INDO-NEPAL ECONOMIC COOPERATION: A SUBREGIONAL PERSPECTIVE

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The present paper explores how a subregional engagement with bordering regions can stimulate economic cooperation among countries in the context of low levels of trade within the South Asian subregion. With special reference to shared historical legacy and culture-driven interaction — formal and informal — between Nepal and the state of Bihar in India, the paper develops a SWOT (strength, weakness, opportunity and threat) framework to rationalize and reflect on the need for a subregional perspective towards promotion of regional cooperation. With complementary applications of secondary data and field research, it shows how irrespective of formal country-level initiatives, Nepal and Bihar have engaged in successful economic partnerships and argues that those existing nodes represent the potential for greater subregional and regional economic cooperation. The paper also offers insights into formal and informal challenges and policy imperatives associated with the operationalization of the new perspective.

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Key words: Nepal, Bihar, informal, trade, subregional perspective, economic cooperation.

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I. INTRODUCTION

Since the end of the Second World War the world has witnessed an accelerated movement towards greater global integration among economies. This integration has brought greater prosperity and increased consumer satisfaction in many economies, but the openness associated with it has also been linked to accentuated poverty and inequality. Many countries have gained economic openness, while others, particularly developing ones, have not benefited from the greater international economic integration. This implies that openness is a necessary but not the sufficient condition for successful economic development (Shrestha, 2013). One of the reasons behind the varying achievements of countries undergoing a trade-driven development process is the high costs attached to international trade. Tariffs are no longer seen as the main obstacle to trade following substantial reductions of them over the last 60 years. Since the 1970s, major non-tariff barriers to trade, such as import quotas or voluntary export restraint agreements, have also declined significantly (Nabi, 2010). Yet, international trade remains rather costly and consequently; it remains very low within South Asia. This issue has caught much attention, with several regional initiatives being undertaken to promote trade and broader economic cooperation among countries of South Asia in the past few years. In fact, the South Asian Association for Regional Cooperation (SAARC) was established in 1985 with the agenda to promote greater integration and trade within countries of South Asia. However, it has failed to significantly boost intra-SAARC trade; trade with the Association continues to be one of the lowest among regional trade blocks in the world (Sharan, 2010). Even the establishment of South Asian Preferential Trading Arrangements, which are aimed at lowering trade barriers, has failed to stimulate intra-South Asia trade to desired levels (Taneja, 2001).

One aspect that could stimulate trade among neighbouring countries of South Asia, but remains relatively unexplored, is the identification and promotion of economic cooperation across bordering regions of neighbouring South Asian countries. This, in turn, can be linked further to the promotion of regional integration and particularly have spillover effects in the case of geographically large countries, such as India. However, only limited research has been conducted on potential of this type of cooperation. The present report assesses the current status and potential of greater integration between India and Nepal through a subregional perspective involving the state of Bihar. A lot of research has been conducted on regional trade in South Asia in general and Indo-Nepal trade in particular (Shrestha 2013; Taneja and Chowdhary, 2011; Rajkarnikar, 2011; Sharan, 2010; Pandey, 2010), but little has been done from the subregional perspective from the bordering region. Several studies have looked at bordering states (Chanda, 2013; Kansakar, 2012; Pohit and Taneja, 2000), but the objective has been to capture the dynamics of cross-border informal

trade rather than explore the potential in those regions for catalysing cooperation. This paper therefore presents the subregional perspective of the Indo-Nepal economic relationship by focusing on the state of Bihar. At the same time, it also identifies areas and scope for potential cooperation that can be linked to enhance regional cooperation in South Asia.

Bihar as an important transit point at the India-Nepal border, owing to its direct connection to the metropolitan cities of India, the state is likely to continue to be of geopolitical and economic significance to Nepal. Additionally, among the states of India, Bihar shares a unique historical and cultural proximity with Nepal, which renders a self-sustaining cycle of interaction and transaction between the areas. It is this interaction and economic transaction — formal as well as informal — ongoing through borders in Bihar, that this paper looks at. It is observed that this natural advantage between Bihar and Nepal at a subregional level can be translated into enhanced economic cooperation among the countries and within South Asia. The ostensible objective is to understand the existing structure of interaction and based on that, to identify the potential for and barriers to enhancing Indo-Nepal economic and regional cooperation by leveraging subregional dynamics that already exist, though largely at the informal level, and the policy imperatives for the promotion of it. Based on a strength, weakness, opportunities and threats (SWOT) analysis using secondary data along with field visits to four transit towns in Bihar, the paper presents the existing formal networks of exchanges and transactions. It also captures the legacy of informal mechanisms existing since time immemorial due to natural and self-sustained affinity between Bihar and Nepal. In the process, it is observed that the informal networks are a reflection of the close relation between the two countries' border regions, but also present challenges when incorporating the framework on cooperation.

The paper is organized in six sections. It begins with an introduction in section I. Section II sets the subregional perspective on Indo-Nepal economic cooperation. Section III deals with the methodological framework and section IV consists of a discussion on the strength and opportunities associated with the Indo-Nepal economic relationship with reference to Bihar. Section V attempts to identify weaknesses in the current Indo-Nepal engagement and contains a discussion on the factors that obstruct cooperation from a subregional perspective. Finally, the paper winds up with concluding inferences drawn from the SWOT framework, developed in the process.

II. SETTING THE SUBREGIONAL PERSPECTIVE ON ECONOMIC COOPERATION

Indo-Nepal cooperation, economic or otherwise, is a natural fixture, given the long border the two countries share with each other. Nepal, which is landlocked, borders five states of India, namely West Bengal, Sikkim, Bihar, Uttar Pradesh and Uttarakhand. As a consequence of the close geographical and historical connections between the two countries, their relationship is “taken for granted” to the point that efforts to enhance cooperation have frequently been undermined. Starting in 1950, a number of treaties and agreements have been entered into by India and Nepal relating to trade and cooperation. With the gradual transition to a freer bilateral trade regime, including extra proportional trade considerations on the part of India, trade between the two countries has been growing over the years. India enjoys a trade surplus with Nepal, which is unavoidable given the varying size, economic development levels and export bases of the two countries (Sharan, 2010).

