



Connecting South Asians: The Centrality of Trade Facilitation for Regional Economic Integration

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1st South Asian Economic Summit
28th August, 2008
Colombo, Sri Lanka

Trade Facilitation as Development

- Research shows substantial gain from Trade Facilitation for South-Asia as a region
- Reduction in transaction costs of trading across borders will empower many small and medium entrepreneurs (SME) to engage with the region and the world creating employment and opportunities for South Asian capital
- Will act as a catalyst for new entrepreneurship, greater specialization, and development of economic clusters with cross-border linkages
- Addressing 'behind the border' trade facilitation issues such as transportation systems and logistical quality of the hinterland will have developmental impact for the entire economy and not just exports and imports

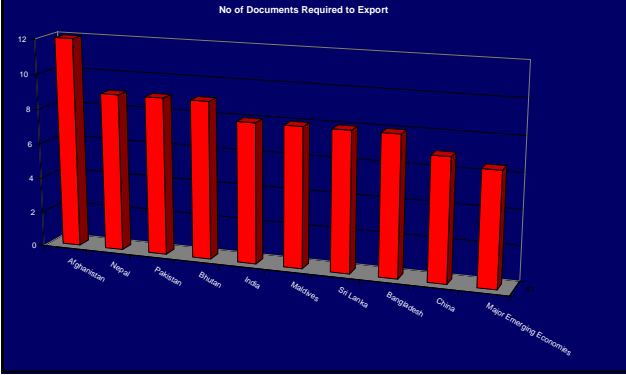
Trade Facilitation (TF) as a Policy Agenda

- The centrality of TF for regional integration has been accepted by regional policy-makers
- To be successful TF reform has to proceed on unilateral, bilateral, regional, and multilateral tracks
- However, some recent examples in South Europe (TTFSE) and SE Asia (GMS) show that a strong regional initiative can serve as the super-structure around which TF reform agenda is best implemented

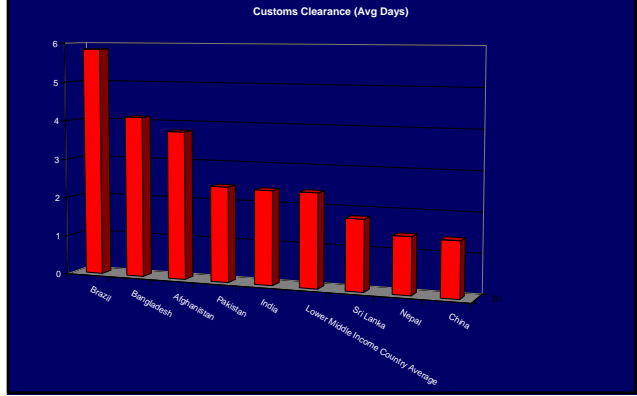
Importance of Regional Integration and TF

- Lack of progress of the Doha round underscores the need for regional and bilateral economic integration as the multilateral track slows down
- Thus, regional TF initiatives are now even more important as an agent of regional integration
- With SAFTA having set firm deadlines for tariff reduction, the main obstacle to economic integration in South Asia is the abysmal neglect of TF related issues

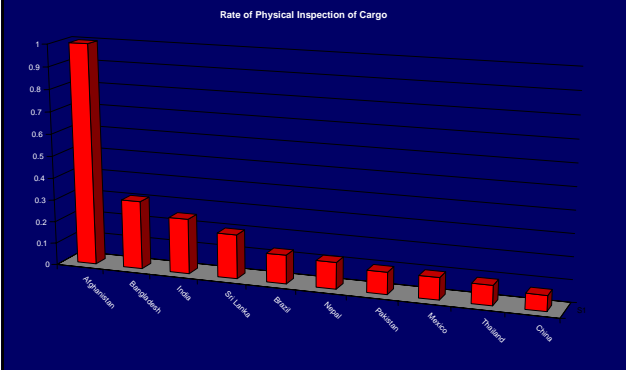
Institutional TF issues in South Asia: Documentation Requirements



