



NICCI e-Newsflash

In this Issue

Brief Report - 1
Business Conclave – July 26, 2013

A Talk program on 2
India's Perspective of Nepal's Economic

Full text of the Key note address by 3
Jaideep Mazumdar, Charge d' Affaires,

Believing in Nepal: 6
Eight economic reform actions on
how to get over this difficult phase
to make Nepal stronger
-Srikanth Srinivasmadhavan
MD, Uniliver Nepal Ltd.

SAFTA states agree on identifying, 7
classifying non-tariff measures

Naturally Nepal



A typical Nepalese village in the foothills of the Annapurna.

Brief Report

Business Conclave – July 26, 2013



The Embassy of India in association with Nepal-India Chamber of Commerce and Industry organised the first event of the Nepal-India Business Conclave Series was held at Hotel De L' Annapurna on 26th of July, 2013. The objective of this talk series is to generate awareness and also to find possible solutions for the day-to-day issues of India-Nepal Trade.

Nepal-India Business Conclave had two sessions - inaugural and discussion sessions.

The Secretary of Commerce and Supplies, H.E. Mr. Janardhan Nepal along with the Joint Secretary, Mr. Jibraj Koirala and Ministry officials attended the inaugural session. Charge d'Affaires, Embassy of



India, Mr. Jaideep Mazumdar and Former Commerce Secretary, Mr. Purushottam Ojha, President of NICCI, Mr. Shashi Raj Pandey, Past President of NICCI, Mr. Arun Chaudhary, Head of Unilever Nepal, Mr. Srikanth Srinivasmadhavan were present.

Mr. Pandey welcomed the eminent guests on behalf of NICCI to this distinct type of programme and mainly spoke on the issues of non- and slow implementation of various mechanisms of trade between India and Nepal.

Contd on page 2

Business Conclave.....



Mr. Arun Chaudhary, Immediate Past President of NICCI, spoke next and briefly on the increasing trade deficit between both countries. He made it clear that the only plausible solution to this is through development of

commitment towards resolving and supporting trade issues between both the countries.

The keynote speaker H. E. Cd A' Jaideep Mazumdar gave a short speech on India's perspective on Nepal's trade and India's willingness to solve Nepal's trade issues with



India. Mr. Mazumdar concluded his speech by expressing his confidence that the valuable suggestions from the Ministry of Commerce, business chambers and eminent personalities attending the conclave will prove useful. He also assured this conclave will



become a regular platform for such discussions.

After a short Q/A session, the conclave broke for a tea break.

The second session was very productive for discussions on trade issues. The panel of eminent personalities, which included H. E. Cd A' Mr. Jaideep Mazumdar, Embassy of India, Mr. Purushottan Ojha, Former Secretary, Government of Nepal, Mr. Sashi Raj Pandey, Acting President NICCI, Mr. Suraj Vaidya, President of FNCCI, Mr. Shyam Lohia, VP NICCI, Mr. Anuj Agarwal, VP CNI, Mr. Kunda Dixit, Editor Nepali Times and Mr. Budhaditya Mukherjee, Country Head Asian Paints discussed various solutions and expressed their views. This was followed by a sumptuous lunch.



Embassy of India in association with Nepal-India Chamber of Commerce and Industry would like to thank NABIL Bank, National Insurance and Hotel De L' Annapurna for extending their support towards making this initiative



a success and hopes they will continue to partner them on such future endeavours.♦



Hydropower.

The next speaker was Mr. Srikant Srinivasmadhavan, Executive Member of NICCI. He gave a lucid presentation on the idea of a six Point Success plan for building better trade & commerce relations. His presentation was well received and appreciated by the distinguished guests.

Mr. Purushottam Ojha, former Secretary of Commerce, Government of Nepal gave a detailed overview of bilateral trade issues between India and Nepal. He pointed out issues related to transit.



Secretary of Commerce, Government of Nepal, Mr. Janardhan Nepal came and supported this endeavour despite his very busy schedule. Mr. Nepal, thanked Embassy of India and Nepal-India Chamber of Commerce and Industry for this initiative and expressed his Government's support towards finding mutual and amicable solutions to issues of trade and challenges between the two countries.



