

Nepal-Pakistan Trade Relations

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The signing of the Trade Agreement between Nepal and Pakistan in October this year was a major step towards strengthening trade relations between the two countries.

In this article the author examines the implications of the Agreement for the future development of Nepal-Pakistan trade.

While the author expects trade between the two countries to rapidly expand and diversify, he also sees an important role for economic aid from Pakistan in Nepal's industrial development.

[The views expressed in this article are those of the author and have nothing to do with his official position as Secretary in the Ministry of Finance. His Majesty's Government of Nepal.]

THOUGH Nepal is a land-locked country bordered on the West, South and East by India and on the North by the Tibet region of China, her frontiers are not very far from East Pakistan, being at a distance of about 18 miles at the closest point at Dinajpur in Radhapur station. While trade routes to India and further overseas through India are quite convenient, transport is a handicap to trade with China, and trade, if any, with Pakistan can be maintained only by transit through India. Efforts to establish trade relations between Nepal and Pakistan began when diplomatic relations between His Majesty's Government of Nepal and the Government of Pakistan were established in March 1960. Discussions were then initiated to open trade relations between the two countries. This was a part of the process of establishing diplomatic and economic relations with an increasing number of countries and the diversification of the pattern of foreign trade, with the objective of overcoming the effects of long isolation in matters of ideas, in trade and in commerce and in other spheres.

In his last budget (1962-63) speech Nepal's Finance Minister said, "The Government is quite anxious to increase exports by increasing industrial production and is considering entering into barter agreements with other countries. The Government has also adopted some measures for the diversification of foreign trade in other countries." Trade talks have been going on with countries like the Philippines, West Germany and Pakistan during the last two years. However, the first practical step in the direction of increasing trade with Pakis-

tan was the signing of the trade agreement on October 19, 1962 which, among other things, provides for a grant of the "most favoured nation" treatment by one country to the other in matters of commerce. The agreement seeks to diversify Nepal's trade with Pakistan in a systematic way. It will open avenues for closer relations and collaboration between the two countries.

Trade Agreement

According to the Agreement, the value of trade between Pakistan and Nepal will be initially about one crore of rupees on either side, though, given favourable conditions, the value of total trade on either side may grow in future. Nepal which has emerged as a developing country into the international sphere from her centuries-old isolation has been experiencing difficulties in the supply of some consumers' goods. Some of these goods Pakistan might now supply. Article VI of the Agreement contains lists of items to be imported or exported in the beginning. Pakistan in turn needs certain raw materials for processing and manufacturing which Nepal can supply. As shown in the appendices at the end, imports from Pakistan will include cotton and woollen textiles, newsprint, plastic goods, rock salt, leather goods, etc, while exports to Pakistan will include hides and skins, wool, oil-seeds, mica, copper, iron ore, etc.

Since Nepal is a land-locked country not only has she no seaport, but also she is sandwiched between India, on three sides, and the Tibet part of China on the fourth. As a consequence she does not have direct access to any country other than India and China even by land. In the case of trade

with Pakistan it is thus necessary that goods are transported through India. However, Article VII of the treaty of trade and transit between Nepal and India provides for the safe transit of goods through India from any third country for Nepal and vice versa.¹

The agreement with Pakistan is for two years, after which on the basis of the experiences of both the countries another, and more comprehensive agreement might be concluded.

Under the Agreement, the Governments of Pakistan and Nepal have also undertaken to grant facilities for the holding of trade fairs and exhibitions as also for the exchange of goodwill visits by businessmen and trade delegations. This will, undoubtedly, further the economic and commercial relations between the two countries at the non-governmental level.

Special Payments Arrangement

Along with the Agreement, a Protocol has also been signed regarding special payments arrangement which will govern the exchange of certain specified goods. It has been agreed that the two Governments will facilitate, on a self-balancing basis, the exchange of commodities and goods. There is also a provision for six-monthly review of the working of the arrangement and any problems arising therefrom and comparing

¹ Article VII of the agreement on trade and transit between His Majesty's Government of Nepal and the Government of India (November 1960) reads, "Goods intended for import into or export from the territories of either contracting party from or to a third country shall be accorded freedom of transit through the territories of the other party."

