A dialogue on trade and development in South Asia

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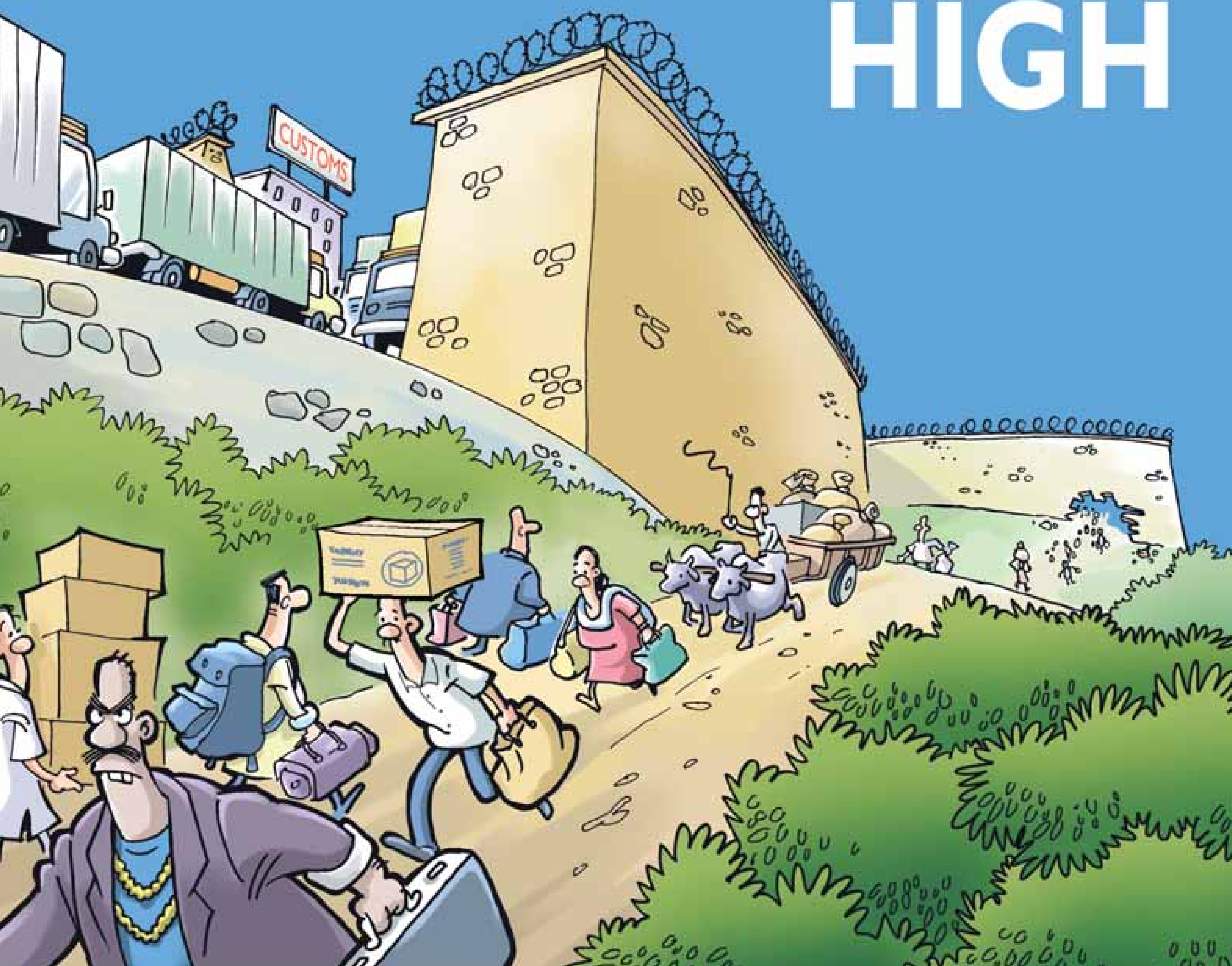
TRADE insight

SOUTH ASIA TRADE

INFORMALLY HIGH



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TRADE insight

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editors' note

Plagued by informality

MANY years have passed since South Asian countries embarked on a journey to create an economic community by establishing the South Asian Association for Regional Cooperation (SAARC) in 1985. Reduction of tariffs and other forms of barriers to trade for the overall development of the member countries is a vital means to achieve that goal. Progress, however, remains dismal. Formal intraregional trade is too low to merit attention—five per cent.

