

Distorted Reminiscences of Indo - Nepal Trade and Transit Treaty

- Diwaker Chand

Night Mare

The lofty Mountain and beautiful Himalayas which has added prominence to the National identity of Nepal has virtually come in guise of a malignant curse to her National economy. Concomitant circumstances has led to the gradual transformation of her enterpot position which in the past entertation absolute advantage from Anglo-Tibet Trade.¹ The diminishing utlity of these mountains vividly manifested through ecological disintergration and restrains in every forms of economic activities which led to the difficulty of achieving systamatic and balanced growth in the country.² This has led to the development of singular monopoly of India over Nepal. The growing intensity of bilateral trade with India was therefore more circumstatal rather than an economic necessity. Cultural ties, religious homogeneity, common

1. See for details 'The Foreign Trade of Nepal' p. 2-12, by the author, 1977.
2. It is said that Kosi Catchment which includes most of Estern Nepal, was now "one of the worst eroded in the world & that the hill slopes, which are generally cultivated along the gradient, quickly loose their topsoil and the ability to grow crops or sustain any type of economic vegetation".
(Source:- Government of India, Dept of Agriculture, 'Soil & Water conservation in Nepal Report of the Joint Indo-Nepal Team (New Delhi: Nov. 1976, p, 5) quoted in Eric. P. Eckholm's 'Loosing Ground-Environmental stress & World Food Prospects. 1976.

social heritages, and common border between the two countries has led to the emergence of a Special Relation. In spite of the rapprochement and growing intimacy there still exists yawning discrepancies which are expressed in terms of economic and political differences. Nepal has not been oblivious of the constant enthusiasms shown by India towards her development. The perennial assistance that has been received by Nepal from India should be considered to be most efficacious and timely in replenishing the burgeoning developmental appetite. But the bitter fact which we can neither grind nor assimilate is with regard to their imperative gesture which apparently makes us feel indebted towards their benevolent actions. The 1950's Treaty of Peace and Friendship manifested the submissive role Nepal was made to perform in the dramatic sequence of Indo-Nepal Treaty. Unable to maintain 'MONOPSONY' in Trade India even endeavoured to isolate Nepal from the rest of the world.³ The treaty further proposed Nepal's Tariff policy to be kept in conformity with that of India, and foreign exchange account of Nepal was to be maintained by India.

The Trade treaty of 1960's though reflected more liberal aptitude, did not altogether relieve Nepal from the eclipsing restraints. Trade diversifications in the early 60's shattered the monopoly trade which therefore was not candidly ushered in by India. Jute trade which then comprised the largest bulk of export to the third country, to a very large extent determined the trend of overseas trade of Nepal. Substantiating the trade diversification strategy therefore relied upon the volume and nature of Jute trade. With due realisations of this fact Indian Government indirectly put ceiling upon the Jute trade.⁴ The incessant harassment to the traders who were to issue their export licenses at several check posts and even at trivial centres and checking and rechecking of the sealed consignments, not only proved to be dilatory, but also at times the traders proved to be incapable of bringing goods to its destinations intact.

However the trade treaty of 1970's had far more broader outlines than the previous treaties. The quantitative restrictions for several goods were lifted and various previously exempted goods were exported to Nepal under exclusive quota system. This indeed proved

3. India objected the visit of the U. S. experts to Nepal in connection with survey and exploration during 1951-52, and furthermore India did not want any other countries to aid Nepal without its knowledge and approval. (Source:- S. D. Muni 'Foreign Policy of Nepal. p. 184.)
4. Not more than 1200 tons a month of Jute could be exported to the third country due to the lack of transportation facilities being provided from the Nepal border to the Indian port at Calcutta. (Source:- P. C. Lohani 'Nepal's relations with her (Southern Neighbour: A Theoretical & Empirical Discussion' in the 'Journal of the Nepal Council of World Affairs' 1975, p. 51.)

to be a good omen while contemplating of the Raxaul Blockade in the early 60's. Several clauses in the treaty with regard to the 'traffic in transit' especially when mention is made of 'access to the Indian market free of basic customs duty and quantitative restrictions, generally for all manufactured articles which contains not less than 90% of Nepalese or Nepalese or Indian material and differed treatment to the manufacture articles' in which the value of Nepalese material and labour added in Nepal is at least 50% of the ex-factory price⁵ requires clarity. Such ambiguity has always out-witted Nepal, who can neither bargain with her benevolent neighbour (for she staunchly believes in the principle of Panch Shella), nor can she use 'pressurised effort' against her. But with growing political consciousness and economic awareness the people have developed a strong and rationale 'speculative criteria' which has enabled them to scan deception, which in the past had to be unwillingly assimilated. The on coming treaty of trade and transit therefore has to be far more rationale, people-oriented i. e. should be framed and negotiated with special interest, regards and consideration of the mass in general.