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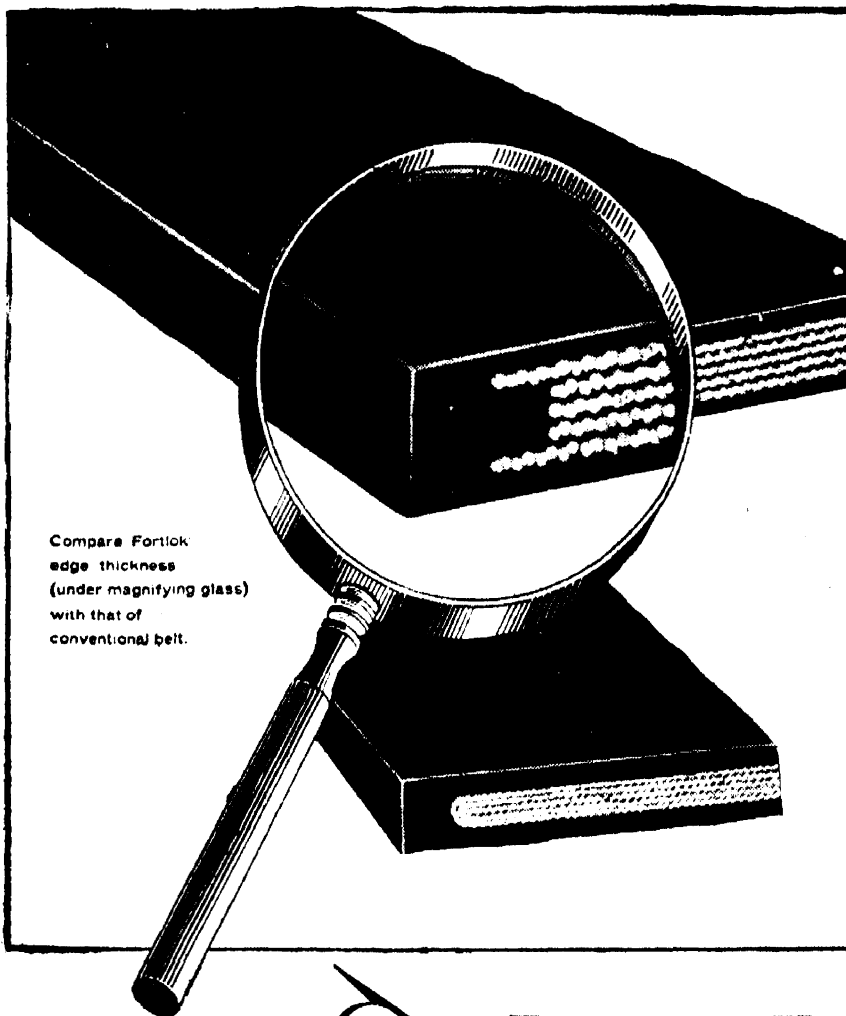
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the debits and credits on either side to devise such measures as may be mutually agreed upon to rectify the imbalance, if any. Such periodic review would throw useful light on various aspects of trade and commerce between the two countries.

Though in the original Agreement it is stipulated (Article V) that payments in connection with trade in goods as well as other payments between the two countries shall be made in convertible pounds sterling unless otherwise agreed to by the Governments of the two countries, for the sake of convenience all payments in respect of the sale and purchase of goods and commodities can be accounted for in Pakistan rupees until any other agreement in regard to payment is made. Of course, this is a beginning which will have to be improved upon in due course on the basis of the practical problems which arise and the experiences gained. It is seen from the procedure of trade and payments and the quantum of trade that every effort has been made to keep the trade relations between the two countries as simplified as possible.