Mr. Jibraj Koirala, Joint Secretary, Commerce, Government of Nepal, assured of his Government's

A Talk program on India's Perspective of Nepal's Economic Development—Challenges & Prospects

Embassy of India, Kathmandu in association with Nepal-India Chamber of Commerce & Industry organized a talk program on "India's Perspective of Nepal's Economic Development—Challenges & Prospects" by H.E. Arvind Mehata, Jt. Secretary, Department of Commerce, Government of India on 31st July 2013 at Hotel Annapurna.

The next issue will cover the views of Mr. Mehata expressed in the program.



Full text of the Key note address by Jaideep Mazumdar, Charge d' Affaires, Embassy of India at the Nepal-India Business Conclave on the topic "Overview of India-Nepal Trade Relations" 26th July, 2013 at Hotel Annapurna.

His Excellency Shri Janardan Nepal, Secretary,
Ministry of Commerce and Supplies
Shri Jeebraj Koirala, Joint Secretary,
Former Commerce Secretary Shri Purushottam Ojha
President of NICCI Shri Shashi Raj Pandey
Past President of NICCI, Shri Arun Chaudhury



Head of Unilever Nepal, Shri Srikant Srinivas Madhavan
Ladies and Gentlemen.

Background

I am glad to welcome you all today to the first of the India-Nepal Business Conclave Series. The objective of this talk series is to generate awareness and also to find possible solutions for the day-to-day issues in Indo-Nepal Trade. We are grateful for the support of the Ministry of Commerce, Government of Nepal, in initiating these talks. I especially thank Commerce Secretary and his team for their presence and valuable suggestions. The Embassy also acknowledges the contributions and support received from Nepal-India Chamber of Commerce and Industry (NICCI) in partnering to or-

ganize these talks. We are also thankful to our sponsors, namely, Nabil Bank and National Insurance Company of India. Annapurna Hotel is the hospitality partner for these talk shows – and we thank them for their assistance.



Nepal and India are closely linked by history and geography, cultural and religious ties, commercial and economic linkages and extensive people to people contacts. The two countries share a unique relationship, built on the foundation of mutual trust

and friendship and desire for peace and stability in the region.

This relationship, characterized by an open border and free movement of people, was not forged by any treaty but by thousands of years of evolution of a common civilization. The challenge before us in terms of treaties and trade protocols is to see how this relationship can be reflected in state to state relations so that there is minimum dislocation and hindrance to what has evolved as a natural, age old multifarious relationship.



In the period of our relationship after India's Independence, Nepal has been granted special privileges in trade, commerce and in transit that perhaps no other land-locked country in the world enjoys.

Contd on page 4

Full text of the Key note address by Jaideep Mazumdar, Charge d' Affaires.....

FDI

Indian investors have also played a key role in the economic development in Nepal. Around 500 Indian ventures account for NPR 3,239 crores in investment, which is nearly 47 % of Nepal's total foreign direct investment. They have brought in new technologies and management skills and have made significant contribution in terms of revenues to the exchequer, import substitution, promoting Nepal's exports to India and providing direct employment to around 30,000 Nepali citizens and indirect employment to more than twice that number.

Trade & Transit

Bilateral trade relations have been growing over the years. According to 2011-12 figures, bilateral trade between India and Nepal amounts to approximately US\$ 4.3 billion. India buys two-thirds of Nepal's total exports. In 2012-13 bilateral trade is expected to cross US\$ 5 billion. This steady growth in trade has been made possible by the landmark India-Nepal Treaty of Trade signed in 2009, which bestowed preferential treatment for the Nepalese goods at par with Indian producers. Transit of Nepalese goods was made easier with opening of new bilateral and transit routes - the main objective being to create an enabling environment for Nepal's industrial and economic development. The main changes introduced in the 2009 Trade Treaty are bringing trade in Indian Rupees at par with trade in convertible currency, increasing the time limit for temporary import into India of machinery and equipment for repair and maintenance, expansion of list of primary products, modification in the criterion for calculating value addition for gaining preferential access to Indian market, and addition of 4 land customs stations and air routes for bilateral trade, etc. The four land customs stations included in the list of agreed routes are Thutibari, Sikta, Laukha and Murtia. While notifications in respect of functioning of Thutibari and Laukha LCSs were issued in February, 2012, Murtia and Sikta are yet to become operational as infrastructure at these places are not yet ready. Further, as agreed in the Revised Treaty of Trade, the import/export of cargo between India and Nepal (bilateral trade) is now allowed through the direct flights connecting Kathmandu with Delhi, Mumbai, Kolkata or Chennai.

