INTRODUCTION

International trade has undergone significant reforms in the last few decades, which has resulted in lowering of tariff and non-tariff barriers through progressive rounds of multilateral trade negotiations, regional trade agreements and unilateral liberalisation. Consequently, the cost of inefficient administrative and organisational obstacles to the movement of goods has gained importance. Transparency, efficiency and procedural uniformity of trade transactions have generated widespread agreement on the necessity for TF, which encompasses the simplification, standardisation, harmonisation and elimination of procedures, data requirements and administration involved in the cross-border movement of goods and services.

TF measures were first included in the multilateral agenda at the 1996 Singapore Ministerial of the WTO along with three other issues, viz., investment, competition policy and transparency in government procurement. Work on TF was carried on under the WTO thereafter though there are divergences in views between developed and developing Members on the need for TF negotiations. Developed Members favoured negotiating binding rules while developing Members were not convinced about the necessity of binding rules in the WTO. The Cancún Ministerial in 2003 collapsed due to the strong opposition by developing Members to the inclusion of ‘Singapore issues’ in negotiations. After considerable discussions, WTO Members agreed to revive the Doha Round trade negotiations under the terms of the JP whereby Annex D also set out the modalities to begin multilateral negotiations on issues under TF.

This briefing paper discusses the contents and elements of the multilateral framework on TF to examine the challenges under the ongoing Doha Round of trade negotiations. Section 2 examines the ben-
benefits and costs of TF. Section 3 analyses the scope of the negotiations as delineated by JP under the ongoing Doha Round of trade negotiations. Section 4 examines future challenges posed by any new obligations that may arise from the implementation of an agreement from the perspective of developing countries. Section 5 highlights South Asia’s status, concerns and approaches with regard to TF. Finally, section 6 concludes.

COSTS AND BENEFITS OF TRADE FACILITATION

The rapid growth of international trade, along with the relative importance of border procedures, has raised transaction costs involved in the cross-border movement of goods. In this context, complicated and unnecessary trade procedures and requirements imply significant costs for both businesses and governments. For businesses, border-related costs are both direct (such as expenditures related to supplying information and documents to the relevant authority) and indirect (such as those arising from procedural delays, lost business opportunities and lack of predictability in regulations). Costs to governments include potential loss of revenue collection and smuggling, as well as difficulties in implementing effective trade policy reforms. Inefficient border procedures may lead to poor export competitiveness and make an economy less attractive to investment, limiting the scope to fully participate in global trade.

Quantifying costs and benefits of TF is rather complex. Several studies have shown that reduction in trade transaction costs (TTCs) through TF measures brings significant welfare gains.\(^1\) For instance, Francois et. al. (2005) estimate that world annual income would increase by US$ 7 billion following a 1.5 percent reduction in TTCs for merchandise trade. Similarly, a study by Organisation for Economic Co-operation and Development (OECD) in 2003 has shown that a 1 percent reduction of TTCs for trade in goods will raise annual gains of about US$ 40 billion on a global basis. These studies have further mentioned that the gains from reducing TTCs are higher for developing countries, given the inefficient border procedures existing in those countries.

Studies based on regional analyses also make similar findings.\(^2\) A study by the Commonwealth of Australia (2002) has concluded that gains from reforms of customs procedures were US$ 0.4 billion in the Philippines and US$ 2.3 billion in Singapore. Comparable data for South Asian countries highlights that continued weakness in port and transport infrastructure, regulatory environment and other infrastructure have resulted in considerable losses. For instance, a study by Verma (2002) that highlights the importance of efficient port infrastructure, reliable and competitive modes of transport and efficient customs procedures, shows that Indian companies suffer a 37 percent cost disadvantage in shipping containers of clothing products from Chennai and Mumbai in India to the eastern coast of the United States (US), relative to similar container shipments originating from Shanghai, China. Another illustration is provided by the Asian Development Bank (ADB) in 2003 pointing to the conclusion that garments exports of Bangladesh could increase export earnings by 30 percent if port inefficiencies were removed. Empirical evidence shows that countries with inefficient custom operations, inadequate port services and logistics suffer extreme disadvantages. A survey conducted by the World Bank during 1999-2000 in 80 countries has found customs procedures to be a major or moderate obstacle to trade. In fact, traders in developing countries have perceived inefficiencies at customs to be a serious impediment to growth (OECD, 2005a). The study mentions that South Asia, Latin America and the Caribbean region face considerable trade-related costs. Quantitative assessments suggest that there is a significant and positive link between TF and trade flows (volume of imports and exports) while this causality is stronger for developing countries.\(^3\) Moreover, studies indicate that effective implementation of customs and ports modernisation has a positive impact on the collection of trade taxes and, thereby, on government revenue.

