

NEPAL AS A TRANSIT POINT

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Nepal has been called a “transit point” for several activities in recent past. The purpose of this article is to explore potential for Nepal as a transit point for trade and commerce. Such a transit point is not only between two of the largest countries of the world in terms of population but also between South Asia including Bangladesh on one hand and the countries of Central Asia on the other.

There have been some who have talked of Nepal as being a “link nation” having direct land link with two of the most dynamic economies of the world instead of being a “landlocked nation” (1). However, the fact remains that no one thought that Nepal could be a “transit point” between India and China when the construction of Kodari Highway linking Kathmandu with the Chinese border and Lhasa started in 1961 and was completed in 1966. Much of the criticism the road had engendered was about the threat it could pose to the security of Nepal and India. Nepal had maintained that the road is simply an expansion of a long established trade route and this opening up of a hitherto backward area was essential for Nepal’s economic development. We have now a situation when India is requesting Nepal to provide transit facilities to Tibet. This is indicative of great changes that have taken place in the region after end of Cold War and emergence of India and China as great economic powers in recent years. The completion of railway connecting Lhasa from Chinese east and the prospects of extending it to Shigatse could be factors that affected such a request.

New Equations between China and India

A dramatic increase in trade between China and India in recent years has made significant changes in Asia. There was a time for four decades after Sino-Indian border conflict in the Himalayas when the relations between two of the largest countries in the world in terms of population were not normal. Sino-Indian trade was only a few million dollars till the mid 1990’s. It had reached \$7.5 billion in 2004 and is expected to reach \$10 billion in 2005. (2). It is expected that India’s largest trading partner will be China replacing the United States. A greater economic integration between the two countries could promote economic development in such remote and backward areas in both the countries. Such areas could be the Northeast, Sikkim in India and Tibet, Yunnan and Xinkiang in China. On the other hand, there are also concerns expressed in some Indian quarters about the composition of items in Sino-Indian trade. As a columnist has written “ India’s exports to China are overwhelmingly dominated by low-value, primary products with a huge reliance of Iron ore. In 2004, ores, slag and ash comprised 56 percent of India’s export to the mainland with a year-on-year growth rate of 232.7 percent” . As the benefits of value added such as increased employment, higher profitability, etc are lost.

On the other hand, China's export to India consisted of electrical machinery and machinery. It was therefore considered important to diversify India's export to China.

(3). India may have comparative advantage in diversifying its trade to China if some of the markets in remote areas of China could be tapped in view of less distance involved.

Impact of Nepal becoming a Transit Point between China and India

King Gyanendra declared that Nepal could be a transit point for trade between India and China in 2005. A provision for developing a number of north-south roads was made in the budget speech of Finance Minister for the year 2005-6. A Nepalese Foreign Ministry official has written that it will have great impact on Nepal's bilateral trade regime. Those Nepalese tradesmen who are dependent upon commission and rent-seeking will be losers and Nepal needs to emphasize production in areas of comparative advantage. Nepal needs to make a long-term strategy to benefit by developing as an entrepot between India and China.(4).

As the size of market in Tibet is too small for consumer goods from India, it is possible that supply of construction materials to Tibet from India would be attractive as such material supplied from eastern part of China would be much more expensive compared to that which could be supplied from India. This is in view of great emphasis that is being given in China to develop its western part in Tibet and Xinkiang. Some trade routes between India and China are in such areas as Arunachal Pradesh and Ladakh where the boundary dispute between the two countries has not yet been resolved and which led to a limited war between the two countries. Although there are other alternate routes such as through Nathu-La pass in Sikkim and Stilwel Road, the existing Kathmandu-Kodari Road and the proposed Kathmandu-Rasuwa Road are attractive options for using in Sino-Indian trade (5). However, Nepal would need to ensure that the roads connecting India and China via Nepal such as Kodari Road are improved so that it could be used for containerized cargo and making relevant regulations that will facilitate such trade. On the other hand, progress is being made in the construction of road to Rasuwa situated northwest of Kathmandu, which will link Keyrung in Tibet. Communications, Planning, Survey and Design Institute of TAR is reported to have completed survey and soil investigation and similar work is being undertaken by Nepal after which final design of entire road will be completed.(6) There is already a road from Kathmandu to Syabrubensi in Rasuwa District. It is necessary to construct only 18 km inside Nepalese territory to reach the Chinese border. Rasuwa-Keyrung sector of the road is 30 km. This road will also shorten the distance from the Terai to the Chinese border from 389 km in Kodari Highway to 304 km. There have been reports of increased economic activity along the alignment of proposed road recently as the Customs office in Syabrubesi reported a revenue of Rs 3 million in 2004-5 compared to Rs 500,000 in 2003-4.(7). Actually, the road via Rasuwa to Keyrung can be used throughout the year and is the shortest route. As railways constitute a mode of surface transport that is relatively cheap, the possibility of connecting Chinese Railway in Tibet to the Indian Railways via Nepal should be studied.