The extensive privileges and facilities extended to Nepal, coupled with India's own robust if slowing economic growth, and the market of 1.2 billion people, have a huge potential to act as a catalyst for driving Nepalese economy towards high growth. Already much of Nepal's exports to India are manufactured goods. With political stability, policy predictability, a conducive environment for the development of large power projects - all these will drive investment to produce not only for domestic consumption but the vast Indian market.

While the private sector in both countries wait for such an environment in Nepal, in the mean time, we in the Government of India have responded to the requests from the Gov-

ernment of Nepal and put in place a wide range of facilities and measures that will see an exponential growth in investment and trade once there is stability and predictability in place.

The Government of India has agreed to allow Vishakhapatnam port as an additional port for Nepal's trade with other countries. India has also extended Nepal direct transit routes to Bangladesh for its bilateral and third country trade. In this regard, a road route through Kakarbitta-Panitanki-Phulbari-Banglabandha and a rail route through Radhikapur -Biorol have been notified.

DRP

On the goods produced in India and exported to Nepal, duties were collected by the Government of India and later paid to the Government of Nepal after reconciliation. This process commonly referred as DRP was very cumbersome and Government of Nepal had requested that it be discontinued. This was agreed in the Revised Treaty of Trade signed between India and Nepal on 27.10.2009. Accordingly, the Duty Refund Procedure (DRP) was abolished with effect from 01.03.2012. This amendment placed exports from India to Nepal at par with exports to other countries and directly benefited the consumer.

The abolition of the DRP enables Government of Nepal to collect the entire duty from importers directly. Under the new scheme, the exports from India to Nepal is also allowed in Indian currency or any other foreign convertible currency under rebate (on payment of duty) or under bond (without payment of duty).

Exemption of ADC

The Govt. of India, has, with effect from 05.12.2011, exempted all goods of Nepalese origin from the levy of 4% Additional Duty of Customs (collected in lieu of State taxes and VAT) when exported to India. This has been a long standing demand of the Government of Nepal and Nepalese industries.

RSA

During the 2nd Comprehensive Review Meeting on India-Nepal Rail Services Agreement on 1-2 March 2012 in Kathmandu, the Indian side agreed to allow (i) Movement of Open Boxes (BOXN wagons) for Bilateral and Transit Trade of coal, clinker etc with some conditions; and (ii) Movement of Transit break-bulk cargo on flat wagons which cannot be handled manually such as HR coils and heavy equipment/machinery etc. These decisions are to be operationalised after signing of Letters of Exchange.

Baggage Rules

Earlier, the Baggage Rules of India did not allow any duty free baggage allowance to tourists of Nepalese origin visiting India. The Govt. of India has suitably amended the Baggage Rules with effect from 14.11.2011, and brought the status of Nepalese tourists visiting India by air at par with other tourists of foreign origin.

Continued on page 5

Full text of the Key note address by Jaideep Mazumdar, Charge d' Affaires.....

Assistance for development of skill base and & trade related infrastructure

The Government of India is also providing extensive assistance to Nepal for development of skill base and trade related infrastructure. Recent initiatives in this direction include assistance for construction of a polytechnic at Hetauda, Integrated Check Posts at Birgunj-Raxaul and Biratnagar-Jogbani, and cross border rail link from Jogbani to Biratnagar and gauge conversion of rail link from Jayanagar to Bijalpura and its extension to Bardibas.