One of the most overlooked factors that could alter this figure is the prevalence of rampant informality in the ways these countries trade, i.e. trade activities that are not fully officially recorded.

One of the two important forms of informality in the SAARC region lies in trading goods with a partial evasion of the customs procedures. This way, even formal trade contains inherent informality to that extent. Then, there is the trade of goods, illicit or otherwise, completely bypassing customs. This is wholly informal. The magnitude of such trade is apparently high. Since India occupies the middle of the huge South Asian landmass a large portion of informal trade is said to take place between the country and its neighbours, even along air and sea routes.

High transaction costs and inefficiencies of the formal channel related to transportation, customs infrastructure, procedural delays, complexities of obtaining licenses, customs clearances and bribes are usually the culprits that give way to misinvoicing and misdeclaration. Policy-related barriers such as stringent standards and import restrictions also deter formal trade. There are some peculiar factors added to the list, such as trade flows through a third country to overcome strained relations between rivals India and Pakistan.

The divergent characters of informal trade means that policy responses too must be divergent. They range from enhancing border infrastructure, adopting proper valuation techniques and reforming tariff structure to use of information and communications technology and training of customs officials. On the political front, normalization of trade relations, reducing the scope of negative lists/sensitive lists and reducing tariffs can eliminate these illicit flows.

Available literature estimating informal trade in South Asia is dominated by studies from the 1995-2005 period. Much has changed after 2006 in this sphere, especially with the implementation of South Asian Free Trade Area (SAFTA)'s tariff concessions. India has also taken unilateral tariff reduction measures. Quantitative restrictions have gone down but are replaced by stringent trade standards. Informality plagues not just trade, but production as well. South Asia's huge production base in the informal sector speaks volumes for the weaknesses in the region's policy and reporting process.

Understanding informality needs a fresh and holistic approach to fathom its dynamics on the ground. Thus, much of the region's missing data can be brought to the formal reporting channel. In many instances, mere reporting would mean bringing informality back to the formal mainstream without any new policy responses. If this can be achieved, who knows, the dismal picture of South Asian intraregional trade may not be as dismal after all. The formidable area of the more stubborn type of informality—such as trade in illicit goods—can then be tackled. This hard core area includes informality that requires hard policy choices, stricter security measures and even long-term infrastructure projects. ■

Content

China, Pakistan, Afghanistan to extend CPEC

www.atimes.com

FOREIGN ministers from China, Pakistan and Afghanistan agreed to discuss ways to extend the China-Pakistan Economic Corridor (CPEC) to Afghanistan.

"In the long run, through Afghanistan, we will gradually connect CPEC with China-Central and Western Asia Economic Corridor", Chinese Foreign Minister Mr. Wang Yi told reporters after China-Afghanistan-Pakistan foreign ministers' meeting in Beijing held on 26 December.

"With regard to specific cooperation projects and ways of cooperation, we will determine through tripartite consultations on an equal footing," he said.

Improving livelihoods in border areas may be an entry point for the extension, said Mr. Wang, noting that the three parties agreed to promote wider connectivity under the framework of the Belt and Road Initiative (BRI).

CPEC is a network of highways, railways, pipelines and optical cables, and a flagship project under the BRI, currently under construction throughout Pakistan.

The 3,000-km-long corridor starts from China's Kashgar and ends at Pakistan's Gwadar, connecting the Silk Road Economic Belt in the north and the 21st Century Maritime Silk Road in the south.

Wang said CPEC is not targeted at any third party, but hopes to bring benefits to the entire region and become an important driving force for regional integration.

As the first meeting of its kind, since the three countries agreed to establish a trilateral dialogue mechanism in June, the foreign ministers' meeting aimed for dialogue between Afghanistan and Pakistan and to reinforce trilateral cooperation in politics, economy and security. *(http://www.xinhuanet.com/, 26.12.2017)* ■

Chabahar extension inaugurated

IRANIAN president Mr. Hassan Rouhani inaugurated a one billion dollar extension of its south-eastern Chabahar Port on 3 December 2017.