Economic Aid from Pakistan

Nepal has been receiving aid both on a bilateral basis from individual countries under the Colombo Plan and also from the international organisations like the United Nations and its specialized agencies. However, with the exception of India, no aid from Nepal's close neighbours has been made available so far. It is in this context that the question of aid from Pakistan will have to be approached. Both Nepal and Pakistan are members of the Colombo Plan and their mutual economic relations extend beyond general trade and commerce. It is possible, therefore, to visualize large-scale industrial aid from Pakistan along with trade supplies in future. According to present indications, such aid may take the form of joint Nepal-Pakistani ventures for the establishment of new industries. The type of manufacturing industries in which Pakistan is willing to invest and for which she will offer technical collaboration will have to be specified through negotiations. The leader of the Nepalese trade delegation which visited Pakistan in October 1962 urged Pakistani industrialists to in-

vest Pak capital in Nepal. He wholeheartedly welcomed capital investment by Pakistanis in Nepal for establishing new industries. The industrial policy of His Majesty's Government has been revised recently to give more accommodation in regard to foreign exchange for such ventures. Provision for more physical facilities has been added in the new policy which is designed to provide both initiative and encouragement to private capital — foreign and local. Therefore, aid from Pakistan together with Pakistani private capital can play a useful role in the economic development of Nepal at this stage.

In view of the fact that East Pakistan is nearer to Nepal, it is natural that the greater volume of trade will be with this wing. It is proposed, therefore, to set up in the near future a trade liaison office in Dacca. Trade with East Pakistan will be helpful not only for Nepal, but also for Pakistan in various ways. This should be clear from the course of Pakistan's economic development after the Partition. In 1947 both the western and eastern wings of Pakistan were very backward in terms of industrial development, each depending mainly on the production of agricultural commodities based on their peculiar climatic conditions and soil characteristics. The pattern of development of economic activities in the two wings since independence reveals a number of characteristics relevant to the composition of inter-wing trade. East Pakistan is relatively less industrialised than west Pakistan. East Pakistan had 18 per cent of the total number of the industrial establishments covered in the census in 1957 and accounted for about 30 per cent of the average daily industrial employment and 26 per cent of the gross value of industrial products. Again, the location of a number of industries

is raw material-oriented — e.g., cotton textiles and certain metal products in West Pakistan and paper products and jute goods in East Pakistan. Some of the industries set up in East Pakistan could consume, the raw materials of agricultural origin imported from Nepal.

Overcoming Isolation

Close relations between Nepal and Pakistan are bound to be of advantage to both the countries and should not remain confined to trade and commerce alone but must be extended to cover the social and educational fields as well. The growth of economic groupings of developed countries, like the European Economic Community, makes it necessary for the underdeveloped countries to divert trade into channels other than the traditional and to establish closer contact among themselves. Closer collaboration in matters of trade and commerce among developing countries has thus become imperative in the changing context of world trade. Some time in December a trade delegation will be coming from Pakistan to conclude a transit trade agreement with Nepal.

Of course, the present value of trade with Pakistan is less than even 3 per cent of Nepal's total trade of which about 95 per cent is still with India². But the increased volume of trade and the diversification of the direction of trade implies greater ability to withstand and overcome competition of other countries. Of course, the process of diversification will be very much dependent on the development of an adequate network of transport facilities in the country and also the

² The Table shows that the direction of Nepal's foreign trade has been very slowly changing in recent years, total trade gradually drooping with India, and that with Tibet and overseas countries going up.

Direction of Nepal's Foreign Trade *

(In Per Cent)

	Imports		Exports		Total Trade	
	1958-59	1959-60	1958-59	1959-60	1958-59	1959-60
India	97.69	93.88	98.95	99.02	98.12	95.49
Tibet	.60	.98	1.05	.98	.76	.98
Overseas	1.71	5.14	—	—	1.12	3.53
	100.00	100.00	100.00	100.00	100.00	100.00

* Excluding invisibles.

establishment of trade routes with different countries

The effect of a century of isolation under the rule of the Ranas, in matters of trade and commerce have been far-reaching. Speaking on the occasion of the U N day on October 24, 1962, Nepal's Foreign Minister said:

"That Nepal cannot develop under isolationism has been too clearly established by the Ranas. It is for this reason that we, are working to the best of our ability to minimise, the effects of isolation by putting a particularly heavy emphasis on the development of transport and complementary outlets to the world markets wherever possible. We have entered into a treaty of trade and transit with India We have been examining the possibility of developing trade with Pakistan and Tibet, "

The signing of the trade treaty with Pakistan is an important step in His Majesty's Government's wise policy of diversifying diplomatic and trade relations with other countries.