Transshipment of Nepalese cargo

Govt. of Nepal has also requested that transshipment of Nepalese cargo may be allowed from Kolkata port till Birgunj ICD to reduce congestion at gateway port and to allow Nepalese importers and exporters to take Customs clearance of import and export cargoes at their door-step. Similar transshipment procedure is followed between gateway ports and Inland Container Depot (ICD) within India. This procedure would also ensure that the liability of shipping lines for proper delivery of cargo would be extended beyond Kolkata port up to Birgunj ICD. This would certainly benefit the Nepalese trade. Indian Customs has given its in-principle acceptance for considering implementation of transshipment procedure for Nepalese cargo. However, it has been suggested that Govt. of Nepal may have consultations in this regard with shipping lines, carriers and other stakeholders. I am told that this process is now being carried out by the officials of Govt. of Nepal.

Automation of Customs Transit Declaration (CTD)

Another reform on the Customs side which is certain to have a long term positive effect on the Indo-Nepal trade is automation of Customs Transit Declaration (CTD). Presently, after clearance of cargo from Kolkata port for LCS on Indo-Nepal border, the documents are sent manually by post to the relevant LCS. This increases the time required for clearance and causes delays. India is working on developing end-to-end automation of CTD which would ensure that after clearance of Nepalese cargo from Kolkata port, a message would be sent electronically to respective LCSs in India and Nepal providing details of the consignment. Similarly, after this cargo is cleared by the LCSs in India and Nepal, a reverse message would be sent to Kolkata port confirming such clearance. This would not only facilitate faster clearance of cargo and reduce transaction cost but would also ensure that the integrity of cargo is maintained during its transit through India. Indian Customs has already developed software for CTD automation and this module is under testing in Kolkata. Nepalese Customs and Commerce department are also working on complying with the technical requirements which would become necessary for implementation of this system.

One Time Lock

In the past, there have been some apprehensions about a One Time Lock (OTL) being affixed by Indian Customs on Nepalese transit cargo container. Affixing a seal on transit cargo is a standard international practice adopted by Customs worldwide to preserve the integrity of goods sealed in the shipment, while ensuring both trade facilitation and security. Studies conducted

in Nepal have shown that introduction of One Time Lock has resulted in faster clearance of Nepalese transit cargo. In fact, Nepal's own legislation permits movement of goods from one part of foreign territory to another through Nepal subject to the condition that a seal is put on such transit cargo by the Nepalese Customs officers. Thus, there is no reasonable justification in being apprehensive of the affixing of One Time Lock as it benefits both India and Nepal.

Motor Vehicles Agreement (MVA)

In the year 2004, India and Nepal had initialed a Motor Vehicles Agreement (MVA). However, due to circumstances then prevalent this agreement could not be formalized between the two sides. The agreement envisages regular passenger bus service between India and Nepal on 14 agreed routes on reciprocal basis. It is our feeling that this Agreement would facilitate passenger movement between India and Nepal and would further strengthen people to people contact between these two friendly countries. It would also promote tourism and boost travel related services in Nepal. This agreement must be formalized between India and Nepal at an appropriate time in the interest of the general public.

BIPPA, DTAA & extension of the Transit Treaty upto January 2020

The signing of Bilateral Investment Promotion and protection agreement (BIPPA) on 21st October 2011 and signing of the revised Double taxation avoidance agreement on 27 November 2011 has led to greater confidence in the area of trade and commerce between our two countries. Likewise the extension of the Transit Treaty upto January 2020 has also paved the way for smooth transit and third country trade of Nepal. India remains ready to help Nepal in finalizing the Letter of Exchanges (LOEs) whenever Nepal feels comfortable to discuss and finalize them for further trade and transit facilitation.

Trade Deficit and Hydropower of Nepal

Several speakers have spoken about Nepal's growing trade deficit with India. While the objective of reducing the trade deficit is a laudable one, and we should do all we can to reduce this gap, the fact remains that two thirds of Nepal's total exports go to India which constitutes 16% of India's exports to Nepal. Even if Nepal's entire global exports were to go to India, this would only constitute 25% of India's exports to Nepal. The game changer here can be hydropower. Even if not a single MW is exported to India, and Nepal is able to use this power in her industry, Nepal can be a manufacturing hub for many products that can competitively be exported to the neighbouring states of India.