Tehran hopes it will help the country become a key transit route. India, a partner in the port development project, is hoping to use the route to bypass Pakistan and reach Afghanistan and landlocked Central Asia.

The inauguration of the port project comes some 15 years after India and Iran formally agreed to develop it, in January 2003, during the visit by then Iranian president Mohammed Khatami to New Delhi.

A second agreement on connectivity has also been signed by India, Iran and Afghanistan allowing Afghanistan to use Chabahar to ship its goods to markets like India. This reduces its dependence on Pakistan's Karachi Port.

The port development pact and the connectivity agreement were signed during Indian Prime Minister Mr. Narendra Modi's visit to Tehran in May, 2016.

Meanwhile, in a significant sign of trilateral cooperation, the first consignment of wheat from India to Afghanistan was flagged off by External Affairs Minister Ms. Sushma Swaraj and her Afghan counterpart Mr. Salahuddin Rabbani on 29 October. It reached the Afghan city of Zaranj near the Iran-Afghanistan border on 11 November via Chabahar. *(http://www.livemint.com/, 04.12.2017; https://economictimes.indiatimes.com/, 11.11.2017)* ■

Sri Lanka-India informal trade thrives

isis.lk

THE opportunities in boosting trade and economic ties between India and Sri Lanka are yet to be realised and have not received the necessary attention, according to a senior Indian economist.

Former Finance and Economic Affairs Secretary of the Government of India Dr. S. Narayan noted that a blind eye continues to be turned towards the informal "box" trading between India and Sri Lanka. He said that the fast-growing informal trade between the two nations has been in practice for decades.

"The question we need to ask ourselves is: Are both the nations comfortable leaving this trade to continue in an unorganized manner? This is a cash trade, which is tangible, and can be misused in many different ways", Dr. Narayan pointed out.

He made these observations during a lecture in Colombo while addressing an event titled 'India-Sri Lanka Economic Relation in Modi's India.' It was co-hosted by the Institute of Policy Studies (IPS) and Lakshman Kadirgamar Institute (LKI).

Sri Lanka and India have a free trade agreement since 2000. The two countries are looking for ways to expand this agreement to include the services sector under the proposed Economic and Technology Cooperation Agreement (ETCA).

It was pointed out that the so-called box trade, taking place largely between Tamil Nadu and Sri Lanka has shot up within the last two to three years and grows at an average annual rate of 12 to 14 per cent.

According to Dr. Narayan, a group in Thoothukudi largely controls the trade in Lankan manufactured/branded goods such as cement, automobile spare parts and construction materials, along with items such as cigarettes, cosmetics and packaged foodstuff.

The significant increase in this form of trade has been attributed to the increase in the number of flights between the two countries.

"There is a huge opportunity of converting this into formal trade. These opportunities are not theoretical but real, and have increased in the last two to three years. You know the bottlenecks, so why not address them and make use of the opportunity," he said.

Meanwhile, Dr. Narayan also pointed out that in recent years, the Sri Lankan companies established in India are performing exceptionally well and, in certain sectors, better than Indian entities.

"In certain sectors, the standards of Indian products have gone up to match Sri Lankan standards. There are several stories, where Sri Lankan businesses are starting to make headway in India and creating opportunities for themselves," he said. *(http://www.dailymirror.lk, 22.11.2017)* ■

Nepal's trade cost raised by transit hassles in India: ITC

foreignpolicymag.files.wordpress.com

NEPAL can substantially reduce the cost of its foreign trade if the transit procedures in India are simplified and transport service made effective, says a recent report unveiled by the International Trade Centre (ITC).

Most of Nepal's export and import shipments pass through road or rail transport transit in India, to or from the port in Kolkata. Companies involved in export and import said, during the ITC survey, that port operation in Kolkata is not efficient.

There is no priority allotment of railway wagons for loading and transportation of Nepal's transit cargo at Kolkata and Haldia ports.