Political Portends & Economic Justification:-

This Year Nepal seems to have made optimum use of her non-aligen strategy whose fruitition is yet to be decided. The visit of Indian premier not only astringent the relationship between the two Nations, but also proved to be highly fruitful to Nepal. The outstanding dispute with regard to the proposal, time and again, made by Nepal to conduct a trade and transit treaty, was for the first time given consideration. The assurances and the commitments made by the premier, during his short sojourn, was indeed a healthy political jesture, which might provide required lubricant to our on coming trade and transit treaty, which by now has become 'stale and rusty'. The trade and transit treaty which had already matured in 1976, has remaind procrastinated till 1978, and shall remain uasolved for an unpredictable period.

The trade talk which was recently conducted under the special request of Nepalese Government (as usual) which was represented by slightly more than two dojens senior officials of HMG (probably representing all the affiliated sectors) however proved to be inconclusive, whose justification was not candidly expressed by either of the contracting parties. Though the officials in Press interview (using diplomatic jargon) mentioned that the trade talk was conducted in conducive & amiable atmosphere and many difficulties and differences were mutually solved. Inspite of all the efforts to

5. Protocol to the Treaty of & Transit between Nepal & India, Article IV.

suppress the irrepressible feelings and sentiments, unawaringly it was spitted out when statements were made that the talk was conducted mostly in a business like atmosphere'.

It is however artonishing as to why the trade and transit talks at every intervals has become inconclusive. The reasons attributable in the past were mostly vague, non-convincing, and superficial in nature. Most of the economic issues were fraughted with political colours. Nepal in those days was looked more intricately with political rather than with any economic interest. India then was struggling through a severe political tug-of war which would definitely prove to be detrimental in substaining political independence in the sub-continent. Belligerency was at the summit. The expressions of the Belligerent country had deteriorated, which had ended up in a war. Her Northern Neighbour though was not directly involved in the Indo-Pak war, but still she was not indifferent about the existing episodes. The adverse preference towards India by China was constantly being expressed. The inimical aptitude of the Americans had grown itnense when India had outstandingly defied in accepting aid even at the expense of mass famine and starvation (Bengal was most severely hit by natural calamity resulting into a great disaster). The sentiment in the part of the Americans was very shortly expressed during the Indo-Park war. The accrual of military expenditure was rather inevitable, which had hit the Indian economy rather very seriously. The emergence then sprung up as the most timely and required anecdote. While India was so deeply engrossed in her internal problems, Nepal should have endured more patience in commencing any official level talks with India which would have otherwise ended up into utter failure. Nepal as has always been retrerrated as the larger beneficiary of the trade & transit talks than India. This would however mean that Nepal should not have misinterpreted the slackness, dilatations and limitations in the trade traffic as 'political bargain' and 'economic injustice'. Nepal should have made optimum use of this circamstances. Nepal was indisputable left to stretch hands, more freely and willingly with China. The 'Long handshake' was however the symbol of uninterrupted and growing intimacy with China. Nepal had to renew its relations with Pakistan and to her advatage, she was now in a position to entertain a new access to the sea route (Bangladesh), if situation permitted.

Impacts & Incidences of Regional Transformations:-

The situations have greatly changed. The Dramatic Sequences in the Asian sub Continent has largely led to the policy diversification of most of the countries in this region. China is tredging toward a new economic venture and broader polical

horizon. She sprouted out of her 'iron curtain' which had worried most of the economists and political pragmatists of the world. The entry of China into EEC, commencing trade with, Japan, American, and India etc. have shocked the conservative blocks possessing an anti foreign trade complex, especially in countries like India. The mass production and economic pricing, is bound to affect the market of both EEC, Japan, India, and America most non-discriminately. Such miracle of the Chinese shall invade the World Economic Market. by replacing and even displacing the Japanese influences in the world. The impact shall be most heavily incurred upon the developing countries having most receptive markets for such products. But the gordian query shall be as to what proportion of the aggregate export of China will be successfully distracted to the developing countries when China herself is endeavouring to industrialise her economy⁶ and diversify her market and products. To reinforce her new borne aspirations China will indeed have to procure and accumulate bigger foreign exchange reserves than in the past. This would ceteris paribus, possibly drift china more towards the industrialised blocks (West) than towards the impoverished East. If China craves for political prominence and economic power, she is going to get the required doses of the appetite from the West and not from the East. China is a growing Nation and by now has awakened from the deed slumber which had confined the development only within its own realm. But now she anticipates to effectively disseminate her economic development and political glories, for which she will be in quest of most efficacious disseminating media.