Thank you for your patience. I am confident that with the valuable suggestions of officials from the Ministry of Commerce, Business Chambers and eminent personalities and experts, this conclave will be proved useful. We plan to make this a regular event. I look forward to your constant support. Thank you very much for attending this programme.

Believing in Nepal

Eight economic reform actions on how to get over this difficult phase to make Nepal stronger



Srikanth Srinivasamadhavan
Managing Director
Unilever Nepal
Executive Member,
NICCI

In the last two decades, Nepal has been constantly trying to redefine itself socially, politically and economically. This transition period has been defined by a low GDP growth rate, attempts of various model of self sufficiency, a low domestic savings rate, a high dependence on foreign aid and high unemployment. The response needs to be drastic and quick, and the reforms need to go ahead despite the fluid situation.

The most basic and important focus of the economy has to be on stimulating domestic demand. This has helped many other countries grow and prosper, and Nepal should also intensify efforts through quick reforms to boost demand that will build a more competitive economy that benefits businesses and consumers alike.

In order to improve Nepal's economy to boost investment and demand, here are eight action areas:

1. **Stimulate local consumption and incentivise local manufacturing.** This will not only generate employment but also create a strong competitive environment to generate consumption and demand. The government needs to differentiate between companies who have invested locally and stayed on so as to encourage investment and enable faster and cheaper innovation that drive local consumption, and perhaps give rise to export opportunities. Facilitating and stimulating local manufacturing will lead to stronger investments and help the economy grow faster.
2. **Improving tax collection.** Create greater drive and stronger mechanisms for tax collection and enable other reforms. Proper VAT implementation will help the government generate even more revenue from a reduced VAT rate in future as the base expands.
3. **Encouraging domestic savings.** Savings help fund economic growth and ensure that the current underemployed working population will be able to find local jobs more easily. Nepal has a significant advantage due to its robust remittance. Continued progress in remittance, and increased work opportunity locally will be key drivers for higher GDP growth
4. **Key sector reforms.** Focus on deregulating tourism,

power, education, IT, banking etc so the country can generate large-scale employment and benefit from technology transfer and practices. In the medium term, this will make Nepal an attractive investment destination and the expertise will make Nepal sought-after in advising and generating revenue with its presence in other countries that want to emulate Nepal.

5. **Improving infrastructure reliability and access.** Infrastructure bottlenecks to growth are keeping Nepal back. Improving road connections to towns and villages and increasing access to electricity are challenges facing Nepal today. Improving infrastructure reliability, reducing cartelisation and transportation time are important areas for reform.
6. **Shifting emphasis from foreign aid to foreign investment.** Foreign aid is driven by the ideology of charity and relief. It sometimes promotes inequality, dependency, and in many cases may not be aligned to what the country wants to do. Foreign investment, on the other hand, allows one to demand equality, promotes incentives to grow, creates atmosphere for self-reliance and empowerment.
7. **Protecting intellectual property.** Globally, the development of new products and services have been possible because of significant research and development. Foreign investors will seek strong protection for their intellectual property. While a country seeks investments, along with it comes the burden of protecting the investment from elements that will undermine future investments. Enforcing intellectual property rights, curbing copies and the gray market will allow Nepal to protect and drive innovation and create a platform for driving a vibrant economy.
8. **Strengthening labor reform.** Simplified labour laws will help to drive the confidence of the investors, and can be a significant driver of foreign investment. Such laws will help set up large scale projects that can provide the much needed export earning. Nepal needs to seize this opportunity to become an exporter of limited but focused set of industries with significant cost advantage and a skilled, English-speaking workforce. Nepal's location between India and China will be an advantage if it combines this with a strong partnership with other emerging economies.

Despite having gone through tumultuous changes over the past two decades, Nepal is poised to forge ahead. There is more optimism now than there ever was in the past, reflecting the indomitable spirit of the Nepali people. It is now time to act on reforms. ♦

(This piece is adapted from his presentation to the Nepal-India Business Conclave organised by the Embassy of India, Kathmandu in association with Nepal India Chamber of Commerce and Industry (NICCI) in Kathmandu on 26 July.)