It is not only the hassles, due to lack of high-speed railways and roadways for transit transportation, importers are also facing problems because of insufficient and delayed supply of wagons. Similarly, warehouse space available for Nepal at two ports is insufficient and there is no separate yard for containers, says the report.

Due to shortage of wagons and racks, importers have to transport consignments part by part, particularly in cases of bulk cargoes. The report mentions that Nepali importers end up paying in such cases.

They have to pay penalty charges for delaying not just a portion of the cargo but the whole cargo. "In addition, companies have to pay demurrage charges at the port for transit goods that have not been cleared due to conditions beyond the control of traders, such as labour strikes and delays in transport by the rail operator or Container Corporation of India (CONCOR)," says the report.

Citing a Nepal government's study that Nepali traders are paying almost US$69 million in demurrage per year at Kolkata Port, the report has also highlighted the delays in clearing that result in high warehouse charges and increase the risk of goods being damaged, especially if the goods are seasonal or perishable.

"Administrative hurdles at the port and multiple checking agencies at the border affect the total transit time," as per the report. "Minor discrepancies in documentation (tonnes, pieces, value and date) that do not tally with the letters of credit (LCs) also lead to delays in clearance and demurrage at the port. On the other hand, due to lack of office of shipping liners in Nepal, traders have to rely on Kolkata Port agents and booking agents for export of cargo containers that become very troublesome."

Nepal-bound cargoes imported from third countries are ferried via both road and rail. Around 50 per cent of the cargo volume is ferried via road.

The ITC report has also highlighted that the additional entry and exit fees for Nepali cargoes and charges levied by the Indian customs and agents under various headings, like shipping line charges, haulage charges, port handling charges and container clearing charge add to the burden on Nepali traders. *(https://thehimalayantimes.com/, 17.10.2017)* ■

Maldives, China sign 12 agreements

THE Maldives has signed 12 agreements with China, including a pact to jointly promote the One Belt One Road (OBOR) programme, during the ongoing visit of the island nation's President Mr. Abdulla Yameen Abdul Gayoom to Beijing on 8 December. The two countries also agreed to work towards signing a free trade agreement soon.

The agreements with the Maldives are part of Beijing's continuing efforts to persuade South Asian countries to adopt the OBOR programme.

During their meeting, Chinese President Mr. Xi Jinping expressed hope that the Maldives would continue to support China's cooperation with the South Asian Association for Regional Cooperation (SAARC).

"China is willing to dovetail the development strategies with the Maldives and share opportunities to realize common prosperity," Mr. Xi told Mr. Gayoom.

Maldives's ties to China have risen to a new level since 2014, Mr. Gayoom said.

President Xi suggested that the two countries should jointly crack down on crime, terrorism and drug trafficking, besides expanding exchanges and cooperation in tourism, culture, education, health care and at local levels. *(https://timesofindia.indiatimes.com/, 08.12.2017)* ■

Coastal shipping boosts Bangladesh-India trade


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COASTAL shipping between Bangladesh and India is growing rapidly following a bilateral agreement finalized in 2015.

In the second half of December, a shipment of 1,000 tons of SAIL-TMT High corrosion-resistant (HCR) reinforcement bars left from Kolkata Port for the Indo-Bangla Maitree Super Thermal Power plant.

This came shortly after the recent shipment of 185 Ashok Leyland trucks from Chennai to Mongla Port in October 2017. Had the consignment been sent via road, it would be about 1,500 kilometres from South India to Bangladesh taking 15 days. But coastal shipping has cut the travel time.

Ashok Leyland will send thousands of truck chassis (out of 12,000 consignments) to Bangladesh in the coming days by the direct sea route linking Chennai with Mongla Port.

When road transport was the major option, the total movement of goods between India and Bangladesh was around 1,800,000 tons annually until 2013-14. Businessmen on both sides faced not only problems relating to volumes of consignments, but also had to deal with limitations in the quality of materials handled.

India is sending all sorts of goods to its north-eastern states via river routes linking the two countries. So far, eight routes have been identified for immediate use and more could be added in future bilateral agreements.

