

# Trade Facilitation in South Asia

## A Regional Perspective

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**2018**

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This report 'Trade Facilitation in South Asia: A Regional Perspective' was prepared by Ramesh Poudel (independent consultant) with support of Avinash Chandra Gupta, Research Officer, SAWTEE.

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# Trade Facilitation in South Asia: A Regional Perspective

South Asia Watch on Trade, Economics and Environment (SAWTEE)

2018

## *Abstract*

*This study report assesses the state of trade facilitation in South Asia, using secondary data as well as a primary data collected through a survey in South Asian countries. It constructs a trade facilitation index (TFI) using the Principal Components Analysis (PCA) technique. The TFI is employed in an econometric estimation within the standard gravity modelling framework. The results suggest that improved TFI contributes to lower trade costs and increase trade volume significantly. The finding also shows that transport costs play a dominant role to increase the costs and lower the trade volume. The study argues that a breakthrough for reducing trade costs is to improve the TFI. Improving the TFI would contribute to reduce the trade costs significantly and would help increase the trade volume—a one index point increase in TFI, on average, increases trade volume by 12 percent. Further, if TFI is improved to reach the level of Singapore's, trade cost can be reduced in the range of 16 percent to 35 percent, while export volume can be increased in the range of 80 percent to 98 percent.*

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# CHAPTER 1

## INTRODUCTION

### 1.1 South Asia at a glance

South Asia, one of the densely populated regions of the world and the southern region of the Asian continent, comprises eight countries, namely Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. South Asia is located within the boundary of the Indian Ocean in the South, the People's Republic of China in the North, and in between West Asia, Central Asia, East Asia, and Southeast Asia. All these eight countries are members of the South Asian Association for Regional Cooperation (SAARC), established in 1985. At the time of establishment, there were only seven member countries, with Afghanistan joining in 2005.

South Asia covers about 4.8 million square kilometres of land area, which covers almost 3.7 percent of the world's land. The total population of South Asia is about 1.749 billion, almost one-fourth of the world's populations as of 2015, making it both the most populous and the most densely populated geographical region in the world. South Asia's output is about US\$2.7 trillion, which is just four percent of the world's gross domestic product (GDP). In terms of international trade, the region accounts for merely two percent of the world's merchandised exports, and three percent of the world's merchandise imports. The region's average per capita GDP remains only US\$1542, far below the world's average of US\$10,058 in 2015 (Table 1.1). Perhaps, this scenario is sufficient to show the poor performance of South Asian economies, despite having advantages of demographics (large size of working-age population), large markets and favourable climate.

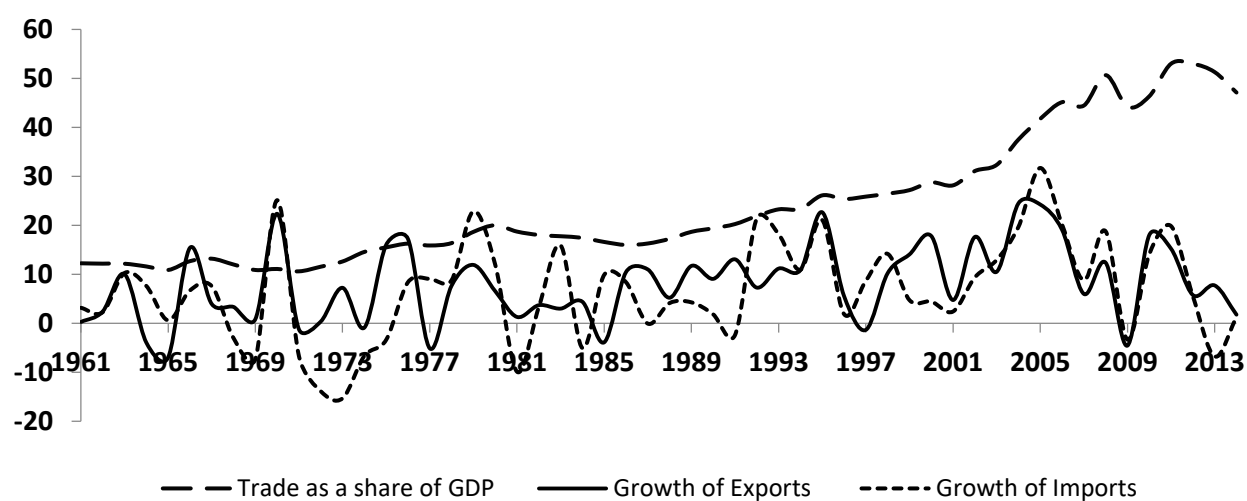
Figure 1.1 presents South Asia's trade-to-GDP ratio and the growth of exports and imports of goods and services. It shows that the share of trade in GDP increased gradually over the period of 1960-2014 in a faster pace particularly since the mid-1990s. As seen in the figure, the growth of imports and exports is not impressive.

Table 1.1: South Asia at a glance, 2015

Country	Land (sq. km)	Population million	GDP US\$ million	Merchandise exports US\$ billion	Merchandise imports US\$ billion
Afghanistan	652860	33	19331	0.57	7.72
Bangladesh	130170	161	195079	32.38	42.05
Bhutan	38117	1	2058	0.55	1.06
India	2973190	1311	2095398	267.95	394.93
Maldives	300	0	3435	0.24	1.89
Nepal	147181	29	21195	0.72	6.65
Pakistan	770880	189	271050	22.09	44.17
Sri Lanka	62710	21	82316	10.55	18.94
<b>World</b>	<b>1.3E+08</b>	<b>7347</b>	<b>73891889</b>	<b>16660</b>	<b>16800</b>
<i>South Asia's share (%) in world</i>	<i>3.68</i>	<i>24</i>	<i>4</i>	<i>2</i>	<i>3</i>

Source: World Bank (2016a)

Figure 1.1: South Asia's trade share of GDP; growth of imports & exports of goods, services (%)



Source: World Bank (2016a)

The key message from this discussion is that about one-fourth population of the world exports just two percent of the world's total exports, and imports just three percent of the world's total imports. A question arises as to whether conditions of trade facilitation play a role in the weak trade performance. If so, which component is the most important to boost the trade performance in the region?

Panagariya (2007) argues that the possible reason for South Asia's poor trade performance is the end of the British Empire. He argues that 'the world markets were relatively closed for South Asia and the region was relatively open within in the beginning, but later the two trade regimes exchanged places—the world markets opened up while South Asian borders became progressively closed'. This situation might have played a crucial role for the poor performance of international trade within the region, and with the rest of the world.

### 1.1.1. Inter-regional trade

South Asian countries' trade with other regions indicates that South Asia lags behind in terms of international trade. If we look at total non-oil trade with the world, we find that trade has grown over the period from 1990 to 2014 substantially but merely covers three percent of the world's trade. This clearly shows that the region's trade performance is low compared to that of other regions.

Table 1.2 shows poor trade performance of individual countries in the region. Over the period of 1990 to 2014, Bangladesh and India have increased their trade by more than 10 times, while Pakistan and Sri Lanka have increased theirs fivefold, and in the case of other countries, the growth is lower still.

**Table 1.2: South Asia's total non-oil trade with the world, US\$ billion**

Country	1990	1995	2000	2005	2010	2013	2014
Afghanistan	NA	NA	NA	NA	4.5	7.6	6.8
Bangladesh	4.4	8.4	12.5	20.6	46.8	NA	NA
Bhutan	NA	NA	NA	0.5	1.1	NA	NA
India	34.6	59.1	74.5	184.4	421.6	548.9	537.6
Maldives	NA	0.3	0.4	0.7	0.9	1.4	1.6



Nepal	NA	NA	2.0	NA	5.1	6.1	9.1
Pakistan	11.3	17.9	16.5	35.0	45.9	53.0	56.5
Sri Lanka	4.2	NA	10.8	13.4	18.6	23.7	25.6

Source: World Bank (2016b)

Note: NA refers data not available.

### 1.1.2. Intra-regional trade

Even though South Asia is in itself a large market, intra-regional trade is low. Tables 1.2, 1.3 and 1.4 jointly show four major points. First, as discussed earlier, the South Asian countries' trade is not impressive and overall it stands at around three percent of the world trade. Second, the intra-regional trade of South Asia is very low indicating that the region itself is not integrated well. Third, the major players in the volume of trade, such as, India, Pakistan and Bangladesh, trade below 20 percent of their total trade within the region. Fourth, the landlocked countries in the region have comparatively high share in the intra-regional trade due to their geographical constraints.

Table 1.4 presents the share of the South Asian countries' regional trade with the rest of the world. For example, in 2014 Afghanistan's intra-regional share in total trade remains 53 percent. Here, Afghanistan's total international trade is US\$6.8 billion (Table 1.2), and its regional trade stands at US\$3.6 billion (Table 1.3). Table 1.3 also shows that India's intra-regional trade share is the lowest among other countries. In 2014, the total intra-regional share of India was merely 7.5 percent. Nepal on the other hand, has the highest share of trade within the region, with India as the largest trading partner. Recent data on Bhutan's trade share were not available but it can be assumed based on data from 2010 that, Bhutan's intra-regional trade share is also high. . The intra-regional trade share of other countries in the region is less than 40 percent.

**Table 1.3: South Asia's total non-oil trade within the region, US\$ billion**

Country	2000	2005	2009	2010	2011	2012	2013	2014
Afghanistan	NA	NA	1.4	1.8	2.4	2.4	2.5	3.6
Bangladesh	1.6	3.5	6.1	9.0	12.4	NA	NA	NA
Bhutan	NA	0.6	0.8	0.9	1.9	1.9	NA	NA
India	4.3	11.3	16.0	23.4	26.8	28.2	34.4	40.2
Maldives	0.2	0.3	0.4	0.4	0.5	0.5	0.5	0.6
Nepal	1.8	NA	4.4	6.1	6.5	6.6	7.2	8.3

Pakistan	1.4	4.3	6.2	8.0	10.7	10.6	11.2	11.2
Sri Lanka	1.7	4.0	4.1	6.1	9.0	8.3	7.7	8.9

Source: World Bank (2016b)

Note: NA refers data not available

**Table 1.4: South Asia's intra-regional trade share %**

Country	2000	2005	2010	2013	2014
Afghanistan	NA	NA	40.3	32.8	53.1
Bangladesh	12.8	17.0	19.2	NA	NA
Bhutan	NA	83.2	81.0	NA	NA
India	5.8	6.1	5.5	6.3	7.5
Maldives	47.7	40.9	43.6	35.8	38.3
Nepal	88.6	NA	94.6	91.1	91.2
Pakistan	8.5	12.3	17.4	21.1	19.8
Sri Lanka	15.8	30.0	32.8	32.6	34.8

Source: World Bank (2016b)

Note: NA refers data not available

## 1.2. Trade facilitation and trade

To improve the trade performance, multiple efforts have been made by leading international organisations, such as, World Trade Organisation (WTO), the United Nations (UN), World Bank (WB), International Monetary Fund (IMF) and Asian Development Bank (ADB), among others. These organisations have led many initiatives to expand international trade as a strategy to reduce poverty by creating employment opportunities and providing goods and services to improve the living standard of people. In this regard, reducing trade costs has always been a focus point. .

Trade facilitation has been taken as a means to reduce trade costs so that trade performance can be improved. In this context, Wilson, Mann, and Otsuki (2005), using a panel data for 75 countries covering the period 2000-2001, suggest that improving trade facilitation measures contributes substantially to international trade. Particularly, the case of Organisation for Economic Cooperation

and Development (OECD) countries' trade performance was of interest in the paper, which was obtained, as the authors discuss, through improving the quality of ports and infrastructure, customs administration and other series of regulatory and service reforms.

Iwanow and Kirkpatrick (2007), using 5-year data for 78 countries in the standard augmented gravity modelling framework, analyse quantitatively the impact of trade facilitation on international trade and find that a 10 percent improvement in trade facilitation results in increased export performance by five percent if the trade facilitation is followed by improvements in the quality of transportation and communication infrastructure.

Trade facilitation refers to the combine efforts to lubricate international trade, such as to improving export and import procedures, customs reforms, improving the transportation and information and communication infrastructure, improving the quality of governance, among others. Improving both the hard and soft infrastructure helps to improve the business environment in the country, which ultimately contributes to improve the export performance (Portugal-Perez & Wilson, 2012).

### **1.3. Objectives**

The objectives of the study are as follows:

- To analyse trade performance of South Asia, disaggregating into inter-regional and intra-regional trade,
- To identify trade- and transport-related bottlenecks and priority areas of trade facilitation in the region,
- To define a regional benchmark for an acceptable level of trade facilitation in South Asia,
- To assess the benefits of trade facilitation benchmarking with advanced countries, and
- To make policy recommendations for better trade performance in the South Asian region.

### **1.4. Methodology**

We employ mixed methods of analysis using both primary and secondary data. Different research methodologies have been adopted to achieve the specific objectives. As these objectives are interrelated, it is anticipated that the findings/recommendations of one component feed into the other components and special care is taken to have consistency in the methodology. Secondary data are used to make qualitative analysis, while in the econometric estimation both primary and secondary data are used.

The methodology developed by the World Bank to conduct perception survey is applied in this study. In this process, the questionnaire is developed, piloted and administered covering the major issues, such as, publication and administration of policies related to trade issues, rules and procedures for import and export, trade-related infrastructure and services, use of information and communication technology (ICT) for export and imports, and the measures for goods in transit (specially to address the cases of landlocked countries in the region, namely Afghanistan, Bhutan and Nepal). Using the response on this questionnaire, first, a trade facilitation index is constructed using principal component analysis (PCA), then this index is used as a variable in the augmented gravity models to examine its impact on trade costs and export performance.

## **1.5. Structure of the Report**

This report is structured as follows. Chapter 2 presents the state of trade facilitation in South Asia and discusses the major issues of trade facilitation in the region. Chapter 3 discusses the research methodology, and presents some survey results. Chapter 4 analyses the impacts of trade facilitation index (TFI) on costs and trade volumes. Chapter 5 presents the conclusions, policy inferences and limitations of the study.

# CHAPTER 2

## TRADE FACILITATION & COMPETITIVENESS IN SOUTH ASIA

### 2.1 Brief Literature

#### Concept of trade facilitation

Referring to the WTO Trade Facilitation Agreement reached in Bali, Indonesia on December 7, 2013, Arvis et al. (2016) describe trade facilitation as bundle of commitments on publishing and making available information for traders and adopting modern approaches to improve customs, including the border, management, with a special focus on improving the operational standards of customs agencies. International Trade Center (2013), on the other hand, defines trade facilitation as an effective way to reduce trade costs via better border and customs management, improvements in infrastructure, preparation of open and competitive markets in logistics and service sectors, and harmonize regional standards that help to improve competitiveness.

Portugal-Perez and Wilson (2012) have defined trade facilitation as a set of policies aiming to reduce the costs of exports and imports by improving efficiency at each stage of the international trade chain. Grainger (2008) states that trade facilitation is the simplification, harmonisation, standardisation and modernisation of trade procedures by reducing trade costs which are associated with customs, infrastructure, transit, information, among others, with the combine efforts of the public and private sectors.

Grainger (2011) argues that with falling tariff levels, non-tariff barriers and trade facilitation, in particular, are receiving growing attention among international trade economists. Because of this scenario, trade facilitation has become a subject of substance within a wide range of international organizations including the UN, the World Customs Organization (WCO), the World Bank and recently the Asian Development Bank. Issues such as economic development, supply chain security, and international transport and logistics have been linked to trade facilitation measures. Gradually, transit issues have also become a priority area.

Trade facilitation also refers to lubricating international trade via a variety of improvements in policy, infrastructure and logistics, implementation process and good governance. Arvis et al. (2016) focus on the improvement in transparency of new legislation, appeals against administrative decisions and advance rulings, cooperation between government agencies and improving the guidelines for streamlining international transit procedures. Also, they suggest that the benefits from trade facilitation would be fully realized only if countries are prepared to go beyond it, such as, adopting the regional integrated framework like that of the European Union.

Engman (2005) examines the link between trade facilitation and trade flows, and argues that improved and simplified customs procedures would have a significant positive impact on trade flows, and improving cross-border movement of goods would have a positive effect on the ability of a country to attract foreign direct investment and better integrate in international production supply chains.

Based on the above discussion, trade facilitation is not limited to administrative documentation requirements but includes any measure that eases trade procedures and reduces the transaction costs. Such measures may include (a) formalities, procedures and number of documents; (b) physical movement of goods through improvements in services (transparent, predictable, uniform), the legal framework, and the transport and communications infrastructure, as well as the use of modern information technology tools by services providers and users; and (c) timely discussion and dissemination of trade-related information to all concerned stakeholders (government, services providers and the trading communities), ideally through an established consultation mechanism.

### **Trade facilitation and South Asia**

Baysan, Panagariya, and Pitigala (2006), and Weerahewa (2009) document that political rifts within South Asia have resulted in the neglect of intra-regional trade facilitation. The lack of confidence in market potential and trading opportunities also are factors behind the poor trade performance of South Asia, though to a lesser extent. These studies indicate that improving just the customs clearance systems would enhance the intra-regional trade substantially.

The previous subsection documents that the impact of trade facilitation is directly seen on trade costs and trade performance. With regard to trade costs, Duval and Utoktham (2011) state that South Asia is a unique case because of its higher intraregional trade costs structure.

Banik and Gilbert (2008) explain the situation of the lack of infrastructure—both physical and services related, measured by usage rate of digital services, government regulations, port inefficiency with higher shipping turnaround time, and corrupt practices with poor quality of governance have together contributed to high trade costs in South Asia, and thus, resulted in poor intra-regional trade. Wilson et al. (2005) find that the highest export gain from improvement in all trade facilitation measures is the most in South Asia, at 20 percent.

CUTS International has published a few works covering the different aspects of trade facilitation in the South Asian context. For example, George (2011) and Ahmed (2006) describe that port logistics, digitisation and clearance capacities at land customs stations (LCSs), harmonisation of product codes and standards, customs notification and information sources, and administrative transparency are crucial issues of trade facilitation in the region. They also indicate that South Asia has failed to benefit from earlier reforms because of these missing links. Transport infrastructure and facilities, which are fundamentals for intra-regional trade, are of significantly lower standards in the region.

The direct impact of trade facilitation is basically manifested in two ways, first, as a part of trade costs minimisation; and second trade maximisation. Following the acceleration of economic liberalisation policies in the 1990s, during which the SAARC Preferential Trading Arrangement (SAPTA) also came into existence, trade facilitation needs eventually caught the attention of policymakers. In the early 2000s, significant improvements were made across all the countries in the region in digitising many documentation processes and dissemination of trade regulations. Bangladesh and Nepal were in the process of implementing the Automated System for Customs Data (ASYCUDA) and Advanced Cargo Information Systems (ACIS), while procedural systems in Sri Lanka became the most mature in the region (CUTS, 2004). Several measures related to post-entry audit and verification were underway during the time. These types of initiatives are essential in every area of trade facilitation. Infrastructure, information and communication technology, customs management system, and the overall quality of governance are still the major issues in the region.

### **Trade facilitation and Reform**

Beginning largely in the 1980s, autonomous policies, multilateral trade negotiations (under the aegis of the General Agreement on Tariffs and Trade (GATT) and later the WTO) and rapidly growing number of regional and preferential trade agreements have led to a progressive reduction in tariffs in

the developed as well as the developing countries including in the least developed countries (LDCs)<sup>1</sup> (Bhagwati, 2014).

In South Asia, De (2014) highlights that while there are still high tariff walls for many goods on the sensitive list, tariffs have been greatly reduced owing to measures like the SAFTA trade liberalisation program. Progress has been achieved in reducing some proportion of trade-related transaction costs, referred to as trade costs (Rahman et al., 2015). The decline in tariffs, understood as the traditional barrier to trade, aided by, inter alia, improvement in logistics and communication technologies have facilitated cross border trade and transactions. Tariff is only one component of the overall trade costs (Arvis et al, 2012). This paper, in the later sections, looks into the other components that make up the transaction costs in trade.

Iwanow and Kirkpatrick (2007), using an augmented gravity modelling technique, argue that trade facilitation plays a vital role, but it should be supported by overall trade reform and regulatory mechanism. This shows that trade reform complements trade facilitation.

Jensen and Tarr (2014), using a computable general equilibrium model of Armenia, suggest that services liberalisation and trade facilitation both contribute to enhance the level of exports. Taken together, these two variables help to increase the investment climate in the country to boost the export performance. Trade facilitation, particularly, reduction of trade and border costs and harmonization of standards would have a significant positive impact. Trade facilitation agreements should address these issues while countries advance in bilateral and multilateral agreements.

## **Trade facilitation and its components**

Trade facilitation simply refers to the set of components or measures that contribute to domestic and international trade. Here, we are more interested in international trade. Trade facilitation measures (TFMs) mainly focus upon simplification and harmonization of customs procedures (valuation, inspection, testing, and documentation, among others), improved border cooperation (coordination in procedures, information sharing and dissemination, infrastructure sharing, capacity building), infrastructure reforms (measures like constructing warehouses, computerization and single window solutions) and predictable and efficient transit mechanisms (WTO, 2015). Maur (2008) refers to trade facilitation measures as the sum of efforts undertaken at national, regional and multilateral levels to reduce transaction costs in trade. Even as the Doha Development Agenda remains stalled, the Trade

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<sup>1</sup> The definition and classification of LDCs is based on *The Least Developed Countries Report 2015* of UNCTAD.



Facilitation Agreement (TFA) was signed in the 2013 Bali ministerial conference. The agreement embodies, inter alia, research and analysis into why the poorest countries will not be able to implement TFA and addresses critical constraints to integration by providing technical assistance and capacity development. The TFA is applicable to all countries across income groupings but has an a la carte approach, called the Special and Differential Treatment (S&D), in TFA adoption and implementation for developing countries and LDCs (Hoekman, 2014).

If we look at the trade facilitation situation in the South Asian region, we see that each country has different positions and scenarios. Rahman et al (2015) argue that TFMs pertaining to testing and certification reduce trade costs. The TFMs in this regard would include mutual recognition of certifications by countries – in our case certifications accompanying exports should be recognised by both India and Nepal. However, it is often the case that developing countries either do not have testing and certification facilities or such facilities are minimally equipped in terms of personnel, equipment and technology. Minimal technological and managerial capabilities, weak institutional development levels (translating into poor policies and/or even poorer implementation) and poor infrastructure, among others, are structural features of developing countries (Nissanke, 2013). The predicament of LDCs is obviously even starker. TFMs with regard to testing facilities and certifications for countries like Nepal will mean capacity building in terms of technical capabilities among personnel, equipment and physical infrastructure (WTO, 2015). Initiatives like the South Asian Regional Standards Organisation (SARSO), Dhaka is a step in the right direction (Basnett et al, 2014). Rahman et al (2015) draw on evidence from the reforms in Bangladesh to infer that TFM benefits far outweigh the costs. Development and management of ports, reducing number of documents and signatures required and implementation of computerisation and programs like ASYCUDA<sup>2</sup> (electronically handles customs declarations, accounting, transit and suspense procedures) resulted in substantial gains such as increase in exports, export competitiveness, and FDI in Bangladesh.

A significant structural weakness developing countries like Nepal grapple with is poor infrastructure and underdeveloped markets and institutions. However, even the relatively developed and rich developing countries such as India, it appears, grapple from severe infrastructure deficits. In case of Nepal, poor quality of roads, absence of multimodal transportation and congestion and procedural delays at the nearest (Kolkata) port lead to added costs in moving containers in a reasonable time.