Apart from the size of the economy, Nepal has the lowest saving and investment ratio to gross domestic product (GDP) — a key indicator of macro-economic well-being — among South Asian countries (World Bank, 2012). The country is also very weak in terms of availability of infrastructure, such as access to electricity, road density and a mobile phone network (World Bank, 2012). In fact, most of the South Asian countries lag behind East Asian countries with regard to major macroeconomic indicators (Shrestha, 2013).

In terms of geographical area, Nepal is much smaller than India and in fact, is only slightly larger than the state of Bihar, whereas the population of Bihar is more than four times larger than Nepal. The population density of Nepal is half of India, but the population density of Bihar is 10 times higher than that of Nepal. GDP per person in Nepal is much lower as compared to India, but it is relatively higher when compared to the state of Bihar (see table 1). The literacy rate at around 57 per cent is also lower in Nepal than in Bihar, despite the latter being among the underdeveloped regions of India. However, life expectancy in Nepal is considerable higher as compared to Bihar and India.

Despite the visible asymmetries between India and Nepal, the two countries have maintained close historical ties. Notably, more than seven million ethnic Nepalese currently live and work in India, apart from those engaged as short-term workers (Pandey, 2010). One of the unique characteristics of Indo-Nepal interaction, which is also reflective of the potential of economic partnership, is the direct cultural affinity between some of the states of India with Nepal with or without an alignment with national strategies. As mentioned above, Bihar is one such state that shares a unique cultural legacy and to some extent economic characteristics with Nepal,

Table 1. Key indicators on Nepal, India and the state of Bihar

Indicator	Nepal ^a	India ^b	Bihar ^b
Area ("000" sq.km.)	147.20	3 287.30	94.20
Literacy rate	65.90	74.04	61.80
Sex ratio	1 061.00	940.00	918.00
Population (in million)	26.50	1 210.19	103.80
Population density (per sq.km.)	180.00	382.00	1 106.00
GDP (current US\$ billion) ^c	19.27	1 858.75	–
GDP per person (current US\$)	699.00	1 503.00	1 019.00 ^d
Life expectancy at birth	68.00	66.00	61.60 (2006)

Sources: ^a Nepal, Central Bureau of Statistics (2012); ^b India, Ministry of Home Affairs, (2011); ^c World Bank (2014); ^d Comparing (2009).

which may not necessarily overlap with rest of India. These natural and cultural commonalities between Bihar and Nepal are fundamental to economic and non-economic connections and interactions between them irrespective of a formal Indo-Nepal framework. It is this context that justifies a subregional perspective towards expanding and strengthening formal cooperation between India and Nepal, which, in turn, may be linked to other South Asian countries to the extent feasible. Interestingly, despite the absence of a strategic effort at the Indo-Nepal relationship level, partnership between the state of Bihar and Nepal has already been taking place. One concrete example in this regard is the efficient engagement of the Bihar State Milk Cooperative Federation Limited with Nepal through trading of milk, which is discussed later in detail. This cooperative effort espouses the potential of a subregional perspective on cooperation between India and Nepal.

III. METHODOLOGICAL APPROACH, DATA AND SAMPLE

Methodologically, the paper has adopted a SWOT approach. Developed originally for business and industry, SWOT analysis is now widely applied in the field of development research and policy and is helpful in being realistic during the planning process.¹ It is an established method to assist in the formulation of strategy and resource-based planning (Dyson, 2004). The SWOT framework is particularly helpful in demarcating external and internal factors — both positive and negative — associated with a given situation, while also providing a mechanism to work on take-off strategies.

¹ www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7199.pdf.

The paper makes use of both secondary and primary sources of information. Important secondary sources include, but are not limited to, various departments under the Government of India and the government of Bihar, research and development institutions, such as the Indian Council for World Affairs, the Nepal Council of World Affairs, institutes of higher education and local non-governmental organizations, especially those from the bordering areas. Also, available documents and interviews of concerned representatives of various public institutions have been important sources of data.

There are ten Indo-Nepal transit points spread across the seven districts of Bihar that border Nepal (see table 2). Four of those districts, namely East Champaran, Sitamarhi, Araria and Kishanganj, were covered under field visits at their respective transit point of Raxaul, Bairstania, Jogbani and Galgalia (see figure 1). The selection of Raxaul and Jogbani for field research was based on their importance as trade transit points between India and Nepal. Bairstania and Galgalia were selected due to their relative proximity to Raxaul and Jogbani, respectively. In addition to being less significant in official trade, greater possibility of informal transactions through Bairstania and Galgalia was expected.

Table 2. Districts of Bihar and Nepal bordering each other, along with their respective transit point

Bihar		Nepal	
Districts	Transit points/towns	Districts	Transit points/towns
East Champaran	Raxaul	Parsa	Birgunj
Sitamarhi	Sursand	Mahottari	Jaleswar
	Sonbarsa	Sarlahi	Malangawa
	Bairstania	Rautahat	Gaur
Madhubani	Jaynagar	Siraha	Siraha
	Laukaha	Dhanusa	Thadi Jhijha
Supaul	Bhimnagar	Setobandha	Sunsari
	Kunauli	Saptari	Rajbiraj
Araria	Jogbani	Murang	Biratnagar
Kishanganj	Galgalia	Jhapa	Bhadrapur

Figure 1. Four Indo-Nepal transit points in Bihar covered under field research

Six custom staff members in total (selected randomly) were interviewed from the four selected customs land stations, mentioned above. No structured survey was conducted, however, group discussions were held with local traders and shop owners in transit areas. Spontaneous interviews of ten randomly selected individuals travelling across the border from either side were conducted. This was done in order to capture the unofficial transactions.

