of transit by simplifying procedures and reoriented the administration. | MOICS with the co operation of transit giving country and International agencies. | Medium |
| 6 | Lack of infrastructure | <ul style="list-style-type: none"> ▪ Develop physical infrastructures ▪ Request donor countries and agencies for financial assistance. | Reconstructions and development of corridors, Upgradation of roads / railways, airports maintenance of Customs houses and yards etc. | <ul style="list-style-type: none"> ▪ Speeded transit transport. ▪ Competitiveness of transit trade, increased, time and cost reduction increased. ▪ Foreign aid mobilized. | MOICS/MO PPW /MOF/ Donor agencies | Long term |
| 7 | Lack of coordination | Co-ordinate with stakeholders | <ul style="list-style-type: none"> ▪ Identify the areas of co-ordination and co-operation on transit issues. ▪ Negotiate for trade facilitation. ▪ Increase diplomatic efforts to develop quality roads and railway system in the spirit of regional cooperation with Asian highways and railways. | Transit facilitated by Multilateral bilateral agreement and understanding | MOICS/MO PPW/ MOF / MOFA/ | Medium |
| 8 | Long procedure | Improve procedures | <ul style="list-style-type: none"> ▪ Identify the minimum requirement of documents for transit with special reference to liberal economic regime. ▪ Specify transit procedures with mutual understanding in line with international standard. | <ul style="list-style-type: none"> ▪ Documents requirements minimized ▪ Transit movement facilitated | MOICS/ MOFA | Medium |
| 9 | Legal constraints | Legal reforms | <ul style="list-style-type: none"> ▪ Include the provisions of international convention on transit in national laws. ▪ Promulgate Multi-modal Transport Operation Act | <ul style="list-style-type: none"> ▪ International transit provisions included in national laws. ▪ Multi-modal Transport Operation Act promulgated. | MOICS/MO LPA/MOPP W | Long term Medium |

| | | | | | | |
|----|---------------------------------|---|--|---|--|------------------------|
| 10 | High cost and long time | Reduce cost and time in transit | <ul style="list-style-type: none"> ▪ Identify and analyze the cost components of transit. ▪ Develop cost reduction schemes. For example, while the customs claims against the duty insurance has remained nil, therefore, reduce the duty insurance premium from 0.30 % while transiting through India. ▪ Develop fast track corridors. ▪ Reduce time by reducing documents and long procedures. | <ul style="list-style-type: none"> ▪ Cost identified and reduced ▪ Negotiated with GOI to reduce duty insurance premium. ▪ Availability of goods in reduced cost | MOICS/MO PT / MOF / MOFA | Medium |
| 11 | Lack of alternate transit route | Develop fast track and alternate transit routes | <ul style="list-style-type: none"> ▪ Identify fast track routes. ▪ JNPT/Navasewa port which has been agreed in principle. Therefore, negotiate procedural details with India. ▪ Make Fulbari-Banglabanda route by improving the condition as mentioned in 6.9 of recommendations. Develop transit facilities at transit points. ▪ Develop transit infrastructures and simple procedures. ▪ Reduce the administrative impediments as mentioned in 6.3 above. ▪ Identify new route from Kolkata to Raxaul. ▪ Initiate study on identifying land transit routes with SAFTA, BIMSTEC and China to connect South sea up to China and Central Asia through Nepal. New route in India and Bangladesh already identified. | <ul style="list-style-type: none"> ▪ Fast track routes identified. ▪ New negotiation taken place to facilitate transit transportation through new route. ▪ Study initiated for trade facilitation. ▪ New route from Kolkata to Raxaul negotiated. | MOICS/MO F/ MOPPW / MOFA / International agencies, FNCCI | Medium Long Long |

| | | | | | | |
|-----|---|--|---|---|------------------|-----------|
| 12 | Constraints in transit treaty | Avoid conditions for automatic renewal of the treaty | <ul style="list-style-type: none"> ▪ Prepare well defined agenda for negotiation. ▪ Negotiate for natural and automatic renewal of the transit treaty with India | Conditions waived and automatic renewal of the treaty guaranteed without condition | MOICS and GOI | Long term |
| 13. | Lack of experience as a transit providing country | Respond neighbor's request to provide transit facility | <ul style="list-style-type: none"> ▪ Devise first bilateral and trilateral treaty. ▪ Make practical procedures. ▪ Develop infrastructure on our own and with the assistance of bilateral and donor agencies. | <ul style="list-style-type: none"> ▪ Treaty drafted and signed. ▪ Procedures developed. ▪ Infrastructure improved. | MOICS, MOFA, MOF | Long term |

Annex 1

Terms of Reference

Study Topic: *Policy Reorientation Study on Transit Trade*

This assignment is equivalent to one-man month. The consultant should establish adequate interactions with key informants, stakeholders and other concerned including government agencies while conducting the study.