Despite the benefits of TF, reducing TTCs involves upfront investment and higher operational expenses for governments and businesses. Some studies have highlighted the costs involved in implementation of TF measures. The cost is higher for countries which need to set up capacities that were initially lacking. For instance, the World Bank has estimated that the cost for enhancing legal transparency in Cambodia to be US$ 400,000 (including US$ 320,000 over 4 months) to develop a system for publishing all regulations and legislations on the World Wide Web (OECD, 2005b). Hellqvist (2003) highlights the obstacles faced by developing countries in facilitating trade. Since some of the requirements of TF – human capital in the form of an educated (including computer literate) workforce, computerised systems, functioning telecommunication system, use of information technology solutions, harmonised payment system and standardised transport facilities – are outcomes of a country’s level of development, it can be difficult to meet them in the short run.
OECD (2005b) finds that for most of the countries surveyed, TF is not a priority for reforms in border procedures. However, it is one of the main positive outcomes of reforms undertaken. The costs incurred in the most technically-demanding procedural areas and the time necessary for a satisfactory implementation of the measures appear challenging for poor countries due to information and communication technology requirements. The study stresses that costs are more than offset by staff savings at the border and by enhanced control and revenue collection. It also mentions that only time will show the financial and procedural benefits derived from undertaking TF measures. Although many countries worry about costs of implementing TF measures, it is beneficial for traders in developed and developing countries alike. While there may be cases where costs have exceeded benefits, experiences from many countries also show that benefits eventually outweigh costs (OECD, 2005a).

**TRADE FACILITATION IN THE WTO**

Work on TF continued after the Singapore Ministerial in 1996. Up to the Doha Ministerial in 2001, several themes were identified by Member countries. These were: the cost of implementing TF measures, the importance of simplified official requirements in applying information technology, the benefits of TF on small and medium enterprises and efforts carried out to foster a cooperative relationship between governments and the trade community. In the preparatory process for the Doha Ministerial, it was proposed to add TF as a new issue to the agenda of multilateral trade negotiations. After considerable discussions among developed and developing Member countries, the Doha Ministerial Conference in 2001 agreed: “in the period until the Fifth Session, the Council for Trade in Goods (CTG) shall review and as appropriate, clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 and identify the trade facilitation needs and priorities of Members, in particular developing and least developed countries. We commit ourselves to ensuring adequate technical assistance and support for capacity building in this area”.

Developing Members continued to express reservations regarding the impact that rules on the four ‘Singapore issues’ would have on their domestic policies and the fact that they possess neither the negotiating resources nor the capacity to implement obligations, which such multilateral rules will entail. In particular, many developing Members opposed the launch of new negotiations on the ‘Singapore issues’ unless progress on agriculture and non-agricultural market access (NAMA) was made. Those concerns contributed to the collapse of the Cancún Ministerial in 2003. However, the WTO General Council reached agreement on 31 July 2004 to resume the Doha Round trade negotiations. Among the ‘Singapore issues’, TF was the only one to be included. Annex D of JP – dealing with modalities on negotiations on TF – states: “negotiations shall aim to clarify and improve relevant aspects of Articles V, VIII, and X of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit”.

Article V highlights the requirements that Member countries should fulfill to ensure freedom of transit where the main obligations are: (i) to permit freedom of transit through the territory of each Member through the most convenient route; (ii) not to subject traffic in transit to any unnecessary delays or restrictions; the commitment entails that such traffic will not be subject to customs, transit duties or other charges imposed in respect of transit, except charges for transportation or those commensurate with administrative or services expenses that are incurred as a result of the transit; (iii) to ensure that all charges are reasonable and in keeping with the conditions of traffic; and (iv) that Most Favoured Nation (MFN) treatment should be afforded for traffic in transit with respect to all charges, regulation and formalities.