IV. BIHAR IN INDO-NEPAL ECONOMIC COOPERATION: STRENGTH AND OPPORTUNITY

The relationship between the two countries is based on the Treaty of Peace and Friendship between the Government of India and the Government of Nepal,

which was signed in 1950.² Under the provision of the treaty, Nepalese citizens avails all the facilities and opportunities at par with Indian citizens. The treaty provides reciprocal duty free and without any quantitative restrictions market access for 16 agriculture and primary products, including paddy, wheat, maize, rice, pulses and flour. With regard to manufacturing products, it grants duty free and quota free access to the Indian market for all articles manufactured in Nepal. India continues to be the largest trade partner of Nepal and source of foreign investment of tourist arrivals. India accounts for 46 per cent of total foreign investment in Nepal. Indian business ventures in Nepal cover diverse fields, such as manufacturing, services (banking, insurance, dry port, education and telecom), energy and tourism. In July 2012, bilateral trade between Nepal and India accounted for 65.1 per cent of the external trade of Nepal. India–Nepal trade amounted to \$2.7 billion during 2010/11 while exports from India to Nepal gained 137.7 per cent from \$927.4 million in 2006/07 to \$2.2 billion in 2010/11.³ A significant proportion of this trade is carried out through the transit points in Bihar. On the Nepal side, trade with India in particular, is carried out through transit points in Kathmandu, Biratnagar, Birgunj and Nepalganj; the first three towns account for trade between Nepal and Bihar.

Indo-Nepal legal trade through Bihar

Bihar accounts for a large part of border between India and Nepal. The Indo-Nepal border through Bihar has ten transit points, as listed in table 2. Of those towns, Raxaul and Jogbani, which are in the districts of East Champaran and Araria, respectively, account for the majority of Indo-Nepal trade through Bihar (figure 2).

For Raxaul and Jogbani, major items of export are petroleum goods, and iron and steel products. With the exception of Raxaul and Jogbani, revenue mobilization is negligible in the transit points, owing to a relatively miniscule level of trade. Figure 3 shows revenue mobilization from exports and imports at the Jogbani and Raxaul transit points. It is apparent that revenue mobilization from both exports and imports has been growing over the past few years, with revenue from exports through Jogbani and Raxaul considerably higher than imports. Clearly, Bihar is the most significant area with regard to India and Nepal in terms of trade and sharing a common border.

² The treaty was renewed in 1960, 1971, 1978, 1991, 2002, and 2009.

³ www.indianchamber.net/new/INDIA-Nepal Sept12.pdf (accessed 19 June 2014).

Figure 2. Volume of trade through Indo-Nepal transit points in Bihar, 2012-2013

Source: India, Office of the Commissioner of Customs, Patna.

Figure 3. Revenue mobilization from trade through Raxaul and Jogbani transit points

Source: India, Office of the Commissioner of Customs, Patna.

In fact, Raxaul and Jogbani in Bihar, are among the five most important transit routes between India and Nepal. The other three are Nautanwa and Nepalgunj in Uttar Pradesh and Naxalbari in West Bengal. Notably, the Raxaul (India) – Birgunj (Nepal) route is the most important one for bilateral trade between India and Nepal, as well as for trade carried out by Nepal with a third country (Pohit, 2009). Direct rail transport in Nepal is only possible through the Raxaul-Birgunj rail line. Furthermore, de Prabir and Khan (2010) found that of all Indo-Nepal transit points, Raxaul is the most efficient.

Road infrastructure in the bordering area, particularly in Bairstonia and Raxaul, as observed during the field visits, is in a pathetic state. This calls for special attention. In fact, the whole transit infrastructure, including the management of transit traffic and number of daily clearances needs to be developed further. This is important not only for enhancing trade volume but also because of the strong implication it may have on the development status of the bordering areas of Bihar. As has been noted earlier, a little initiative on this front may change the picture considerably, resulting in a reduction in transaction costs (Sengupta, 2013; Rajkarnikar, 2011). Also, adequate modernization and development of all other transit points may shift pressure from Raxaul and Jogbani transit points, which appear to be overburdened. The extension of a broad gauge railway connecting Nepal with Jogbani is a very positive initiative in this context.

Bihar-Nepal economic and trade cooperation: the case of the Bihar State Milk Cooperative Federation Limited

The Bihar State Milk Cooperative Federation Limited was established by the government of Bihar in 1983 to promote and expand dairy development activities in the state. The Federation currently carries out activities related to production, procurement, processing and marketing of milk and milk products.

At the same time, the Federation also strives to promote allied activities. In the process, it has organized initiatives to strengthen and improve dairy farming techniques and practices with the objective to improve the lives and livelihoods of those engaged in such activities. As per data shared by its Patna office, the Federation's milk procurement was 1,493,000.99 kilograms per day in the fiscal year 2013/14 and since the fiscal year 1996/97, it has been growing at compound annual rate of 12.7 per cent. Marketing of milk products under the brand name "*Sudha*" has expanded in terms of quantity and in geographical coverage. One of the remarkable achievements of the Federation has been its growing outreach to Nepal in the previous 8 to 10 years. The genesis of Bihar-Nepal milk trade cooperation lies in the complementary requirements of the two regions; between 2007 and 2010, the Federation suffered from constraints in milk procurement caused by a large-scale flood, while at the same time, Nepal had a sufficient supply of milk, but limited plant

capacity to process and then market the milk. In that context, the Federation started as a symbiotic relationship with regard to milk, but has evolved into a multi-faceted partnership in the dairy business. As per data of the Federation, in 2008/09, it procured milk from Nepal worth 18.5 million Nepalese rupee (Nr) (\$183,000). Figure 4 shows the trend of milk sales by the Federation to Nepal since 2010/11. The volume of the Federation’s milk sales to Nepal increased by 2012, but declined afterwards. During 2013/14, the quantity of milk sold was 4,434,500 kilograms. The total value of milk sales in 2013/14 stood at 116.7 million Nr.

Figure 4. Milk sales (in kilograms) to Nepal by the Bihar State Milk Co-operative

Source: COMFED (2014).