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<sup>2</sup> “ASYCUDA is a computerised customs management system which covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, transit and suspense procedures” – quoted from UNCTAD (<http://www.asycuda.org/aboutas.asp>)

For example, only Birgunj in Nepal has a rail-linked inland container handling yard, while only Petrapole in India has fast track cargo movement facility (De, 2014). Minimal competition among transport/logistic companies<sup>3</sup>, Rahman et al (2015) posit, raise transportation costs in countries like Nepal and Bhutan denting not just the export competitiveness but also the potential entry into value chains. In Nepal's case, reduction in trade costs will hinge largely upon reducing the transit time – due to delays in border crossings, interstate movement of shipment and cumbersome procedures at port (Serieux, 2014). The study by De (2014) contends that inland transportation costs make exports extremely uncompetitive for Nepal and Bhutan.

Basnett et al (2014) suggest that since NTBs take the form of, inter alia, documentation, fees, valuation, inspection and standards, the TFMs should enhance border (even at the regional level) cooperation, computerisation and harmonisation of such procedures. Integrated single window solutions can be a measure in this direction. The paper dwells on how measures like Single Window System can be implemented in the later sections. Though India has made rapid progress in information technology, paperwork has not been eliminated (Basnett et al, 2014). De (2014), with respect to South Asia, finds that border procedures and documentation are poorly harmonised and that goods are being inspected by different authorities on both sides even in transit instead of being inspected at loading and unloading points. Reforming border procedures will require border cooperation but more importantly there needs to be a single coordination agency to coordinate among national bodies such as inland-revenue, customs and security, among others. It has been documented that the border officials – revenue, customs and security – were often not aware of obligations under regional and international agreements (ibid.). A national coordination body plays a significant role in informing the various departments and ministries about trade-related obligation. In fact, along with the obligations, the relevant stakeholders should be trained on the regulations and policies for efficient processes. Taneja et al (2014) find that one of the major reasons of added trade costs is the damage caused to goods while in transit. It may often be the case that perishable goods require a slightly favourable treatment from both sides.

Trade-related procedures vary from country to country. While harmonisation is the goal eventually, some differences will persist and all the more so when it comes to NTBs such as safeguard mechanisms. The information on trade procedures and policies needs to be published regularly and any changes in the rules need to be notified well in advance. Not doing so raises trade costs substantially (Sattar, 2014). The information should also be routinely exchanged among border

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<sup>3</sup> Called syndicates, it appears that lack of competition and a complete monopoly as sole service providers have translated into higher fares.

officials so that firms on both sides of the border are aware of the policies and measures. Often differences in language and currency raise trade costs. TFMs in this regard should ensure that information is available in a language that the other parties understand.

Trade facilitation measures, as a policy tool, is relevant for the South Asian countries and Nepal in particular. An LDC, Nepal remains one of the most underdeveloped countries in South Asia and the world with almost a fifth of the population under the poverty line (World Bank, 2017). The country finances over 80 percent of the trade deficit from remittance transfer as it sends over 500,000 people for foreign employment every year, the destinations being oil dependent economies and countries like Malaysia (Randolph et al, 2017). That remittance dependence is vulnerable to external shocks, which has been acknowledged by various development plans and policy papers (Pandey et al, 2014). The 11th development plan (2010-2013) contends that inability to expand manufacturing (currently MVA to GDP is around 6 percent which is the least in South Asia<sup>4</sup>) significantly explains the supply side constraints and underdevelopment in Nepal. While neoliberal trade and industrial policies were adopted since the early 1990s, the exports are only a seventh of imports in 2015 and could finance just above 10 percent of the total imports (OEC<sup>5</sup>, 2017). The exports have declined at -1.7 percent annualised rate since 2010 and the imports which were only 2.3 times of exports in 2000, have grown to over 7 times (ibid.). The policy prescriptions to address the so called supply side challenges range from improving the business environment (reforming rigidities in labour laws, providing market access in areas like services), building infrastructure (roads, energy, telecom), and capacity building of bureaucrats to tackle corruption and political instability (Economic Survey, 2015).

While the prescribed policy interventions appear plausible and even appealing, the prescriptions may well be the ends or developmental outcomes and not the means as such. For example, quality of infrastructure is enhanced with sustained and rapid growth. Another example is that as per capita incomes go up, the societies experience less of corruption. Bangladesh, for example, has been able to develop its infrastructure rapidly in the last decade or so given its rapid economic growth driven by manufacturing sector expansion (Hosono, 2015). A significant explanation for the minimal expansion of manufacturing sector (which has led to underdevelopment and slow pace of societal transformation) is limited technological and managerial capabilities, largely a function of learning through robust well-designed industrial policy interventions (Khan, 2013). The argument is that

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<sup>4</sup> World Bank Data, Accessed on 18.07.2017

<sup>5</sup> Observatory for Economic Complexity, MIT. Accessed on 18.07.2017

workers learn manufacturing processes only as they gain experience and learn in actual manufacturing settings (Amsden, 2008).

Cumbersome border procedures, delays in transit, red tape, corruption, inadequate infrastructure and inefficient supply chains, among others, raise trade costs and consequently dent export competitiveness through a host of mechanisms. Production transformation or manufacturing is not an isolated process and involves transformation of inputs into output through production capabilities (Andreoni et al, 2016). Many inputs and components are imported and the manufactures or the output (whether finished or intermediate) need to be exported. If Nepal is to enter into production networks or value chains, perhaps the initial products would be low technology goods which are marked by thin margins. If the trade costs are significant, the terms of trade do not favour Nepali firms. The need for prioritizing trade facilitation agenda as a policy tool in Nepal as well as in the South Asian region is further validated by international publications such as the World Bank's Doing Business Surveys and the Logistic Performance Index.

The need for trade facilitation reforms are all the more pressing in the recent context. The global financial crisis led to a decline in demand from the developed markets but since 2010, there are visible signs of recovery, for example in terms of economic growth (World Bank, 2017). Almost all South Asian countries as well as much of the developing world depend heavily on the demand from the developed north. Given the enhanced competitiveness that TFMs confer, many of Nepal's competitors such as Bangladesh have been able to improve on, inter alia, customs clearance time and costs (Razzaque et al, 2014). If TFM as a policy agenda is delayed, the widening disparity vis-à-vis the competitors (including the South Asian countries) will worsen the relative disadvantage of Nepali firms as well as Nepal as a FDI destination. Furthermore, effective trade facilitation measures have also been associated with enhanced customs productivity, improved tax collection at the borders and greater Foreign Direct Investment (FDI) (WTO, 2015).

Trade facilitation, given its potential to streamline trade costs and hence expand competitiveness, is linked significantly to technological progress – firm level innovations that can drive embodied and disembodied technological learning – a critical component in expanding manufacturing capabilities and hence export potential (Utsav et al, 2018). Availing inputs at globally competitive prices is instrumental, perhaps even the first step, in enabling competitiveness. While much of the literature cites tariff-based concessions for inputs – raw materials as well as intermediate goods – as a major policy initiative, the presence of trade costs means, there are sizable transaction costs in obtaining inputs (ibid.). Reduction of time taken in exports and hence costs benefits firms and the economy via a host of mechanisms. With reduction in export and time, there is evidence that firms experiencing

such changes are more likely to innovate in terms of process and product innovation as well as management-related innovations (such firms are 22% more likely to innovate; see Utsav et al, 2018).

The SAARC region experienced relatively rapid growth after the post-1990 liberalization. All member countries undertook structural reforms such as trade liberalization, privatization, deregulation and delicensing. Since early 1990s, South Asian GDP has grown at an average of 5.2 percent and over six percent since 2003, barring a slowdown in the aftermath of the global economic crisis of 2008. There has indeed been a rise in trade volumes of all South Asian countries but the intraregional trade remains miniscule making South Asia among the least integrated regions comparable to regions like East Africa. Growth in the intra-regional trade and investment has been rather modest registering a minimal rise since the mid-2000s.

The Agreement on South Asian Free Trade Area (SAFTA) has been in operation since 2006 but without any specific sunset clause or implementation timeline. Within SAFTA, there isn't any modality outlined as such for resolving behind-the-border issues, and in this sense, SAFTA represents a case of shallow integration in SAARC.. This approach to regional trade integration stands ill-equipped to deliver results in South Asia – a region beset by not just hostile political relations but also strained economic integration. The cause and effect of the current political and economic challenges are minimal trade flows, poor quality border cooperation and coordination, substandard quality of trade and transport infrastructure and as a consequence, exorbitant transaction costs. Because there is no significant reduction in trade costs, sectors which have traditionally found markets in South Asia have failed to expand trade either in volume or in diversification as expected. On the other hand, improving trade conditions and relations with other regions helped in increasing trade volumes at a much faster rate. This fact is itself a manifestation of how the poor state of regional trade facilitation reforms has undermined development of trade competency even in traditionally important Indian products destined for regional markets.

In the second decade of post-reform period, starting from 2001-02, India's exports to rest of the world grew well by less than six times to reach \$337 billion in 2013 from \$60 in 2001, while India's exports to SAARC increased during the same period by four times to reach \$16.9 billion in 2013. On the other hand, India's import side has been more dynamic. Aggregate imports from rest of the world have risen more than nine times during 2001-12 to reach \$488.8 billion, whereas imports from SAARC were only \$2.3 billion in 2012. Both the figures decreased slightly in 2013.

There has been a stagnation in trade facilitation in South Asia which has resulted in a widening gap of India's trade with regional partners and with others, the latter growing much faster than the former.

While implementing the trade facilitation agenda requires substantial technical assistance among SAARC LDCs (countries like Nepal have listed majority of the trade facilitation components as one requiring technical assistance), India has been making rather rapid progress in implementation of trade facilitation.

India ratified the TFA in 2016 (the 76th member to do so) suggesting its commitment towards reducing the cost of trading across borders<sup>6</sup> (Singh et al., 2018). While attempting to improve its Doing Business rankings, India has also been a strong negotiator when it comes to protecting domestic industries. India has been part of the core group calling for technical assistance and capacity building for developing countries, especially LDCs (Singh et al., 2018). India has categorized 70 percent of its TFA obligations as category A (immediate enforcement) – mainly commitments such as publication and availability of information, opportunity to comment on information and be part of consultation exercises, advance rulings, appeal procedures, measures towards impartiality, non-discrimination and transparency, fees and charges with predictability and discipline, release and clearance of goods, cooperation among border agencies, freedom of transit and coordination and cooperation among customs. The rest of India's commitments are in Category B.

The Authorized Economic Operator or the AEO program provides privileged treatment for the AEOs where they get a round the clock (this too, all year round) consignment clearance window. The AEO service is available at 18 ports. Given the increasing need for maintaining and enhancing competitiveness, the transaction costs such as those related to compliance and logistics among others need to be minimised. Towards this, Singh et al (2018) suggest that there is an attempt to ensure seamless movement of export consignment across states, except for obstructions in 'exceptional' circumstances.

Another potential initiative and development in facilitating transportation (and hence minimizing inefficiencies and transaction costs) has been the agenda of regional connectivity. Venables (2007)

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<sup>6</sup> Mishra et al (2018) from which this section draws significantly argue that the commitment reflects India's quest to rise up in the Ease for Doing Business Rankings (of the World Bank). The merits of 'moving up' in the *Doing Business Reforms* apart (for example its role in enhancing manufacturing sector capabilities and non-extractive export), improvement in *Doing Business* is emphasized as an agenda by the highest political leadership (See <http://indianexpress.com/article/india/pm-modi-ease-of-doing-business-ranking-world-bank-gst-demonetisation-india-economic-growth-4916080/>)

argues that economic corridors – their development across a region – are important not only for trade but also for shaping its economic geography.

### **Current status of trade facilitation in South Asia**

Trade and transport facilitation is critical for South Asia and that comprehensive reforms are warranted to reduce significant trade costs is a well-established proposition. Banik and Gilbert (2008) find that lack of infrastructure (both physical and services related, measured by usage rate of digital services), government regulations (pertaining to documentation and investment in infrastructure), port inefficiency (higher shipping turnaround time) and corrupt practices, among others, have together contributed to high trade costs in South Asia. Duval and Utoktham (2010) suggest that the region has almost a similar trade cost structure whether it is inter-regional trade or intra-regional trade. They also show that in relation to ASEAN (which has significantly low trade costs), SAARC's trade with EU5 and East and North-East Asia involve additional ad valorem trade costs of 28-91 percent.

Results in Wilson et al (2004) show that South Asia stands to gain the most via trade facilitation measures. India has the largest gain (\$10.4 billion, *ibid.*). In terms of gains accrued to exporters, South Asia gains the most (20 percent), with the largest export growth (in percentage terms) in Bangladesh (30.6 percent) while India gets the maximum gain in dollar terms (\$5.4 billion of exports).

There have been attempts to quantify benefits from trade facilitation reforms. These studies generally predict a significant upward shift in trade volume even by initiating rather modest reforms.<sup>7</sup> For instance, Otsuki et al (2007) estimate that were countries in South Asia to raise their capabilities to half the levels of East Asia, the trade rise would be an estimated \$2.6 billion, approximately 60 percent of the total intra-regional trade in South Asia (including services trade). Further, if South Asia and the rest of the world raised their levels of trade facilitation halfway to the East Asian average, the gains to the region would be an estimated \$36 billion. Out of these gains, about 87 percent of the total gains to South Asia would be generated from South Asia's own efforts (leaving the rest of the world unchanged).

More recent research by De (2011) further strengthens the case for trade facilitation reforms. This study finds that a 10 percent fall in transaction costs at borders can increase South Asian exports by

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<sup>7</sup>AADB and UNCTAD (2008) provide a detailed country-wise disaggregated quantitative assessment of gains to South Asia from Trade Facilitation reforms.

about 2 percent. The study shows implementation of e-filing of customs documents at the borders affects trade flows (and trade costs) favourably; an equally important area of reform is transit agreements that assure an efficient transit regime for landlocked countries.

While even incremental trade facilitation initiatives such as e-filing of documents have benefits, some research builds a case for wholesale comprehensive trade and transport facilitation reforms which credibly address critical inefficiencies in transportation. Transport facilitation is indeed critical as much of the trade within the region occurs via land customs. Inefficiencies in trading via land partly explains why South Asian countries tend to focus on promoting trade with attractive export destinations in West Europe, North America and the Middle East. Chaturvedi (2007) stresses the need for comprehensive reforms.

The UNCTAD (2011) report on trade facilitation and regional trade agreements (RTAs) points out a different problem in trade facilitation reform within different regional trade agreements. The review by UNCTAD observes various trade facilitation measures adopted by different RTAs. While trade facilitation is carried out to reduce trade costs and to reduce documentation procedure, the proliferation of bilateral and regional trade agreements has led, in some cases, to a 'spaghetti bowl' of customs procedures and trade facilitation measures. The study contends that this has counterproductive effects (in terms of administrative inefficiency, essentially myriad procedures applied to respective trading partners under different RTAs). It may also translate into discriminatory treatment towards non-members of RTAs and create potential conflicts with future WTO trade facilitation rules (ibid.). According to the UNCTAD report, a multilateral agreement on trade facilitation, like the one signed in Bali by the members of the WTO, will provide not only a common standard but also enable greater internal efficiency in the administration of trade-related rules in participating countries and regions. The report also emphasises that national policymakers and negotiators should make every effort to adopt and keep a coherent approach to the negotiation and implementation of bilateral, regional and multilateral trade facilitation commitments.

Developmental as the trade facilitation reforms will be, a major determinant in implementing trade facilitation at the regional level is political buy-in and that too at the national as well as regional level. Studies such as CUTS (2004), Mukherji (2004), Baysan et al. (2006) and Weerakoon (2008) rightly contend that fragile relationships among several countries within the region are a major reason for slow intraregional trade facilitation reforms.



However, these efforts failed to generate any substantial push to intra-regional trade growth, though they did benefit traders at the margin. A series of related studies initiated by CUTS<sup>8</sup> have taken stock of subsequent improvements in South Asian trading systems and found gaps in many areas such as port logistics, digitisation and clearance capacities at LCSs, harmonisation of product codes and standards, customs notification and information sources, administrative transparency and so on. These studies have indicated that South Asia has failed to benefit from earlier reforms because of these missing links. They also pointed out slow progress in tariff reduction under SAFTA and maintenance of large sensitive lists containing products outside the tariff reduction measures till recently as the other major reasons for low levels of regional trade.

Similarly, Panagariya (2007) cites the trend of intra-regional trade in South Asia since the end of the British rule in the region and notes that ‘the world markets were relatively closed for South Asia and the region was relatively open within in the beginning, but later the two trade regimes exchanged places -- the world markets opened up while South Asian borders became progressively closed’.

Trade volumes in Asia have risen in the last few years and the composition of trade has also changed. The region has shifted from a supplier of upstream material to a supplier of intermediate goods and finished products. This has increased the need for faster transportation infrastructure. The transportation costs in majority of sub-Saharan Africa, Latin America and Asia are five times higher than tariff costs (World Bank, 2001). This, according to Prabir De (2006), has brought trade facilitation into prominence in bilateral as well as regional trade agreements.

## **2.1 Institutions, Regulations and Reforms for Trade Facilitation in the Region**

### **2.1.1 Afghanistan**

Afghanistan went through a substantial political transition. This transition has been replicated in institution and reforms too. The country has made significant effort to improve the overall trade facilitation measures, which are highlighted below.

**Afghan Customs Department:** Afghan Customs Department has 17 inland Customs Depots and 11 functioning border control points.<sup>9</sup> In order to improve import and export clearance procedures,

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<sup>8</sup>See Sen (2004), Weerakoon *et al.* (2005), Man Singh (2006), Ahmed (2006), George (2011), Chatterjee and George (2012).

<sup>9</sup> Available at: <http://customs.mof.gov.af/en/page/1027>

the department has implemented three strategic five-year plans – the first strategic plan from 2003 to 2007, the second strategic plan from 2007 to 2012 and the third strategic plan from 2014 to 2018. The department has a dedicated Customs Training Academy (CTA) with internationally recognized database experts on board (to improve the quality of trade statistics). The CTA has overseen introduction of ASYCUDA World. Afghan Customs is a member of the World Customs Organization as well as the World Trade Organization. It represents the Afghan government in forums concerning trade facilitation, among others. Afghan Customs Department is also in charge of constructing and managing customs infrastructure facilities.

World Bank has completed the Second Customs Reform and Trade Facilitation Project. The project involved computerization of operations regarding customs clearance; installation of executive information systems; development of alternatives ways for cross-border customs-to-customs cooperation; provision of customs infrastructure; and technical assistance to support the development of a suitable framework (regulatory, administrative and institutional) for customs (World Bank 2015).<sup>10</sup>

**Ministry of Commerce and Industries:** Trade divisions within the Ministry of Commerce and Industries (MoCI) consist of units for International Trade, Transit and Trade Facilitation, Export Promotion (EPAA), **Exhibition Facilitation and Central Business Registry (CBR)**. **Transit and Trade Facilitation Directorate (ITFD)** has the following responsibilities to perform.

- Develop policies, infrastructure and co-ordination systems to ascertain efficient transit arrangements
- Support growth of transit related services
- Supervise framework for licenses provided to freight forwarders and international carriers
- Supervise traffic management at the ports
- Develop policy to deal with issues regarding land and air-based cargo
- Eliminate barriers which hinder effective cross-border and transit corridor operations

**General Directorate for International Trade:** The General Directorate for International Trade provides consultation on, *inter alia*, trade agreements regarding negotiation and supervision, pursuit of tariff reduction, and chalking out a cogent trade policy for Afghanistan. Similarly, the Export

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<sup>10</sup> Available at: <http://www->

[wds.worldbank.org/external/default/WDSContentServer/WDSP/SAR/2014/03/05/090224b0822f95dc/1\\_0/Rendered/PDF/Afghanistan0000Report000Sequence008.pdf](http://wds.worldbank.org/external/default/WDSContentServer/WDSP/SAR/2014/03/05/090224b0822f95dc/1_0/Rendered/PDF/Afghanistan0000Report000Sequence008.pdf)

Promotion Agency Afghanistan (EPAA) promotes exports through several policy initiatives such as providing information regarding exports to the private sector, facilitating participation at international trade fairs and exhibitions, building capacity of traders in marketing and facilitating exporters in obtaining Certificates of Origin. It has recently setup One-Stop or One-Window solution for export documentation. **The Business Licensing Directorate** is responsible for the administration of licenses for traders (both importers and exporters), freight operators and for brokers operating on behalf of the ministry.

**Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA):** This mechanism oversees effective implementation of Afghanistan-Pakistan Transit Trade Agreement (APTTA). This committee meets twice a year and is co-chaired by the Deputy Minister of Commerce and Industries, Government of Afghanistan, and the Secretary of Commerce, Government of Pakistan.

Responsibilities of this committee include:

- Monitoring and implementation of the Agreement
- Uniform interpretation and application of the Agreement by both parties
- Formulation of measures and monitoring of unauthorized trade
- Resolving disputes pertaining to the agreement
- Authorizing and enabling research and analysis on issues related to transit trade; and
- Any other issue for credible implementation of the agreement

The **APTTCA Secretariat** comprises Ministries of Commerce officials of the contracting parties in the agreement (MoC 2014).

**Afghanistan National Standards Authority (ANSA):** Afghanistan National Standards Authority had formulated Strategic Plan 2011-2015 with the help of USAID. The ANSA and the plan oversee the development of technical infrastructure for standardization, metrology, accreditation and conformity assessment systems to boost trade (Strategic Plan 2011-2015 for Development of a National Quality Infrastructure, 2011).<sup>11</sup>

**Afghan Ministry of Foreign Affairs:** Ministry of Foreign Affairs has established a **Steering Committee on Regional Cooperation (SCRC)**. It has established **Secretariat for Regional Economic Cooperation Conference on Afghanistan (RECCA)** within the **Centre for Regional**

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<sup>11</sup> Available at: [http://www.ansa.gov.af/en/wp-content/uploads/others/Strateg\\_Plan.pdf](http://www.ansa.gov.af/en/wp-content/uploads/others/Strateg_Plan.pdf)

**Cooperation.** The RECCA Secretariat is responsible for preparation and supervision of RECCA conferences.

Afghanistan became member of the WTO in June 2016<sup>12</sup>. Afghanistan has also been party to several regional cooperation agreements, most agreements signed after 2001. These include: Kabul Declaration of Good Neighbourly Relations (2002), Dubai Declaration (2003), Berlin Agreements (2003) and Bishkek Declaration (2004) and these agreements revolve around transit and trade facilitation (Watanyar, 2007). Various other agreements have been signed under the Central and South Asia Transport and Trade Forum (CSATTF) initiated by ADB. At the 14<sup>th</sup> South Asian Association for Regional Cooperation (SAARC) Summit held in New Delhi in April 2007, Afghanistan became the eighth member of the regional body hoping to make a significant contribution to its technical committees as well as working groups. Afghanistan has Observer Status at the Shanghai Cooperation Organization (SCO). Afghanistan became member of Central Asian Regional Economic Cooperation in 2005 (Fourth Ministerial Conference CAREC 2005).

### **2.1.2 Bangladesh**

Bangladesh has been working with a focus on trade friendly environment, particularly in the last decade, with much progress. As a result, in the recent years, Bangladesh has been able to attract significant amounts of foreign direct investment (FDI), particularly, in the garment sector. The focus is on building institution, policy reforms, and building solid infrastructure. Having a big domestic market, the country has been benefitting from economies of scale, and direct access to sea routes helps its international trade. Large domestic market, close proximity to many neighbouring country and direct routes for third country trade are very meaningful for the progress of Bangladesh's international trade.

There are several ministries and institutions, which deal with trade facilitation measures, either directly or indirectly.