The provisions of Article VIII relate to administrative aspects of trade, in particular fees and formalities connected with importation and exportation. The main obligations of WTO Members include: (i) a commitment that all fees and charges imposed in connection with importation or exportation must be limited in amount to the approximate cost of the services rendered; they should not represent an indirect protection to domestic products or represent a taxation of imports for fiscal purposes; (ii) desisting from imposing substantial penalties for minor breaches of customs regulations or procedural requirements; (iii) a commitment to recognise that the number and diversity of fees and charges, the incidence and complexity of import and export formalities and the import/export documentation requirements should be reduced/minimised/simplified.

Article X calls for the publication of all trade-related laws and regulations. The main obligations of WTO Members are to: (i) promptly publish all laws, regulations, judicial decisions and administrative rulings affecting imports and exports so as to enable governments and traders to become acquainted with such regulations; (ii) publish before enforcement measures imposing a new or more burdensome requirement, restriction, or prohibition on imports or on the transfer of payments; (iii) enforce uniform,
impartial and reasonable administration of laws, decisions and rulings affecting imports and exports; and (iv) ensure the prompt review and correction of administrative action relating to customs matters by maintaining or instituting judicial, arbitral or administrative tribunals or procedures.

In line with the modalities set out in Annex D of JP, the Trade Negotiations Committee (TNC) established a Negotiating Group on Trade Facilitation (NGTF) and appointed a Chair. The meetings of the NGTF held since have focused on the provision of technical assistance and capacity building; effective cooperation between relevant authorities such as customs, special and differential treatment (S&DT) for developing and least developed Members and identification of TF needs related to cost implications of proposed measures while taking into account specific submissions made by Members on new obligations.

Negotiations have started on those proposals based on Articles V, VIII and X. Key proposals based on freedom of transit (Article V), have been submitted mainly by the Bolivia, the European Union (EU), Mongolia, Paraguay and South Korea. They include measures for non-discrimination between modes of transport, origin and destination, carriers, routes and goods; publication of fees and charges; use of international standards for transit formalities; a bonded transport regime; and simplified and preferential clearance treatment for perishable goods in transit.

The countries, which have made their submissions on “fees and formalities connected with importation and exportation” (Article VIII) include New Zealand, Norway, Switzerland and the US. These proposals relate to the levy of fees and charges, provisions to reduce documentation requirements, setting up of a standard processing time and the use of international standards. Regarding the publication of trade regulations (Article X), the EU has proposed several items while some of the proposals have been more or less backed by Japan and South Korea. In addition, Canada, Taiwan and the US have also made their submissions on this issue. The key areas in the proposals are related to the provision of advance rulings, use of electronic media and establishment of enquiry points, consultative mechanism and appeals.

### DEVELOPING COUNTRIES AND TRADE FACILITATION

There is a clear contrast in the basic approaches taken by developed and developing Members in the NGTF. While some developed Members have submitted their proposals for new obligations or clarifications of the relevant existing GATT rules, many developing Members insist on voluntary guidelines, rather than legally binding rule-based agreements. Therefore, many developing Members raise

<table>
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<th>TABLE 1: Selected indicators of trade facilitation in South Asia</th>
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<td>Indicators</td>
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<tr>
<td>Hidden barriers to trade (1)</td>
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<tr>
<td>Business impact of customs procedures (2)</td>
</tr>
<tr>
<td>Efficiency of customs procedures (3)</td>
</tr>
<tr>
<td>Overall infrastructure quality (4)</td>
</tr>
<tr>
<td>Railroad infrastructure development (5)</td>
</tr>
<tr>
<td>Port infrastructure quality (6)</td>
</tr>
<tr>
<td>Air transport infrastructure quality (7)</td>
</tr>
<tr>
<td>Irregular payments in exports and imports (8)</td>
</tr>
</tbody>
</table>

Note: * The mean value of 104 countries (including developed and developing countries) represented in the report.