How Bangladesh and Central Asian countries could also use Nepal as a transit point?

India is interested in getting transit facilities between its northeastern states and rest of India via Bangladesh. At the present time, most of traffic between northeastern India and the rest of the country has to pass through Siliguri corridor near “Chicken’s Neck” on the Indo-Nepal-Bangladesh border. Deb Mukherji, former Indian Ambassador to Bangladesh has written “Transit facilities would considerably save time and money for Indians and would be of direct benefit to Tripura, Meghalaya, Mizoram and parts of Assam and relieve pressure on the Siliguri corridor. (8). Nepal is interested in Bangladeshi ports of Mongla and Chittagong as alternates to Calcutta Port for transit. Bangladesh could also use Nepal as a transit country for its trade with Tibet. As such Central Asian countries as Turkmenistan and Xinkiang region of China have large reserve of oil and natural gas, there are prospects that these could also be exported to India via Nepal.(9)

Alternatives to Nepal as a transit country between India and China

Nepal needs to take urgent steps to take advantage of request by India to develop it as a transit state for trade with China. There is already a road from India to Tibet via Nathu La Pass in Sikkim-Tibet border. However, it is difficult to use all year around due to its high altitude (10). There were plans to open it for Sino-Indian trade by end of September 2005. This road was being used from 1904 to 1962 when its use was discontinued due to Sino-Indian border clashes. The Governments of Sikkim and Tibet were reported to set up trade mart consisting of banking services, warehouses and custom offices for cross border trade by September 2005 It was also proposed to link the commercial complex with Siliguri. On the other hand, there was reported to be no markets, no banking facilities, no customs office, civil police or any form of commercial activity. Such legal hurdles in the bordering district of Sikkim prohibiting outsiders from buying land could also be considered to be impediment. A recently published article concluded “...since no infrastructure has been erected in Nathula nor its approach, the likelihood of extensive trade in an assortment of commodities, involving a variety of stakeholders, does not appear possible in the existing situation” (11)

Stilwel Road supposed to be the shortest road linking southwest China with northeast India was constructed during the Second World War. It connects Ledo in Assam with Kunming in Yunnan Province in southwest China and passes through Burma. China has already constructed 639 km in its sector as a six lane highway and out of the 1040 km sector in Myanmar, 80 km is not in good shape. There is a 57 km sector in India that passes through Assam and Arunachal Pradesh. This road will be re-constructed in the near future giving a boost to trade between Northeast in India and Southwest in China. At present, the cost of container shipping from parts of India to China is prohibitively high (12).

Conclusion

As the road linking China with India via Nathu la lacks infrastructure at present for commerce and the Stilwell Road passing through India's Northeast, Myanmar and China's Yunnan Province is not operational at the present time, Nepal could take maximum advantage to develop as a transit state at the present time. Such a situation could change as infrastructure in other routes is developed. It has been suggested that establishment of Industrial Estates in Nepal close to Kodari to produce goods that could be exported to TAR in China, additional warehouses in Khasa and Nepal's plan to establish Export Processing Zones and Special Economic Zones in Panchkhal and Ratmate near Kodari should be given due consideration (13). As the alternate road from Kathmandu to Rasuwa will be shorter than the Kodari Road, will shorten distance to the Chinese border from the Indian border by 85 km and will be open throughout the year. The construction of this road is already being undertaken under Chinese assistance. It should be ensured that this road is completed as soon as possible in view of its role acting as catalytic agent in developing Nepal as a transit point. Planning for Special Economic Zone and Export Processing Zone near the border at Rasuwa should be undertaken in order to begin its implementation as soon as the construction of the road is completed.

If Nepal could be developed as a transit point for trade between India and China a mutually advantageous relationship could be envisaged for India, Nepal, China and Bangladesh. India could export construction materials to Tibet which could change the composition of its exports in which primary products such as iron ore is very important at the present time. China would also find it advantageous to import items from India that are too expensive to be sent to Tibet and Sinkiang due to high transport costs from the eastern China. Bangladesh could also use India and Nepal as transit states for export to China. On the other hand, India could also negotiate with Bangladesh the possibility of using its territory for transit between India's such northeastern states as Assam, Mizoram, Nagaland and Tripura which are now connected via Siliguri corridor near the Nepal border. Nepal could also use Mongla Port near Khulna for transit in addition to Kolkota port. It could also benefit by tolls. The construction of north-south roads in addition to Kodari Highway will be beneficial for development of backward areas in the country It could be a win win situation for all the four countries.

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