- Ministry of Commerce
  - Export Promotion Bureau (EPB)
  - Free Trade Area (FTA) Wing
  - World Trade Organisation (WTO) Cell
- Ministry of Finance

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<sup>12</sup> [https://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_afghanistan\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/a1_afghanistan_e.htm)

- National Board of Revenue (NBR)
- Ministry of Industry
  - Bangladesh Standards and Testing Institution (BSTI)
- Office of the Register of Joint Stock Companies (RJSC) and Firms
- Ministry of Shipping
  - Bangladesh Land Port Authority (BLPA)
  - Chittagong Port Authority (CPA)
  - Mongla Port authority
  - Bangladesh Inland Water Transport Authority (BIWTA)
- Ministry of Communication
  - Bangladesh Railway (BR)
  - Bangladesh Road Transport Authority (BRTA)
- Board of Investment
- Ministry of Industry

Besides, in some areas such as land customs administration, some Public-Private Partnerships (PPPs) are in operation.

### **2.1.3 Bhutan**

In order to encourage enterprises to help drive economic growth and employment, Bhutan has put in place a number of concessions and mechanisms. These range from training subsidies to free land and structures and a variety of tax holidays. The Royal Government of Bhutan (RGoB) has also tried to address financial constraints by increasing competition between banks: two new banks have been authorized to open.

The Royal Government of Bhutan has taken some steps to strengthen bilateral, regional and multilateral trade agreements with the help of implementing agencies such as Department of Revenue and Customs (DRC) and Ministry of External Affairs (MoEA). It has been noticed that regional policies have significant implications for bilateral trade agreements of Bhutan. Bhutan is taking measures to identify potential buyers in Bangladesh, by exploring the exportable products on top of the 18 items on which Bangladesh is offering duty-free treatment, and trying to reduce the transport

and transit time by holding discussion with the Indian and Bangladesh officials at the Indo-Bangladesh transit post.

RGoB is even aiming to finalize a bilateral trade agreement with Nepal, encouraging private sector collaboration with Thailand and focusing to carry out a market survey in Thailand for Bhutanese exportable goods and identifying projects for cooperation in production, manufacturing and services.

To improve regional connectivity, the RGoB seeks to open additional transit routes by negotiating new exit and entry points. This negotiation includes transit routes to the seaports of Chittagong and Mongla in Bangladesh and transit routes that connect the planned new industrial estates in the eastern part of the country to international gateways.

Apart from customs, there are other agencies also on the border which not only keep track of the import and export of goods but of standards, conduct veterinary inspection, transport interventions and health and sanitary measures. Presently, there are 11 agencies which look into clearances as well as exit and entry. Details of such agencies are given in Table 2.1.

**Table 2.1: Bhutan’s exit and entry agencies and their responsibilities**

Agencies	Responsibilities
<b>Department of Revenue &amp; Customs, Ministry of Finance.</b> <b>Regional Offices, HQ</b>	Clear goods for import/ export. Collect taxes, customs duties, excise, and sales tax. Issue Excise import and export permit (regional offices)
<b>Bhutan Agriculture and Food Regulatory Authority (BAFRA)</b>	Issue Phyto-Sanitary certificate for exports of agricultural goods. For any import or export of agricultural goods and food, necessary permit has to be obtained from BAFRA head office prior to import or exportation.
<b>Ministry of Agriculture and Forest</b>	Chemicals and Fertilizations and approval importation of pesticides
<b>National Environment Commission</b>	Approve import of chemical substances
<b>Bhutan Infocomm and Media Authority (BICMA)/ Ministry of Information</b>	Issue permits for imports of wireless and remote sensing telecommunication and broadcasting equipment

<b>and Communication</b>	
<b>Road Safety and Transport Authority (RSTA)/ Ministry of Information and Communication.</b>	Supervise regulations applicable to road traffic (driver license, roadworthiness of truck, truck loads, truck permits for Indian trucks)  Issue service license for trucks that entails them to transport goods in Bhutan, west Bengal and Assam.  Issue permits for Indian trucks in Bhutan beyond Phuentsholing (normal and project equipment)
<b>Royal Bhutan Army, border patrol Unit</b>	Conduct border patrol, Issue permits for importation of arms and ammunitions.
<b>Immigration Department Royal Bhutan Police, Ministry of Home and Cultural Affairs</b>	Control immigration; Regulate import and export of explosives, Coordinate meetings with neighbouring Indian states
<b>Ministry of Economic Affairs (MoEA)</b>	Register companies as import houses and issue import licence. Issue import permit for restricted products under their authority. Issue the radiation certificate and the “health certificate for food” for exports to third countries (Regional office in Phuentsholing)  Certify arrival of goods at destination with the “landing certificate” (Regional offices)
<b>Bhutan Narcotics Control Agency/ Drug Regulatory Authority / Ministry of Health</b>	Issue import and export permit for drugs and medical substances.
<b>Department of Forests, Ministry of Agriculture and Forests</b>	Regulate the transport, import and export of forestry products. Issue “Movement Order for finished wood product for export”, “Movement Order for timber”, on special approval of the Ministry, and “Imported timber Movement Order”.
<i>Source: Trade Diagnostic Report, MoEA, Bhutan</i>	

Among all the above agencies, only a few have an officer stationed at the border, such as BAFRA, the Forestry Department, the border protection police and immigration agencies. Bhutan lacks in terms of trade related infrastructure as compared to other South Asian countries, particularly India. Poor infrastructure increases the cost of trade transactions and hinders its export competitiveness

Other multilateral organizations such as the World Bank and Asian Development Bank-SASEC have initiated a number of projects to improve trade facilitation in South Asia. In November 2012, the SASEC Trade Facilitation Program was initiated, supported by ADB through a budget support loan/grant of \$47.67 million-\$21 million for Bangladesh; \$11.67 million for Bhutan; and \$15 million for Nepal<sup>13</sup>. The goal of this program is to improve cross border trade by focusing on three major components a) effective customs administration b) streamlined and transparent regulations and procedures c) improved services and trade information for traders.

The ADB (2013) initiated a project of technical assistance in Bhutan for improving the capacity of Bhutan's customs in trade facilitation<sup>14</sup> and this would help them to improve their customs operations and to make them on a par other countries. Furthermore, a country strategy report<sup>15</sup> remarks that European Commission would provide assistance of 20 percent under its Multi-Annual Indicative Programme (MIP).

#### **2.1.4 India**

It is said that India is a late comer in the context of liberalisation and policy reforms. Even until 2005, India's tariffs were higher than those of many other South Asian countries. However, in the last decade, India has had a reasonable speed to fulfil that slackness. Still some economists and policy analysts say that reforms in trade facilitation, in terms of rapidity, when considering India's information-tech capabilities, have been rather slow. The Electronic Data Interchange system was introduced in the 1990s, but so far not all customs stations have the system in place. As far as regulation related to infrastructure is concerned, land acquisition and transfer of land between government agencies is a major hurdle. Many projects get stuck in such bureaucratic muddle.

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<sup>13</sup> [http://www.sasec.asia/uploads/news/sasec\\_tradefacilitation\\_strategic\\_framework.pdf](http://www.sasec.asia/uploads/news/sasec_tradefacilitation_strategic_framework.pdf)

<sup>14</sup> <http://adb.org/sites/default/files/projdocs/2013/47025-001-bhu-tar.pdf>

<sup>15</sup> [http://eeas.europa.eu/bhutan/csp/07\\_13\\_en.pdf](http://eeas.europa.eu/bhutan/csp/07_13_en.pdf)



Recently, some regulations regarding transfer of land between government agencies have been relaxed to make commencement of projects easier.

Another regulatory reform that has had an impact on the trade scenario is the liberalisation of container transport through railways. Until 2006, container trains were a monopoly of the Container Corporation of India, a subsidiary of Indian Railways. In 2006, the government allowed the entry of the private sector as well as public sector enterprises to operate container freight. This has had a good effect on freight movement in the country, where container trains have become a common sight. This initiative was the first significant move of its kind where private parties were allowed to make entry in the domain of railway operations with direct customer interfacing (Gangwar, Raghuram, 2010).

Many regulatory reforms have been carried out since liberalisation in the early 1990s. These reforms have had a positive impact on trade volumes and the time taken for international trade. Some of these technological, regulatory as well as institutional reforms have been broadly explained below.

### **Risk Management System**

The risk management system was introduced in India in 2005 in order to decide which container should be inspected and screened selectively. The RMS for processing imports is operational at 48 customs offices; some 85 percent of India's imports are processed via this system. The launch of RMS in major customs locations has cut the average time taken by customs to eight hours, with two hours for assessment and six hours for examination.

### **E-commerce Portal**

In 2002, India implemented the electronic platform of ICEGATE (Indian Customs and Excise Gateway). ICEGATE facilitates the electronic filing of import and export documents and related electronic exchange between customs and the trader. The platform offers choice of communication means, including the internet, and a helpdesk on a 24x7 basis (Dominic et al., 2012). There has been a steady increase in filing of customs documents through ICEGATE since its launch and currently about 8,000 import and export declarations are being filed daily by making use of the facility.

### **Customs Electronic Data Interchange Systems**

In the 1990s, India's Central Board of Excise and Customs (CBEC) introduced the Indian Customs EDI Systems (ICES), which automates the processes related to clearance of import and export consignments. The platform provides for remote filing of import and export documents (Dominic et al., 2012).

In 1995, the customs department issued the Bill of Entry (Electronic Declaration) Regulations to make the submission of import details through electronic declarations possible. About 97.5 percent of all import documents are processed electronically. EDI facilities are available at 92 customs offices. The facility of round-the-clock electronic filing of customs documents (for clearance) is possible at an increasing number of centres. However, there have been delays in filing bills of entry: only 47 percent are being filed within 24 hours and the rest, 53 percent, are filed after 24 hours, out of which 26 percent are filed after three days. The reasons for late filing are delay in obtaining documents, pressure of work and lack of funds.

### **National Import Database**

The national import database has been used by the Director General of Valuation to carry out the valuation procedure since 2002. This system makes the procedure easier for customs officers to take well-informed decisions on the valuation and classification of the imported goods. This time-consuming procedure has been made efficient by the use of technology (Brandi, 2013).

### **Accredited Client Programme**

The accredited client programme secures faster delivery for the clients who are assessed as having good track records. Customs also works with the custodians at various ports/airports to ensure that the cargo of such units is delivered quickly. As of early 2011, 250 ACP importers were allowed to self-assess their consignments with no need for examination, in line with India's commitments to simplify and harmonise customs procedures under the revised Kyoto Convention.

### **Trade Facilitation in Special Economic Zones**

SEZs offer single window clearance, automation of procedures and trade facilitating on self-certification basis. As far as trade facilitation is concerned, these zones have the highest advantage. Many of the barriers that hinder normal production and trade have been reduced in these zones.

### **Trade Facilitation in the Context of Regional Integration**

In order to increase trade with neighbouring countries, India has initiated a number of measures in the context of regional integration, including the establishment of integrated checkpoints on the border with Pakistan, Bangladesh, Nepal and Myanmar. CUTS (2014) gives a clear picture of the ground reality regarding the trade facilitation environment on the India–Bangladesh border. The study points out much inefficiency in the border administration procedures followed by the government. The study makes a note of all the infrastructure deficiencies in the LCSs at the border.

### **Training of Customs Staffs**

The Central Board of Excise and Customs has launched a number of measures to train officers to deal well with reforms and streamlining of the various trade measures, which may eventually contribute to faster clearance of goods. The Indian government has started inland container depots as well as container freight stations for smooth movement of container freight from industrial region to the ports.

### **Shipping Arrival**

Shipping agents initiate the process of intimating the consignees regarding the arrival of the cargo well in advance of the ship's expected date of arrival. It is reported that over 91 percent of the importers receive the Cargo Arrival Notice (CAN) about six days in advance and about seven percent of importers get the intimation on the day of arrival. In view of this, the importers can instruct their Custom House Agents (CHAs) to file the bills of entry sufficiently ahead of the cargo being shifted to the CFSs for further processing. Some 73 percent of the importers have regular CHAs with standing instructions for handling the import consignment.

### **Inter-ministerial Groups**

In the shipping sector, numerous bottlenecks continue to exist, making ship turnaround time in India one of the longest. Recognising the urgency of reducing the dwell time for cargo, the Committee on Infrastructure chaired by the Prime Minister constituted an inter-ministerial group to make recommendations for streamlining customs procedures and the functioning of container freight stations. The inter-ministerial group submitted a report in which it recommended adopting international standards for risk management-based screening, EDI-based systems, transshipment, financial procedures and staffing (Gupta, 2009).

Similarly, an inter-ministerial group (IMG) was constituted to look into matters concerning air cargo. The IMG examined the issues related to clearance of goods at Air Cargo Complexes and suggested steps for simplification of customs procedures in Air Cargo Complexes and airports (Gupta, 2009; Ministry of Civil Aviation, 2012).

### **Trade Facilitation and Recent Initiatives**

The Government of India (GOI) has recently proposed an Indian Customs Single Window Project to fast-track the process of getting customs clearance and to facilitate trade in the Union budget for 2014-15. Under this project, exporters and importers would lodge their documents for clearance at a single point only. Traders need not approach other regulatory agencies if any permission is required from them for consignment clearance as it would be obtained online. This single window concept would reduce interface with government agencies, cost of doing business and, most importantly, save time. Traders would get consignment clearance in less time, reducing congestion of trucks at border points. It would also be good for the trade of perishable goods and reduce damage of other goods because of delays in getting clearance. Secondly, the government will also set up an Export Promotion Mission and extend 24x7 customs clearance facility to 13 more airports to boost the overall exports of India.

One more initiative taken recently is the sub-regional Motor Vehicles Agreement between Bangladesh, Bhutan, India and Nepal (BBIN) countries. BBIN countries are expected to implement this pact in 2015 by providing seamless transit of passenger and cargo vehicles among these four SAARC nations. It will reduce the costly and time-consuming unloading and loading of people and goods at border crossing points, making cross-border trade more efficient. It will also help to transform transport corridors linking the four countries into economic corridors and enhance people-to-people contact. The agreement is awaiting approval from the respective local authorities before it is implemented later this year and has a provision for other four SAARC nations to join the framework.

#### **2.1.5 Maldives**

Maldives seems to be a more open economy if we look at the level of trade openness. Maldives has made number of initiatives to achieve this standard. For example, Maldives Customs has consolidated information on import and export procedures and much of it is available on the customs website. Similar initiatives have been taken by the Maldivian Ports and Airports Authorities. However, the information is yet to be consolidated on a single website.

To benefit from reduced trade costs, the Maldives Customs introduced a **Trade Facilitation Package** (TFP) in 2013, which includes the following reforms and initiatives:

- **Document processing express service** – This enables goods declarations of certain selected shipments to be processed faster.
- **Pre-entry classification service** – helps traders to classify and make duty calculations before importing.
- **Customs portal & Information kiosks** - allows importers and exporters to check the declaration status and provide information online.
- **Pre-payment system** – enables account holders to have secured access to the system and make payments to customs towards declarations and other dues.
- **Customs Brokers (CBs)** - operate as middlemen between customs and importers/exporters. The CBs are given specific trainings by customs regarding import/export documentations, classification, valuation and other areas of clearance process.

World Customs Organization (WCO) (2014) points out several areas of improvement in the current operation and functioning of the customs which raise transaction costs in trade. As per the WCO, the Maldives Customs so far doesn't apply risk management principles such as analysis of trade profiles and systematic targeting mechanism in post clearance procedures towards customs valuation. Currently audits are done only at the desk level and the documents are assessed only at respective customs office without field audits.

Concerns by importers and exporters include technical problems such as those with the website (downtimes are usual during which clients cannot determine if the documents have been uploaded). Some customers are not familiar with the system. Another issue is inability to make online payments. However, the Maldives Customs Authority is working to introduce an electronic payment gateway.

In addition, among several reform areas for trade facilitation, upgradation in banking services should be a major priority. The Maldives Monetary Authority (MMA) started rationing foreign exchange supplied to the banking system in 2009. This led to restrictions being imposed by the government on foreign exchange. As a result, a black market has developed for foreign exchanged with high premiums of 5 to 9 percent in exchange rates (USDS, 2014) which is a major constraint to companies that import and export.

### **2.1.6 Nepal**

Nepal is one of three landlocked countries in the region. Nepal initiated institution building and policy reform in the mid-1980s, but the progress was much slower compared to other countries with similar stage. The infrastructures are still poor and Nepal has to largely depend on India for

international trade, even to trade with third countries. In 2016, Nepal signed a transit agreement with the People's Republic of China to pave the way for conducting international trade via China.

Nepal has a number of mechanisms and institutions to devise and implement policies and actions towards trade and transport facilitation. Established in 1998 in the context of the Multimodal Transit and Trade Facilitation Project<sup>16</sup>, the National Trade and Transport Facilitation Committee (NTTFC) was the nodal agency and hence an important institution in the country.<sup>17</sup> The government coordinated the cross border trade and transport facilitation through the NTTFC, composed of representatives from the public and private sector and quasi-state organizations.<sup>18</sup> The main functions of the committee were: (i) monitoring and regulation of international trade and transport in general; (ii) provision of policy advice for international transport facilitation; (iii) monitoring of actions of border authorities at individual border checkpoints; (iv) monitoring of the operation of specific bilateral and multilateral agreements relating to international trade and transport; and (v) monitoring and regulation of the implementation of specific projects.<sup>19</sup> Notably, the committee was instrumental in drafting four significant transport legislation by the government - mainly the Multimodal Transport Act (2006), Railway Act (2013), Goods Carriage by Road Act and Marine Insurance Act<sup>20</sup>. The committee also provided recommendations on the simplification, standardization and harmonization of transit and trade documents.<sup>21</sup>

Unfortunately, the NTTFC did not figure as a key institution at the political level. Thus, NTTFC only sustained as long as the project lasted.<sup>22</sup> However, in 2012, the government revived the NTTFC under the chairmanship of Secretary of Ministry of Commerce and Supplies (MoCS). It comprises high level representatives from the public and private institutions. The new NTTFC has been made responsible for advising on reforms aimed at facilitating trade. At present, the committee consist of

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<sup>16</sup> The project was financed by the International Development Association and with executed under the watchful eye of UNCTAD. The project officially ended on September 20, 2003.

<sup>17</sup> UNCTAD 2006.

<sup>18</sup> UNCTAD 2006.

<sup>19</sup> UNESCAP 2007.

<sup>20</sup> Goods Carriage by Road Act and the Marine Insurance Act are yet to be enacted.

<sup>21</sup> UNCTAD 2006.

<sup>22</sup> UNCTAD 2006.

approximately 40 varied stakeholders who meet every month for discussions and reviewing trade facilitation issues.

Recently, Board of Investment has been constituted under the chairmanship of Rt. Honourable Prime Minister to increase the inflow of foreign investment especially in infrastructure building which has the potential to reduce trade costs. Board of Trade (BoT) and Industrial Promotion Board (IPB) have also been set up under the chairs of Minister for Commerce and Supplies, and Minister for Industry respectively, to gear up trade and industry and provide policy prescriptions towards expanding the industrial sector. Importantly, Nepal Inter-Modal Transport Development Board has also been set up in order to oversee management of ICDs in the country, and monitor and eliminate inefficiencies and facilitate trade.

The high level Nepal Business Forum has been mandated to ensure regular interaction among the public and private sector to identify and resolve issues that affect trade and investment in the country. The Trade and Export Promotion Centre undertakes trade promotion and marketing activities. One of the goals of Trade Policy 2015 is to promote exports through interventions such as duty refunds on raw materials used in producing export merchandise. The Trade Policy 2009 envisaged setting up a trade promotion institute, an autonomous institution for research, advocacy and advisory, among other things, but so far the institute has not come up. Meanwhile, Nepal Inter-Modal Transport Development Board is the responsible agency to oversee the operation of ICDs (Dry-ports) in four major customs points of the country.<sup>23</sup>

In order to boost exports, processes towards establishing Special Economic Zone (SEZ) have been initiated. Notable is the fact that creating SEZs have been under discussion in Nepal for over two decades now but without much progress. The first SEZ in Bhairahawa was inaugurated in 2014 but had few takers. Even in early 2017, no industries had actually been set up in it.

With a view to providing research based policy feedback and technical support to the MoCS, and particularly to facilitate bilateral, regional and multilateral trade negotiations, the government has set up a Trade Policy Analysis Wing (TPAW). It is comprised of trade experts and professionals and is under the umbrella of MoCS. Similarly, a Trade Advisory Committee has been formed consisting of

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<sup>23</sup> GoN 2012.

former Commerce Secretaries, private sector leaders and trade experts to provide policy feedback on concurrent trade and transit related issues.<sup>24</sup>

**Ministry of Commerce and Supplies** (<http://www.mocs.gov.np/>)

- a) Export Promotion, Trade and Transit Division
- b) Planning and International Trade Cooperation Division
- c) Nepal Intermodal Transport Development Board (<http://www.nitdb.org/>)

**Ministry of Physical Infrastructure and Transport** (<http://www.mopit.gov.np/>)

- d) Department of Roads (<http://www.dor.gov.np/>)
- e) Department of Railways (<http://dorw.gov.np/>)
- f) Department of Transportation Management (<http://dotm.gov.np/>)

**Ministry of Finance** (<http://www.mof.gov.np/en/>)

- g) Department of Customs (<http://www.customs.gov.np/en/>)

### 2.1.7 Pakistan

In Pakistan like in many other South Asian countries, there is no single authority to formulate trade facilitation policies. Various ministries and agencies are involved in designing and implementing trade facilitation measures. Ministry of Commerce, Ministry of Communication, Ministry of Ports and Shipping, Ministry of Railways, Ministry of Defence, Planning Commission, Federal Board of Revenue, National Logistic Cell are some of the entities involved in framing trade facilitation policies in Pakistan. Due to the absence of a regulatory framework for these departments for trade facilitation, there are information gaps and the policies are not coherent - sometimes leading to implementation failure. However, the Trade and Transport Facilitation Committee (NTTFC) was formed under Ministry of Commerce.

Many trade and transport related legislations such as Carriage of Goods by Road Bill, 2013, Carriage of Goods by Sea Bill, 2013 and Logistics Services Providers Development and Regulatory Authority Bill, 2013 are pending enactment. Pakistan is also not a signatory to many of the bilateral and multilateral trade and transport agreements. Railway and Motor Vehicle agreements for regulation of passenger and cargo traffic among SAARC member states have not been concluded due to reservations by some of the member states including Pakistan itself. In the section below, we briefly describe the role of key institutions for trade facilitation in Pakistan.

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<sup>24</sup> GoN 2012.



**Ministry of Commerce (MoC), Pakistan:** MoC plays a pivotal role in drafting policies and their subsequent implementation. It is the premier ministry which has all the responsibilities of overseeing trade related issues and concerns. Over the years, MoC has moved from a body forming annual trade policy towards framing strategic policy for export and import for the medium term. A large part of the ministry's mandate has been taken over by FBR and Ministry of Textile.

**Ministry of Textile:** Much like the Textile Policy 2009-2014, the Textile Policy 2014-2019, the Textiles Investment Support Fund prioritizes upgradation of machinery and technology, building of required infrastructure, developing skills, promoting standardization, establishing a zero-rated exports regime, rationalizing trade, removing regulatory bottlenecks, building big export houses, initiating market insurance scheme and using information and communication technology. Implementation of the policy is undertaken by a committee comprising the textile minister, industry representatives and stakeholders. The Ministry of Textile is also in the process of formulating and drafting the next textile policy, which will be implemented over the 2015-20 period. It also aims to implement certain measures and policies that would help boost regional trade (MoF, 2014). On trade facilitation, the policy aims to facilitate doing business and curb the hurdles in doing so<sup>25</sup>.

Recent projects undertaken by the Ministry of Textile include setting up of Pakistan- Korea Technology Institute and Garment Cities in Karachi, Lahore and Faisalabad. The related agreements include signing of MOU between Pakistan and Tajikistan for collaboration in textiles development. The Ministry has also signed an MOU with Lasbela University of Agriculture to establish a Cotton Research Station in Lasbela.