The sustained and prospering involving milk and other dairy products between Bihar and Nepal represents current achievements as well as the unharnessed potential for economic cooperation and partnership in similar areas at the subregional-level between Bihar and Nepal, apart from Indo-Nepal foreign trade. During 2013/14, total milk exports from Bihar to Nepal were valued at approximately 120 million Nr, which is projected to double during 2014/15. The Federation engages in capacity-building and skill upgradation under a dairy development programme and accordingly, in addition to direct milk exports, the Federation is engaged in capacity-building and training in dairy farming for cooperatives in Nepal. This includes activities ranging from those in the initial stage of milk production, such as cattle rearing and

fodder management to storage, quality management, safety, standardization and packaging. Because of the multi-faceted partnership it has invoked over the period, the Bihar-Nepal dairy business is also a guiding example for possible cooperation in other areas, such as agriculture, small manufacturing, tourism and market-based skill development.

Informal transactions and the local economy: field reflections from the border

As noted earlier, one of the unique characteristics of the Indo-Nepal interaction, which is also reflective of the potential of economic partnership, is the direct cultural affinity between some of the states of India with Nepal irrespective of an alignment with national strategies. Cultural ties between the state of Bihar in India on one hand and Nepal, on the other, is a salient example in this regard. Bihar (India) shares an open border with Nepal, which allows easy movement of people across both sides. The open border has economically benefited the nationals inhabiting both sides of the border (Kansakar, 2012). Much of the economic activities in bordering areas of Bihar with Nepal have been driven by the historical connect and ethnic links, irrespective of any formal agreement between the areas. It is likely, therefore, that a considerable proportion of such an economic transaction remains unaccounted for. Trade at many of the crossings is not registered. This non-registered trade comprises a significant fraction of the trade between Indian states, including Bihar, and Nepal. According to an older estimate, informal trade between India and Nepal was 8 to 10 times the official trade between the two countries in as early as 1989, with much of this informal exchange taking place along the Nepal-Bihar border (Pohit and Taneja, 2000). This section reflects on this dimension on the basis of a field visit to the Galgalia transit point at the Bihar-Nepal border.

Of the four transit towns in Bihar, Raxaul and Jogbani account for a majority of formal trade between India and Nepal and as such are the busiest in terms of trade traffic. Consequently, customs land stations here are more vigilant and are relatively developed to deal with the intensive management of the flow of goods on the part of the Government of India. Therefore, informal or unaccounted movement of goods across the border is not very easy. In discussions during the course of the fieldwork, Indian customs officials at Jogbani, completely denied any possibility of illegal movements of items. At the same time, they mentioned that as the Indo-Nepal border is open, it is not possible to track all the movements that go across it. Similar opinions were expressed by officials at the Raxaul and Galgalia customs land stations. Moreover, as the Indo-Nepal treaty allows for free movement of persons across borders, there are no visa requirements. This makes personal trips a possible and preferred channel for information and transactions. At Galgalia, the custom officials shared that the porous border and long distances between two custom checkpoints is

an incentive for unregulated trade between India and Nepal.⁴ However, the initiative to deploy Sashastra Seema Bal (SSB), armed border force between customs checkpoints, has reduced some of those activities across the border. A custom official at Galgalia further added that dumping of Chinese goods through Nepal has declined significantly since the Government of India reduced the duty on most of the items.

However, the issue needs to be looked at from various perspectives as not all unaccounted movements of goods are criminal in nature, even though the authorities refer to all of them as illegal. Trade in prohibited items, such as arms and ammunition, narcotics and human trafficking, which are treated as an illegal and punishable offence, can be differentiated from trade in items, which are not prohibited but are taken through illegal routes, especially in smaller quantities. How are these to be treated in a formal framework? Custom officials in Jogbani and Raxaul refused to share their opinion on this aspect. A field visit to another transit point in Bihar, Galgalia in Kishanganj district, threw some light on this particular dimension.

Cross-border price interaction and use of a human carrier

Galgalia provides transit access between India and Nepal through the district of Kishanganj in eastern Bihar. In terms of the magnitude and value of trade, Galgalia is a relatively small transit point. The most import trade activities are not undertaken through this transit point, but the export items from India to Nepal pass through this point. However, since exports to Nepal are duty free under the Indo-Nepal treaty, very little revenue is generated at the Galgalia transit. Export items transported through this transit point primarily include insecticides, garments and bicycle parts. The transport infrastructure at Galgalia transit is rather underdeveloped, with the use of motorized vehicles for transport negligible. Weak infrastructure is a salient reason behind low Indo-Nepal trade traffic and volume through this transit point of north-eastern Bihar. Customs officials, however, mentioned that infrastructural improvement work had already been started in Galgalia, in conjunction with the ongoing construction of a flyover connecting India and Nepal. This is expected to propel the volume of trade from the Galgalia transit point. In addition, other procedural improvements have taken place recently, including an increase in number of customs working days to include Sundays for inspection at Galgalia land station. The transaction of goods across the Indo-Nepal border for non-commercial transaction is permitted. Bicycles are the common mode of transport for this purpose. At the Galgalia transit point, the non-commercial transaction of consumption items from India to Nepal appeared to be a significant characteristic of the local economy at the

⁴ For example the distance between Jogbani check post and Galgalia customs checkpoint is about 150 kilometres.

Bihar-Nepal border. Interviews in the field revealed the dynamics of price interaction between the two sides of the border (see figure 5). Most of the consumption items, such as sugar, rice and pulses, are sold at a cheaper rate in the local market on the Indian side of the border. Consequently, residents of Nepal are inclined to cross the border to buy necessary items on short intervals (see figure 6). Since, customs regulations of India restrict trade in consumption items only for commercial purposes, individual consumers from Nepal can freely carry those items so long as they are for household consumption purposes. However, an issue that needs to be examined further, is whether those items are resold in Nepal at higher prices. One of travellers from Nepal, who participated in the research process on the condition of anonymity, while carrying goods, stated that many people were involved in the transport of cheaper items from Galgalia market to be sold in Nepal with considerable profit margins. How does this take place since one person cannot carry a huge amount in one go?

Figure 5. Price difference at India and Nepal side of Galgalia transit

Source: Author.