Further more, consecutive visits of the Chinese delegation to India for political matters and for trade has led to the possibility of reviving the 'Hindu-Chini Bhai Bhai' days once more. This would therefore deprive Nepal from exploiting China at the expense of India. The best solution that is conceivable at present would be by fostering a 'tripartite relation' where India as well as China are collectively involved in ad hoc development projects in Nepal. would not result into any coincidences and errors as in the past⁷, for both India and China are in desperate need of each other today.

6 As for instance 90 percent of the EEC'S export to China consists of machinery, industrial and transport equipments and other manufactured goods. About 50 percent of China's exports are goods and raw materials.

(Source:- Times of India, Feb 5, 1978).

7. As early as in 1966, a tripartite agreement was signed between Nepal, India, and the US (RTO) which was short lived. For details see 'The Colombo Plan for cooperative economic development in Southeast Asia, 7th Annual Report of the Committee Washington, Nov 1958. p. 97).

Numerous Gestures:-

Nepal has been incessantly making requests for the convenient 'freedom in transit'. As in the past the requests remained overshadowed by political anecdotes and personal prejudices. In the late 50's, as for instance, India out of sheer vested interest simply set aside the propositions made by Nepal for sea accessibility. Similarly in the early 60's when India was willing to grant the Radhikapur-route the war broke out with Pakistan. This route was virtually devastated, which took quite an extensive effort and time to make it viable. After the route had been usable, renewed requests were made, but before it could be concluded Indo-Pak war erupted. Nepal could merely witness this episode with woe and remorse. The situation however deteriorated. With the coup in Pakistan and with an emergence of Janta government in India, the regional ties between the two previously belligerent nations were astringent. As the consequence India provided transit facilities for Pakistan through India to trade with Nepal and Bangladesh. Whereas nothing has so far been spoken of the transit facilities requested by Nepal with India since time immemorial. India to some extent has been rather liberal in granting access to Nepal to trade with Bangladesh. But the ceiling that has been imposed upon the nature of exportable item (which at the moment comprises of paddy & wheat) has added one more predicament, which might possibly be dealt with in the prospective years to come.

The proposition made by His Majesty King Birendra for regional cooperation especially in river water development was strongly supported by US President, Mr. Jimmy Carter, and the British Premier, Mr. James Callaghan during their visit to the sub-continent. This was apparent achievement which could neither be concealed nor suppressed by any of the antagonistic blocks. The resultant of this achievement was illustrated through two more Joint ventures that would be recently taken up.⁸

India had been observing the visit of Teng Hsiao Ping to Nepal with due interest. The visit was looked upon with enmity and mockery by many observers. The purpose-oriented visit, as many contemplated, was not altogether successful when Teng was hesitant in making any firm commitments with regard to the Trans Himalayan Flight to Tibet and regional cooperation for river water development. The statement made by the Chinese leader Mr. Ping should have been properly scrutinised when he said "it is impossible to solve the question by the few

8 The two irrigation projects are the Karnali dam project on the Ghoghra, and the Pancheshwor dam project on the Sharada. During the visit of the Indian premier Spade work for the Indo - Nepalese Bhalu-Bhang dam on the Rapti was done.

worlds. We would study if such a proposal is possible. it is a most complicated question and the issue involves a lot of aspects" This merely reflected his unpreparedness to deal with this sensitive issue and was not a gesture of negation. Harnessing of river water needed more intensive cooperation between the beneficiary nations rather than from the exterior sphere for whom the issue would have rendered only political prestige and non-economic gain. It should be realised that when trade and transit negotiation between two nations takes such a big longevity, one should not have expected to hear a final decree with regard to such a mammoth issue as this, which required a great deal of regional cooperation. Though India looked at this visit with dubiousity,⁹ Nepal is fully contented and even anticipates that this visit shall intensify the relationship between the countries even more.