**National Trade and Transport Facilitation Committee (NTTFC):** NTTFC was formed under the Ministry of Commerce, Government of Pakistan. This was achieved through Resolution No. 1(8)/94-ITO/UNCTAD, of 14 July 1998. The objective of setting up this committee was to encourage and support coordination among various government agencies and commercial enterprises. Moreover, a competent inter-agency secretariat needed to be created for adaptation of international best practices for trade facilitation. This committee also helps in resolving disputes among parties and helps the government to update Pakistan's legal and institutional environment for trade and transport facilitation.

**National Logistics Cell (NLC):** NLC is a public-sector enterprise that deals with construction of mega structures and management of dry ports and border terminals. It is also responsible for placing

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<sup>25</sup> <http://www.textile.gov.pk/moti/userfiles1/file/Textile%20Policy%202014-19.pdf>

scanners at dry ports and border points and managing weighing bridges and warehousing facilities. Earlier, the NLC had a presence at Wagah, Torkhum and Chaman Border Points. Two new terminals are being developed by NLC, one at Sust Border, to facilitate trade between China and Pakistan, and the second one at Taftan Border with Iran. An agreement (costing around US\$11 million) regarding purchase of ten refurbished locomotives has been signed between NLC and Korean Rail (NLC, 2014). As a result, 30 locomotives will be used by NLC Express Freight Train (NEFT) for freight operations in 2014.

**Afghanistan-Pakistan Transit Trade Coordination Authority:** The role of this authority is to facilitate trade by building and upgrading requisite infrastructure, in accordance with international best practices, and ensuring clearance of transit traffic. The Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA) was established to oversee and ensure effective implementation of the Afghanistan-Pakistan Transit Trade Agreement (APTTA). This committee meets twice a year and is co-chaired by the Deputy Minister for Commerce and Industries, Government of Afghanistan and the Commerce Secretary, Government of Pakistan.

Responsibilities of this committee include monitoring and implementation of the Agreement; ensuring uniform interpretation and application of the Agreement by both parties; formulating, monitoring implementation and effectiveness of measures adopted to address and curb unauthorized trade; resolving disputes that may arise regarding implementation of the agreement; authorizing studies on issues related to transit trade; and considering any other matter for proper running of the agreement (MoC, 2014). The APTTCA secretariat is based within Ministry of Commerce. In January 2015, the scope of this agreement was extended to include Tajikistan. A trilateral meeting among Afghanistan, Pakistan and Tajikistan has already take place to extend the transit facilities to Dushanbe, Tajikistan.

**Trade Development Authority of Pakistan (TDAP):** TDAP's trade facilitation unit helps exporters in availing opportunities. It aims to improve the composition and diversification of exports. This division is also responsible to handle disputes that arise with South Asian countries. TDAP also organizes several export promotion exhibitions in various cities across the globe.

The Authority conducts Expo Pakistan, which is a trade fair in Pakistan, that showcases the country's exportable merchandise and services. Foreign exhibitors are also given an opportunity to showcase their products here. Business deals at the last Expo Pakistan, in 2013, were estimated at US\$ 1

billion.<sup>26</sup> Lahore International Expo Centre and Karachi Expo Centre provide a platform to exporters, traders and service providers to showcase their products and services through trade exhibitions, fairs and conferences.

**National Trade Corridor Improvement Project:** The objective of this World Bank funded project is to improve the transport logistics system. However, due to slow progress of the project, the World Bank pulled out in 2007. Now, the Asian Development Bank (ADB) is working for the implementation of the NTCIP. In 2007, ADB approved a multi-tranche financing facility (MFF) of \$900 million for the National Trade Corridor Highway Investment Program (NTCHIP).

**Ministry of Ports and Shipping:** Ministry of Ports and Shipping is assigned to facilitate the ports and shipping industry of Pakistan. It provides policy guidelines to encourage port development and growth in shipping. It handles Karachi Port Trust, Port Bin Qasim and Gwadar Port. Gwadar Port Authority has just sanctioned a Special Economic Zone to facilitate regional development in Baluchistan Province (Dawn, 2017). Other projects at various stages include construction of East-Bay Expressway, construction of Breakwaters and dredging of berthing areas and channels. Pak-China Technical and Vocational Institute under construction in Baluchistan, has recently been inaugurated (Daily Balochistan Express, 2018).

**Pakistan Standards and Quality Control Authority:** The Pakistan Standards and Quality Control Authority is the national standardization body. Its function includes facilitating trade and furthering international cooperation in relation to standards and conformity assessment. It inspects and tests products and services for their quality specifications for trade purposes. It has a presence at all the major border points of the country.

**Ministry of Communications:** In the context of trade facilitation, Ministry of Communications has a central role, due to its mandate for improving transportation infrastructure in the country. This Ministry promotes international competitiveness of exports, ensures smooth travel on roads and works on expanding road networks. The Ministry has initiated many new projects to improve the road infrastructure and road transport system, such as completion and upgradation of all national highways and motorways, construction of paved roads from all agriculture production areas to market centres, construction of dual carriage highways to all land border crossings leading to Taftan and

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<sup>26</sup> Available at: <http://expopakistan.gov.pk/about.php>

Chahbahar with Iran; Torkham, Chaman and Keli Ghulam Khan with Afghanistan; Wagah, Ganda Singhwala and Khokhrapar with India and Urmumqi in China.

In 2004, Pakistan signed an agreement formulated by United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) to develop international road transport in Asia. The Inter-Governmental Agreement on Asian Highway Network was also signed by 26 other countries.

**Federal Board of Revenue (FBR):** Pakistan Customs works under the FBR and is the guardian of Pakistan's borders. It prevents the movement of contraband goods and is a facilitator of bona fide trade. It provides a major source of revenue to the Government of Pakistan in the form of taxes levied on the goods traded across the borders. The FBR maintains a web portal to provide traders with information and engineered business processes for e-filing of tax returns and Goods Declarations.

**Provincial Departments:** Provincial governments in Pakistan also play some role in trade facilitation. For example, Punjab Board of Investment and Trade (PBIT) is an investment promotion agency to facilitate and support trade and investment in Punjab. Recently, it helped in increasing India-Pakistan trade through the land route and facilitated high level meetings between both the Punjab Provinces (India's Punjab and Pakistan's Punjab). Provincial Revenue Departments have their policies for goods travelling through their provincial domains. Most of these are in terms of cess on the trucks and goods being transported through trade routes. In a recent budget announcement made by Khyber Pakhtunkwa Province, the government there levied a one percent tax on goods for exports to Afghanistan, including goods transported by North Atlantic Treaty Organization (NATO).

Pakistan has signed many Trade Agreements for the betterment of the trade performance. Some of them are discussed below.

#### **South Asia Free Trade Agreement and South Asia Preferential Trade Agreement:**

The framework agreement on South Asia Preferential Trade Agreement (SAPTA) was approved in 1993 and implemented in 1995. SAPTA was a preferential trading arrangement, aimed at promoting and sustaining mutual trade and economic cooperation among the SAARC countries. SAPTA, in

which Pakistan played a major role, become the first step towards South Asian Free Trade Area (SAFTA). Later during the 12<sup>th</sup> SAARC Summit on 6 January 2004, all member countries signed SAFTA. On 22 March 2006, the SAARC secretariat issued a formal notification announcing the implementation of SAFTA with effect from 1 January 2006. Under SAFTA, Pakistan needs to adopt the following measures for trade facilitation (MoC, 2014)<sup>27</sup>:

- Harmonisation of standards, standardization of certification of products
- Simplification and harmonisation of customs clearance procedures
- Harmonization of national customs classification based on the HS coding system
- Assistance by the customs authorities for dispute resolution
- Simplification of banking procedures
- Transit facilities to Afghanistan
- Development of communication systems and transport infrastructure, and
- Simplification of business visas.

Pakistan is steadily moving towards harmonization of procedures and documentations and, under the 2<sup>nd</sup> phase of SAFTA, Pakistan also revised the sensitive list of products for all the South Asian countries. Under the third phase, Pakistan issued a request list for Bangladesh, India and Sri Lanka.

#### **Afghanistan-Pakistan Transit Trade Agreement (APTTA) 2010:**

The agreement was signed to facilitate the movements of goods between and through the respective territories of the two countries. The objectives of this agreement were to ensure efficient and effective administration of transit transport, simplification and harmonization of customs procedures and documents (according to revised Kyoto Convention 1999), promotion of intermodal freight transport, minimization of customs fraud and monitoring the trade of controlled chemical substance.

Under this agreement, there shall be freedom of transit, through territories of Pakistan and Afghanistan, via the pre-settled routes most convenient for international transit. There shall be no distinction regarding the flag of the vessel, the place of origin, departure, entry, exit or destination. Pakistan and Afghanistan agreed to ensure the clearance of transit traffic without delay and to develop and maintain related infrastructure and customs clearance facilities. It was also agreed that up to five percent of the containers arriving at the port of entry will be subject to examination.

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<sup>27</sup> South Asia Free Trade Agreement (SAFTA) Available at: [http://www.commerce.gov.pk/SAFTA/SAFTA\\_AGREEMENT.pdf](http://www.commerce.gov.pk/SAFTA/SAFTA_AGREEMENT.pdf)

In order to further facilitate transit trade, Pakistan and Afghanistan agreed to establish one or more enquiry points where traders and transporters may acquire specific information related to customs inspection, certification and documentary requirements for customs formalities. Article-34 of the agreement refers to the establishment of Afghanistan-Pakistan Transit Trade Coordination Authority (APTICA) to monitor, facilitate and effectively implement APTTA.

### **SAARC Agreement on Trade in Services (SATIS)<sup>28</sup>:**

SATIS came into force on 29 November 2010, after ratification by all the SAARC member countries. The objectives of this agreement are to promote and enhance trade in services. The aim was to progressively cover liberalisation of trade in services with broad-based and deeper coverage of most of the services sector/sub sectors with a view to fulfilling the objectives of Article V of General Agreement on Trade in Services (GATS). Under this agreement, Pakistan will follow a positive list approach. Meanwhile, it also refers to a provision regarding real and effective market access to all other South Asian countries.

### **Pakistan-Sri Lanka Free Trade Agreement:**

A Free Trade Agreement (FTA)<sup>29</sup> signed between Pakistan and Sri Lanka came into operation from 2005. Under the FTA, Pakistan and Sri Lanka agreed to offer preferential market access to each other's exports. Sri Lanka would be able to enjoy duty free access on 206 products in the Pakistani market. Pakistan, in return, would gain duty free access on 102 products in the Sri Lankan market.

The objective of this agreement was to promote trade in goods and services, fair competition and removal of NTBs. In order to facilitate trade between Pakistan and Sri Lanka, cooperation among the customs authorities was emphasized in the agreement. The two sides agreed on building a working group to deal with customs related issues and harmonization of tariffs. Pakistan and Sri Lanka have also agreed on eliminating all other agreements and NTBs. Both these countries have also agreed not to increase existing para-tariffs or introduce any new ones without the consent of both the parties.

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<sup>28</sup> SAARC Agreement on Trade in Services (SATIS) Available at:[http://saarc-sec.org/uploads/document/SAARC%20Agreement%20on%20Trade%20in%20Services%20\(signed\)\\_20121011091030.pdf](http://saarc-sec.org/uploads/document/SAARC%20Agreement%20on%20Trade%20in%20Services%20(signed)_20121011091030.pdf)

<sup>29</sup> Pakistan-Sri Lanka Free Trade Agreement. Available at: [http://www.commerce.gov.pk/?page\\_id=215](http://www.commerce.gov.pk/?page_id=215)

## 2.1.8 Sri Lanka

Sri Lanka is a member of the GATT/WTO and a pioneer in the region to liberalize trade. Sri Lanka is known as an early comer in liberalisation and reform starting from the early 1970s. Thus, in this sense it is a mature player in the era of globalisation in the region. The country has managed overall economic development path even during the period of political crisis. Trade, tourism, manufacturing, banking and finance sectors have a good path of progress. These scenarios have put the country in one of the best positions in the region.

Sri Lanka is also partner to four fully operational trade agreements: two regional agreements and two bilateral agreements (see Table 2.2).

**Table 2.2: Trade Agreements of Sri Lanka**

<b>Trade Arrangement</b>	<b>Type</b>	<b>Scope</b>	<b>Status</b>
South Asia Free Trade Agreement (SAFTA)	Free Trade Agreement	Regional	Signed in 2004. In force since 2006
Asia-Pacific Trade Agreement (APTA)	Preferential Trade Agreement	Regional	Signed in 1975. In force from 1976
Indo-Sri Lanka Free Trade Agreement (ISFTA)	Free Trade Agreement	Bilateral	Signed in 1998. In force from 2001
Pakistan Sri Lanka Free Trade Agreement (PSFTA)	Free Trade Agreement	Bilateral	Signed in 2002. In force from 2005

In addition to the above agreements, Sri Lanka enjoys some duty-free privileges under the US Generalized System of Preferences (GSP hereon which offers preferential duty-free treatment for up to 5000 products in which excluded are apparel and related products). Under the US – Sri Lanka

bilateral Trade and Investment Framework Agreement, the GSP and other issues are discussed<sup>30</sup>. In May 2017, Sri Lanka regained European Union's GSP+<sup>31</sup> treatment which is conditional on Sri Lanka advancing human and labour rights and working towards sustainable development. Sri Lanka recently ratified the WTO Trade Facilitation Agreement with the number of ratifying parties making up three-fourths of the members (WTO, 2016).

Most agreements deal with trade facilitation in varying degrees. For example, in SAFTA there are calls for prompt publication of rules and regulations and identification of enquiry points for exchange of information on mandatory requirements; provisions for simplification of formalities with regard to exportation and importation; suggestions of paperless trading, electronic means of reporting and identification of low risk, high risk goods; and provision for harmonization of standards, technical assistance for LDCs and customs cooperation at the SAARC level (Chaturvedi, 2007). In APTA a Framework Agreement on Trade Facilitation was completed in 2009. It addresses the areas of transparency and consistency, simplicity and efficiency and, harmonization and standardization. Article 5.2 of the Framework Agreement specifies that member countries would work on establishing a single window. However, this does not entail a time frame or any specific commitments on achieving the objective (United Nations, 2011). Trade facilitation provisions are however, limited in the ISFTA and PSFTA, compared to the regional agreements.

## 2.2 Literature gap

At the present stage, the global economy is currently undergoing major shifts— the global, regional and country specific crisis following global financial crisis. On-going political economic struggle in the euro zone in the recent years. The exit of United Kingdom (UK) from European Union (EU) and the beginning of the Trump era in the United States show the symptom of a kind of reversal on policy shift more towards the protectionism. Alongside these socio-political economic events, South Asia as a region would have many dimensional negative effects of these scenarios in the future for investment, governance, and international trade in the coming days. Thus, trade facilitation measures are of importance to lower the trade costs, boost international trade and to substitute the adverse impacts of discussed issues.

The literature suggests a gap in the context of South Asian region. As can be seen in the previous sub-section, not many works have been done in the regional context, and the literature is unable to

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<sup>30</sup> <https://www.export.gov/article?id=Sri-Lanka-Trade-Agreements>

<sup>31</sup> The GSP+ has a more expansive domain than the GSP and includes Everything But Arms (EBA) and the GSP.



present a solid empirical analysis using the regional data to find the role of trade facilitation in the regional trade. We, in this report, aim to bridge this gap establishing a benchmark relationship employing the state of art technique in the primary data from the region to estimate the impact of trade facilitation in costs minimisation and trade maximisation.

To present the proper judgement of South Asia’s trade facilitation, we present a brief analysis of overall infrastructure and trade competitiveness, import and export procedures, policy and regulations context, logistics performance scenario, trading across borders situation and issues in the trade facilitation in the following subsections.

## 2.3 South Asia’s infrastructure and the Global Competitiveness

The quality of the infrastructure is one of the major determinants of trade facilitation. Therefore, it is essential to discuss where the South Asia region stands globally in competitiveness so that we can judge the situation of the trade facilitation in the region too. South Asian countries are ranked poorly in the global competitiveness index published by the World Economic Forum. For the year 2016-2017, a total of 138 countries have been ranked on different infrastructure components. This way, a larger number indicates poor marks in infrastructure.

Table 2.3 shows the ranks of South Asian countries that helps to understand the competitiveness of the South Asian Countries. In the competitive index, the overall rank of India stands at 39<sup>th</sup> out of 138 countries, and best in the region. India’s rail quality and institution quality are remarkably best among the countries in the region. The ranks of Bangladesh and Pakistan are recorded above 100<sup>th</sup> indicating very poor in those infrastructures despite being larger economies in the region. Sri Lanka stands in the second position for these infrastructure index in the region with the rank of top 50 in the quality of road and rail transports. The meagre quality of ports— dry ports (stand 136<sup>th</sup> rank out of 138), despite being the main windows of trade, of Nepal indicates lots more to improve for smooth international trade.

**Table 2.3 South Asia’s institution and infrastructure quality (rank 138 countries in 2016)**

Country	Overall rank	Institutions	Quality of overall infrastructure	Quality of Roads	Quality of rail	Quality of ports	Quality of air transport
Afghanistan	NA	NA	NA	NA	NA	NA	NA
Bangladesh	106	125	120	113	72	89	115
Bhutan	97	95	78	80	NAP	134	104

India	39	42	51	51	23	48	63
Maldives	NA	NA	NA	NA	NA	NA	NA
Nepal	98	100	124	118	NAP	136	131
Pakistan	122	111	93	77	53	84	91
Sri Lanka	71	57	55	43	43	60	58

World Economic Forum (2016)

Note: NA refers data not available, NAP refers to not applicable

To go through the individual South Asian regional context of infrastructure standard that basically determine the degree of global competitiveness for trade, the following sub-sections are important.

### 2.3.1 Afghanistan

The custom department in Afghanistan has made number of efforts to improve the custom procedures. This department has a dedicated Customs Training Academy with internationally recognized database experts on board (to improve the quality of trade statistics). The CTA has overseen introduction of ASYCUDA World. Afghan Customs is a member of the World Customs Organization as well as the country itself a member of the World Trade Organization. It represents the Afghan government in forums concerning trade facilitation among others. Afghan Customs Department is also in charge of constructing and managing customs infrastructure facilities. This has made a positive impact to improve the global competitiveness of the country.

International trade has been in a high priority in the country. The trade divisions within the Ministry of Commerce and Industries (MoCI) consist of units for International Trade, Transit and Trade Facilitation, Export Promotion (EPAA), **Exhibition Facilitation and Central Business Registry (CBR)** and **Transit and Trade Facilitation Directorate (ITFD)**.

**Ministry of Transport and Civil Aviation:** The **Ministry of Transport and Civil Aviation Strategy** was created in 2007. It aims to provide access to air transport services to all. It is responsible for, *inter alia*, the oversight and regulations based on standards of International Civil Aviation Organization (ICAO). The Ministry is responsible for developing and managing the basic infrastructure required in domestic and international air transport (Ministry of Transport and Civil Aviation Strategy, 2007).<sup>32</sup>

**Afghanistan Railway Authority** (AfRA) was established in 2012. The completed projects include the railway track project linking Uzbekistan and Afghanistan. The 75-km rail link, connecting

<sup>32</sup> Available at: [http://motca.gov.af/Content/files/MoTCA%20Strategy%20-%20English\(2\).pdf](http://motca.gov.af/Content/files/MoTCA%20Strategy%20-%20English(2).pdf)

Hairatan on the Uzbekistan-Afghan border to the city of Mazar-i-Sharif in northern Afghanistan, started functioning in 2011. Asian Development Bank (ADB) provided funds for this project. Security posts along the railway have also been constructed. Another project (Khawaf – Herat Railway line stretching 191 km) that links Afghanistan with Iran is set to complete soon<sup>33</sup>.

In March 2013, one of the first steps taken to expand the Afghan railway system was a Memorandum of Understanding (MoU) signed between Afghanistan, Turkmenistan and Tajikistan. It was decided that a railway line would link the three countries. One of the projects links Shirkhan Port (bordering Tajikistan) with the northern city of Mazar-i Sharif (northern Afghanistan) by the Bandar railway line (220Km in length). All three projects are being funded jointly by Afghanistan government and Asian Development Bank.

### **2.3.2 Bangladesh**

In terms of infrastructure, road is the dominant mode of transportation for trade between Bangladesh and South Asia. The overwhelming part of trading activities between Bangladesh and India also takes place through land customs stations and land routes. There are 181 land customs stations in Bangladesh of which 33 stations are active; 148 remain ineffective and trade transactions through these have been suspended by the Government of Bangladesh (GoB). Among the active land customs stations, 16 are on road routes, nine stations are on water routes, three on rail routes and five stations fall in the mixed routes category (road/rail, road/water, water/rail and others).

The most important land ports (roadways) are Benapole-Petrapole land port, Tamabil-Dawki land port, Hili land port, Bhomra land port and Akhaura-Agartala land port. Similarly, the major railway based ports are Darshana land port, Birol land port and Rohanpur land port. Burimari land port (Burimari-Changrabandha) is considered to be part of a road and rail route. Cox's Bazar port is on a road and water route whereas Shirajgang (steamer route via Khulna and Barisal and from there Bangladesh Railway broad gauge line via Majhdia and Darshana) is considered to be part of a water and rail route.

The core committee set up by the GoB for Transit and Transshipment has identified nine road routes, nine rail routes and five waterways for trade connectivity with India, Nepal and Bhutan. The core committee submitted its report in 2012. Five sub-committees under the core committee prepared reports on transit routes, transit fees, environmental impact, infrastructure development and legal issues. According to the committee's estimation, investments worth USD 6.4 billion will

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<sup>33</sup> <https://pakobserver.net/iran-herat-rail-line-complete-2017-end/>

be required to make the routes operational for carrying transit cargoes and the renovation process may take nearly four years.

The border between Bangladesh and India has ten important land based customs stations which include Benapole-Petrapole, Tamabil-Dawki, Sonamasjid-Mehdipur, Hili-Hili, Darshana-Gede, Burimari-Chgrabandha and Akhaura-Agartala. In addition, Bibirbazar (BD) - Srimantapur (India), Akhaura (BD)- Agartala (India) and Tamabil (BD) - Dawki (India) are crucial Bangladeshi ports of that connect with North Eastern states of India. According to the Ministry of Development of North Eastern Region, Government of India, several land ports connect Bangladesh with North Eastern Region of India. The important ones are:

1. Bibirbazar (BD) - Srimantapur (India)
2. Akhaura (BD) - Agartala (India)
3. Tamabil (BD) - Dawki (India)
4. Sheola (BD) - Sutarkandi (India)
5. Zakiganj (BD) - Karimganj Steamer Ghat (India)
6. Chattak (BD) - Bholaganj (India)
7. Nakugaon (BD) - Dalu (India)
8. Dhanuakamalpur (BD) –Mahendraganj (India)
9. Betuli (BD) - Old Raghobazar (India)
10. Belonia (BD) - Belonia (Muhurighat) (India)
11. Balla (BD) – Khowaighat (India)

Major corridors which connect Bangladesh and other South Asian countries are-

- Bangladesh-Nepal Corridor through Phulbari-Banglabandha Transit Route
- Bangladesh-Bhutan corridor through Changrabandha-Burimari Transit Route
- Lahore-New Delhi-Kolkata-Petrapole/Benapole-Dhaka-Akhaura/Agartala Corridor
- Samdrup-Jongkhar-Shilong-Sylhet-Dhaka-Kolkata Corridor
- Agartala-Akhura-Chittagong Corridor
- Maldha-Shibganj-Jamuna Bridge

The Phulbari-Banglabandha corridor connects Bangladesh with Nepal through India and the total length of the corridor is 1,404 km (ADB, 2012b). The corridor uses the Prithivi Highway and the East-West Highway until it reaches the Nepal-India border at Kakarbhitta Port. Later on, it follows

the Indian national highways, NH 31 and SH 12A, and reaches Phulbari-Banglabandha Port bordering India and Bangladesh.