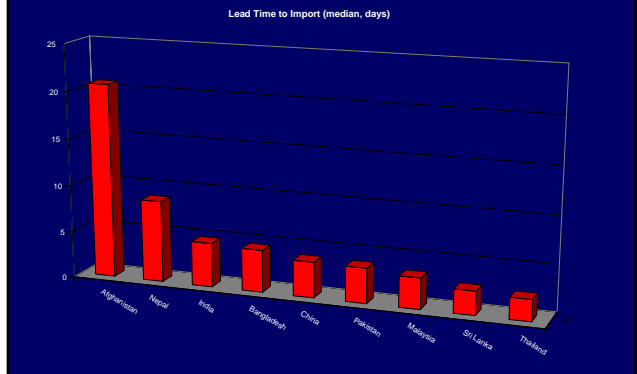
Institutional TF issues in South Asia: Customs Clearance



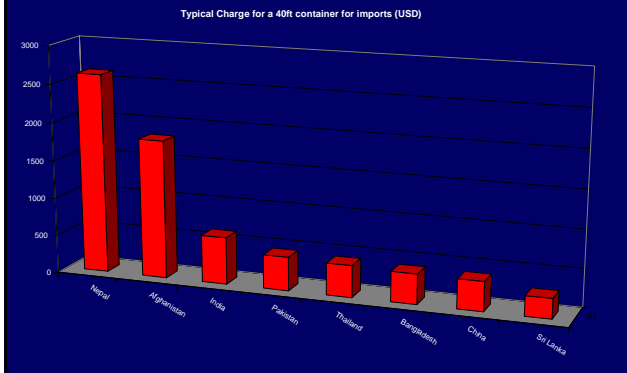
Institutional TF Issues in South Asia: Rate of Physical Inspection



Logistics and Transportation Issues in South Asia: Lead time for Imports



Logistics and Transportation Issues in South Asia: Cost of Freight



Logistics and Transportation Issues in South Asia: Lack of Cross-border Connectivity

- Connectivity is hostage to lack of trust and political hostility between member countries
- Refusal to allow overland routes to third countries is a major impediment to regional integration

Behind the border problems

1. poor quality of roads and logistics in the hinterland
2. severe restrictions on commercial vehicles of member countries to ply on each others roads
3. lack of harmonization of railway-gauge and other standards to allow an integrated railway network in the region

Gateway Issues: Transaction Costs and Problems at South Asia's Borders

- Limited number of designated overland routes between countries and poor ICT and modern infrastructure.
- Congestion
- Trucks of one country often not allowed into the other, or only allowed under strict conditions that limit operability
- Lack of warehousing and proper storage facilities as they await trans-shipment into trucks from one side to the other
- Rent-seeking by officials
- Poor quality of transport connectivity with the hinterland and lack of multi-modal transport linkages

Trade Facilitation Issues: Afghanistan



Key issues are

1. Lack of connectivity to rest of the region
 2. Lack of technology and equipment to implement a modern customs and other cross-border related administration
 3. Lack of logistical infrastructure
 4. Lack of trained human resources
- A major initiative is the road linking Chahbahar port in Iran with the Herat-Kandahar garland highway, with further linkages to Central Asia (Turkmenistan and Uzbekistan). Regular shipping link connecting Mumbai to Central Asia via Iran and Afghanistan
 - Modernization of Kabul and Mazhar-i-Sharif Airports

Trade Facilitation Issues: Bangladesh



- Significant reforms since 1992, including the implementation of ASYCUDA and reduction in procedures and signatures required for export/import
- However, problems remain due to overlapping jurisdiction of several authorities and lack of development of modern logistics and transport networks

Key problem areas are:

- Inadequate development of a multi-modal system that combines roads with railways, and even more importantly, inland waterways
- Congestion in ports (both those at sea and overland)
- Lack of private sector participation in the transport and logistics sector
- Administrative resources, including human resources are severely constrained