Bangladesh is reportedly interested in accessing the populous North Indian markets once Varanasi in Uttar Pradesh is linked by regular river transport with Kolkata and Haldia. This is a central government scheme that would involve some dredging operations in parts of the Ganges River.

At present, Bangladeshi exporters still use the land route to export their items to Delhi.

India remains the dominant partner in its bilateral trade with Bangladesh. In 2016-17, India's exports to Bangladesh rose to US$6.8 billion, a whopping 13 per cent rise over the year before. The overall trade figure was US$7.5 billion. *(https://www.dhakatribune.com/, 24.12.2017)* ■

An attempt to measure trade and transport facilitation in Nepal

Baseline studies were carried out in Nepal in 2015-16 using the BPA+ methodology along multiple corridors and involving different products.

Shaleen Khanal

The Trade Facilitation Agreement (TFA), accomplished at the ninth World Trade Organization (WTO) Ministerial Conference, in December 2013, is the first major global trade agreement to have been concluded since the establishment of WTO in 1995. It is an evidence of a global consensus on the importance of trade facilitation for sustainable economic development. TFA is a concrete framework, albeit narrow, through which countries may simplify and enhance the transparency of their trade procedures.

Commitment and consensus

The importance of trade facilitation was also underscored by Sustainable Development Goals (SDGs) of The 2030 Agenda for Sustainable Development, as well as Istanbul Programme of Action for Least Developed Countries for the 2011–2020 decade and Vienna Programme of Action for Landlocked Developing Countries for the 2014–2024 decade. The adoption of Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific—which opened for signature on 1 October 2016 at the United Nations headquarters in New York—further shows the commitment

of countries to advancing trade facilitation and paperless trade.

Trade facilitation requires simplification and harmonization of international trade procedures, improvement of border infrastructure and the removal of other trade barriers to reduce costs of trade. It involves reducing complexity of transactions and ensuring that trade processes are efficient, transparent and predictable. Direct effects from implementation of trade facilitation measures include reduction in trade costs and increase in volume of trade.

A study carried out by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) shows that implementation of cross-border paperless trade measures is expected to increase the export potential of Asia and Pacific by over US$300 billion.[1] Other benefits from trade facilitation include increase in foreign direct investments, increase in government revenue (especially from customs), reduction in incidences of customs fraud and corruption and even a rise in national Gross domestic product (GDP).

High costs of trade are crucial trade impediments for countries in South Asia. For instance, Organisation for Economic Cooperation and Development (OECD) estimates that garments exporters from Mumbai to United States are at a 37 per cent cost disadvantage vis-à-vis their counterparts in Shanghai purely due to delays and inefficiencies in Indian ports.[2] High costs can be attributed to well recorded problems related to excessive documentation, inadequate modernization of customs procedures, limited application of information and communication technology and non-transparency in export-import requirements in the region. The Doing Business Indicators rank South Asian countries 124th (on average), among 190 countries in terms of cross-border trading.[3] Higher costs are shown here to be associated with border compliance and documentary compliance during the process of imports. In terms of intraregional trade, trade costs within Bangladesh, Bhutan and Nepal amount to 186 per cent tariff-equivalent, the highest among all other subregions studied in Asia and Pacific, with trade costs actually rising between 2003-2008 and 2009-2014. Therefore, reforms in trade and transport facilitation infrastructure in the region can yield serious dividends with some estimates suggesting a rise in intraregional trade in South Asia by as much as 60-75 per cent and global trade by more than 30 per cent.[4]

Measure of facilitation

A crucial challenge in evaluating the state of existing trade and transport facilitation infrastructure in any developing country is the lack of reliable data. Existing reports primarily rely on business and expert surveys, which tend to be biased against government performances and are often sticky downwards, therefore, often underestimating the improvements made in the trade and transport facilitation process. Trade cost databases, on the other hand, largely rely upon econometric techniques to derive trade cost from existing trade data, which are, at best, estimates in the absence of on-the-field direct cost measurement. Therefore, determining the true costs of trading across borders is an important step in measuring and monitoring trade facilitation performance and consequently in reviewing whether the targets are effectively met.