Let us hope India will stick to the commitments in the on-coming trade treaty which is to commence soon. The transit facility refers to the accessibility to the sea either through the land route or water route. Almost all of the rivers in Nepal descend from the North and flow into the South. The prospect of water route may prove to be economical if the rivers of Nepal can be used for navigation. Most of the rivers are torrential and have very fast velocity where only white water rafting is possible. There are other rivers which may provide merely seasonal utility. So before we make any proposals with regard to the access through water route, we must rather have an infalliable report at hand.

Domestic Front:-

The request made by Nepal for the trade and transit talk was most untimely India at the time seemed to be deeply engrossed in several urgent matters which were least negligible and would have proved to be far more significant than trade and transit talk with Nepal. President of the US and British Premier had just visited India. Before the atmosphere had cooled down India was seen being rather busy in making preparation for PATA meeting and to usher in the Imperial Majesty of Iran who had brought Rs. 224 crores package to finance the construction of the entire 256 Km. long second stage of the Rajasthan Canal.¹⁰ Similarly in Nepal our officials did not seem to have spared time to have inter-department conversation before they departed to India, for

⁹ Most of the Indian Papers were very critical about this e. g. see 'Times of India', Feb. 5, 1978.

¹⁰ Times of India, Op. cit.

they were engrossed in the Colombo Plan meeting in the Country. New problems were cropping up in the domestic front.

Export-Bonus-Scheme:-

Bonus Scheme which so far had proved to be a compensatory phenomenon for the trade with India had now been suffering from an 'untimely death'. The strangulating effect of bonus-restrains had adversely affected the overseas trade situation which had enormously deteriorated. The decision which has gone beyond the Commission now lies indetermined which has not only affected the foreign trade but also a large mass of business community as well¹¹. The concerned authorities who are left without any reasoning and logic as to the detainment of bonus decision, all seem to be collectively looking at the on coming trade and transit talk. It is therefore rather shameful and also astonishing as to the nature and degree of dependence our economy has towards India even for trivial issues as bonus-scheme. If trade diversification is to be treated as a substitute to trade with India (to some extent), then why is it that we await for decree from India even to conduct our own overseas trade? Such undue degree of dependence is obviously our weakness and not an imposition of any sort from India. For such matters as this, we should cease blaming only India and be oblivious of the lacuna on our own domestic front.

Demonetisation;

The demonetisation of bigger currency exceeding the value of Rs. 100 IC being regulated for a week starting from Jan 14th was indeed a bold and daring step taken by India to curb the regulation of the black money. More than 90% of the foreign trade of Nepal is with India, which would mean mass circulation of IC in our trade front. The shortage of IC as we have constantly facing was reflected by Nepal by making a purchase of 41 million dollars worth of IC¹². The IC which had to be bought at the expense of the foreign exchange reserves, indeed proved to possess higher opportunity cost than foreign currency to Nepal at this stage. Demonetisation therefore also proved to be a significant issue to our national economy as well. But it was rather shocking to observe as to the regulations circulated by the Rastra Bank to close exchange counter for IC just the next day of the announcement regarding demonetisation made by India. People

11 See for Details 'Prospects and Retrospect of Export Bonus' by the authour in 'Vashudha', Nov-Dec issue.

12 Time of India, Nov, 29, 1977, p. 11

were rather bewildered to hear of the passive step taken by the Central Bank, for obviously the Bank being the 'Banker's bank' and the 'lender of the last resort', was expected by both the private sector and all financial units of the country to receive a 'bearable cushion'. But unfortunately no provision was made to tender the Demonetised Currency (DC) by our financial institutions. The Indian Embassy at Kathmandu candidly expressed that no order so far was issued by the Federal Reserve Bank of India and therefore they were not entitled to render any suggestion. Only 71 Offices of Public sector banks in different parts of the country were authorised to tender the DC by the State Bank of India. For Nepalese individuals the closest center was either New Delhi, Calcutta and Bombay. This however could not be afforded by those individuals having to tender DC which was scanty and nominal in value. The humiliations faced by Nepalese national having to tender DC was as to the ill behaviourism and deceptive temperament of the bank Authorities in India. Their logic was that the inflow of IC in Nepal was entirely of Black Money only and secondly it was not legal for a Nepali to hoard IC at any expense. That must have been rather oblivious of the fact that quite an enormous amount of IC enters into Nepal in terms of Gurkha Remittances and trade. The 600 Miles of common border with India provides diurnal market to thousand of Nepalese vice versa. The demonetisation measures if was to hit these section of the community indiscriminately, then it was indeed doing injustice to them. Steps had to be taken by our Government, if timely informations could not be given to the people. If Central bank cannot give security to a 'legal tender' then it will not take long for the faith of the people to dwindle gradually towards this Sacred Institution.