Courtesy: Nepali times weekly, August 2, 2013



**Nepal-India
Chamber of Commerce & Industry**

*Dissemination
Marshal Rathour*

*Concept/Text / Research / Analysis/
Design /Edit
K M Singh*

*GPO Box 13245
Ace Apartments,
Narayanchaur, Naxal
Kathmandu, Nepal.*

*Phone: 977-1-4444607
Fax: 977-1-4444608
Email: secretariat@nicci.org*

We're on web! www.nicci.org

SAFTA states agree on identifying, classifying non-tariff measures

South Asian countries on Thursday agreed to identify and classify non-tariff measures (NTMs) under four broader categories. With most of the member countries facing the same type of non-tariff measures, the meeting agreed to include all those barriers and make concerted actions to curb them.

The categories include infrastructure (related to transit and transportation), procedural (related to documents and export licensing and customs process), standardisation (related to labs and certifications) and Para Tariff Measures (PTMs). A special meeting of the Committee of Experts on NTMs and PTMs under the South Asian Free Trade Agreement (SAFTA) also agreed to hire a consultant to classify the NTMs. "The report presented by the consultant will enable us to see the real situation of NTMs—how much have they hindered the trade and how could they be solved," said Jib Raj Koirala who led the Nepali side at the meeting.

At the meeting, representatives from all member countries realised the need of customs reform, improvement of trade infrastructure, removal of visa barrier for business people, simplification in movement of goods as well as vehicles, and improved facilities for warehousing of trade goods to pave the way for greater trade within the region.

Koirala said Nepal, India, Pakistan and Bangladesh, which are considered dominant SAFTA countries in carrying out intra-regional exports, have pointed out similar nature of NTM-related notifications.

Other countries, Bhutan, Maldives, Afghanistan and Sri Lanka, however, did not report on specific types of non-tariff barriers as they have a meagre share in intra-regional exports.

Rameshor Pokharel, another Nepali representative at the meeting, said the meeting also agreed to make sure if the existing NTMs are compatible with the World Trade Organization (WTO) norms. "We are talking about a longer list of NTMs, but they might not be compatible to the WTO provisions," he said. "If such NTMs are found, they should be directly eliminated without further delay." He said the SAARC Secretariat will carry a study in this regard.

The meeting also agreed that the member countries would begin preparations to form a dispute settlement body. "At present, there is nobody to resolve the differences occurred in the process of intra-regional trade," said Pokharel, who is also the under secretary at the Ministry of Commerce and Supplies.

The agreements reached during the meeting, however, are not meant for direct implementation. The recommendations will be forwarded to the meeting of SAARC Ministerial Council and SAARC Expert Group to be held in Sri Lanka from August 21-23 for endorsement.

Stakeholders, however, said there is nothing new in the agreements. Trade expert Posh Raj Pandey termed the agreements "collective delay tactics". He said as the SAFTA already has aimed at abolishing the NTMs, the meeting was not supposed to forge the agreements on the same issue. "The meeting was supposed to come up with concrete actions that could immediately be implemented." He said the process of forwarding the agreements to the SAARC Ministerial Council and SAARC Expert Group meeting, and conducting the study would take more than two years at minimum. ♦

19th Annual General Meeting of Nepal-India Chamber of Commerce & Industry is on Tuesday, 6th August 2013 at 2 p.m. at Hotel Soaltee Crowne Plaza, Kathmandu. We request all Members and Guests for their kind presence.

We solicit suggestions/feedback from all members and readers for NICCI e -Newsflash at secretariat@nicci.org

Disclaimer:

The e-Newsflash is a periodic electronic release of Nepal-India Chamber of Commerce & Industry, Kathmandu, Nepal to keep members and readers updated on national and international business news/economic activities and our activities.

The information contained in this e-Newsflash including text, graphics and links are provided on an "as-is" basis with no warranty. The information contained here has been obtained from sources believed to be reliable and responsible. Whilst we have made every effort to ensure the information and details in our e-Newsflash are correct, we do not accept any liability arising from the use of the same. The news and views expressed in this e-Newsflash are not necessarily those of NICCI and the entries displays are in no way a specific endorsement of companies, products or services.