The importance of trade data measurement is emphasized by Asian Development Bank (ADB)'s South Asia Subregional Economic Cooperation (SASEC) Trade Facilitation Strategy 2014–2018. It states, "The concrete action plans to be developed to implement the strategic thrusts would need to have clear and measurable goals and a set of indicators to monitor progress and gauge outcomes... Baseline studies on outcome indicators will be conducted and appropriate targets determined for a consistent and regular monitoring and assessment of results". The strategic framework also emphasizes the importance of an integrated approach to measure trade and transport facilitation, pledging that "an integrated transport and trade facilitation methodology that will link the time release survey, time/cost-distance survey and the Business Process Analysis (BPA) would also be developed."

UNNExT's BPA methodology was followed to collect information on import and export processes

In keeping with the recommendation of the SASEC Trade Facilitation Strategy, baseline studies were carried out in Nepal, Bangladesh and Bhutan under the "Trade and Transport Facilitation Monitoring Mechanism (TTFMM)". The key methodology for data collection and analysis was identified to be Business Process Analysis Plus (BPA+). The BPA+ approach is built upon the BPA and supplemented by other methods such as Time Release Studies (TRS) and Time/Cost–Distance (TCD) analysis.[5] Overall, the TTFMM studies made use of the BPA+ approach comprising of BPA, TRS and TCD analysis.

BPA is recommended as the first step before undertaking trade facilitation measures related to the simplification, harmonization and automation of trade procedures and documents. Developed by UNESCAP, the TCD method assists decision makers in understanding the pattern and magnitude of time and cost of the transportation process and in identifying, isolating and addressing physical and non-physical obstacles. TCD was further refined by ADB making it evolve into the so-called Corridor Performance Measurement and Monitoring (CPMM). As CPMM has been widely used in Central Asia, it has also been adopted by the TTFMM baseline study.

The baseline studies were carried out in Nepal in 2015-16 using the BPA+ methodology along multiple corridors and involving different products. The scope of the studies (excluding TRS) was decided through a series of regional and national training workshops and consultation with a wide range of stakeholders. It was agreed that the Nepal studies would cover the following processes, products and trade routes and corridors, which were also endorsed by the Nepal Trade and Transport Facilitation Committee (NTTFC):

i) Import of wool through Kolkata-Birgunj-Kathmandu;
ii) Export of woollen carpets through Kathmandu-Birgung-Kolkata; and
iii) Import of fabrics from Bangladesh to Nepal through Dhaka-Banglabandha-Fulbari-Panitanki-Kakarbhitta-Kathmandu.

The United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific (UNNExT)'s BPA methodology was followed to collect information on import and export processes. Essentially, repeated interviews were carried out with a number of key informants, such as exporters, importers and intermediaries, including public and private sector institutional participants directly involved in the processes being analysed. Whenever required, there were also interviews and consultations with relevant government agencies. Trucks and trucking companies were surveyed along the identified corridors for the TCD analysis.

The table of summary findings shows that importing requires the completion of a total of 10 and 11 procedures for the two import products, while 14 procedures need to be completed for exports. The numbers are higher than the Asian average of eight procedures for imports and 11 for exports. It should be noted that Nepal's trade process involves transit through India, which naturally increases the number of procedures. Thus, a comparison with other countries can only be made with caveats. Nevertheless, any large numbers of trade procedures generally prolong the trade process and add to trade costs. Therefore, policy makers from both Nepal and India need to discuss ways to review the necessity of each procedure and remove the ones which does not add value to import or export.

Similarly, table shows that traders are required to submit more than 24 unique documents for import and 21 documents for export. The number of submissions of the said documents exceed 45, for both imports and exports. The findings suggest repeated submissions of the same documents across various agencies. Furthermore, in most cases, documents are submitted manually, rather than electronically, which prolongs the trade process. For instance, in the case of wool, only five out of 28 documents could be submitted electronically, while only four out of 21 documents could be submitted electronically in the case of carpets. These findings highlight the importance of introducing an electronic national single window to substantially reduce the number of submissions and to remove the need for physical verification of the documents.