(1) 1 = important problem, 7 = not an important problem
(2) 1 = damaging, 7 = beneficial
(3) 1 = slow and inefficient, 7 = among the world’s most efficient
(4) 1 = poorly developed and inefficient, 7 = among the world’s most efficient
(5) 1 = underdeveloped, 7 = as extensive and efficient as the world’s best
(6) 1 = underdeveloped, 7 = as extensive and efficient as the world’s best
(7) 1 = infrequent and inefficient, 7 = as extensive and efficient as the world’s best
(8) 1 = common, 7 = never occurs

the issue as to whether any agreement arising from the negotiations should be legally binding or should be based on a system of incentives. Even though developing Member countries do not disagree with the merits of TF, they argue that compliance with binding TF standards would be an additional cost to them since improvements to TF infrastructure may denote substantial costs in terms of initial set up and maintenance, where they lag behind. Therefore, the cost implications of proposed measures of TF are one of the main concerns of developing and least developed Member countries and it has been a cause for concern in the context of WTO discussions.

Many developing Members point out that the proposals submitted so far go beyond the negotiating mandate. Proposals related to binding advance rulings for customs purposes, the obligatory use of Harmonized System (HS) tariff classification systems, express shipments, requirements for publication of data and more information on the decision-making process, etc. exceed requirements as mandated by negotiations. They also argue that the proposals overlook the need for business confidentiality in the publication of information while the proposal for prior consultation on new rules and procedures goes well beyond the need for transparency.

Developing Members have also expressed their concern that the proposals submitted by developed Members do not contain any definitive S&DT provision and financial or technical assistance components as mandated by JP. LDCs, in particular, have stressed the need for precise, effective and operational S&DT provisions. The suggestion of some proposals for longer transition periods regarding TF for developing and least developed Members has been considered as largely inadequate.

**TRADE FACILITATION: SOUTH ASIA’S APPROACH**

The importance that South Asian countries attach to TF has been reflected in national efforts to facilitate the flow of goods and services at bilateral, sub-regional and regional levels. Such initiatives include India-Sri Lanka Free Trade Agreement, South Asian Association for Regional Co-operation (SAARC) Preferential Trading Agreement (SAPTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Agreement on South Asian Free Trade Area (SAFTA).

Although South Asian countries have undertaken efforts to improve TF measures both unilaterally and through regional trade agreements, it has yielded limited results. Transaction costs in many South Asian countries remain high, and are evident from high transport and communication costs, long customs and administrative delays at ports and border posts, and inefficient international payments systems. Poor programme implementation, lack of coordination among and between countries, inadequate skilled manpower and lack of a multi-sectoral approach to TF, have also contributed to the unsatisfactory outcomes on such initiatives in South Asia. Table 1 depicts country-wise performance of Bangladesh, India, Pakistan and Sri Lanka in certain aspects of TF. In all countries, survey findings of the Global Competitiveness Report 2004-2005 delineates business impact of customs procedures to be ‘damaging’ and custom procedures as ‘inefficient’.

Studies have noted that extensive documentation requirements and associated processing delays in India is an impediment to trade. For instance, an export clearance requires over 250 signatures, 118 copies of the same information and 22 hours of typing in connection with perfecting documents. In addition to documentation, delays are attributed to complex tariff structures and multiple exemptions and duplication of work between the Customs and Ministry of Commerce (Taneja, 2004). While the Indian government publishes tariffs and additional tax rates applied to imports, there is no single official publication that includes all information on tariffs, fees, and tax rates on imports. In order to arrive at the current tariff and tax rates, importers have to refer to separate tariff and excise tax schedules, in addition to any applicable additional public notifications and notices. Contributing towards more costs and confusion, the official Indian publications use different classification nomenclatures for tariffs and excise taxes, while every state in the country levies taxes on inter-state commerce.