Figure 6. Human carrier movement at Galgalia transit of Bihar at Indo-Nepal border

An interesting insight that came forth through further interaction with local people indicated that traders on both sides employ “human couriers” — both men and women — in large numbers to carry items and goods in relatively small quantities on the stated pretext that they were for household consumption. However, goods carried to Nepal by such agents, are pooled together by the trader and sold in commercial markets. This is apparently an organized activity, engaging a large number of human couriers, especially females, from the Nepal side of the Galgalia border. These human couriers act on behalf of traders from both India and Nepal. As food and agricultural items are prohibited for trade purposes, this organized network allows an effective and relatively safe mode of leveraging price differences between both sides of the Galgalia transit point. The activity has been so well networked that within less than one kilometre away from the Galgalia border on the Indian side, a full-fledged local market has developed to cater to the buyers from the Nepal side. Interestingly, there is no residential neighbourhood around this market, which further reinforces the possibility that the market primarily caters to demand from the Nepal side of the Galgalia transit point. For consumers from the Nepal side, the items of

transaction include primarily basic food consumption while from the Indian side, it is Chinese toys and edibles, such as noodles.

This reveals that while informal trade from India to Nepal primarily involves locally produced goods, from Nepal to India, informal trade might be taking place in third country goods, which is indicative of an organized network of informal traders. In addition, this also underscores the case for reviewing the clause of the rule of origin, as far as its role with regard to trade promotion.

Indian officials at the Galgalia land station, when questioned on the issue, denied movement of goods for commercial purposes. At the same time, they mentioned that the movements of goods between India and Nepal through the Galgalia transit point is subject to a random manual check, which effectively results in the inspection of nearly 20 per cent of transaction passing through here. Ostensibly, it may not be difficult for traders from both sides to fetch goods using human carriers. The question is whether to treat such transactions as natural strength, systemic weakness or a potential for expansion of trade? Another issue is how to accommodate such activities in a formal framework of mutual cooperation? This dimension is critical, especially since it has been noted that more often than not, the informal channels of interaction provide greater benefits as compared to formal channels to local people engaged in trade and exchange across the border. Therefore, informal channels in a limited way should not be discouraged.⁵ At several transit points along the Bihar-Nepal border, formal trade traffic is low. It is likely that the customs stations are less alert, resulting in an environment conducive for the undertaking of unregulated and unaccounted activities.

Indo-Nepal tourism and the centrality of Bihar

Tourism is an important economic activity as it has a multiplier effect on a country's overall national income, especially in those countries that are significantly dependent upon the sector. It brings in large amounts of income in payment for goods and services available, contributing an estimated 5 per cent to the worldwide GDP, and creates opportunities for employment in the service industries associated with the sector (ISI, 2012). As being highly labour intensive, tourism and tourism support activities create a high proportion of employment and career opportunities for low-skilled and semi-skilled workers, particularly for poor, female and young workers. The share of women working in the tourism sector is 70 per cent and half of all tourism

⁵ T.N. Jha, Discussant, Workshop on India-Nepal Economic Cooperation: Sub Regional Perspectives from Bihar and Uttar Pradesh, organized by A N Sinha Institute of Social Studies Patna and Centre for Policy Research. New Delhi, 16 July 2014.

workers are aged 25 years or less (UNCTAD, 2010). In South Asia, however, the percentage contribution of travel and tourism to regional GDP is only 2.3 per cent, which is the lowest in the world, but in terms of employment, it is 4.2 per cent, which is relatively high (WTTC, 2013). This is an indication of lower labour productivity associated with tourism services in South Asia. As in 2012, the contribution of travel and tourism to the national GDP and total employment of Nepal was 9.4 per cent and 8.2 per cent, respectively, while for India, those figures were at 6.6 per cent and 7.7 per cent, respectively (WTTC, 2013). India has great potential to develop its tourism industry. With regard to inbound tourism, the country has made steady progress in recent years, but its share of total foreign tourist arrivals has remained modest. In 2008, the tourism sector's contribution to the country's total employment was estimated to be about 9.24 per cent (ISI, 2012). Much of the country's potential in this regard, particularly in the context of Bihar-Nepal tourism opportunities, remains untapped. This is especially evident in the case of Bihar and Nepal where tourism — religious as well as cultural — is another sector of close interaction with great potential. Based on very preliminary reflections, it stands out that Bihar and Nepal ties are particularly unique since those two regions share not only similar ecosystems and agroclimatic characteristics, but they also share common historical traditions and religious practices. The role of religious centres of pilgrimage for both Hindus and Buddhists can be tied to the strengthening of social and cultural bonds between the two countries. Nepal as the abode of Pashupatinath and the birthplace of Sita and Buddha has been the holiest place for both Hindus and Buddhists (Kansakar, 2012). As such, Bihar and Nepal share immense potential for cultural and religious tourism.

Bihar and Nepal on the Buddhist circuit

Government statistics on tourism shows that 1.91 per cent of the foreign tourists in India come from Nepal and 15-20 per cent are from Asian countries with significant Buddhist populations, such as Bhutan, Japan, Myanmar, the Philippines, Sri Lanka and Thailand (see table 3 and figure 7). With regard to Nepal, 21 per cent of its tourist inflow originate from India. Figure 7 also indicates that a greater proportion of the tourist inflow to Nepal comes from countries with considerable followers of Buddhism as compared to India.

Bihar is ranked seven among Indian states with regard to tourist inflows. As shown in table 4, it has a 5.29-per cent share of total tourist inflows in India. Also, based on the most recent government statistics, of the total foreign tourists that visited Bihar in 2005, close to 70 per cent of them followed the Buddhist circuit and among them, 75 per cent were from countries with Buddhist-dominated populations. In 2005, foreign tourists in Bihar spent about \$3 million, which equates to a daily expense of about \$15 per foreign tourist.

Table 3. Percentage share of Buddhist circuit countries in total foreign tourist inflow in India and Nepal

India*									
Sri Lanka	Nepal	China	Japan	Bhutan	Thailand	Myanmar	Viet Nam	Malaysia	Singapore
4.51	1.91	2.57	3.07	3.30	1.60	0.47	0.17	2.98	2.0

Nepal**									
Sri Lanka	India	China	Japan	Bhutan	Thailand	Myanmar	Viet Nam	Malaysia	Singapore
8.65	20.64	8.94	3.56	0.52	4.55	1.17	0.27	1.46	0.70

Sources: * India, Ministry of Tourism (2012); ** Nepal (2012).