Perhaps the most striking finding of the study was the overall speed at which the cargo travelled along the various corridors. The overall average speed along the corridors under study ranged from five km to 11 km per hour. Such speeds are much lower than the average speed surveyed in Central Asia, which often record speeds of over 22 km per hour, highlighting the fact that the quality of

Table
Key indicators of trade and transport facilitation performance

	Imp 1[i]		Exp 1[ii]		Imp 2[iii]
Total time (days)	31		28		22
Costs (US$)	1,540		1,320		1000
Number of procedures	10		14		11
Number of procedures (Asian average)	8		11		8
Number of actors involved	25		20		22
Number of documents	28		21		24
Number of copies submitted	56		45		47
Average speed along the corridor (km/h) (not product-specific)	Kolkata to Birgunj	Birgunj to Kathmandu	Kathmandu to Raxaul	Raxaul to Kolkata	Kakarbhitta-Banglabandha-Kakarbhitta-Kathmandu
	Via Dalkhola: 9 Via Bhagalpur: 5	8	11	Via Dalkhola: 10 Via Bhagalpur: 8	11

[i] *Import of wool through Kolkata-Birgunj-Kathmandu*
[ii] *Export of woollen carpet through Kathmandu-Birgung-Kolkata*
[iii] *Import of fabrics from Bangladesh to Nepal through Dhaka-Banglabandha-Fulbari-Panitanki-Kakarbhitta-Kathmandu*

both vehicles and transport infrastructure remains a challenge for efficiency along the corridors. Such challenges also indicate significant opportunities for improvement. The report shows that if a vehicle along the SASEC corridor can travel at 30 km/h, which is still low compared with the average speed along Central Asia Regional Economic Cooperation (CAREC) corridors, approximately two thirds of the journey time can be saved.

Follow-up

To further streamline and simplify trade procedures, here are some tentative actions. Follow-up activities and plans, in most cases, should be subject to more detailed feasibility studies and availability of resources.

- **Further development of electronic filing and exchange of documents:** The study clearly shows that although some progress is being made on the use of electronic processing, most of the documents still depend on manual processing. The practice prevails within government bodies, between government bodies, between traders and government bodies and within the business community and service providers. This calls for a systematic move towards electronic filing and exchange of documents.
- **Harmonization of data and information and standardization of documents:** In order to reduce the burden on traders while submitting documents and repeating the submission of the same information to different organizations, for processing approvals, an exercise should be undertaken to standardize and harmonize the data and information required by each organization. In this respect, Article 10 of the TFA titled "formalities connected with importation and exportation and transit" should be followed. The effective implementation of EXIM Code, developed by Department of Customs, would go a long way in this regard.
- **Further development of customs automation:** The ongoing work to develop an automated customs module should be expedited. Online and electronic submission permitted by the Automated System for Customs Data (ASYCUDA) World should be encouraged across all customs.
- **Introduction of National Single Window:** Ongoing work on the development of National Single Window (NSW) needs to be expedited. Once an NSW is put in place, all the actors could share a large number of documents submitted to the NSW, thus eliminating the requirement to submit specific documents multiple times.
- **Initiation of dialogue with India for facilitating movement of goods in transit:** The Treaty of Transit should be amended to provide for transhipment/transloading. It should allow items to be cleared at Birgunj Customs, and insured for the transit route, so that items once cleared at Kolkata Port do not have to seek clearance at the Indian customs offices at Kolkata or at Raxaul.
- **Improvement in transport infrastructure:** The construction of Mugling-Narayangarh road section should be expedited. Negotiations with India should involve providing access to better road corridors in India for transporters. ■

cdn.pixabay.com

The author is a Research Officer at South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu. This write-up is based on a report[6] prepared for UNESCAP and ADB.

Notes

1. ADB and UNESCAP. 2017. Trade and Transport Facilitation Monitoring Mechanism in Nepal: Baseline Study. Mandaluyong City, Philippines: Asian Development Bank. https://www.adb.org/sites/default/files/publication/389061/transport-trade-facilitation-nepal-study.pdf.
2. OECD. 2005. "The Costs and Benefits of Trade Facilitation". Policy Brief. Paris: Organisation for Economic Co-Operation and Development. http://www.oecd.org/trade/facilitation/35459690.pdf.
3. World Bank. 2017. Doing Business 2017: South Asia. Washington DC: The World Bank.
4. *ibid*. Note 1.
5. TRS was conducted separately by the Department of Customs, and its findings are not part of this write-up.
6. *ibid*. Note 1.