Trade Facilitation Issues: India



- Impressive gains in the last decade, especially in customs administration reform and EDI
- Problems persist, especially because EDI not accompanied by simultaneous reform to eradicate duplication of work and overlapping jurisdiction of multiple authorities (257 signatures from 30 different agencies)
- India does not yet have an umbrella organization for TF that includes all private and public stakeholders unlike Pakistan and Sri Lanka
- Numerous logistical issues, including major behind the border problems related to quality of roads, warehouses etc
- Extremely inefficient domestic (provincial border crossings)
- Congested ports and air-ports
- Lack of effective private sector participation in transport and logistics due to regulatory barriers

Trade Facilitation Issues: Nepal



- Poor roads and logistical infrastructure and a difficult, mountainous terrain are critical impediments to effective TF
- Nepal has implemented ASYCUDA and other EDI platforms
- However, Nepal faces an acute shortage of trade facilitation related equipment such as weighbridges, X-ray machines and even enough computers and faxes
- Nepal's customs administration also lacks personnel with adequate training and experience to implement modern trade facilitation procedures
- Logistical issues related to inefficient border-crossing with India, transaction costs imposed by India's poor hinterland logistics, and at the port of Kolkata, are major problems
- India imposed limitations on Nepal's trucks, and on overland routes to Bangladesh are also critical TF problems for Nepal

Trade Facilitation Issues: Pakistan



- Pakistan made significant progress on TF in recent years by implementing a comprehensive EDI and introducing procedural reforms in the form of modern risk management system
- Pakistan has also developed some of the best roads and in the region and Karachi and Port Qasim are relatively better than most ports in the region
- The formation of the umbrella body on TF (NTTFC) is also a step in the right direction
- However, port congestion, poor logistics (especially in the rail system) and institutional lacuna in implementation remain issues
- Pakistan's refusal to give Afghanistan an overland route to India is a clear violation of the spirit of Article V of the WTO-GATT and is a major impediment for regional integration, and South Asia's integration with Central Asia

Trade Facilitation Issues: Sri Lanka



- Sri Lanka pioneered the concept of an umbrella body for TF (SRILPRO) including all private and public stakeholders in South Asia as early as 1980
- Lack of focus, human resources, and funding led to the fizzling out of this initiative by late nineties
- However, the SRILPRO has been revived and major strides has been made in terms of EDI implementation and use digital technology for transshipments and e-banking since 2002
- Investment has also been made in incremental development of Colombo as a transshipment hub for the entire region
- However, the assumption that digitization and automation solves everything has led to less than optimal reform of procedures and administrative capacity that remain inefficient
- Sri Lanka's hinterland logistics and transport is extremely poor and is a major TF issue

Trade Facilitation and Regional Trade Agreements in South Asia

- Neither the South Asia Free Trade Agreement (SAFTA), nor the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation (BIMSTEC), the two regional trade agreements operational in the South Asia region have a comprehensive mandate on TF
- The failure of both these agreements to proactively take up trade facilitation measures seems especially stark in comparison to initiatives in other parts of developing Asia the like The Greater Mekong Sub-region (GMS) comprising of Cambodia, China, Laos, Myanmar, Thailand, and Vietnam.

TF related measures in SAFTA

- Protocols on transparency of rules of regulations and right of appeal for aggrieved parties
- Recognition of certificates of rules of origin (however, no concrete role for private sector has been envisaged in this process)

Non-binding, non-specific commitment towards:

- Mutual recognition of standards and harmonization of customs classification
- Mutual recognition of testing laboratories
- Co-operation between customs administrations
- Development of logistical and transport linkages and overland transit facilities

TF related measures in BIMSTEC

- BIMSTEC does not include any formal, explicit agenda on trade facilitation.
- The agreement identifies transport and communication as a priority sub-sector for 'voluntary' co-operation and makes vague commitments to implement mutual recognition of standards, and establish protocols for ROO
- It promises to engender institutional co-operation between customs administrations.