Figure 7. Percentage of tourists from Buddhist circuit countries to total tourist inflow in Nepal and India

Sources: *India, Ministry of Tourism (2012); **Nepal, Ministry of Culture, Tourism and Civil Aviation (2012).

Table 4. Percentage share of visitors from Buddhist circuit countries in total foreign tourist inflow to Bihar and share of visitors from Bihar in foreign tourist inflow to India

Percentage of foreign tourists in Bihar							
Share of Bihar in total foreign tourists in India*	Staying at Bihar Buddhist circuit	From countries with Buddhist population	From Nepal	From Japan	From South-East Asia	From Sri Lanka	Travelling for religious reasons
5.29	70.42	75	15.7	20	13.8	13	37

Sources: India, Department of Tourism (2005); *India, Ministry of Tourism (2012).

In 2005, Japan was the largest contributor of foreign tourists to Bihar with a 20 per cent share followed by Nepal with a share of 16 per cent. Clearly, Bihar, which has a significant place in the Buddhist circuit, has become well-known among religious tourists of Buddhist beliefs from around the world. Nepal has a visible role in this regard. Interestingly, 0.31 per cent of foreign tourists to India use Raxaul – the Bihar-Nepal transit town as the port of entry in India. It is likely that a majority of those entering from Raxaul were tourists from Nepal. While current statistics indicate the importance of Nepal and other Asian countries as a source of foreign tourists, they actually reflect significant underutilization of the potential of religious tourism across South Asian countries with sites on Buddhist Circuit, including India and Nepal.

Figure 8, which depicts nine countries with relative predominance of Buddhism and their contribution to tourist inflows to Nepal and India, clearly indicates that there is some correspondence in tourist inflows to these two countries. This is likely as religious tourists to the Buddhist circuit would choose to cover relevant places in neighbouring countries – Nepal and India in this case. However, as a proportion to their respective tourist inflows, Nepal has a considerably greater inflow from China, Thailand and Sri Lanka than in India, whereas India has a relatively greater inflow from Bhutan, Singapore and Malaysia (figure 7). This lack of consistency indicates that India and Nepal need to coordinate their efforts in promoting tourism, especially with regard to the Buddhist circuit.

Nepal has made progress in attracting more tourists through its “Visit Lumbini Year” campaign in 2012. During that year, 509,073 tourists from 92 countries visited Lord Buddha’s birthplace, including 113,195 Indians, 52,672 Sri Lankans and 28,480 Thais. There is great potential to draw pilgrims from other Buddhist countries to India and Nepal through coordinated efforts by the countries. Furthermore, visa facilitation

Figure 8. Cross country status as origins of tourists to India and Nepal

Sources: * India, Ministry of Tourism (2012); **Nepal, Ministry of Culture, Tourism and Civil Aviation (2012).

for Buddhist circuit tourists, coming from countries other than India and Nepal needs to be improved. It has been found that improvement in visa procedures leads to a significant increase in tourist inflows. Some member countries of the Association for Southeast Asian Nations (ASEAN) have undertaken coordinated measures to promote tourism trade within the region (WTTC, 2014). A report from the World Travel and Trade Council (WTTC) states that ASEAN countries stand to gain 8 million to 10 million international tourists by 2016 as a result of visa facilitation initiatives, which, in turn, could potentially generate international tourism receipts between \$7 billion and \$10 billion and create approximately 367,000 jobs. Such findings clearly indicate the importance of visa processes in tourism promotion. India and Nepal need to work concertedly on this front and focus on Bihar due to the strategic role of the state in the Indo-Nepal regional tourism circuit. India and Nepal can forge a smoother visa regime and may consider developing visa facilitation centres at Bihar-Nepal transit points. Such an initiative is expected to encourage circular movement of tourists who visit certain prominent places on the Buddhist circuit to other places falling on it. The economic gain expected from such an arrangement needs to be stressed. Given the structure of the economy of Bihar, this is a lucrative option, which needs to be worked upon aggressively in close coordination with Governments of India and of Nepal.

Figure 9. Buddhist and Ramayana tourism circuit in Nepal ***Bihar and Nepal on the Ramayana (Hindu) circuit***

The roots of the ancient culture of “Mithila” span between and only across Nepal and Bihar, which renders shared beliefs and culture to the two regions. The much revered epic of the Ramayana and the Mahabharata and their central characters have roots in this “Mithila Region”, especially in Janakpur in Nepal and Sitamarhi in Bihar. In addition, there are other related religious sites in the districts of Gaya, Jehanabad, Munger, Darbhanga, West Champaran, Jamui in Bihar. In fact, Valmiki Nagar in West Champaran – where the author of Ramayana — sage Valmiki — is said to have lived is only 40 kilometres from the Indo-Nepal border. According to the epic poem Ramayana, the city of Janakpur in Nepal, which is 135 kilometres from Kathmandu, was named after King Janak of the Mithila kingdom. In addition, there are other places of significance for the Hinduism faith in Nepal, including the Pashupathinath temple in Kathmandu, which is a UNESCO World Heritage Site and another important religious site for Hindi Dhanushadham, near Janakpur. Due to this overlap of religious legacy and the belief system between Nepal and Bihar, (which is not as intrinsic to other states of India), there is significant scope to promote connected religious tourism in the Hindu circuit across the two regions. In addition, there is also considerable scope to link this Indo [Bihar]-Nepal tourist circuit to Sri Lanka, which also shares a special place in the epic poem Ramayana.

The “Ramayana circuit” is not a well-known tourist destination. Religious tourism in this area has been isolated to prominent famous places, with the circular

trail passing through places that connect the ideas of the epic poem not commonly visited. Initiatives to promote these sites would require a minimum level of facilitation from countries with sites on trails. The Government of India has begun to give consideration to this dimension of tourism,⁶ however, no concrete initiative to support it has not yet been initiated. Similarly, Nepal can be connected to several states of India, apart from Bihar, in promoting religious tourism related to other subfaiths within Hinduism.