Railway corridors have the potential to become crucial transport links for trade between Bangladesh and other SAARC countries. However, the rail transport system in Bangladesh has remained underdeveloped due to persistent negligence. The SAARC Secretariat, with the slated goal of connecting the region 2006) had proposed a number of rail corridors for inter-country movement between Bangladesh and other countries. These are:

- Ranaghat (India)-Dhaka (Bangladesh)
- Bongaon (India) –Khulna (Bangladesh)
- Old Malda (India)-Ishurdi Jn. (Bangladesh)
- Barosi (India)-Parbatipur (Bangladesh)
- New Mayanguri (India)- Lalmonirhat (Bangladesh)
- Karimganj (India)-Kulara (Bangladesh)
- Badarpur (India)-Bhairab (Bangladesh)

Two important rail corridors were identified as priority corridors in several studies because of their relatively high importance in terms of promoting connectivity within the region.

The Lahore-Delhi-Kolkata-Dhaka-Imphal (2,830 km) rail corridor was envisaged to connect Bangladesh, India and Pakistan and shorten the transit time between the three countries. The other important corridor, Birgunj-Katihar-Chittagong (1,146 km) would connect Bangladesh, Nepal and India. It is important to note that this corridor has a higher significance for Bangladesh and India as it would reduce the route for North Eastern States of India through Bangladesh. It is important to mention that these corridors have only been identified on paper and to operationalize them a lot of hardware and software initiatives will need to be put in place. Rahamtullah (2010) argues that various issues including mobilization of political support will be needed to promote the cause of regional transport connectivity and trade facilitation.

Water transport is considered to be among the most economical modes and has one of the lowest costs per mile. A number of inland waterway corridors have been identified by several studies. The SAARC Secretariat (2006) had identified four existing and potential IWT corridors:

- Kolkata-Haldi-Raimongal-Mongla-Kaukhali-Barishal-Hizla-Chandpur-Narayangan-Arcihca-

Sirajganj-Bahadurabad-Chilmari-Pandu between India and Bangladesh

- Kolkata-Haldia-Raimongal-Mongla-Kaukhali-Barishal-Hizla-Chandpur-Narayanganj-Bhairabbazar-Ajmiriganj-Markuli-Sherpur-Fenchuganj-Zakiganj-Karimganj between Bangladesh and India.
- Rajshahi-Godagari-Dhulian between India and Bangladesh
- Karimganj-Zakiganj-Fenchuganj-Sherpur-Markuli-Ajmiriganj-Bhairabbazar-Naryanganj-Changpur-Aricha-Sirajgang-Bahadurabad-Chilmari-Dhuthbri-Pandu between Bangladesh and India

The first two corridors were identified as important and cost-effective inland water corridors between Bangladesh and India. These routes remain highly underutilized, partly due to lack of adequate drafts, navigational aids, and limited number of ports of call and non-renewal of the protocol for longer periods (Rahamatullah, 2010). ADB (2013) noted that the size of the vessels which are able to use Chittagong Port was limited by the width and curvature of the Karnaphuli River. Rail and road traffic between Chittagong Port and Dhaka also faces several bottlenecks that need to be addressed on an urgent basis.

Bangladesh and India have renewed the Protocol on Inland Water Transit and Trade (PIWT &T) which will remain in force till March, 2015. This protocol allows transshipment of cargo by shallow draft vessels.

### **2.3.3 Bhutan**

The Royal Government of Bhutan has taken some steps to improve the infrastructure quality and its strength in the global competitiveness. The ADB (2013) initiated a project of technical assistance in Bhutan for improving the capacity of Bhutan's customs in trade facilitation<sup>34</sup> and this would help to improve Bhutan's customs operations and to make it on par other countries. Furthermore, a country strategy report<sup>35</sup> remarks that European Commission would provide assistance of 20 percent under its Multi-Annual Indicative Programme (MIP).

Bhutan being a landlocked country in South Asia is exposed to more vulnerabilities due to lack of direct access to international markets even to selected countries of SAARC. Bhutan accounts 75

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<sup>34</sup> <http://adb.org/sites/default/files/projdocs/2013/47025-001-bhu-tar.pdf>

<sup>35</sup> [http://eeas.europa.eu/bhutan/csp/07\\_13\\_en.pdf](http://eeas.europa.eu/bhutan/csp/07_13_en.pdf)

percent of its trade with India and it also uses India's trade points for exporting and importing products to international markets. Furthermore, economic and trade policies coupled with lack of proper infrastructure makes it difficult for Bhutan to integrate itself into the world economy in general and South Asia in particular.

Bhutan has immense potential to realize the benefits of international trade but it has to go a long way in terms of improving its capacity for export coupled with sound trade related infrastructure. Given its geographical location, surrounded by China on one side and India on three sides, reduces its access to other markets. There are no waterways or airways for Bhutan to provide access for trade. In this context, the role of effective trade facilitation is important to promote international trade.

International infrastructure enhances international connectivity through higher trade and investment. Cross-border transport networks enlarge market size and help economies to grow further through higher trade and production. A good example is the India-Bhutan hydropower project.

International infrastructure development in South Asia so far has been limited to land and ocean transportation and hydropower in some areas. Cross-border infrastructure investment has been limited to only few hydropower projects that exist between Bhutan and India. Power trading between these two countries is one of the oldest and is the outcome of forging a successful partnership.

The hydro power partnership effectively started in 1978. India has implemented three hydel projects, namely Chukha, Kurichhu and Tala in Bhutan. Tala is one of the biggest cross-border power projects in the South Asian region and the largest in Bhutan. The Bhutan government earns 40 percent of its revenue from power export to India (Prabir De, 2013). India has developed a 34-km road project (Pasakha-Manitar Road) to avoid the unstable area at Sorchen. The Thimphu-Phuentsholing highway was completed and handed over to the government of Bhutan in February 2008.

In 2000, Bhutan's road density (km road per 100 sq. km of surface area) was 20 while in 2010 it is 36. Sixty percent of roads were paved in the year 2000 and the situation remains the same till now. There is no railway in Bhutan and it has only one port named Paro.

There is only one air transport carrier, Druk Air that operates international and domestic flights into and from Bhutan. Airfreight is transported on a “space availability basis”, as priority is given to passengers. The air cargo carrying capacity is therefore limited to 2 tonnes per flight on average. It frequently happens, during peak travel times and in particular at the Bangkok airport, that airfreight consignments are off-loaded and delayed for up to 2 weeks. Nevertheless, cargo freight has increased in the past five years. It is a niche transport mode and is unlikely to gain in traffic volume soon.

### 2.3.4 India

If we go by India’s standing in the **Global Enabling Trade Report 2016**<sup>36</sup>, a comparative ranking of countries on trade and transportation facilitation dimensions, India fares poorly its overall ranking being 102 out of 136 countries. The assessment analyses trade facilitation performance on 4 sub-indexes – Market access, Border administration, Infrastructure and Operating environment. The Market access metric has components related to tariffs faced (and inherent complexities in the way tariffs are administered) while border administration performance is based on components such as time and costs incurred, for example in getting trade processed (documentary and border compliance) and predictability of regulations and procedures among other things (such as prevalence of bribes to get things done). The infrastructure sub-index score is based on observations regarding the affordability of transport and logistic quality among other things. When it comes to exporting, the most problematic factors are corruption at foreign border, high cost of domestic transport and burdensome procedures at foreign borders. On the other hand, in imports, high domestic transport costs, crime and theft and corruption at the border are the most serious impediments.

#### *Infrastructure and logistics issues*

Arnold (2007) contends that problematic inbound logistics, greater distance to ports and as a consequence exorbitant transportation costs are major trade barriers sizably raising trade costs in the

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<sup>36</sup> See <http://reports.weforum.org/global-enabling-trade-report-2016/economy-profiles/#economy=IND> for details.

The survey is based on both secondary data as well as primary survey (largely a perception survey of over 10,000 relevant international executives). Secondary assessments of trade related authorities such as WTO, UNCTAD and the World Bank are used.



SAARC region. The region is home to two LLDCs while geographies such as India's northeast lie at considerable distance from the sea. This means that often firms in the region have to grapple with longer turnaround time and greater inventory stocks. Citing the case of Bangladesh's garment sector, Arnold (2007) finds that due to inefficient inland logistics and greater border clearance times<sup>37</sup>, firms are forced to maintain large inventory stocks which adds to production costs resulting thereby in dented competitiveness. The same study notes that the firms without large inventory (less than three months order cycle) will not remain in business. Considering these issues under logistics, trade facilitation reforms will require corridors that serve as gateways. Trade facilitation will also mean strategic centres of production and provision of multi-modal transportation, among others.

Kim and Nangia (2008) show that unlike China, India's infrastructure development programmes were not intended to address future demand, but poverty alleviation through rural connectivity. It is only recently that growth-oriented infrastructure development has been encouraged. Special Economic Zones (SEZs) were a major policy tool used to increase exports and address the infrastructure deficiency in the country. But due to the overall deficiency of complementary logistic development that connects these zones to the ports, they were not successful. The government has recently changed its strategy towards infrastructure development and come up with industrial corridors, like the Delhi-Mumbai one, to have a focused approach to infrastructure.

Quality of logistics and associated infrastructure has a major role to play when it comes to trade and transport facilitation. An efficient transportation system and streamlined trading regulations result in reduced transaction costs, resulting in rapid trade (overall). Nordas and Piermartini (2004) find a positive relationship between improvements in infrastructure and growth in trade. Notably, India has 12 major ports, 187 minor ports and many private notified ports. In order to facilitate clearance of goods in India's hinterland, (which helps reduce congestion and enables rapid clearance), there are 155 Inland Container Depots (ICDs) and Container Freight Stations (CFSs) in the country. Another 89 such facilities are at different stages of development. For clearance of air cargo, there are 36

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<sup>37</sup> Arnold (2007) reports that South Asian countries, except Sri Lanka, have increased their domestic transport cost owing to the distance between the production areas and the major ports. Bangladesh has the shortest distance, about 250 km, but its transport services are relatively costly owing to highly congested roads and more expensive port and feeder shipping. India, Nepal and Pakistan's travel distances exceed 1,000 km. Nepal also faces the challenge of trans-shipment at the Nepal-India border. There are also greater delays at the ports of Haldia and Kolkata and higher port and feeder costs for shipments.

functional international airports. In addition, there are 138 LCSs along India's international borders, of which 66 are functional.

A main challenge which emerging economies face is lack of funds for infrastructure development. This has been partially overcome by India through the public-private partnership model. According to Clara Brandi (2013), this model has been successful in the country. The 11th Plan included a larger programme of port capacity expansion based on PPP. The Maritime Agenda proposes an investment of INR 1,280 billion in 424 projects in major ports and INR 1,680 billion in non-major ports by 2020 with a highly ambitious target of more than 80 percent of the investment coming from the private sector. This is noteworthy, given the experience of PPP projects in the port sector and challenges such as environmental clearances, slow bureaucratic procedures and poor connectivity to the hinterland.

As for infrastructure in air transport, the plan was to involve the private sector in non-aeronautical activities at 35 non-metro airports. Their involvement was also solicited in the development of greenfield 'merchant' airports and about 300 airstrips. According to the annual report of the civil aviation ministry, a total of 12 new airports are being built across the country and expansion and modernisation is taking place in 18 existing airports.

The road network runs into 4.69 million km (46.9 lakh km) or a road density of 1.43 km per square km. It consists of national highways, expressways, state highways, major district roads, other district roads and village roads. The central as well as state governments have engaged the private sector in road development. Due to funding constraints, the government has encouraged private investments in roads through either public-private partnership (PPP) or build, operate and transfer (BOT) modes. BOT has been successful in India. In 2009, the government announced an ambitious target of building 35,000 km of highways in five years at the rate of 20 km per day. But in 2009-10, the average building per day was 14.10 km, in 2010-11 it was 12.16 km, in 2011-12 it was 13.73 km, and in 2012-13 it was 15.69.

According to Maritime Agenda 2010-2020 (2011), ports play a vital role in the overall economic development of the country. About 90 percent of the country's international trade by volume, and 70 percent by value, is carried out through maritime transport. India has been a major maritime nation with a coastline of 7,517 km. This coastline is bejewelled with 13 major and 176 non-major ports. It is strategically located on the world's shipping routes with a long tradition of seafaring and a large pool of trained maritime personnel. India is a dynamic and rapidly globalising economy with a vast potential to expand its participation in trade and development. But this potential has been largely

untapped. Only recently has India started encouraging investment in ports. Till now, the port sector has not been able to attract investment like other infrastructure projects.

The total volume of traffic handled by all the Indian ports during 2009-10 was 849.9 million tonnes. Non-major ports account for around one-third of the total sea-borne trade. The growth in cargo handled at major and non-major ports in 2009-10 was 5.8 percent and 35.4 percent respectively as compared to 2.2 percent and 3.3 percent achieved in 2008-09. The financial crisis of 2008-09 severely affected container traffic in the ports, reducing volumes by around 15 percent or 30 percent year-on-year. As earlier suggested, investment in the port sector has been low and this could hamper operations in the existing ports due to capacity constraints. Indian ports already have one of the highest turnaround times. This is a major hurdle that needs to be tackled immediately. Most ports in India are congested. The Maritime Agenda estimates that the South Asian region will need 66 new berths by 2015 to handle the traffic.

Transportation is the backbone of an economy. It is an important component for smooth international trade as it makes connectivity possible for a country with the rest of the world. In any discussion on improving connectivity, every mode of transport like road, rail, maritime and aviation has its own importance. In the South Asian region, the condition of maritime and aviation transport is far better than road and rail transport. There are many issues that hamper India's intra-regional trade. India has been driving the growth in air and maritime transportation in South Asia. India's liner shipping connectivity index in 2011 was 41.5 and container traffic share of 2010 was 6.63 percent, both highest in the region (De, 2013).

Rahmatullah (2004) says that a very good attempt was made to identify all existing and potential trade corridors and gateways through rail, road, inland waterways, maritime and aviation by the SAARC Regional Multimodal Transport Study Phase I (SRMTS) in 2006. The 14<sup>th</sup> SAARC Summit in 2007 decided to implement this project. Several past studies have shown that the landlocked countries of the region (such as Bhutan and Nepal), and Pakistan need greater connectivity with India. Table 2.4 shows all the major possible trade corridors identified by SRMTS-2006 serve India.

### ***Road Connectivity***

Considering all trade routes, a total of 18 existing and potential road corridors were identified by the SRMTS projects that could serve India for a better trade and transport connectivity with the region. India was expected to play a crucial role for better connectivity with all the countries of the region as

the major parts of these corridors cover Indian territory. Still, there are many issues related to connectivity that have been discussed in the study.

**Table 2.4 Some important Regional Road, Rail and Inland Waterways corridors of SAARC: SRMTS 2006**

<b>Road</b>	
<i>Corridors</i>	<i>Countries served</i>
Lahore–New Delhi–Kolkata– Petrapole/Benapole–Dhaka–Akha ura/Agartala	Pakistan, India and Bangladesh
Kathmandu – Birgunj/Raxaul–Kolkata/Haldia	Nepal and India
Thimphu–Phuentsholing–Jaigaon– Kolkata/Haldia	Bhutan and India
Kathmandu–Kakarvitta–Phulbari – Banglabandha–Mongla/Chittagong	Nepal, India and Bangladesh
Samdrup Jongkhar–Guwahati–Shillong–Sylhet– Dhaka–Kolkata	Bhutan, India and Bangladesh
Agartala–Akha ura–Chittagong	India and Bangladesh
Kathmandu–Nepalga nj–New Delhi–Lahore– Karachi	Nepal, India and Pakistan
Thimphu–Phuentsholing–Jaigaon–Burimari– Mongla/Chittagong	Bhutan, India and Bangladesh
Malda–Shibganj–Jamuna Bridge(Bangladesh)	India and Bangladesh
Kathmandu–Bhairahawa–Sunauli–Lucknow	Nepal and India
<b>Rail</b>	
<i>Corridors</i>	<i>Countries served</i>
Lahore (Pakistan)–New Delhi/ Kolkata (India)– Dhaka (Bangladesh)–Mahishasan–Imphal (India)	Pakistan, India and Bangladesh
Karachi (Pakistan)–Hyderabad–Khokhrapar– Munabao–Barmer–Jodhpur (India)	Pakistan and India
Birgunj (Nepal)–Raxaul–Haldia/Kolkata (India)	Nepal and India
Birgunj (Nepal)–Raxaul–Katihar (India)– Rohanpur–Chittagong (Bangladesh) with links to Jogbani (Nepal) and Nepal, India and Bangladesh	Nepal, India and Bangladesh

Agartala (India)	
Colombo (Sri Lanka)–Chennai (India)	Sri Lanka and India
<b>Inland Waterways</b>	
<i>Corridors</i>	<i>Countries served</i>
Kolkata–Haldia–Raimongal–Mongla– Kaukhali–Barisal–Hizla–Chandpur– Narayanganj–Aricha–Sirajganj–Bahadurabad– Chilmari–Pandu	India and Bangladesh
Kolkata–Haldia–Raimongal–Mongla– Kaukhali–Barisal–Hizla–Chandpur– Narayanganj–Bhairabazar–Ajmiriganj– Markuli–Sherpur–Fenchuganj–Zakiganj– Karimganj	India and Bangladesh
<i>Source: SRMTS 2006</i>	

### ***Rail Connectivity***<sup>38</sup>

Total route kilometres in early 2017 is 67,368 km of which nearly a third is double track (RM, 2016). The Indian Railway lifted 1106.15 million tonnes of revenue earning total freight. Of revenue over USD 7 billion, the net margin was under a billion dollars. The 2016-17 figures compare favourably to revenue-earning tonnage of 195.9 million tonnes in 1980-81. Freight trains kilometres in 2016-17 totalled 391 million or an average of 11.4 train km per running track per day. Wagon kilometres were 18403 million of which over 60% were on loaded journeys. When it comes to commodity-wise break-up of revenue-earning originating traffic, coal forms nearly 50% of the total (a continuing trend) followed by iron ore and cement (ibid.).

When it comes to regional connectivity, an arm of the Indian Railways has been implementing railways projects in the region. 2<sup>nd</sup> Bhairab Railway in Bangladesh with approach rail lines (completed

<sup>38</sup> The section draws the recent information from the Indian Railways publication – **Facts and Figures of Indian Railways – 2016-17** (See References section for citation details including URL).

while few others are being developed) and a turnkey project in Bhutan. A rather dated study, SRMTS (2006) Phase I identified 15 existing and potential rail corridors in the region. India has a bulk of the SAARC railway network. The five main rail corridors of South Asia serving India are given in Table 2.4.

### *Inland Waterways Connectivity*

Two Inland Waterways trade corridors of greater regional significance, and serving India, were selected for a detailed assessment under the SRMTS 2006. They are given in Table 2.4.

Rahmatullah (2004) further adds that India proposed four sub-regional projects in 2007 for better connectivity:

- Birgunj–Katihar–Singhabad–Rohanpur–Chittagong railway corridor, with links to Joghani, Biratnagar and Agartala.
- Kathmandu–Birgunj–Kolkata/Haldia.
- Agartala–Akhaura–Chittagong rail corridors.
- Air connectivity: Male–New Delhi and Islamabad–New Delhi.

### **Trade Logistics Performance**

The logistics performance index (LPI) of the World Bank is based on a large-scale survey of several thousand logistics professionals and related stakeholders (providing information on friendliness of trade logistics) and takes into account the indicators such as (i) Efficiency and effectiveness of customs and other border control agencies in the clearance process , (ii) Quality of transport and information technology infrastructure for logistics, (iii) Ease and affordability of arranging shipments, (iv) Competence in the local logistics industry, (v) Ability to track and trace shipments, (vi) Domestic logistics costs (cost of local transportation, terminal handling and warehousing) and (vii) Timeliness of shipments reaching destinations among others (Weerahaewa 2009). The scores are out of five where five means the best while zero connotes the worst performer (See Table 2.5).

**Table 2.5: Logistics Performance Index 2014 and 2016**

<b>Country</b>	<b>Germany</b>	<b>India</b>	<b>Pakistan</b>	<b>Bangladesh</b>
<b>Year</b>	2014	2014	2014	2014
<b>Overall LPI Score</b>	4.12 (1)	3.08 (54)	2.83 (72)	2.56 (108)
<b>Customs</b>	4.10 (2)	2.72 (65)	2.84 (58)	2.09 (138)
<b>Infrastructure</b>	4.32 (1)	2.88 (58)	2.67 (69)	2.11 (138)
<b>International shipments</b>	3.74 (4)	3.20 (44)	3.08 (56)	2.82 (80)
<b>Logistics quality and competence</b>	4.12 (3)	3.03 (52)	2.79 (75)	2.64 (93)
<b>Tracking &amp; tracing</b>	4.17 (1)	3.11 (57)	2.73 (86)	2.45 (122)
<b>Timeliness</b>	4.36 (4)	3.51 (51)	2.79 (123)	3.18 (75)



Country	Germany	India	Bangladesh	Pakistan
<b>Year</b>	2016	2016	2016	2016
<b>Overall LPI Score</b>	4.23 (1)	3.42 (35)	2.66 (87)	2.92 (68)
<b>Customs</b>	4.12 (2)	3.17 (38)	2.57 (82)	2.66 (71)
<b>Infrastructure</b>	4.44 (1)	3.34 (36)	2.48 (87)	2.70 (69)
<b>International shipments</b>	3.86 (8)	3.36 (39)	2.73 (84)	2.93 (66)
<b>Logistics quality and competence</b>	4.28 (1)	3.39 (32)	2.67 (80)	2.82 (68)
<b>Tracking &amp; tracing</b>	4.27 (3)	3.52 (33)	2.59 (92)	2.91 (67)
<b>Timeliness</b>	4.45 (2)	3.74 (42)	2.90 (109)	3.48 (58)

Available at <http://lpiurvey.worldbank.org/>

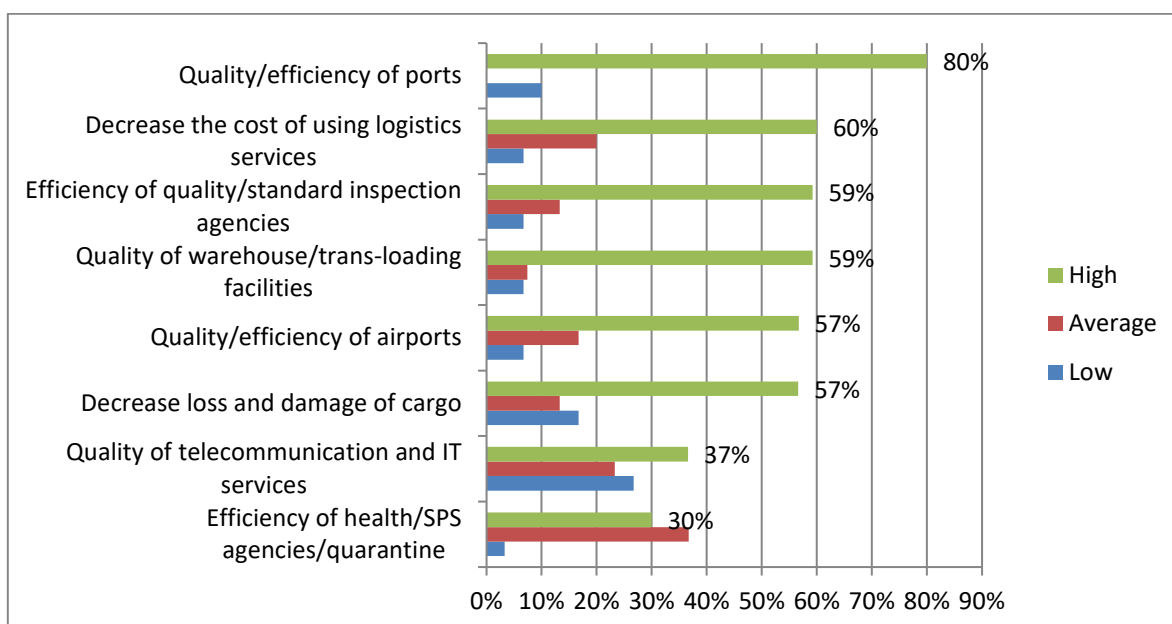
Note: Global ranking in parentheses

### 2.3.5 Maldives

The need to improve the infrastructure quality is indeed a regular process that needs series of the effort for improving the global competitiveness for international trade. The quality and efficiency of ports and roads among other interventions decrease the cost of logistics. Technically and attitudinally capable inspection and associated agencies, proper warehouses/trans-loading facilities and improved

airports are some of the priority areas in infrastructure related trade facilitation. In our survey, we find that majority of the respondents see scope for improvement in ports, logistics and airport (Figure 2.1). Since there are limited ferry services for maritime transport within Maldives, the respondents are worried about not just the costs but also the poor availability of such services.