ANNEX

Schedule W

Exports from Pakistan to Nepal

1. Cotton piece-goods
2. Cotton yarn
3. Hosiery
4. Readymade garments
5. Handloom saris
6. Sewing thread
7. Newar, cotton
8. Cotton and woollen blankets
9. Woollen textiles
10. Rock salt
11. Newsprint
12. Paper
13. Tea
14. Betel nut
15. Confectionery and biscuits
16. Medicinal and pharmaceutical products
17. Soap
18. Toilet requisites
19. Leather goods
20. Shoes
21. Paints and Varnishes
22. Pencils and Stationery
23. Fountain Pens
24. Cigarettes
25. Hurricane lanterns and lamps including pressure lamps
26. Plastic goods
27. Rubber goods including cycle tyres & tubes
28. Umbrellas
29. Glass, including sheet glass, and glassware
30. Cement
31. Asbestos sheets
32. Electrical goods, including electric fans
33. Brass and aluminium utensils
34. Cutlery and hardware
35. Bulbs, electric
36. Gas mantles
37. Straw board
38. Razor blades
39. Coir and Coir products
40. Jute carpets
41. Fertilizers
42. Sports goods
43. Canvas goods
44. Cinematographic films, exposed
45. Spectacle frames and sun glasses
46. Jute cuttings
47. Books and publications.

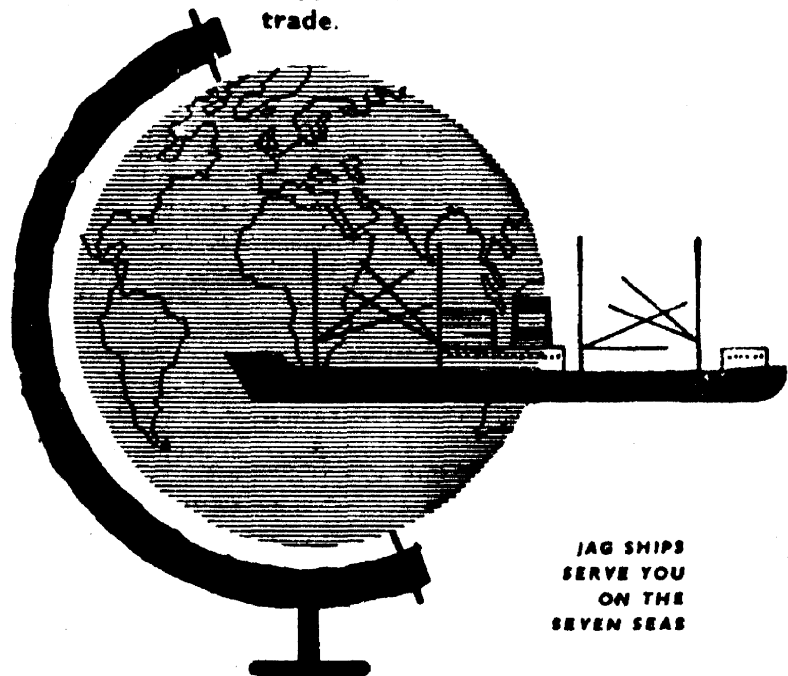
Schedule 'B'

Exports from Nepal to Pakistan

1. Timber and Wood
2. Pulses
3. Oilseeds
4. Medicinal herbs
5. Linseeds
6. Potato seeds
7. Boulders, Shingles
8. Cheese, ghee
9. Hides & Skins, sun dry
10. Wool
11. Rice
12. Musk, Cardamom
13. Tanning materials
14. Wattle bark.

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