Detailed Tasks:

1. Review and examine the current status of Nepal's transit trade in view of the importance of time and cost effective transit transportation for trade and economic development;
2. Review the Government policy as well as the institutional and infrastructure constraints for further facilitation of transit transport;
3. Assess Nepal's readiness to serve as a land link for the bilateral trade between China and India in the light of its potential impacts on trade, industry, and services sectors;
4. Study Nepal's bilateral trade/transit agreements with China and India, and other regional transit transport agreements for recommending appropriate transit policy;
5. Identify the special need for reorienting transit policy towards realizing market access opportunities in the context of Nepal's accession to WTO, SAFTA and BIMSTEC;
6. Specify areas for reorienting of transit policy for addressing the present weaknesses and constraints relating to policy framework, institutional capability and physical infrastructures;
7. Recommend an appropriate transit policy based on its envision for its prospective implications to Nepal's trade and economic development, and for materializing transit point services for the bilateral trade between the fastest growing economies in the world.
8. Provide a policy-action matrix containing (a) constraints (policy, legal, institutional, administrative, and others if applicable); (b) recommended policy improvements; (c) activities; (d) indicators of achievement; (e) responsible agencies; and (f) timeframe (immediate, intermediate, and long-term)
9. The paper should include an executive summary not exceeding five pages.
10. The consultant is requested to provide a short article, in English or Nepali, related to the above topic, to be published in a national daily for information dissemination.
11. Submit draft report (electronic and hard copy) to the EPN Focal Unit within 30 days from the date of assignment.
12. Present the draft at the Advisory Committee meeting (to be scheduled by the EPN).
13. Present revised draft (incorporating comments from the Advisory Committee and external reviewer) at the workshop organized by the EPN.
14. Present final report (incorporating comments from the Workshop) at the Advisory Committee meeting for final validation. Submit the final report to the EPN Focal Unit (electronic and hard copy) within 14 days.

Annex 2

A list of persons met and interviewed by the consultant

- Mr. Bharat Bahadur Thapa, Secretary, MOICS
- Mr. Naindra Prasad Upadhaya, Joint Secretary, MOICS
- Mr. Purushottam Ojha, Joint Secretary, MOICS.
- Mr. Prachanda Man Shrestha, Joint Secretary, MOICS.
- Mr. Pradeep Dev Poudyal, Under Secretary, MOICS.
- Mr. Vinod Acharya, Under Secretary, MOICS.
- Mr. D. P. Gautam, Former Secretary, MOICS.
- Mr. Mohan Dev Pant, Former Secretary, MOICS.
- Mr. Surya Bahadur Manandhar, Former General Manager, ITDB.
- Mr. Hemendra Mohan Shahi, ITDB.
- Mr. Rameshwor K.C. Vice-President, Nepal Freight Forwarders Association.
- Mr. R. B. Rauniyar, TMC Partner.
- Mr. Keshab Kafle, Chabahil.
- Mr. Ramesh Man Singh, MD, BISCONS Consulting Company.
- Mr. Priya Darshan Sharma, FNCCI.
- Mr. Kedar Man Singh Shrestha, Senior Tax Expert, FNCCI.
- Mr. Keshab P. Ghimire, Importer.
- Mr. Bisnu Prasad Neupane, Importer.

Annex – 3

India's top 15 products of exports and imports with China.

| S.N. | Export Products at 2 digit HS | Import Products at 2 digit HS |
|------|---|--|
| 1 | 26 – Ores, Slag and Ash | 85 – Electrical machinery & equipment |
| 2 | 72 – Iron and steel | 29 – Organix chemicals |
| 3 | 39 – Plastics and articles thereof | 84 – Nuclear reactors, boilers, machinery |
| 4 | 29 – Organic Chemicals | 27 – Mineral fuels, mineral oils etc |
| 5 | 52 – Cotton | 28 – Inorganic Chemicals |
| 6 | 28 – Inorganic Chemicals | 71 – Natural or cultured pearls, precious or semi-precious stones |
| 7 | 25 – Salt, Sulphur, Earths/stones, lime/cement | 54 – Manmade filament |
| 8 | 03 – Fish and crustaceans, mollusks | 59 – Impregnated, coated, covered textiles |
| 9 | 27 – Mineral fuels, mineral oils etc | 90 – Optical, measuring, medical apparatus |
| 10 | 84 – Nuclear reactors, boilers, machinery | 39 – Plastics and articles thereof |
| 11 | 67 – Prepared feathers and articles thereof | 26 – Ores, Slag and Ash |
| 12 | 4 – Copper and articles thereof | 73 – Articles of iron and steel |
| 13 | 12 – Oil seeds and oleoresin, fruits, grains, seeds | 25 – Salt, Sulphur, Earths and stones, plastering materials, lime and cement |
| 14 | 40 – Rubber and articles thereof | 37 – Photographic/cinematographic goods |
| 15 | 32 – Tanning or dyeing extracts | 32 – Tanning or dyeing extracts |

The above listing is based on the order of actual trade volume in 2002/03 & 2003/04.

Annex – 4

Proposed Transit Declaration Form (Six copies)

- 1.Truck Number.....
- 2.Name of Importer/Exporter.....
3. Import/Export License Number (if applicable)
- 4.Number and description of packages.....
- 5.Country of Dispatch
6. Country of Origin.....
7. Description of Goods.....
8. Quantity of goods.....
9. Value of goods.....
- 10 Letter of Credit Number.....
11. Route of Transit.....

I/we declare that the goods declared above are import into India from China/export from India to China. The cargo is in transit through Nepal and shall not be diverted or retained to Nepal. All entries are true and correct to the best of my knowledge.

Signature of Importer/Exporter or his authorized Agent and seal

Date.....

Annex – 5

1. Map reflecting Nepal's Present Transit Transport Network
2. Map reflecting Transit points with India and Bangladesh
3. Map reflecting feasible North-South roads in Nepal.
4. Map of Asian Highway showing countries in the northern side of Nepal and India which helps outreach the Central and North Asian countries via Tibet and mainland China.

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