**Figure 2.1: Trade Related Infrastructure and Services: Priority Areas**



Source: Survey

### 2.3.6 Nepal

Nepal's infrastructure for trade is poor. The backbone of infrastructure, road, has been a focus at this stage but still lacks behind. Several empirical as well as qualitative tools (mostly the Gravity model) have been used to identify components to reduce trade costs and increase trade volume. Among the other elements that raise trade costs – infrastructure, institutions, coordination in border

procedures, among others – many are structural issues associated with the level of development. An evidence to corroborate this is the finding that trade costs appear to be going down with rising income per capita (Arvis et al, 2012).

Recently, Board of Investment has been constituted under the chairmanship of Rt. Honourable Prime Minister to increase the inflow of foreign investment especially in infrastructure building which has the potential to reduce trade costs. Board of Trade (BoT) and Industrial Promotion Board (IPB) have also been set up under the chairs of MoCS and the Minister for Industries respectively, to gear up trade and industry and provide policy prescriptions towards expanding the industrial sector. Importantly, Nepal Inter-Modal Transport Development Board has also been setup in order to oversee management of ICDs in the country, monitor and eliminate inefficiencies and facilitate trade.

The government has undertaken “Nepal-India Regional Trade and Transport Project (June 2013-June 2019)” with support from the World Bank. The US\$101 million project is expected to decrease transport time and logistics costs for bilateral trade between Nepal and India. Post completion, the project is expected to cut costs associated with transit trade along the Kathmandu-Kolkata corridor by reducing key infrastructure bottlenecks in Nepal as well as by supporting the adoption of modern approaches to border management. Under the project, Nepal government is working to modernize transport and transit arrangements between Nepal and India by, *inter alia*, introducing an effective and predictable transit regime, simplifying and harmonizing customs and other on the procedures, and strengthening the regulation of national and international trucking services. The project aims to strengthen trade-related institutional capacity in Nepal through the development of Nepal Trade Information Portal (NTIP) and national single window system (NSW) and improvement of trade-related standards laboratories for Customs and SPS testing including food, plant and animal quarantine. Importantly, the project will expand and upgrade the landslide prone 33 km section of the Narayanghat-Mugling road section and implement measures for the improvement of entire Birgunj-Kathmandu Corridor. The project aims to build a container freight station (CFS) or ICD in Kathmandu and improve the infrastructure at Birgunj and Bhairahawa ICDs.

Also, in the very recent years, Nepalese government has given the priority to find the alternative trade routes with its northern neighbour, China and has number of agreements with Chinese government at G2G level. North-South Kaligandaki Corridor, Shaljhundi Dhorpatan road, Jogbani to Kimathanka roads are in top priority and would be in operation in recent future. The government of Nepal and China are also negotiating to open total of 13 border points to expand the connectivity between them.

### 2.3.7 Pakistan

**Afghanistan-Pakistan Transit Trade Coordination Authority plays a vital role** to facilitate trade by building and upgrading requisite infrastructure, in accordance with international best practices, and ensuring clearance of transit traffic. The Afghanistan-Pakistan Transit Trade Coordination Authority (APTTCA) was established to oversee and ensure effective implementation of the Afghanistan-Pakistan Transit Trade Agreement (APTTA). This committee meets twice a year and is co-chaired by the Deputy Minister for Commerce and Industries, Government of Afghanistan and the Commerce Secretary, Government of Pakistan.

Responsibilities of this committee include monitoring and implementation of the Agreement; ensuring uniform interpretation and application of the Agreement by both parties; formulating, monitoring implementation and effectiveness of measures adopted to address and curb unauthorized trade; resolving disputes that may arise regarding implementation of the agreement; authorizing studies on issues related to transit trade; and considering any other matter for proper running of the agreement (MoC, 2014). The APTTCA secretariat is based within Ministry of Commerce. In January 2015, the scope of this agreement was extended to include Tajikistan. A trilateral meeting among Afghanistan, Pakistan and Tajikistan has already take place to extend the transit facilities to Dushanbe.

**National Trade Corridor Improvement Project has been responsible for improving** the transport logistics system. Due to the slow progress of the project, the World Bank pulled out in 2007. Now, the Asian Development Bank (ADB) is working for the implementation of the NTCIP. In 2007, ADB approved a multi-tranche financing facility (MFF) of \$900 million for the National Trade Corridor Highway Investment Program (NTCHIP).

**Ministry of Ports and Shipping looks after the** procedures for facilitation of the ports and shipping industry of Pakistan. It provides policy guidelines to encourage port development and growth in shipping. It handles Karachi Port Trust, Port Bin Qasim and Gwadar Port. Gwadar Port Authority has just sanctioned a Special Economic Zone to facilitate regional development in Baluchistan Province (Dawn, 2017). Other projects at various stages include construction of East-Bay Expressway, construction of Breakwaters and dredging of berthing areas and channels. Pak-China Technical and Vocational Institute under construction in Baluchistan, has recently been inaugurated (Daily Balochistan Express, 2018).

In the context of trade facilitation, Ministry of Communications has a central role, due to its mandate for improving transportation infrastructure in the country. This Ministry promotes international competitiveness of exports, ensures smooth travel on roads and works on expanding road networks. The Ministry has initiated many new projects to improve the road infrastructure and road transport system, such as completion and up gradation of all national highways and motorways, construction of paved roads from all agriculture production areas to market centres, construction of dual carriage highways to all land border crossings leading to Taftan and Chahbahar with Iran; Torkham, Chaman and Keli Ghulam Khan with Afghanistan; Wagah, Ganda Singhwala and Khokhrapar with India and Urmumqi in China.

Provincial governments in Pakistan also play some role in trade facilitation. For example, Punjab Board of Investment and Trade (PBIT) is an investment promotion agency to facilitate and support trade and investment in Punjab. Recently, the PBIT helped in increasing India-Pakistan trade through the land route and facilitated high level meetings between both the Punjab Provinces (India's Punjab and Pakistan's Punjab). Provincial Revenue Departments have their policies for goods travelling through their provincial domains. Most of these are in terms of cess on the trucks and goods being transported through trade routes. In a recent budget announcement made by Khyber Pakhtunkwa Province, the government there levied a one percent tax on goods for exports to Afghanistan, including goods transported by North Atlantic Treaty Organization (NATO).

In terms of trade related infrastructure, Roads, Telecommunication and IT services have been performing better, according to the respondents. Warehousing and ports facilities were termed average by most respondents. Very few responses were received for railways as railway performance in Pakistan is uncertain. Due to lack of timeliness, traders usually do not rely on this sector, unless it is an absolute need called for by their bulk consignments.

Respondents seem to be satisfied with insurance and banking services, but they have rated all the other services as average performing. These include road transport facilities, maritime transport services, freight forwarders, customs agents, quality inspection services and health/SPS agencies.

The Electronic Data Interchange (EDI) has been introduced recently, which helps in electronic filing of information, certificate of origin (COO) and declaration by the trader. A major reservation with banking services was that L/Cs issued by banks in Pakistan are not accepted by Indian banks and vice versa. In the case of Bangladesh, most of the transactions come via Singapore and Dubai.

Pakistan's land and seaports are well equipped to handle containers and inspection through scanners. Due to these scanners, congestions are largely avoided at the ports.

There is an urgent need to automate a number of processes, including proper training of those who are involved in direct handling of goods at the ports. We even had four out of 13 government officials who said that ports are not well equipped. On the other hand, 60 respondents out of 135 from the private sector said that the quality of ports is average, and 23 replied that it is of low quality. As the private sector has knowledge of ports of other countries, they were well aware of regional comparisons. They termed Pakistan's port infrastructure still lacking in many respects (World Bank 2010).

### **2.3.8 Sri Lanka**

Despite the multitude of institutions involved, traders have complained about the lack of transparency, confusion around the rules and regulations and lack of coordination between ministries and all this has translated into significant trade costs (Johns, 2017).

Apart from the Customs, the BOI and the Sri Lanka Ports Authority (SLPA) are the two other main agencies involved in the export/import process, while there are over 30 government and non-government agencies linked to the trading process. These include the Sri Lanka Standards Institution (for Quality Certificate), Ceylon Chambers of Commerce/Department of Commerce (Certificate of Origin), Department of Animal Production and Health (Health Certificate), Finance Ministry, Ministry of Defense (license for firearms), Inland Revenue, Ministry of Fisheries and Aquatic Resources (permit for restricted list species), Excise Department (licence for items under Excise Ordinance), Department of Registration of Motor Vehicles (permit by Registrar of Motor Vehicles and R.M.V. Certificate), Plant Quarantine Department (phytosanitary and fumigation certificates), Telecommunications Regulatory Commission, Cosmetics, Devices and Drugs Regulatory Authority, Sri Lanka Tea Board (permit for tea exports), Coconut Development Board, Import and Export Control Department, Criminal Investigation Division, Wild Life Department (permit for coral), Forest Department (permit for timber) and the Archaeological Department (certificates for antiques and wooden furniture).

While the Department of Commerce (DOC) is the only authority that can issue Certificates of Origin (COs) for all preferential schemes including SAFTA and ISFTA, the Chambers of Commerce can issue COs for non-preferential cargo. The DOC has introduced a Green Channel facility for the issuance of GSP certificates, where the issuing time is a minimum<sup>39</sup>. However, this is not available for other preferential schemes yet.

Capacity building needs, both in terms of hard and soft infrastructure and across all relevant institutions in trade are manifold. In absence of credible capabilities, numerous impediments persist. High dwelling time in customs and ports often due to insufficient operating hours of customs and ports, random opening of self-sealed containers, non-availability of customs officials for inspection, congestion at ports and poor port handling facility were noted to impede trade and thereby raise trade costs in Sri Lanka (Weerakoon et al. 2005). ITC (2011) traces weaknesses in testing and certification capabilities as among the most significant challenge. The study notes that Sri Lanka Standards Institution (SLSI) has been criticized by traders for continuous delays, high costs and lack of some testing procedures. The report states that SLSI grapples with, *inter alia*, financial constraints that limits its ability to expand and thereby requiring public investment in the technical testing and certification infrastructure. While the fees and charges are already high, several additional levies are imposed and often arbitrarily on traders (ibid.). Though several incentive schemes exist to relieve domestic producers of these charges, such schemes entail cumbersome administrative burdens and extensive paperwork (ibid.).

## 2.4 Import and export Corridors of South Asia

The SAARC Secretariat (2006) describes the poor transportation network as the fundamental issue of the international trade, of the region. Poor transportation network in the region explains the situation of poor intraregional integration as replicated in the intra-regional trade.

Table 2.6 presents the road, rail and inland waterways in the regional settings. The number of roads shows more strength than other means of connectivity. We can notice that the number of highways connecting multiple countries is limited. In regard to the rail connectivity, there are 15 existing and

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<sup>39</sup> At the moment 87 companies has been given the Green Channel facility by the DOC. Whoever has achieved the eligibility criteria is eligible for this facility. For the Green Channel customers, the COs are issued within 1-2 hours whereas, for general customers it takes about 3-4 hours. COs are issued within a day and usually about 500-600 COs are issued by the DOC within a day.

potential rail corridors. India has a bulk of the SAARC railway network. Notably, India's rail network is probably the largest in the world, however, the quality is not as high as that of advanced economies. The five main rail corridors of South Asia are given in the same table.

The landlocked countries in the region namely Afghanistan, Bhutan and Nepal largely, with few exception of air transport, depend on road transport. Still, their domestic and international road network is poor, however there is a significant attention from the policy makers on this issues in the recent years. The inland waterways trade corridors of greater regional significance, and serving India are given in the table.

Notably, despite having easy access to water and rail transport, Bangladesh has most of its customs offices targeting trade from road networks compared to water and rail networks. 16 of Bangladesh's customs offices are targeting trade from road networks, whereas only nine are targeting trade from waterways and only three are targeting trade from railways Other countries in the region also have strong dominance of road transport compared to other ways of transportation.

**Table 2.6: Major trade corridors of South Asia—roads, rails and inland waterways**

<b>Road</b>	
<i><u>Corridors (Kilometres)</u></i>	<i><u>Countries served</u></i>
Lahore–New Delhi–Kolkata–Petrapole/Benapole–Dhaka–Akhaura/Agartala (2453)	Pakistan, India and Bangladesh
Kathmandu – Birgunj/Raxaul–Kolkata/Haldia (1323)	Nepal and India
Pokhara–Sunauli–Gorakhpur (290)	Nepal and India
Thimphu–Phuentsholing–Jaigaon–Kolkata/Haldia (1039)	Bhutan and India
Kathmandu–Kakarvitta–Phulbari –Banglabandha–Mongla/Chittagong (1394)	Nepal, India and Bangladesh
Samdrup Jongkhar–Guwahati–Shillong–Sylhet–Dhaka–Kolkata (906)	Bhutan, India and Bangladesh
Agartala–Akhaura–Chittagong (227)	India and Bangladesh



Kathmandu–Dhangadhi–New Delhi–Lahore–Karachi (2643)	Nepal, India and Pakistan
Thimphu–Phuentsholing–Jaigaon–Burimari–Mongla/Chittagong (880)	Bhutan, India and Bangladesh
Malda–Shibganj–Jamuna Bridge(Bangladesh) (252)	India and Bangladesh
Kathmandu–Butwal–Nepalganj–Lucknow (663)	Nepal and India
Kabul–Kandahar (496)	Afghanistan and Pakistan
<b>Rail</b>	
Lahore –New Delhi/ Kolkata –Dhaka–Mahishasan–Imphal (2830)	Pakistan, India and Bangladesh
Karachi –Hyderabad–Khokhrapar–Munabao–Barmer–Jodhpur (707)	Pakistan and India
Birgunj –Raxaul–Haldia/Kolkata (832)	Nepal and India
Birgunj –Raxaul–Katihar–Rohanpur–Chittagong (Bangladesh) with links to Jogbani (Nepal) and Nepal, India and Bangladesh (1146)	Nepal, India and Bangladesh
Colombo –Chennai (1025)	Sri Lanka and India
<b>Inland Waterways</b>	
Kolkata–Haldia–Raimongal–Mongla–Kaukhali–Barisal–Hizla–Chandpur–Narayanganj–Aricha–Sirajganj–Bahadurabad–Chilmari–Pandu (1439)	India and Bangladesh
Kolkata–Haldia–Raimongal–Mongla–Kaukhali–Barisal–Hizla–Chandpur–Narayanganj–Bhairabbazar–Ajmiriganj–Markuli–Sherpur–Fenchuganj–Zakiganj–Karimganj (1318)	India and Bangladesh

Source: SAARC Secretariat (2006)

## 2.5 Competitiveness and Logistic Performance Index (LPI)

Table 2.7 presents an overall picture of competitiveness indicator for the 138 and 140 countries that are ranked by World Economic Forum (2016), for the year 2016-17 and 2015-16 respectively. This indicator is prepared with a thorough analysis of infrastructure and other competitiveness pillars and countries are ranked indicating the smaller has the better competitiveness. In both period, India

stands as the best performer in the region following by Sri Lanka, which seems to lose some ground from the previous year unlike India. Rest of the countries have improved slightly in the later year compared to that of the previous year. The indicator shows Pakistan at the bottom of the competitiveness index in both periods.

**Table 2.7: South Asia’s overall competitiveness indicators**

<b>Country</b>	<b>Rank (out of 138) 2016-2017</b>	<b>Rank (out of 140) 2015-2016</b>
Afghanistan	NA	NA
Bangladesh	106	107
Bhutan	97	105
India	39	55
Maldives	NA	NA
Nepal	98	100
Pakistan	122	126
Sri Lanka	71	68

Source: World Economic Forum (2016)

Note: NA refers data not available, NAP refers to not applicable

In modern international trade, doing business indicators and logistics performance index (LPI) are well fashioned to explain the trade related issues. Thus, Table 2.8 shows the rank of South Asian countries in the context of doing business indicators, which is prepared analysing various pillars of doing business. These pillars are related to business environment that directly impacts international trade, particularly, exports. As seen in table 2.8, all South Asian countries are ranked in 11 pillars. In most of the pillars, the ranks of South Asian countries is lower than 100 among 190 countries. This reflects, poor trade performance.

Although the performance of South Asia remains poor in the doing business index, there are some countries with impressive pillars. For example, Afghanistan ranks 42<sup>nd</sup> in starting a business while many other South Asian countries rank below 100. In all the other pillars, however, Afghanistan ranks below 100. Bangladesh’s best performance is seen in protecting minority investors, where it ranks 70<sup>th</sup> while the rank in other pillars is below 100. Bhutan has been able to stand in top 50 in three pillars and stands lower than 100 position only in two pillars. In fact, Bhutan’s indicators seem the best in the region. Despite being the largest and fastest growing economy, India is ranked in top

50 for only three pillars, i.e., 26<sup>th</sup> in getting electricity, 44<sup>th</sup> in getting credit, and 13<sup>th</sup> in protecting minority investors. Maldives ranks above 100<sup>th</sup> rank in only two pillars and Nepal ranks above 100<sup>th</sup> rank in four pillars. Pakistan ranks above 100 in three pillars and Sri Lanka in six pillars.

Table 2.9 presents the rank for logistics performance index. This index is prepared ranking 167 countries for the period of 2010-2016. In this ranking, India stands on the top of the region securing top 42<sup>nd</sup> position for overall LPI rank, while Afghanistan does stand at the lowest (160<sup>th</sup> position) in the region. This trend is found in almost all components of the index. Pakistan and Sri Lanka have a better performance than other countries in the region.

**Table 2.8: Doing business indicators for South Asian countries (rank out of 190 countries), 2016**

<b>Indicators</b>	<b>Afghanistan</b>	<b>Bangladesh</b>	<b>Bhutan</b>	<b>India</b>	<b>Maldives</b>	<b>Nepal</b>	<b>Pakistan</b>	<b>Sri Lanka</b>
Ease of doing business	183	176	73	130	135	107	144	110
Starting a business	42	122	94	155	65	109	141	74
Dealing with construction permits	186	138	97	185	62	123	150	88
Getting Electricity	159	187	54	26	145	131	170	86
Registering property	186	185	51	138	172	72	169	155
Getting credit	101	157	82	44	133	139	82	118
Protecting minority investors	189	70	114	13	123	63	27	42
Paying taxes	163	151	19	172	134	142	156	158
Trading across borders	175	173	26	143	147	69	172	90
Enforcing contracts		189	47	172	105	152	157	163
Resolving insolvency	159	151	169	136	135	89	85	75



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Sri Lanka	86	79	123	103	67	82	87
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Source: Arvis et al. (2016)

## 2.6 Policy and regulations context

The policy and regulation set up explains how the region has adopted the liberalisation and reform process, which is said to be an indispensable lubricant for international trade in this era of globalization. For this purpose, Table 2.10 presents South Asia's weighted average tariff rate in percent for all products and each countries' graduated year into an open country based on Sachs and Warner index of trade liberalization.

Sri Lanka has been the best performer as an early starter of the reform process while Bhutan and India have shown the rapid progress to reduce the tariff rates. Bangladesh, Nepal and Pakistan seem to make slow progress to reduce the tariff rates, but their level is not that high to restrict international trade significantly.

The foreign direct investment (FDI) regulation indicates how a country looks on the foreign capital. The FDI regulation is explained by different aspects. Table 2.11 presents some key aspects on which Bangladesh permits foreign equity, on average, up to 97 percent while Sri Lanka permits only up to 74 percent. Afghanistan has the lowest number of procedures to start a business with foreign equity and India seems to be the most tradition in this regard.

Arbitrating and mediating disputes seem to be the most frustrating fact in the region. Pakistan and India both have unexpectedly high requirements, and other five countries even do not have such data.

Further, to look the foreign equity ownership situation in the region, Table 2.12 presents FDI allowed in major business areas. In this case, Bangladesh is the only country in the region that provides no restriction in all selected areas. Nepal does not allow permit at all in the electricity transmission but permits 100 percent in rest of the areas in the table. India has the most restriction in telecommunication and financial services sector. Bhutan and Maldives do not have such data available. Sri Lanka has a restriction in electricity and transportation.

**Table 2.10: South Asia's weighted average tariff rate (%) for all products & opened year**

Country	2000	2005	2010	2015	Open year
Afghanistan	NA	NA	NA	7.02	-
Bangladesh	18.1	22.7	10.16	11.89	1996
Bhutan	NA	21.51	13.05	2.82	-
India	23.28	13.87	6.07	6.4	2001
Maldives	18.98	20.5	19.71	19.73	2001
Nepal	16.44	14.33	11.84	11.72	1991
Pakistan	22.29	12.22	10	9.53	2001
Sri Lanka	6.63	7.27	6.8	5.25	1977
South Asia	13.53	13.37	8.29	8.21	-

**Source:** World Bank (2016a), the last column is based on Paudel (2014) which describes the Sachs and Warner Index of trade liberalisation.

**Table 2.11: Indicators of FDI regulations (average)**

Country	Investing across sectors	Starting a business with foreign investment		Arbitrating and mediating disputes	
	<i>foreign equity ownership permitted%</i>	<i>Number of procedures</i>	<i>Number of days</i>	<i>Length of arbitration proceedings (days)</i>	<i>Length of recognition and enforcement proceedings (days)</i>
Afghanistan	87	6	9	NA	NA
Bangladesh	97	10	45	278	836
Bhutan	NA	NA	NA	NA	NA
India	81	15	35	569	1654
Maldives	NA	NA	NA	NA	NA
Nepal	80	10	84	NA	NA



Pakistan	93	13	36	479	5610
Sri Lanka	74	7	47	NA	NA

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Source: World Bank Group (2010)

**Table 2.12: Foreign equity ownership allowed in selected areas of economy (%)**

Countries	Electricity		Transport		Telecommunications				Financial Services		
	<i>Transmission</i>	<i>Distribution</i>	<i>Freight by road</i>	<i>International air transport</i>	<i>Fixed-line infrastructure</i>	<i>Fixed-line services</i>	<i>Wireless infrastructure</i>	<i>Wireless services</i>	<i>Banking</i>	<i>Life insurance</i>	<i>Health insurance</i>
Afghanistan	49	49	100	100	49	100	100	100	100	100	100
Bangladesh	100	100	100	100	100	100	100	100	100	100	100
Bhutan	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
India	100	100	100	49	74	74	74	74	74	26	26
Maldives	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nepal	0	100	100	100	100	100	100	100	100	100	100
Pakistan	100	100	100	49	100	100	100	100	49	100	100
Sri Lanka	0	49	40	49	100	100	100	100	100	100	100

Source: World Bank Group (2010)

## **2.7 Issues in trade facilitation**

Main objective of trade facilitation is to improve trade competitiveness to boost trade performance, particularly, reducing the trade costs and procedural bottlenecks to the minimum level so that export trade would be competitive, and import is available at the international price.