Figure 10. Bihar Buddhist and Ramayana tourism circuit

Bihar in Indo-Nepal water resource management: the untapped opportunities

Transboundary rivers and water management are governed by treaties and Indo-Nepal cooperation, which dates back to 1954 with the signing of the Kosi Agreement. Management of the Kosi river flow has been central to Indo-Nepal water cooperation agreements. However, it has been observed that the implementation of

⁶ India, Ministry of Tourism, "Identification of tourism circuits across India, interim report", 2012. Available from www.tourism.gov.in (accessed 19 June 2014).

the Kosi Agreement has not been smooth, owing to floods in the Kosi region (Malhotra, 2010). Nepal is said to have been concerned about several issues, such as negligence in maintenance of embankments by India and inadequate compensation for the damage to the environment and displacement associated with the construction of dams and other works in the region (Malhotra, 2010). Consequently, disagreements between the two countries have disrupted water cooperation. At the same time, it has also been noted that water cooperation can be an effective antidote to the irritants in India-Nepal relations (Bisht, 2008). The construction of a dam and barrage has multiple implications for the economy of Bihar and India (Mishra, 2008). Nepal has a power potential of 84,000 megawatts (MWs), of which 43,000 MWs of hydropower potential is assumed to be economically viable and technically feasible (Dhungel, 2008). This potential can be harnessed for the benefit of both countries. While Nepal needs the Indian market for exporting hydropower, India, due to its growing energy demands, requires the resources of Nepal to meet its power deficit. The potential of water cooperation between India and Nepal has been untapped. From a subregional perspective, such cooperation could result in improved irrigation conditions and boost the generation of hydropower, two areas that need to be enhanced in Bihar. Nepal could also benefit largely through hydropower generation as it carries strong sectoral linkages – both forward and backward (Taneja and Chowdhury, 2011). This strongly supports the call for subregional cooperation in generating hydropower as demand for energy has increased in line with the rapid growth in industrialization and urbanization (Malhotra, 2010). Within the federal structure of India, a provincial state enjoys greater space and power vested by the constitution of India in adopting policy.⁷ In fact, historical records in independent India suggest that such an initiative had been taken by the government of Bihar and the Government of Nepal (Mishra, 2014).

Recognizing the need for cooperation, several institutional arrangements were created between India and Nepal, such as the Power Exchange Committee and the Nepal-India Joint Committee on Water Resources. There are also intergovernmental dealings to develop multipurpose river projects in Nepal, such as the multipurpose dam and diversion scheme on Kosi and the multipurpose development project on Mahakali. Nevertheless, the quantum of energy exchanged between the two countries is hardly significant (Dhungel 2008).

⁷ This does not imply that in every issue, subregional initiatives will yield the same degree of success. Bilateral dialogue is definitely required in some issues for example in the defense sector.

V. SUBREGIONAL PERSPECTIVE FROM BIHAR-NEPAL BORDER: THREATS AND WEAKNESS

Some of the specific issues that have consistently deterred Indo-Nepal economic cooperation are briefly discussed in the following paragraphs.

Procedural issues and high transaction cost

High costs associated with trade transactions and procedural issues remain inherent barriers to greater Indo-Nepal economic cooperation. Despite switching to a freer trade regime, trade between India and Nepal have not increased appreciably, which may be due non-tariff barriers (Sengupta, 2013). Among the non-tariff barriers preventing Nepalese goods from getting easy access to Indian markets are phytosanitary checks at the border and the refusal of Indian officials to accept certification of products by Nepalese authorities. Also packaging requirements and quality-testing of products, especially for food items including fish, serves as obstacles to trade expansion (Sengupta, 2013). The reduction of trade tariffs that has taken place is not sufficient alone to boost trade; steps must also be taken to address non-tariff barriers.

Formal trade between the two countries currently involves significant transaction costs due to procedural intricacies or infrastructural constraints. The time required for the completion of import and export procedures in South Asian countries is, on average, about three times higher than in developed economies (ADB and ESCAP, 2013). An average day taken to export was 16 days in India in 2013, whereas in Nepal, it was 41 days (ADB and ESCAP, 2013). With regard to imports, the process time is 20 days in India and 38 days in Nepal. Since 2006, India has made it easier to process imported goods while progress in this area in Nepal has been negligible. The cost to export and import from the two countries has also substantially increased (ADB and ESCAP, 2013). Rajkarnikar (2011) noted that to complete the process to export vegetable ghee from Nepal to India consisted of 15 steps and several complex procedures, whereas a similar transaction from India is much easier and less costly.

Road infrastructure remains outdated at the border. During field visits to East Champaran and Sitamarhi, it was found that road connectivity to Nepal from Bihar is in an abysmal condition. For example, travelling 40 kilometres from Raxaul to Bairgania, took nearly four hours, which reflected the pathetic condition of local transport at the Bihar-Nepal border. While road conditions on the north-eastern Bihar border with Nepal seemed better, lack of maintenance was evident.

The threat of Kosi

Kosi is one of the eight river basins, spreading in north Bihar towards the south of the Indo-Nepal border. As discussed earlier, the people of Nepal and North Bihar in India have been suffering immensely as the result of water overflowing during the monsoon season almost every year. In fact, the Government of India has declared this region as a flood-prone area. Initiatives taken to solve the problem dates back to the British period in India (Mishra, 2014), however, not enough progress has been recorded as far as the Kosi embankments or related issues are concerned. Kosi flood takes a heavy toll on life and resources in Bihar and in Nepal. About three million people in Bihar and nearly 50,000 people in Nepal were displaced by Kosi flood in 2008 (Bisht, 2008). Clearly the river has remained a perennial threat amid failure to agree to a framework to address this issue despite ongoing discussions for six decades. Any initiative to cooperate in this regard has been struck down due to different perceptions of gains on the part of the two countries. In the course of negotiation, there has hardly been any consensus between India and Nepal on the ratio of cost sharing of projects between them. At the same time, the Nepalese believe that many of their demands have not been considered and that most of the accruing benefits would go to India (Mishra, 2014). This criticism is not without substance and should be addressed promptly before implementing any projects. The Kosi problem has been a “stumbling block” to building a healthy relationship between the two countries. The average person in both countries has had reservations about taking cooperative initiatives. Therefore, initiating dialogue at all the levels of stakeholders could minimize the tension (Mishra, 2014).

