

Charity begins at home

*Nepal's Politico-Economic Concerns
Regarding Improved Regional Connectivity*

South Asia has deprived itself from the gains of connectivity and integration regardless of the formation of South Asian Association for Regional Cooperation (SAARC) in 1985. Despite various challenges and differences, countries in this region are looking beyond SAARC by establishing its own sub-regional grouping having various facets to it. Implementation of Bangladesh, Bhutan, India, Nepal Motor Vehicles Agreement (BBIN MVA) is one such initiative that is projected to benefit all, until and unless conflicting issues are resolved bilaterally and/or multilaterally. This Policy Brief brings out several political and procedural issues that may hinder trade and restrict Nepal's participation in BBIN MVA and pinpoints possible remedies to these impediments to stimulate smoother and successful implementation of MVA.

Introduction

Conflicting political and economic relations among the BBIN countries are the biggest impediments for smoother and successful implementation of BBIN MVA. Therefore, the significance of political economy cannot be sidelined while exploring the possibility of a free trade agreement (FTA) or free movement of vehicles across the countries of the BBIN region.

Nepal is one of the powerful players in BBIN MVA. This country is already trampled with several bottlenecks concerning its current politico-economic scenarios and its dwindling relations with

India. As such, there is an urgent need to address the current state of political economy in Nepal in order to pave path for a successful BBIN MVA.

Current State of Political Economy

Transit Issue between Nepal, India and Bangladesh

India and Nepal have a trade and transit treaty in place. Under the existing treaty, Indian trucks are allowed to travel to Nepal through designated routes without the mandate for any kind of trans-shipment at borders. But it has been observed that most of the trucks trans-ship at the borders instead of going directly to the destination point.

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Stakeholders suggest the presence of several transit barriers that cause delays resulting in inflated price for imports and erosion of competitiveness of Nepali products. The barriers are found mainly in two domains of transit: a) Transit to access Indian sea ports; and b) transit through India to access Bangladesh market and sea ports (Chittagong, Mongla, Khulna-Chalna Port).

Various hindrances encountered at these transit points include:

- Exporters/importers claim that it is customary for Indian authorities to issue unilateral notifications on transit and customs matters.
- Multiple checking by various agencies in both the countries adversely affects the entire transit process. Documentation that is actually involved is higher than that specified in the treaty.
- Transit through India is subject not only to Central Government of India's regulations and formalities but also those that are into force in states. The trucks carrying cargo from Kolkata to Nepal must follow the route of transit (one of the mutually agreed routes) mentioned in the Transit agreement. The trucks are not allowed to use alternate roads even when there are problems along mutually agreed routes. This leads to delay that adds to the cost of trade.

Lack of proper Multi Modal bill and Non-Tariff Measures affecting TBL

The discussion with stakeholders also revealed that the through bill of lading is possible only after Nepal puts in place a regulation-friendly Multimodal Transport of Goods Act. Since the Act is not friendly, there are no Multimodal Transport operators registered in Nepal, which explains why Through Bill of Lading (TBL) is not issued to ports in Nepal.

Since custom clearance at Kolkata depends on authorisation by the Consulate General of Nepal, shipping liners do not take any responsibility for goods being transported to a destination in Nepal.

A TBL issued or received at a port in Nepal will reduce customs and clearance activities at sea ports to a minimum. Traders will not have to bear any extra cost like detention and demurrage charges as the shipping liners are liable to deliver goods to the destination port.

Insurance Issue

Insurance issued in one country is not recognised in another. There has to be multi-country insurance and issuance of permits since the whole idea is to reduce documentation. The shipping liners also demand additional insurance for containers to cover risks of damage and non-return which further increases the cost of trade for Nepal.

Problem of strong Transport Associations

The BBIN MVA endorses seamless movement of trucks across the member countries. However, the presence of transport associations is seen as a major challenge for the implementation of the BBIN MVA. The transport entrepreneurs in Nepal fear that they will not be able to compete with transport entrepreneurs in Bangladesh and India in terms of cost. They are also apprehensive that many people would lose their investments and jobs (drivers, helpers, labourers etc.).

Further many feel that if Nepali trucks are allowed seamless movement across India or Bangladesh, safety of truckers, trucks and goods will remain a major concern. Recently, the Government of Nepal has taken drastic steps in dismantling transport associations. Similar steps are also required in other countries to allow smooth implementation of the BBIN MVA.

Currently, Nepal does not have a strict visa policy with India but there are stringent visa rules with the remaining member countries.