This is possible with a good architected infrastructure system, minimising the trade barriers (tariffs and non-tariffs), improving trade logistics, reducing the procedures, upgrading the quality of customs, transits and information and communication technology by improving overall governance quality in the country because of which both private and public investment would be rationally increased to boost trade.

For all this to happen in the proper way, the economic condition, level of education, political stability, investment, and the quality of the governance in the region are crucial aspects. In the absence of these, private sector loses the confidence to invest, while public and government sector do not have such heavy investing capacity, particularly in the developing countries.

## CHAPTER 3

# RESEARCH METHODOLOGY

This research report is prepared based on mixed, combining qualitative and quantitative, method research approach. Similarly, we use both primary and secondary data to achieve the research goal. In the qualitative analysis, we focus on the issues on trade facilitation at the country level within South Asia. We use secondary data collected from different sources as explained in the data source subsection to report the situation of the index, indicators, ranks and so on in various tables. We use primary data to prepare trade facilitation index for the region, and for the quantitative analysis conducted in the report to identify the determinants of trade costs and export trade.

In terms of qualitative analysis, we make country level analysis of those directly relevant with trade facilitation issues. We present various tables and graphs to report the trend, scenario and condition of the trade related infrastructure, logistics, policy, and procedures.

We employ the quantitative analysis method for two major areas. First, we develop trade facilitation index for South Asia using Principal Component Analysis (PC) in primary data collected at country level of the region. Second, we conduct the econometric analysis using Gravity modelling framework to identify the ways to increase export volume and to reduce trade costs. We discuss each of these procedures in the following sections.

### **3.1 Questionnaire Survey**

To assess the status of trade and transport facilitation measure in South Asia, a survey, namely “Trade and Transport Facilitation Audit” was conducted maintaining the uniform procedures in all countries’ major cities in terms of trade. In this regard, South Asia Watch of Trade, Economics and Environment (SAWTEE) designed a questionnaire that was pilot tested in major custom points of all South Asian countries’ business hubs focusing on various importers and exporters of the agriculture and non-agriculture products. Therefore, this report uses the primary data collected from entrepreneurs in the main custom points of the South Asia region. The methodology developed by the World Bank in the context is adapted to conduct perception survey with a set of questionnaires as listed in the Appendix A. This was designed to collect important information from the diverse sectors’ entrepreneurs, who

were surveyed during 2013, covering the following major issues: publication and administration of policies related to trade issues, rules and procedures for import and exports, trade related infrastructure and services, use of information and communication technology (ICT) for export and imports, and measures for goods in transit.

The respondents were entrepreneurs based in areas close to the major customs points of all countries. In this process, entrepreneurs focused on services trade were excluded as this sector does not directly relate with the trade facilitation issues. The number of respondents is different in different countries' cities and business hubs because of set criteria of the selection.

Following the completion of the survey, all available data were analysed using various statistical software, mainly, SPSS and STATA, to identify major trade facilitation bottlenecks and the priority areas of intervention. We have used the secondary data and information too in this report that are collected from various sources as cited in the relevant tables and figures. Then, using those data, a compact indicator of trade facilitation, trade facilitation index (TFI), is constructed employing the Principal Component Analysis (PCA) method. And, finally, this index is used in a thorough econometric analysis to investigate the impact of trade facilitation on trade costs and overall export.

**Table 3.1: Summary of the Respondents**

<b>Country</b>	<b>No. of respondents</b>	<b>No. of ports/ customs point covered</b>	<b>Name of the ports/ customs points</b>
<b>Afghanistan</b>	60	2	Torkhum, Spin Boldak
<b>Bangladesh</b>	150	6	Akhaura, Benapole, Chittagong, Hilli, Mongla, Tamabil

<b>Bhutan</b>	40	1	Phuntsholing
<b>India</b>	432	11	Attari, Agartala, Kolkota, Changrabandha, Chennai, Cochin port Jaigon, Mumbai port, Panitanki, Petrapole, Phulbari, Raxual
<b>Maldives</b>	30	1	Male
<b>Nepal</b>	180	6	Bhairahawa, Biratnagar, Birgunj, Kakarbhitta, Nepalgunj, Tribhuvan International Airport
<b>Pakistan</b>	148	4	Tokhum (Pesewar), Wagha (Lahore), Karanchi Port, Chaman
<b>Sri Lanka</b>	121	2	Colombo, Bandranaike International Airport
Respondents: Forwarder/ Agent/ Broker/ Multimodal Transporter, Exporter, Importer, Shipping Line Agent, Road Carrier, Airline Operator, Port Authority, Customs Authority, Ministry of Commerce, Chamber of Commerce.			

Key messages from the survey emerge that there are the issues of poor quality of infrastructure-warehouse, equipment to handle cargo, road quality, port quality, railway quality etc. The perception of entrepreneurs on the efficiency and cost of logistics is varying. Most of the entrepreneurs are unable to use ICT despite online submission provisions, and on the other hand, they require additional documents and occasional escorts.

Also, national customs website and inquiry points exist, but with poor effectiveness. Similarly, there is the existence of border management agencies but they lack intercountry coordination. Countries have varying numbers of documents required for export and imports and are unable to use advance ruling, a pre-arrival processing procedure. Most of the customs duties are determined based on transaction value, customs procedures are not satisfactorily transparent, and there is a need to pay bribes or irregular payments in many cases.

### **3.2 Priority Areas for Trade Facilitation**

The designed survey includes a total of 26 questions to identify the priority areas of the respondents. Based on those responses, we select the top five priority of all countries so that the overall priority of the region can be identified and programs, policies and strategies can be developed to deal with the issues of trade facilitation. Table 3.2 shows such priority area of each South Asian country. This table reveals some important facts about the priority areas of the countries. First, despite being in the same region, the respondents from these countries have different priorities in trade facilitation issues. For example, the respondents from Bhutan and India feel the implementation of single window system as the highest priority, while this is not the case for other countries' respondents, i.e., this is second priority in the case of Pakistan, Nepal and Sri Lanka, not a priority at all in the case of Afghanistan and Maldives. Surprisingly, against the impression that Sri Lanka has better quality of the governance, irregular payments and bribes is the major concern of the entrepreneurs there and it remains as a second concern among the entrepreneurs of Afghanistan and not a serious issue – as it has not been ranked in top five priority in the case of other countries.

Second, the quality of trade infrastructure, i.e., the quality of ports, roads, and railway are of major concern in the region, particularly, in Bangladesh, Maldives, Nepal and Pakistan. Time to clear inward and outward goods have various ranges of priority but it is a major concern in Afghanistan, Bangladesh, Bhutan, India and Sri Lanka. In sum, improving the infrastructure in various forms and procedural steps are the major priorities in the region.

**Table 3.2: Top five priority areas for trade facilitation**

Country	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
Afghanistan	Coordination between border agencies	Irregular payments/ bribes	Transit	Export/ import documentation	Time to clear inward/ outward goods
Bangladesh	Quality/ Efficiency of port	Quality/ efficiency of roads	Export/ import documentation	Time to clear inbound goods	Quality of warehouse/ trans-loading facilities
Bhutan	Single window	Pre-arrival processing	Quality of warehouse/ trans-loading facilities	Quality/ efficiency of roads	Time to clear inbound goods
India	Single window	Time to clear inward/ outward goods	Quality/ efficiency of roads	Cost of logistic services	Quality of warehouse/ trans-loading facilities
Maldives	Quality/ Efficiency of port	Cost of logistic services	Efficiency of quality/ standard inspection agencies	Quality of warehouse/ trans-loading facilities	Quality efficiency of airport
Nepal	Quality/ efficiency of roads	Single window	Quality/ efficiency of rail (transit)	Quality efficiency of airport	Electronic submission of documents
Pakistan	Efficiency of quality/ standard inspection agencies	Single window	Quality of warehouse/ trans-loading facilities	Quality/ Efficiency of port	Physical inspections by customs
Sri Lanka	Irregular payments/ bribes	Single window	Electronic submission of documents	Time to clear inward/ outward goods	Quality/ efficiency of rail

### 3.3 Construction of TFI

As discussed earlier, one indicator—trade facilitation index (TFI)—is constructed to measure the trade facilitation status in South Asian countries. We have tried to make this index more concise and realistic to capture the facilitation issues in the region as discussed in the following subsections—components and method.



### 3.3.1 Components

Based on the questionnaire, the collected data, and the literature of TFI, five components have been developed, from which TFI is calculated in the next stage. These components include transparency, documents and procedures, processing time (to measure the governance efficiency), infrastructure, and information and communication technology for each country in the region. These components jointly explain the trade facilitation situation in these countries. We wanted to include transit also as a component to explain the specific constraint in the case of landlocked countries in the region, namely Afghanistan, Bhutan and Nepal. However, this was not possible due the small number of sample that did not support our preferred methodology. These five components have been widely discussed in the literature to explain the overall situation of trade facilitation in different economies.

### 3.3.2 Method

Using the survey data, we first group the questions into these five components of TFI after careful consideration of their association with the survey questions. Then, we sum the score of each question and take the average for each of the components to reduce the sample size biasedness. After that we use a formula  $(value-min)/max-min$  to calculate the biasness reduced value for that component. Then, we employ the PCA on that value to calculate the final value of the component to be used to calculate the TFI for each country. Here, the use of PCA is directed by the small sample of data with the substantial variations among the countries. Table 3.3 presents the eigenvectors and eigenvalues for the principal component analysis. As can be seen in the table we need to use first, second and third principal component as the eigenvalues for the second and third are bigger than the first. Remarkably, these three values capture about 94 percent of the total variance. Then we find out the weight of each components as presented in the last column of Table 3.3. Once the weight for each component is found, we multiply this weight for each component with the score of each country for that component to calculate the TFI for each country. Then at the final stage we estimate the TFI for the region (Table 3.4) summing the countries' cases.

As seen in Table 3.4, Bhutan and India have the highest score for transparency among the countries while Bangladesh is at the bottom of the rank. This transparency component seeks the urgent attention of policy makers to make policy regime more transparent and the need to increase awareness about trade related rules and regulation, which should facilitate traders rather than creating fear. It explains how the rules and regulations about international trade are executed and the index suggests to adopt more trade friendly approach.

The rank in each component of the country varies substantially. For example, Bhutan and India rank first in transparency but Bhutan ranks at the bottom for governance and Bangladesh stands at the top followed by Pakistan. For processing time, Maldives stands at top and Bhutan at the bottom of the rank. Surprisingly, India's rank at the second last, while, Nepal, Pakistan, Bangladesh, Sri Lanka and Afghanistan have a score greater than 0.05. In the case of infrastructure, Maldives ranks at top followed by Bangladesh and Sri Lanka. The score on ICT shows a greater variation and clearly indicates the dominant lead of India with a huge gap with other countries.

By this, we see the TFI score of each county on which Maldives leads the index followed by Pakistan, Sri Lanka and India. It seems that India is penalised due to its low score in the processing time component.

Next, a benchmark TFI of South Asia is calculated with comparison to the best trade logistics performer, Singapore. Figure 3.1 documents the TFI score calculated for Singapore based on the relationship of LPI and TFI in the region. This relationship is just not accurate but close comparison, i.e., if the South Asian countries has the average value of TFI 0.36 and LPI 2.66, this relationship with a comparison of 4.13 of LPI for Singapore gives 0.558 index point of TFI.

**Table 3.3: Principal components eigenvectors and eigenvalues**

Variables	First	Second	Third	Weight
Transparency	-0.417	0.298	0.671	0.145
Governance	0.573	0.359	-0.193	0.195
Processing time	0.417	-0.191	0.685	0.240
Infrastructure	0.542	0.196	0.204	0.248
ICT	-0.122	0.841	-0.048	0.177
<b>Eigenvalues</b>	<b>0.993</b>	<b>1.504</b>	<b>1.319</b>	

Source: Authors' calculation based on the survey data

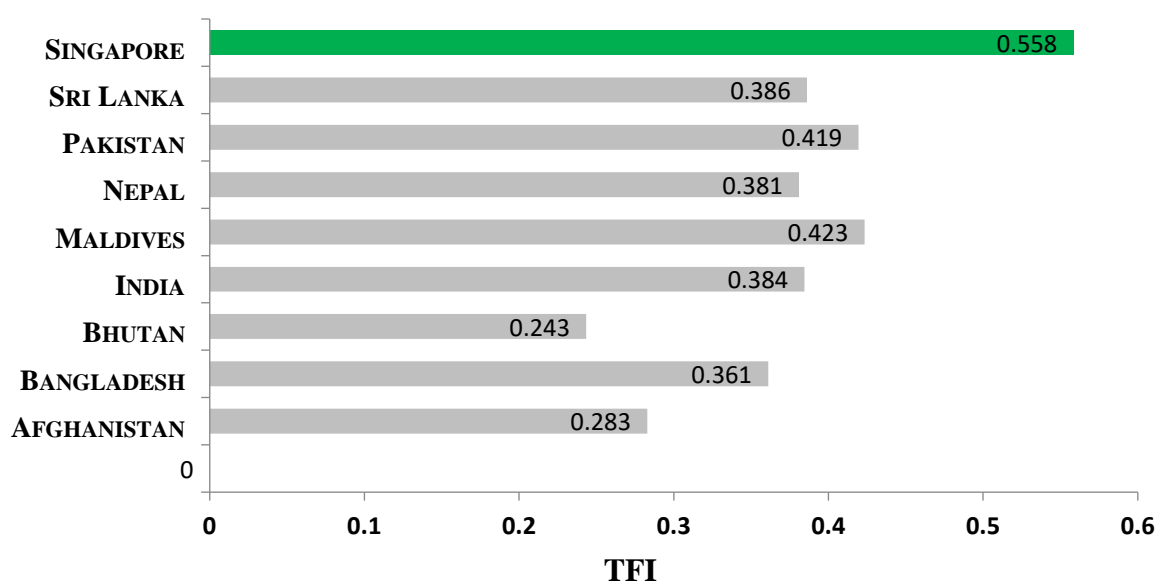
**Table 3.4: Components of the trade facilitation index in South Asia**

Country	Transparency	Governance	Processing time/efficiency	Infrastructure	ICT	TFI
Afghanistan	0.066	0.067	0.072	0.075	0.003	0.283

Bangladesh	0.049	0.099	0.060	0.137	0.017	0.361
Bhutan	0.092	0.042	0.015	0.089	0.005	0.243
India	0.092	0.082	0.031	0.105	0.074	0.384
Maldives	0.080	0.084	0.105	0.150	0.004	0.423
Nepal	0.091	0.062	0.101	0.098	0.029	0.381
Pakistan	0.078	0.096	0.094	0.130	0.022	0.419
Sri Lanka	0.083	0.076	0.080	0.125	0.022	0.386

Source: Authors' calculation based on the survey data

**Figure 3.1: TFI of South Asian countries, a comparison with Singapore**



Source: Calculation based on survey data for 8 countries, and for Singapore it is calculated to know the close value based on the relationship between TFI and LPI index for the region.

### 3.4 Methodological connection between TFI and LPI

LPI has six components for which primary data were collected from eight countries that have most important import and export market—high trade volume market. The respondents were selected randomly. These six components are: efficiency of customs and border clearance, trade infrastructure, shipments management, quality of logistics, ability of consignment handling, and frequency of

shipments. The data for these components were collected from the respondents with categorical answers, i.e. number 1 (very low) to 5 (very high), for the selected six questions. Then the scores are used in principal component analysis (PCA) as we do in this report to calculate TFI (hereafter TFI).

The TFI components are slightly different to capture overall trade facilitation scenario rather than just the logistic perspectives. Even though TFI and LPI both use PCA the calculation differs in three aspects. First, the countries in the TFI case is selected in the South Asia region and there is a huge deviation among the countries on trade volume, economy and market size, and their proximity—closer than those countries used in LPI. Second, TFI uses slightly different components with a bit different focus on transparency and governance rather than just logistics aspects, so questions are designed accordingly. Third, the normalization process before using PCA is slightly different to minimize the size bias, i.e. instead of subtracting sample mean and dividing by the standard deviation, TFI calculates using a formula  $(value-min)/max-min$  to get the TFI for the South Asian countries, and thereby for South Asia. Other than these, methodologically LPI and TFI are in the similar path.

### 3.5 Econometric Analysis

The gravity model, as proposed in Tinbergen (1962), is a standard framework for estimating the patterns of bilateral trade flows among the countries, and has become a work horse among international trade economists in the recent decades. This model originally explains trade flows in terms of GDP of the reporting and partner countries, and the geographic distance between them, and has been augmented to capture the trade dynamics of the globalized markets. Also, this model is widely used to investigate the impacts of various economic variables on trade flows, say for example, Anderson and Van Wincoop (2003), Baldwin and Taglioni (2006), and Silva and Tenreyro (2006). Therefore, we use an augmented gravity model specification to identify the impact of TFI on trade costs and trade volume.

Many previous studies have estimated the gravity equations using either a pooled ordinary least squares (OLS) estimation, a fixed effect estimation (FE) or a random effect (RE) estimation. One important assumption made is that the country-specific effects (fixed effects) are uncorrelated with all regressors, although, this assumption has been rejected in most empirical works. Therefore, among these three methods, FE is the preferred method to reduce the bias caused by this assumption. However, as a drawback of FE, we cannot estimate the coefficients of time invariant exporter-specific and importer-specific variables, which are the main variables of interest in this study. This situation leads us to use the RE estimation technique.

Against this background, one general question may be on the potential endogeneity issue caused by the possible reverse causality from GDP to exports in the trade analysis. However, the exports in this study are measured at the country level and GDP is measured as a product of the trading partners level so there is a minimal risk of reverse causality. Thus, the endogeneity in this case is likely not to be powerful enough to impact the credibility of the results.

# CHAPTER 4

## TFI, TRADE COSTS AND TRADE

In this chapter, we estimate two models intending to identify the role of TFI on trade costs and trade volume. The following subsections documents the empirical analysis for this purpose in detail following state of the art estimation technique.

### 4.1 Model and data

The TFI constructed in the previous chapter is used as an independent variable in two models, i.e., cost model as in equation (1) and export trade model as explained in equation (2).

$$LCOST_{i,j} = \alpha + \beta_1 LDIST_{i,j} + \beta_2 TFI_i + \beta_3 CONTIG_{i,j} + \beta_4 COMLANG_{i,j} + \beta_5 SAARC_j + \varepsilon_{i,j} \dots \dots (1)$$

Where,

$\alpha$  is a constant term, subscripts  $i$  refers to exporter,  $j$  refers to trading partner, and  $L$  denotes natural log. The  $\beta$ s are the coefficients of individual explanatory variables. The last term,  $\varepsilon_{i,j}$  is the stochastic error term and is assumed to have a normal distribution.

$$LEXPORT_{i,j} = \partial + \gamma_1 LGDPS_{ij} + \gamma_2 LPOPS_{ij} + \gamma_3 LDIST_{i,j} + \gamma_4 TFI_i + \gamma_5 CONTIG_{i,j} + \gamma_6 COMLANG_{i,j} + \gamma_7 SAARC_j + \epsilon_{i,j} \dots \dots (2)$$

The details of the variables with the expected sign are given in Table 4.1.

**Table 4.1: Variables and expected sign with the data source**

<b>Variables</b>	<b>Descriptions</b>	<b>Expected sign</b>
COST	Exports costs in US\$, collected from World Bank (2016).	Dependent variable in equation (1)
DIST	Distance between business cities of exporters and partners measured in kilometres in log, collected from CEPII (2016).	(+) in equation (1) & (-) in equation (2)
TFI	Trade facilitation index as calculated in the previous chapter	(-) in equation (1) & (+) in equation (2)
CONTIG	Border dummy, 1 if trading partner is border, 0 otherwise, collected from CEPII (2016).	(-) in equation (1) & (+) in equation (2)
COMLANG	Language dummy, 1 if have common official language, 0 otherwise, collected from CEPII (2016).	(-) in equation (1) & (+) in equation (2)
SAARC	Regional dummy, 1 if the partner is in South Asian region, 0 otherwise.	(-) in equation (1) & (+) in equation (2)
EXPORT	Exports value measured in US\$, collected from World Bank (2016b)	Dependent variable in equation (2)
GDPS	Products of exporter's and trading partner's gross domestic products, collected from World Bank (2016a).	(+)
POPS	Products of exporter's and trading partner's population, collected from World Bank (2016a).	(+)

As in equation (1) the dependent variable is the cost at current values in US\$. The dependent variable for equation (2) is exports, also measured in US\$. Mirror exports (the imports into other countries from the South Asian countries) are used as these better capture the real situation of exports for two reasons: first, the general assumption that imports are recorded more accurately than exports. Second, underreporting of exports is generally a common phenomenon in developing countries. The exports are measured based on SITC classification revision 3 for nonoil products.

The three explanatory variables – products of GDP of exporters and their partners —GDPS, products of the population of the exporters and their partners —POPS and distance —DIS to measure the distance between the most populated cities between the exporters’ and importers’ are the standard gravity variables and are explained widely in the literature, so do not require further discussion here. The widely-used variable in gravity models, proximity— CONTIG, common language — COMLANG are dummies. Similarly, SAARC is also a dummy variable that represents whether the importer is also in the South Asian region.

TFI as constructed in the previous chapter, is used to identify the overall impact of trade facilitation in trade costs and volume. We expect the impact of TFI would be negative for the first equation as TFI contributes to lowering the cost. On the other hand, the impact would be positive in the second equation.

The main data source of this study includes WITS-Comtrade for exports flows — World Bank (2016b), world development indicators—World Bank (2016a) for GDPS and POPS. The other variables such as the data for distance, common language and border are collected from (CEPII, 2016), gravity data set. The data for trade costs are collected from World Bank (2016). Finally, the data to construct TFI are the primary data collected from the Survey as discussed in the previous chapter.

## 4.2 Results and Robustness check

We estimated the costs equation at first and got the results as in the equation 3. The reported values in the parenthesis are p-value, and the coefficients are reported with the independent variables. This results suggest that larger distance causes higher cost, i.e., on average, a one percent increase in the distance results in a 0.19 percent increase in cost, holding other variables constant (*ceteris paribus*).

The most important message, as we want to analyse the impact of the TFI, is that a one index point decline in TFI, on average, results in an increase in trade costs by more than 130 percent. In addition



to this, the impact of border, common language and SAARC as partner have the negative impact on the trade costs, but only the border impact variable is statistically significant at 5 percent level of significance.<sup>40</sup> The border impact variable denotes that if the trading countries have a shared border, the trade cost is 36 percent lower than if the trading countries do not share a border. This indicates that the focus of policy makers should be trade facilitation which has a larger impact in trade costs reduction. We have estimated the results altering the variables for the robustness; the results for the estimation of the major variable, particularly for TFI remain valid.

$$LCOST = 4.49 + 0.19LDIST - 1.31TFI - 0.36CONTIG - 0.04COMLANG - 0.02SAARC \dots \dots \dots (3)$$

(0.00\*\*\*)    (0.00\*\*\*)    (0.03\*\*)    (0.00\*\*)    (0.48)    (0.82)

For the robustness check of our estimation, we present the estimation results in form of equation (4), where we introduce a dummy for landlocked countries and interaction term of this dummy and TFI. The result reveals one important message, i.e., the landlocked countries in the region (Bhutan and Nepal) with TFI get better benefits than other countries as the interaction term is statistically highly significant, meaning that the landlocked countries with better TFI can substantially reduce trade costs than other non-landlocked countries in the region.

$$LCOST = 1.97 + 0.21LDIST + 4.22TFI - 0.41CONTIG - 0.11COMLANG + 0.02SAARC$$

(0.00\*\*\*)    (0.00\*\*\*)    (0.03\*\*)    (0.00\*\*\*)    (0.046\*\*)    (0.819)

$$+ 1.17LLOCK - 2.96LLOCK*TFI \dots \dots \dots (4)$$

(0.00\*\*\*)    (0.009\*\*\*)

Table 4.2 presents the estimated results for exports volume from South Asia in and outside the region. For the main variable of interest, TFI, the results suggest that a one index point increase in the TFI causes exports to increase by about 12%. This will be a magnificent achievement of international trade in the region improving the condition of the trade facilitation as explained by the estimation results.