It also proposes preparatory work on three transportation projects

1. Feasibility Study in Short-Sea Shipping Development in Bay of Bengal (Thai Proposal)
2. Preparation of BIMSTEC Framework Agreement on Multimodal Transport (Thai Proposal)
3. Detailed Design of Three Pagoda Pass Railway line on the Thai-Myanmar border

Policy Recommendation: Seeking Linkages within South Asia and Beyond with SE Asia and Central Asia

- Regional integration agenda is too important for development to be held to hostage to the disagreement between just two of the eight South Asian countries
- Have to seek alternatives beyond traditional SAARC and SAFTA mechanisms

The Two-pronged approach

- Re-orienting the BIMSTEC as a nodal TF agreement for existing South Asian members, and beyond with ASEAN, linking it with the GMS initiative
- Creating a South Asia-Iran-Afghanistan initiative to for a link with Central Asia through the Chahbahar corridor

Policy Recommendations: Role of the BIMSTEC

- As FTAs between India and ASEAN and other bilateral initiatives between South and SE Asia take off, the BIMSTEC is losing relevance as an agreement
- Re-invent the BIMSTEC as a TF agreement on the lines of the GMS, and extend its membership (to include Cambodia, Vietnam, Malaysia and Singapore)

Core Agenda of this proposed new BIMSTEC:

- Institutional TF
- Technological TF
- Transport and Logistics
- Role of the Private Sector

Institutional TF

Policy Goal Seamless borders

- Bilateral protocols on customs and other administrative processes and harmonization of standards and certifications including reciprocal recognition of standards and laboratories
- Harmonization of IT operating systems to allow digital transfer of all forms and signatures
- Availability of adequate and modern communication facilities and logistics support at the border
- Pre-shipment Inspection protocols with private sector (industry chambers) participation
- Adaptation of modern risk management techniques. Protocols for capacity building in such techniques for the less advanced member countries like Nepal, Bhutan, Myanmar, and Laos
- Simplify Rules of Origin (ROO) with private sector (industry chambers) involvement in the certification process for ROO

Technological and Administrative TF

- Use of standardized containers with a harmonized systems of bar-codes that provide a unique identification sequence for each container
- Automated weigh-bridges at all border crossings
- X-Ray machines compatible for use for large size containers
- Electronic lock-systems that prevent and/or allow detection of tampering while in transit for all containers

Administrative Protocols

- Member states must allow the use of their roads by commercial vehicles of other countries. This would eliminate the need for trans-shipment between trucks at borders and is a necessary condition for seamless border discussed above
- All commercial vehicles that are allowed cross-border travel permit must be issued a special BIMSTEC registration number. They must also be assigned a unique bar-code that allows their identification with all details of origin, cargo-consignment, ownership and point-of-entry
- Customs administrations of member states will set the goal of completely harmonizing their product classification systems according to HS coding system up to 6 digit level of disaggregation within five years of the agreement on Trade Facilitation coming into force

Transport and Logistics Facilitation

- Improving behind the border infrastructure
- Develop efficient ports (sea, air and overland crossing)
- Development of multi-modal, dedicated trans-South Asian transport corridors

A list of such a rail and road transport corridor is available in detail in the paper

Role of the Private Sector

The private sector will have to be involved in every stage of the processes outlined above

- As a partner in the institutional processes such as certifying ROO and MRA
- As investor, stakeholder and operator in logistical development

Conclusion

- A regional integration agenda can never succeed without proper trade facilitation. In most cases it is transaction costs rather than tariff barriers that keep entrepreneurs from taking advantage of opportunities across border
- To be successful, the regional trade facilitation agenda must include measures that are mandatory on the contracting parties and set a specific time frame for achievement of these measures.
- To do that, we need a a dedicated TF agreement for the region on the lines of the proposed new BIMSTEC that was discussed

Thank you for your attention