In terms of infrastructure, all four countries are considered to be below average. India is above average in terms of railroad infrastructure due to its extensive railway network. In terms of airport infrastructure quality, both India and Pakistan are placed above the mean level, while Bangladesh and Sri Lanka are below the mean level. In Nepal, inadequacies in airports such as lack of weighbridges, X-ray machines, quarantine facilities and refrigeration storage in important customs offices prevent efficiency of trade. The absence of X-ray machines contributes to a delay of 24 hours in terms of a cooling period. Besides physical lacunae, restricted working hours and the valuation procedure of imported goods, lack of transparency and lack of competent personnel, further lead to delays in customs clearance. In the context of port infrastructure quality – the channel through which most trade takes place in South Asia – all four (contd. on page 7)
<table>
<thead>
<tr>
<th>Proposals by WTO Members</th>
<th>Bangladesh</th>
<th>India</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
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<tbody>
<tr>
<td><strong>Publication and availability of trade information; use of electronic media</strong></td>
<td>Started the use of electronic media with ASYCUDA and SPEED systems</td>
<td>Both the print and electronic media are used. Private sector usage is more accessible</td>
<td>All regulations published by gazette; plans to introduce an official website on a regular basis</td>
<td>Majority of guidelines and information published in print media; some information is available online</td>
<td>Uses both print and electronic media</td>
</tr>
<tr>
<td><strong>Provision of advance rulings</strong></td>
<td>No progress reported</td>
<td>Scheme operational since 2004; scope remains limited</td>
<td>No mechanism</td>
<td>No progress reported</td>
<td>Customs is responsible on classification and standard format is used</td>
</tr>
<tr>
<td><strong>Establishment of Single Enquiry Points (SEP)</strong></td>
<td>No SEP</td>
<td>No officially designated SEP</td>
<td>In progress</td>
<td>No information</td>
<td>No SEP</td>
</tr>
<tr>
<td><strong>Consultative Mechanism</strong></td>
<td>Import Control Committee works as an adjudication body in case of disputes</td>
<td>Yet to fully implement; currently at proposal level</td>
<td>No consultative mechanism</td>
<td>No information</td>
<td>A consultative mechanism involving public and private sector available</td>
</tr>
<tr>
<td><strong>Appeal Procedure</strong></td>
<td>No record of an appeal procedure</td>
<td>Has an effective appeal mechanism</td>
<td>Legislation provides right to appeal to affected party and Department of Commerce works on it</td>
<td>No information</td>
<td>Several committees assist Director General of Customs in appeal procedure</td>
</tr>
<tr>
<td><strong>Levy of fees and charges</strong></td>
<td>Several types of duties, taxes and charges are levied on imports; no duties imposed on exports</td>
<td>Most fees are based on cost of service; some are based on value of goods</td>
<td>Fees charged and levies are large in number</td>
<td>Relatively complex; high ad valorem tariffs, domestic protection methods and specific duties imposed on certain items</td>
<td>No duties on exports; several charges and duties on imports</td>
</tr>
<tr>
<td><strong>Provisions to reduce documentation</strong></td>
<td>ASYCUDA++, Direct Trader Input Facility, single administrative document for imports/exports, pre shipment inspection system are in operation</td>
<td>EDI system and risk assessment methods available; but larger declarations done manually</td>
<td>A single administrative document, ASYCUDA, Advance Cargo Information System (ACIS) are in operation; yet considerable number of documents required</td>
<td>Several computerised procedures at customs &amp; EASY system are in operation; yet, import export procedure is quite complex</td>
<td>Standardised customs declarations for imports/exports, EDI facility, ASYCUDA++ system available, valuation data base being set up</td>
</tr>
<tr>
<td><strong>Setting up of standard processing time</strong></td>
<td>No progress reported</td>
<td>Has set basic guidelines; but not fully implemented</td>
<td>No progress reported</td>
<td>No official time set so far</td>
<td>No officially designated time</td>
</tr>
<tr>
<td><strong>Use of international standards</strong></td>
<td>No progress reported</td>
<td>Needs several reforms to fully meet international standards</td>
<td>Committed to comply with standards on documentation by 2007</td>
<td>Committed to implement international standards on documents</td>
<td>Committed to introduce international standards on documentation</td>
</tr>
<tr>
<td><strong>Non-discrimination of goods in transit</strong></td>
<td>Reluctant to offer transit facilities to India</td>
<td>Transit issues dealt with on a bilateral basis with Nepal; limited progress reported</td>
<td>Dealt with on a bilateral basis with India; limited progress reported</td>
<td>Not included in measures so far</td>
<td>Not included in measures so far</td>
</tr>
</tbody>
</table>

countries have been placed below mean level. In Bangladesh, insufficient space in ports, shortage of handling equipment and lack of transit facilities for containers inhibits successful TF in ports. Furthermore, the success of existing risk management and post-clearance audit processes are considered to be a function of many future developments, such as changes in the customs clearance procedures and changes to the Customs Act.