Labour unions: a hindrance to seamless movement of goods

There is strong network of labour unions in India and Bangladesh. Truck drivers in Kakarvitta report acute labour problem at the Fulbari (India)-Banglabandha (Bangladesh) border. Labourers on the Bangladesh side do not allow Indian labourers to cross the border and vice versa.

Besides, at times, Bangladesh does not allow foreign trucks to operate in its territory as a result, cargo has to be trans-shipped from Nepali trucks into Bangladeshi trucks at the border which increases the labour cost as both Bangladeshi and Indian labourers have to be employed. The problem gets aggravated in case of bulk cargo, because then only the driver is allowed to cross over to Banglabandha while the helper has to wait at Fulbari.

Increasing trade deficit

The introduction of additional provisions during the renewal of the Indo-Nepal trade agreement in 2002 has led to increased trade deficit between Nepal and India. The provisions include:

- Tying up preferences of duty exemption for primary products with principle of reciprocity
- Rules of Origin (RoO) requirement of 30 per cent value addition
- Multiple qualifying criteria on RoO
- Change in classification of Tariff heading

- Inclusion of fixed quota for the selected articles while entering into India
- Launch of duty free tariff preferences scheme by India with more than 96 per cent of India's total tariff lines for all LDC's products have eroded the preferential tariff margin for export items of Nepal

Lack of awareness of BBIN MVA

Field surveys conducted in all three corridors clearly indicate that majority of the general public are unaware of the BBIN MVA. It is ironical that people at the grassroots (truckers, farmers, collectors, aggregators, service providers, labourers etc.) will be impacted the most who have no idea of BBIN MVA.

Visa policy

The BBIN initiative aims for seamless sub-regional connectivity through unhindered movement of passenger and cargo vehicles across the member countries. For this, it is important to have simple visa policies among the BBIN countries. The current visa policy among the member countries does not allow seamless movement of passenger and cargo vehicles from Nepal to Bangladesh or from Nepal to Bhutan.

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stringent visa regulations could be a deterrent to implementation of the project.

Policy Recommendations

- **Renewal of Trilateral transit arrangements between Nepal, India and Bangladesh**

The existing bilateral and transit treaty need to be reviewed so as to develop a trilateral transit agreement among the Bangladesh-India-Nepal (BIN) countries. Trilateral cooperation will expand the cross-border connectivity among BIN countries and encourage trade, tourism, investment and people to people communication.

The trilateral transit agreement would benefit all the BIN countries. As India would get easy access to its north eastern states, Bangladesh could get access to Indian and Nepali markets and Nepal would be able to fully utilise the riverine and sea ports in India and Bangladesh including the Fulbari-Banglabandha route.

- **Ensure TBL for Nepali dry ports**

Though shipping liners have started issuing a combined transport bill of lading to ICD Birgunj it should be extended to other dry ports (ICPs) as well. Issuing the TBL to a port in Nepal would simplify trade procedures and reduce trade costs. The TBL would reduce customs examination at the transit seaports.

The inspection would be limited to a routine examination of the container to verify that the one-time-lock put on by the shipping agent or the carrier authorised by the shipping company is intact. This would bring about a reduction in the documentation required by customs control, speed/facilitation payments, cost of insurance, and the waiting time at the port.

- **Insurance requirement as per WTO Trade Facilitation Agreement**

Since the signatories to the BBIN MVA are also members of the WTO, the insurance requirement for import and export should be as per the provisions specified by the Trade Facilitation Agreement (TFA). This will help in the following ways:

- ◆ Ensuring that the guarantee is limited just to the fulfilment of transit procedure
- ◆ Discharging the guarantee without delay once transit requirements have been satisfied
- ◆ Allowing for multiple guarantees or renewal of guarantees without discharge for subsequent consignments, i.e. a comprehensive guarantee system
- ◆ Encouraging transparency with regard to providing public information on how the guarantee has been set
- ◆ Allowing for the use of custom convoys in circumstances of high risk or absence of guarantees

- **Create a level playing field for transporters and ensure security**

To implement the BBIN MVA, it will be necessary to create a level playing field for transporters to compete with one another. It is necessary that trucks operating under the BBIN initiative should be provided duty concession so that the fixed cost of the vehicle and maintenance cost of trucks in Nepal are at par with India, Bangladesh and Bhutan. Further, the protection of assets (trucks and goods) and security of lives of truckers must be ensured for the smooth implementation of MVA.

In order for the BBIN MVA to be successful, it is necessary that Bangladesh-India-Nepal Trilateral Transit Agreement should get renewed.

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