Dealing with unregulated and informal trade

It has been argued that illegality prevails due to indirect disincentives to legality, such as high transaction cost stemming from, among other things, excessive transport costs, documentation requirements, rent-seeking attitudes of bureaucrats, and time and cost involved in custom clearances at border transit points (Taneja and Chowdhury, 2011). Streamlining approval and clearance processes would help reduce the illegal movements of goods and commodities across the Indo-Nepal border. In general, unless steps are taken to eliminate non-tariff barriers to reduce transaction costs associated with formal trade, informal trade is likely to continue between India and Nepal.

The issue here is how to deal with other forms of unaccounted transactions that are undertaken with different motives. It has been noted that illegal trade may also prevail due to domestic policy distortions. For example, a trader has the incentive to siphon off subsidized items from the public distribution system to

neighbouring countries if such commodities fetch higher prices across the border (Pohit and Taneja, 2000). The nature of informal trade across the border at the Galgalia transit point appears to reflect a similar trend.

Persistent gaps and sense of alienation on the part of Nepal

It has been observed that there is conspicuous sentiment in Nepal against the India “big-brother” attitude while sharing various platforms for cooperation, whether it is regarding trade or water sharing (Malhotra, 2010; Sengupta, 2013). At the same time, many Indians believe that their country is extending excessive trade benefits to Nepal, resulting in a competitive disadvantage for Indian traders.⁸ India on the other hand, has been concerned about the increase in Maoist activities supported by cross-border factions from Nepal. These negative sentiments have been gaining traction. In fact, closer ties between Nepal and China is often attributed to negligence by India towards its small neighbour. The environment of growing resentment between Nepal and India, in particular, poses a threat to Indo-Nepal cooperation, including involving Bihar.

VI. CONCLUDING REMARKS

There is a need to shift from bilateralism to subregionalism to develop multipurpose projects (Dhungel, 2008). There is great potential to reap economic gains if the state of Bihar and Nepal were to cooperate within their respective formal frameworks. The areas have a locational advantage that bestows natural interdependence. Creating room for subregional economic cooperation, between the state of Bihar and Nepal, could be one critical way on the part of India to engage with Nepal. The federal framework of India gives ample space to the state government to engage with a neighbouring country. Furthermore, the Government of India and government of Bihar, in congruence with policy set in Nepal, can work together towards developing a permanent mechanism for facilitating interaction between the two governments. In fact, a stable intergovernmental panel to work on development of the South Asian regional tourism circuit with a special focus on the Buddhism and Ramayana circuit may be envisaged.

In terms of trade relations, as observed in case of milk trade cooperation, there are several subsectors within a small-scale industrial and micro-entrepreneurial framework that Bihar and Nepal can promote in partnership. At the macrolevel, the two countries need to review the policy framework to strengthen the bilateral

⁸ This view was shared by some of the members of Bihar Chamber of Commerce, while discussing Indo-Nepal trade.

Table 5. SWOT framework on the potential of Indo-Nepal trade with reference to Bihar

Strength	Weakness	Opportunity	Threat
<ul style="list-style-type: none"> • Strong historical and cultural ties • Religious and ethnic proximity • Free cross-border mobility of citizens from both sides • Preferential treatment for trade extended by India to Nepal trade • Trade surplus of India with Nepal • Access to water resources 	<ul style="list-style-type: none"> • Inadequate government facilitation to leverage cultural ties • Inadequate transit and transport infrastructure • High cost and time involved in custom procedures • Lack of intergovernmental coordination • Policy negligence/apathy towards mutual promotion of tourism • Poor water resource management 	<ul style="list-style-type: none"> • Trade promotion through better facilitation • Accommodation of informal transaction into mutually helpful formal framework • Joint research and development on water resource management • Bilateral tourism promotion on shared circuit • Joint promotion of a South Asian tourism network on major tourism circuits 	<ul style="list-style-type: none"> • Similar trade comparative advantages of India and Nepal • Political instability in Nepal • Conflict of interest on water management • Growing hostility in India against exploitation by Nepal of the preferential trade concessions extended by India • A few checkposts across long borders

relationship. They need to rationalize the sensitive agricultural product list. As both countries enjoy the same degree of comparative advantage in the same kinds of products, they need to enhance market access. Unless the complex procedure of trading is simplified, exploiting the trade potential between the two countries will be difficult. A dispute settlement body under the South Asian Free Trade Area needs to be set up. As Nepal is similar to Bihar from a cultural, land and socioeconomic perspective, successful collaboration between the areas will augment the size of the market and benefit both consumers and producers.

To be specific, to package tourist places in South and South-East Asia into a cohesive network, human capital development for tourism services and visa facilitation is highly required. Labour productivity in the South Asian tourism sector is lower than the global average. Hence, there is considerable scope to raise it to international standards. Identification of skill needs of the tourism sector and tailoring the workforce accordingly can benefit both Bihar and Nepal. In addition, investment must be made to improve human capital, to directly provide services in the tourism

sector and to educate the public sector, government and public in general about tourism.

Furthermore, the transit and transport infrastructure between India and Nepal are highly inadequate and the customs clearance process is inefficient. There is an urgent need for a full-fledged integrated customs post with close coordination between custom authorities on both sides of the border. Also connectivity between the two areas needs to be enhanced through better transport and communication and upgrading roads, which are the main mode of transportation between Nepal and Bihar.

Given that water sharing and management is a critical issue pertaining to the relationship between India and Nepal, it may be feasible to work together for sustainable solutions. In this regard, India may take an initiative to develop an information-sharing mechanism with Nepal for disaster preparation and maintenance (Malhotra, 2010). This, in turn, may ensure greater transparency in overall processes and invoke greater cooperation from Nepal. In addition, there is need to engage and work with communities affected by flood and/or displacement on both sides of the border in Bihar and Nepal. This may be another way to take people into confidence and mobilize support on developing a water management strategy. Finally, environment governance is another aspect that the two regions need to address jointly as they share natural and topographical features.

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