Infant Protectionist Policy;

Industrialisation of an economy is preceivable provided the market is Procuaed by the Government cet. par. Big industrial ventures requires a big deal of risks which has to be met through 'subsidising effect' by the Government, by providing better security of the Market, adequate supply of raw materials, foreign exchange facilities, and financial and technical assistance. Several large scale industries are sprouted up in Nepal, but unfortunately most of them suffer from the nature and degree of protection being guranted by the Government. Plans and Policies should be institution-alised and therefore should be shunned from being individualistic. An individualistic policy dies a pre-matured death as was the case of stainless steel industry in Nepal. Vegetable ghee and oil Solvent Plants are some of the projects that will to a very large extent serve as an import substituting and export promoting units in the economy. But if the units of these nature are to survive then the Government should endeavour in procuring the raw materials

in the country, rather than be lured by political pressure and get them exported. As for instance, if pulse, sugarcane and tobacco export is to be facilitated then the industries such as Vegetable ghee, Sugar and Cigerratte shall be heading towards a virtual suicidal.

Quota System:

Nepal has been critically facing paper shortages. The special request of raising the quota from 6000 tons to 7000 tons has, by now become very embarrassing. The ever growing need of paper is being constantly felt by Nepal whose supply is being replenished by India in a most Shyllock like Manner, for they themselves are struck with paper shortages. Propositions have been made by several parties to open up such industries like paper and Rosin & Terpentine, but unfortunately the dilations in the part of the government as whether to put these industries into a public sector or private sector, has remained stranded for more than a decade. The lame excuses constantly expressed by the authorities with regard to such priority-oriented industries are as such that there is possibility for certain government (which usually turn out to be fictitious) to negotiate the project, so it is rather difficult in their part to give it to the private sector. Furthermore with regard to the quotas for several articles the concerned authorities or affiliated sectors should adequately conduct a research projecting the current demand of these articles, rather than get it ascertained through more conjectures or past and state statistic. This has however resulted into constant grudges and charges levelled againsts Nepal for not being able to use the prescribed Quotas fully.¹³

Rice Exporting Corporation:-

We should at times learn to forego economic gains for political reasons. More than 90% of our trade is with India out of which Rice comprised more than 70% of the aggregate volume of trade.¹⁴ The rice export to India which had reached a volume of two lakh tons have tumbled down to about 80,000 tonnes. Furthermore, after diversifying her rice market to China, Bangladesh and Singapore, Nepal had not exported rice to India since March 8 last, when the agreement to buy 50,000 tons of Nepali rice on state-to-state account by India ended¹⁵. This however did not inject a good

13 Mavin Kurve's 'Indian Exports to Nepal, Quotas Not Fully Used', in Times of India June 10, 1977

14 In the F/Y 2032/33 Rice export to India was tuned to the value of Rs. 49,540,5000 (Source:- Nepal's Foreign Trade Statistics. Rastra Bank, 2033, p. 30.

15 Times of India, Nov. 29, 1977.

feeling towards India who after having met 90% of the trade requirement of Nepal is deprived of its major importable item. The supportive logic which our Authorities provide is that rice export not only has helped us in accomplishing the philosophy of trade diversification but is also, at the same time is earning a substantial amount of hard currency. What will be the consequence if India adheres to the same logic and start claiming for hard currency from Nepal for every of the exported items? Have we been far sighted enough to conceive of such dreadful consequences. Similarly Timber export had been occupying a singular position in the Indo Nepal trade context. It has been a sane coincidence that as the Government of India has made request for the supply of Railway sleepers and matchwood, Our government dramatically raised the price of the railway sleepers and Royalty on timber trade.

While the trade transit talks is to be recently conducted, all these detrimental parameters has to be intricately scanned, so as the outcome of this talk will be equitably benefited by both the Contracting Parties, and therefore will not be necessary to be prematurely renewed. Since this treaty is going to affect the people at large, opinion should be taken from the mass and should not be directed by a handful of people or by few institutions. What has been lacking in all the bygone treaties is the pernicious habit cultivated by our concerned authorities to seek people's council.