The other gravity variables, such as, GDP and population of the trading countries and distance have significant results with their expected signs. Most importantly, having common official language seems more important than the proximity (contiguity) for exports. This result is of particularly interest because the border can reduce the cost a bit costs, but trade has not been realised as explained in our

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<sup>40</sup> Note: \*\*\*, \*\* and \* indicate 1%, 5% and 10% level of statistical significance, respectively.

database in the earlier chapter. Policy makers should think about the infrastructure connectivity in the border areas of South Asian countries for better trade performance in the long-run within the region. The results of column 2 suggest that the efficiency component has a negative impact on trade referring lots to improve regarding efficiency. Information and communication component has a positive but not statistically significant. The most important component of the TFI is the quality of the governance, however, transparency and infrastructure are also statistically significant. The results for the variable landlocked-ness suggest that being a landlocked country in the region a country has about two and half percent trade disadvantage.

We estimate three different set of equations to confirm our estimation results for the main variable of interest to remain consistent. The main variable of interest, TFI is statistically highly significant and has the expected sign in all estimation suggesting our estimation results are robust (Table 4.3). Importantly, the results suggest that the landlocked countries in the region can trade about 10 percent more than other countries if they have better interaction with the TFI.

**Table 4.2: Random effect estimation results, dependent variable exports-log**

Variables	(1)	(2)	(3)
Product of exporter & importers' GDP (log)	0.966*** (0.055)	0.910*** (0.054)	0.912*** (0.051)
Product of exporter & importer' populations (log)	0.247*** (0.053)	0.136** (0.064)	0.208*** (0.049)
Distance between business cities (log)	-0.428*** (0.146)	-0.494*** (0.140)	-0.577*** (0.136)
Contiguity (Dummy)	-0.095 (0.553)	0.392 (0.528)	0.253 (0.510)
Common official language (Dummy)	0.988*** (0.267)	0.469* (0.272)	0.825*** (0.246)
SAARC (Dummy for South Asian Partner)	1.595*** (0.438)	1.471*** (0.421)	1.383*** (0.405)
Trade facilitation index	11.805*** (2.206)		
Transparency component		40.004*** (13.495)	
Governance component		51.600*** (16.736)	
Efficiency component		-15.784*** (4.888)	
Trade infrastructure component		20.601**	

		(9.690)	
<b>Information &amp; communication component</b>		6.317	
		(9.232)	
<b>Landlockedness of exporter (Dummy)</b>			-2.413***
			(0.203)
<i>Observations</i>	<b>635</b>	<b>635</b>	<b>635</b>
<i>R-squared</i>	<b>0.690</b>	<b>0.710</b>	<b>0.720</b>

Note: \*\*\*, \*\* and \* indicate 1%, 5% and 10% level of statistical significance, respectively. The figures in parentheses are robust standard errors.

**Table 4.3: Random effect estimation results, dependent variable exports-log alternate specification**

	<b>(1)</b>	<b>(2)</b>
<b>Product of exporter &amp; importers' GDP (log)</b>	0.933*** (0.132)	0.896*** (0.051)
<b>Product of exporter &amp; importer' populations (log)</b>	0.271* (0.165)	0.198*** (0.052)
<b>Distance between business cities (log)</b>	-0.675*** (0.218)	-0.829*** (0.122)
<b>Contiguity (Dummy)</b>	0.324 (0.380)	0.692 (0.506)
<b>Common official language (Dummy)</b>	0.990** (0.497)	0.934*** (0.254)
<b>Trade facilitation index</b>	11.986*** (4.367)	-8.058* (4.181)
<b>Landlockedness of exporter (Dummy)</b>		-6.328*** (2.014)
<b>Landlockedness *TFI</b>		10.130* (5.342)
<i>Observations</i>	<b>635</b>	<b>635</b>
<i>R-squared</i>	<b>0.66</b>	<b>0.71</b>

Note: \*\*\*, \*\* and \* indicate 1%, 5% and 10% level of statistical significance, respectively. The figures in parentheses are robust standard errors.

### 4.3 Simulations and benchmarks

We estimated the trade costs and exports first, then simulated both trade costs and exports setting Singapore's TFI as the benchmark. The results are interesting and follow the path of the literature. Table 4.4 presents the scenario of trade costs when the TFI in the South Asian countries reaches the level of Singapore. As seen in the table, the costs can be reduced by about 16 percent to 34 percent. The largest reduction is detected in Bhutan followed by Afghanistan, Bangladesh and Nepal.

Similarly, Table 4.5 presents the simulation of the export scenario of the region. This result suggests that if the TFI is reached to the equal of Singapore's level, the exports will increase from  $\ln 57$  to  $\ln 75$  (natural log of 57 to the natural log of 75).

Table 4.6 presents more detail information from the benchmark simulation. The results suggest that if the TFI in each South Asian country reached to that of Singapore's level, exports will increase substantially. Numerically, the largest increase in exports would be recorded for Bhutan which will increase its trade by 98 percent. Similarly, this increase will be recorded for Afghanistan about 96 percent, followed by Bangladesh by 90 percent. Rest of the South Asian countries will see an increase in their export by more than 80 percent.

These findings are consistent with the studies in the context. In the literature, there are few studies that attempt to quantify benefits from trade facilitation reforms in the South Asian region, predicting a significant upward shift in trade volume even from modest reforms. For example, Wilson and Otsuki (2007) suggest that if South Asian countries raise their capacity halfway to East Asia's average, their trade would rise by an estimated \$2.6 billion, approximately 60 percent of the total intra-regional trade. Further, it suggests that if South Asia and the rest of the world raised their levels of trade facilitation halfway to the East Asian average, the gains to the region would be an estimated \$36 billion. Out of these gains, about 87 percent of the total gains to South Asia would be generated from South Asia's own efforts (leaving the rest of the world unchanged).

De (2011) in an econometric analysis finds that a 10 percent decrease in transaction costs at borders, increases a South Asian country's exports by about 2 percent. The analysis also explains that the implementation of online filing of customs documents (as a measure of trade facilitation) at the borders is a statistically significant determinant factor of trade flows as well as the transit reforms to the landlocked countries.

Table 4.4: Simulation of South Asian countries' trade cost scenarios (US\$-log)

Countries	Present Costs	Costs at Singapore's level	Decrease in costs%
Afghanistan	5.92	5.56	30.45
Bangladesh	6.17	5.91	22.95
Bhutan	5.95	5.53	33.95
India	6.20	5.97	20.55
Maldives	5.83	5.65	16.39
Nepal	6.06	5.82	20.90
Pakistan	6.12	5.94	16.82
Sri Lanka	6.17	5.94	20.37

Note: Assumption is the regression relationship remains same in the countries' context as of Regional's.

Table 4.5: Simulation of South Asia's exports scenarios (US\$-log)

Details	Exports from South Asia
Present export predicted	57
Singapore level's TFI in each South Asian country	75
If TFI is 1 for each South Asian country	117

Table 4.6: Simulation of South Asian countries' exports scenarios (US\$-log)

Countries	Present Exports	Singapore's level of TFI	Increase in exports%
Afghanistan	21	25	96
Bangladesh	24	27	90
Bhutan	18	22	98
India	27	29	87
Maldives	20	21	80
Nepal	22	24	88
Pakistan	25	27	81
Sri Lanka	23	25	87

Note: Assumption is the regression relationship remains same in the countries' context.

## 4.4 Summary and Findings

This report contributes to the literature in three ways, first this report analyses the South Asian trade within the region and with the world. Brief trends and patterns of South Asian exports are documented and trade competitiveness, logistic performance index, infrastructure and policy context of the region is widely discussed. We detect that the South Asia's situation is not as satisfactory as expected while comparing the population and size of the economy with the rest of the world. Second, it constructs a reliable TFI for South Asia using primary data from all countries in the region employing the standard technique. The index is ranged from 0.243 for Bhutan to 0.423 for Maldives. Also, this report finds the priority areas of the TFI in the region as explained in Chapter 3.

Third, it analyses the impact of TFI in trade costs and trade volume using cross-sectional data for a set of South Asian countries with their trading partners for the year 2014. The findings from this study confirm the negative impact of TFI on trade costs and strong positive impact on trade. Further, it is also found that landlocked countries have additional disadvantage in trade due to exogenous cost imposed by their geographical condition. And, it identifies the benchmark achievement on reducing the trade costs and increasing the trade volume comparing the costs and trade scenarios with Singapore. The simulation results suggest that the export volume can be increased from 80 percent to 98 percent reducing the costs about 16 percent to 35 percent in the South Asian countries.

# CHAPTER 5

## CONCLUSIONS

### 5.1 Conclusions

In this report, apart from analysing the South Asian trade scenario, and constructing a TFI; we attempted to address the questions— why is South Asian export performance so poor? What should the regional priorities be to improve the trade performance in the region?

To answer these questions analysing the impact of the newly constructed TFI for the region, an econometric estimation is conducted within the standard gravity modelling framework. The findings show that transport costs, proxied by the distance, plays a significant negative role in the regional export performance. While saying this, we also document that a breakthrough for reducing trade costs is to improve the TFI. Improving the TFI would contribute to reduce the trade costs significantly (a one index point decrease in TFI, on average, results in an increase in the trade costs by more than 130 percent) and it will help to increase the trade volume, on average, by 12 percent.

Also, from the benchmark achievement on TFI it is suggested that the export volume can be increased in the ranges from 80 percent to 98 percent, reducing the costs within the ranges from 16 percent to 35 percent in the South Asian countries.

### 5.2 Policy Inferences from the study

Several policy inferences emerge from the descriptive analysis and empirical findings of this report. The first set of policy inferences is that improving the quality of governance is a way to improve the TFI in the region as it is the most important component of the TFI. In addition to this, improving trade infrastructure connectivity may be a useful means to improve the much-awaited trade performance of the region. Another way to improve trade is to strengthen the quality of governance and make a more trade friendly environment with an integrated approach in the region.

Based on the analysis of Chapter 3 and 4, it can be said that the immediate trade strategy challenge is to improve the TFI with continuously improving the supply side factors of international trade.

Policy makers in the region need to pay attention to the adverse implications of the current situation of infrastructure and overall TFI and focusing on the priority areas as responses from the respondent.

### **5.3 Way forward**

For the proper development of the TFI in the region, we recommend the following task to be undertaken in the priority basis:

- Create awareness among the private sector stakeholders on trade related services provided by the government,
- Develop a regional framework for road transport to improve the quality of road transport,
- Harmonize customs procedures, documentation and classification of goods in the region,
- Conclude Regional Transit Agreement,
- Promote investment in infrastructure,
- Establish Single Window in all SAARC countries and advance towards SAARC Single Window, and
- Develop trade facilitation related human resources.

### **5.4 Limitations and Suggestions for Further Research**

This report also has some limitations, mostly they emerge from lack of data, which is always the case while focusing on developing countries context. Extending the number of respondents and covered period would enrich the report in many ways. The credibility of the empirical findings will be improved substantially using more intense dataset in the future within similar structure and respondents. This report has several potentials. It can be extended with more coverage, both in terms of respondents and frequencies for different years so that more advanced methodology can be employed depending on budget and time frame.



Further, the study with enriched dataset would produce more credible policy inferences if the study is compared with at least another region, for example, Sub Saharan Africa employing same methodology of the data collection. Instead of just finding the impact of TFI, overall study of exports determinants covering a longer time data would improve the quality of the report. If we collect the response from the same respondent for different periods and use them in the empirical analysis would help to identify their progress (behavioural aspects of the firms) and make policy inferences with more credible applied work. Methodological differences would be another area to work for the robustness of the empirical results.

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## APPENDICES

### Appendix A

#### Questionnaire for Trade Facilitation Audit

Product Name:			
Country of Study:			
Trade Route/Port		<input type="checkbox"/>	
		<input type="checkbox"/>	

*Note: The numbers assigned to each trade route is the unique code for that particular trade route.*

#### Part I: Respondent details

(i) Title:	<input type="checkbox"/> Mr. <input type="checkbox"/> Mrs. <input type="checkbox"/> Ms. <input type="checkbox"/> Dr. <input type="checkbox"/> Others (precise):	
(ii) Full Name:		

(iii) Agency/organization:		
(iv) Contact address:		
(v) Department:		
(vi) Telephone:		
(vii) Email :		
(viii) Your work area(s): Please select the option that best describe your current area of work.	<input type="checkbox"/> Forwarder/Agent/ Multimodal Transport Operator <input type="checkbox"/> Exporter <input type="checkbox"/> Importer <input type="checkbox"/> Shipping line/ship's agent <input type="checkbox"/> Road Carrier <input type="checkbox"/> Airline Operator <input type="checkbox"/> Railway Operator <input type="checkbox"/> Port Authority <input type="checkbox"/> Airport Authority <input type="checkbox"/> Customs Authority <input type="checkbox"/> Chamber of Commerce <input type="checkbox"/> Ministry/Department of Commerce <input type="checkbox"/> Ministry/Department of Finance <input type="checkbox"/> Ministry/Department of Transport <input type="checkbox"/> Others	
(ix) Scale of operation	<input type="checkbox"/> Small <input type="checkbox"/> Medium <input type="checkbox"/> Large <input type="checkbox"/> Not applicable	
(x) Located in Special Economic Zone, including SEZ, BOI managed zone, industrial park etc.	<input type="checkbox"/> Yes <input type="checkbox"/> No	

## Part II: Questionnaire

### 1. Publication of trade related rules and regulations

- 1.1. Is there any national customs website that provides minimum set of information related to customs duties, other applicable fees and export import and transit procedures?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

- 1.2. If yes, does it cover information in the following areas?

	Yes	No	Do not know	
1.2.1. Import/Export Procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.2.2. Customs clearance procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.2.3. Applicable customs duties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.2.4. Applicable fees and charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.2.5. Average release time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.2.6. Clearance time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.2.7. Changes in regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

- 1.3. If yes, please rate the effectiveness of the information.

	Very Low	Low	Average	High	Very High	
1.3.1. Import/Export Procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.3.2. Customs clearance procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.3.3. Applicable customs duties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.3.4. Applicable fees and charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.3.5. Average release time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.3.6. Clearance time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1.3.7. Changes in regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

- 1.4. Is there any inquiry point to address queries regarding export/import procedures and formalities?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

## 2. Rules and procedures for export and import

2.1. Which of the following border management agencies are operating at the border point?

	Yes	No	Do not know	
2.1.1. Revenue and customs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.2. Immigration service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.3. Health authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.4. Quarantine inspection service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.5. Plant health inspectorate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.6. Food standards agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.7. Security agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.8. Archaeological agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.1.9. Others (Please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

2.2. Please rate the coordination between border management agencies.

Very Low	Low	Average	Good	Very Good	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

### **If importer, skip to 2.6.**

2.3. How many documents are required for customs clearance for **typical exports**? If a precise number is not possible, please provide range.

	Minimum	Maximum
2.3.1. Exports to South Asian Countries		
2.3.2. Exports to Developed Countries		
2.3.3. Not Applicable		

2.4. How many signatures are required for customs clearance for **typical exports**? If a precise number is not possible, please provide range.

	Minimum	Maximum
2.4.1. Exports to South Asian Countries		
2.4.2. Exports to Developed Countries		
2.4.3. Not Applicable		

- 2.5. How many days are required to prepare all the **export documents**? (Please specify in days) If a precise number is not possible, please provide range.

	Minimum	Maximum
2.5.1. Exports to South Asian Countries		
2.5.2. Exports to Developed Countries		
2.5.3. Not Applicable		

**If exporter, skip to 2.9.**

- 2.6. How many documents are required for customs clearance for **typical imports**? If a precise number is not possible, please provide range.

	Minimum	Maximum
2.6.1. Imports from South Asian Countries		
2.6.2. Imports from Developed Countries		
2.6.3. Not Applicable		

- 2.7. How many signatures are required for customs clearance for **typical imports**? If a precise number is not possible, please provide range.

	Minimum	Maximum
2.7.1. Imports from South Asian Countries		
2.7.2. Imports from Developed Countries		
2.7.3. Not Applicable		

- 2.8. How many days are required to prepare all the **import documents**? (Please specify in days) If a precise number is not possible, please provide range.

	Minimum	Maximum
2.8.1. Imports from South Asian Countries		
2.8.2. Imports from Developed Countries		
2.8.3. Not Applicable		

- 2.9. Do customs and other border agencies accept copies of documents not authenticated?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

2.10. Can customs declarations be submitted and processed electronically and/or online?

	Yes	No	Do not know	
2.10 (a) Submitted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.10 (b) Processed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

2.10.1. If yes, please rate the quality of the functioning of the system.

	Very Low	Bad	Average	Good	Very Good	
2.10.1(a) Submitted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.10.1(b) Processed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

2.11. Can supporting documents be submitted and processed electronically and/or online?

	Yes	No	Do not know	
2.11 (a) Submitted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.11 (b) Processed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

2.11.1. If yes,

Fully	<input type="checkbox"/>	
Partially	<input type="checkbox"/>	

2.11.2. If yes, please rate the quality of the functioning of the system.

	Very Low	Bad	Average	Good	Very Good	
2.11.2 (a) Submitted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.11.2 (b) Processed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

2.12. Does your customs authority/ department issue advance rulings?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

2.12.1. If yes, what is the length of time for which advance ruling is valid? (Please specify days)

.....



2.12.2. If yes, what proportion of the request gets positive response? (Please specify in percentage)

.....

2.13. Does Customs allow for pre-arrival processing of export/import consignments?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

2.13.1. If yes, please rate the effectiveness of pre-arrival processing.

Very Low	Low	Average	Good	Very Good	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

2.14. Does your country use risk/ threat assessment technique?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

**If exporter, skip to 2.20.**

2.15. What proportions of your **inward consignments** are subject to physical inspection by customs?

Less than 5 percent	<input type="checkbox"/>	
Between 5 and 15 percent	<input type="checkbox"/>	
Between 15 and 25 percent	<input type="checkbox"/>	
Between 25 and 50 percent	<input type="checkbox"/>	
Above 50 percent	<input type="checkbox"/>	

2.16. What is the basis for valuation of **customs duties**?

Transaction value	<input type="checkbox"/>	
Transaction value of identical goods	<input type="checkbox"/>	
Transaction value of similar goods	<input type="checkbox"/>	
Computed Value	<input type="checkbox"/>	

Reference Value	<input type="checkbox"/>	
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- 2.17. If more than one system of **customs valuation** is applied, please provide what proportion of the value of consignment fall under the following valuation method.

Transaction value	
Transaction value of identical goods	
Transaction value of similar goods	
Computed Value	
Reference Value	

- 2.18. Can goods be released pending **final clearance** against accepted guarantee?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

- 2.19. Does your country implement **authorized traders scheme**?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

- 2.20. Have the customs agencies adopted the system of 'Single Window'?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

- 2.20.1. If yes, please rate the quality of the system.

Very Low	Low	Average	Good	Very Good	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

- 2.21. Does your country have any system of post clearance audit?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	

Do not know	<input type="checkbox"/>	
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2.21.1. If yes, what percentage of consignment is liable for post clearance audit?

Less than 5 percent	<input type="checkbox"/>	
Between 5 and 15 percent	<input type="checkbox"/>	
Between 15 and 25 percent	<input type="checkbox"/>	
Between 25 and 50 percent	<input type="checkbox"/>	
Above 50 percent	<input type="checkbox"/>	

2.21.2. If yes, please rate the effectiveness of post clearance audit.

Very Low	Low	Average	Good	Very Good	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

2.22. If you are not satisfied with the decision made by the customs or any other border management authority, is a non-judicial review/appeal procedure available?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

2.23. Do you have to pay irregular payments/ bribes to clear the consignments?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

2.23.1. If yes, please provide the frequency, i.e. percentage of the cases you have made such payments.

Less than 5 percent	<input type="checkbox"/>	
Between 5 and 15 percent	<input type="checkbox"/>	
Between 15 and 25 percent	<input type="checkbox"/>	





3.2.6.	Quality/standard inspection agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.2.7.	Health/ SPS agencies/ Quarantine	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.2.8.	Banking services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.2.9.	Insurance services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.2.10.	Visa services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

3.3. Based on your experience, how do you assess the cost of the following logistics services?

	Very Low	Low	Average	High	Very High	N/A	
3.3.1.	Road transport rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.2.	Rail transport rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.3.	Airport charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.4.	Air cargo charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.5.	Port charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.6.	Maritime transport charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.7.	Freight forwarders' charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.8.	Customs agent's charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3.4. Have you ever incurred any loss/damage of cargo during the last five years?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	

3.4.1. If yes, what was the percentage of loss/damage incurred?

Less than 5 percent	<input type="checkbox"/>	
Between 5 and 15 percent	<input type="checkbox"/>	
Between 15 and 25 percent	<input type="checkbox"/>	
Between 25 and 50 percent	<input type="checkbox"/>	
Above 50 percent	<input type="checkbox"/>	

3.4.2. If yes, reasons for loss/damage?

--

#### 4. Treatment of goods in transit

4.1. Do exporters/importers need to pay any fees for transit passage?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

4.1.1. If yes, is information on such fees freely available?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

4.2. How many additional documents are required to use transit passage? (Please specify the numbers)

.....

4.3. Are information on transit formalities and documentations available freely?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

4.4. Do customs allow pre-arrival processing of transit trade?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

4.5. Can transit documents be submitted and processed electronically and/or online?

	Yes	No	Do not know	
4.5 (a) Submitted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4.5 (b) Processed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

4.5.1. If yes, does it apply to all transit documents?

All documents	<input type="checkbox"/>	
Only partial	<input type="checkbox"/>	

4.5.2. If yes, please rate the quality of the functioning of the system.

	Very Low	Bad	Average	Good	Very Good	
4.5.2 (a) Submitted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4.5.2 (b) Processed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

4.6. Are goods in transit subject to physical verification?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

4.6.1. If yes, what proportion of the consignment is liable for physical verification?

Less than 5 percent	<input type="checkbox"/>	
Between 5 and 15 percent	<input type="checkbox"/>	
Between 15 and 25 percent	<input type="checkbox"/>	
Between 25 and 50 percent	<input type="checkbox"/>	



Above 50 percent	<input type="checkbox"/>	
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4.7. Do you need to provide guarantee/insurance for goods in transit?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

4.7.1. If yes, in which form?

Cash	<input type="checkbox"/>	
Bonds	<input type="checkbox"/>	
Bank Guarantee	<input type="checkbox"/>	
Insurance	<input type="checkbox"/>	
Any one of the above	<input type="checkbox"/>	

4.8. Is the transit guarantee limited to the values of duties and charges?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Do not know	<input type="checkbox"/>	

4.9. How many days does it take to release the transit guarantee?

.....

4.10. Is it required to transport goods in transit with customs escorts?

Yes	<input type="checkbox"/>	
No	<input type="checkbox"/>	
Seldom for high risk goods	<input type="checkbox"/>	