The issues for South Asian countries with respect to the proposals forwarded by WTO Members in the post JP negotiations are varied. Table 2 summarises the current status of South Asian countries with regard to those proposals submitted at various meetings of the NGTF.

As seen from Table 2, the current status of South Asian countries with regard to the proposals based on publica-
tion and administration of trade regulations reveals that they disseminate information using both electronic and print media. Authorities have started to use electronic media with the introduction of several computerised systems. In the case of Bangladesh, Pakistan and Nepal, there is still no progress reported with regard to advance rulings. None of the countries have established a single window enquiry point for traders. A consultative mechanism is non-existent in most countries.

The prevailing position of South Asian countries regarding proposals based on fees and formalities connected with importation and exportation indicate that even though these countries have undertaken several computerised systems such as use of Automated System for Customs Data (ASYCUDA), Electronic Assessment System (EASY) and Electronic Data Interchange (EDI), etc. in order to reduce documentation requirements in import and export procedures, there are continuing procedural complexities. In addition, fees and charges in most of these countries are fairly large in number and the amounts can be substantial. According to available information, no official standard processing time has been set in these countries so far.

Article V is mostly relevant for Bangladesh, India and Nepal. Transit issues in the sub-continent are been dealt with on a bilateral basis (e.g., Nepal-India Treaty of Trans-
it). Moreover, India, Bangladesh and Nepal are yet to accede to international transit conventions such as the Transports Internationaux Routiers (TIR) Convention or the Admission Temporaire (ATA) Convention, although India uses the ATA Convention to some extent.

CONCLUSION

TF has entered the Doha Round agenda but negotiations on this issue reflect divisions between developed and developing Members. JP has mandated that the latter do not have to comply with multilateral rules on TF unless they are provided technical assistance and resources for capacity building.

A review of TF measures in South Asia depicts continued weakness of countries in the region in terms of physical and service sector infrastructure and regulatory environment. Some of the long standing weaknesses are: poor port infrastructure, lack of cross border transit points and road connections, high cost of road transport, licensing restrictions, poor railway facilities, poor management at customs with high monetary and time cost, administrative problems, non-transparent trade procedures, lack of technical equipments used in customs administration, restrictions on information technology and service sector infrastructure, lack of modern infrastructure networks and problems in meeting standards and technical regulations. The landlocked countries – Bhutan and Nepal – face additional problems compared to others. In addition, the political will to implement TF measures is also lacking.

One of the barriers to TF in these countries is widespread bureaucratic practices at customs and other key government institutions where officials have become accustomed to existing systems. Furthermore, the pressure from stakeholder to implement TF measures in most of the South Asian countries is absent because the business community is not fully familiar with the potential benefits of improving TF. A key factor inhibiting most developing countries from implementing TF measures is the cost associated with large scale improvements in trade infrastructure.

Negotiating strengths in trade negotiations also differs across South Asia. The smaller economies are likely to face numerous difficulties with respect to TF proposals, which are being negotiated. They include the ability to follow and participate in the negotiations; the ability to analyse and evaluate implications of proposals and submissions at multilateral fora; the capacity and ability to develop negotiating proposals and the ability to assess the cost implications of new commitments and obligations. These factors might reduce the bargaining position of South Asian countries in trade negotiations.

While South Asian countries acknowledge that existing inefficiencies in TF measures need to be tackled if they are to become more globally competitive, the region faces formidable challenges in contributing to WTO negotiations. The priority areas in improving TF for South Asian countries are improving customs procedures and formalities, harmonisation of standards, and removing constraints.
Launched in December 1994 at Nagarkot, Nepal by a consortium of South Asian non-governmental organisations (NGOs), South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and 11 member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. Registered in Kathmandu in 1999, the overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalisation and globalisation.

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