INFORMAL TRADE IN SOUTH ASIA

Nisha Taneja, Shravani Prakash and Samridhi Bimal

While formal trade in South Asia is abysmally low, informal trade has been a persistent feature and continues to thrive. Because of India's economic size—it accounts for 80 per cent of South Asia's Gross Domestic Product (GDP)—and central geographical location, the region's informal trade hovers around India. India also shares its border with almost all South Asian

Because of India's economic size—it accounts for 80 per cent of South Asia's Gross Domestic Product (GDP)—and central geographical location, the region's informal trade hovers around India

countries, while none of them share their borders with each other.

Analysts regard the growing informal trade to be one of the key reasons for low intraregional formal trade figures in South Asia. This makes the issue an important subject of study as formalization would likely result in a substantial increase in regional trade figures.

Evasion is informal

Informal trade generally refers to goods traded by firms that are unrecorded on official government records and those that fully or partly evade payment of duties and charges. They may pass through unofficial routes to avoid customs controls, or through official routes and customs offices but involve illegal practices. Such practices comprise underinvoicing (i.e. reporting a lower quantity, weight or value), misclassification (i.e. falsifying description for lower tariffs), misdeclaration of the country of origin, or bribery of customs officials.

Fake or false invoicing can only be detected by comparing the gap between reported export and import data of trading countries. In South Asia, this may not be effective since trade recording is poor. It is also a common practice to fake the invoice at both ends.[1]

Most studies on informal trade in South Asia have defined such trade as unrecorded trade that should have been included in the conventional national income statistics, but is not.[2] Such trade could pass through formal channels, or any point across the length of permeable borders, thus escaping the state machinery.

Surveys conducted between 1995 and 2016 show informal trade flows between India and its South Asian neighbours. Interestingly, those conducted between 1995 and 2005 are country-level studies estimating the volume of informal trade between a pair of South Asian countries and identifying the major informally traded commodities. These include Chaudhuri (1995)[3], Rahman and Razaqque (1998)[4], Pohit and Taneja (2000)[5] and World Bank (2006)[6] for India-Bangladesh trade; Khan et al. (2007)[7] for India-Pakistan, Pohit and Taneja (2003)[8] for India-Sri Lanka and Rao et al. (1997)[9] for India's informal trade with Bhutan and Myanmar.[10]

After 2005, the focus has been on sector- and product-specific studies—food, agriculture and related commodities—especially on Indian exports. For instance, Karmacharya (2010)[11] focuses on India's informal trade with Nepal in agricultural commodities. Bhattacharjee (2013)[12] examines the magnitude of cattle-smuggling across the Indo-Bangladesh border, Pursell (2007)[13] examines sugar smuggling into Bangladesh from India, Joshi et al. (2012)[14] study informal fertilizer exports from India to Nepal, and USAID and EAT (2014)[15] take up India's informal rice exports to Bangladesh, rice seeds imports from Bangladesh and informal exports of rice as well as rice and maize seeds to Nepal. A more recent CUTS (2015)[16] study looks into informal trade in agricultural inputs, including seeds and machinery.

During this period, there were two country-level studies on India and Pakistan (Ahmed et al., 2015[17]; Taneja and Bimal, 2016[18]). Some studies focus on subregional informal trade between Indian states and partner countries—Chaudhary and Ghosh (2014)[19] for Bihar-Nepal trade, Chanda (2013)[20] for West Bengal-Nepal trade and Nath (2010)[21] for Tripura-Bangladesh trade.

While the level of aggregation has changed, most studies have focused on quantifying informal trade and identifying the major informally traded commodities, investigating the main factors that incentivize these flows, describing the main routes and modes through which they take place and examining the institutional framework that supports them.

> Most studies have defined informal trade as unrecorded trade that should have been included in the conventional national income statistics

There are advantages of conducting studies at different levels of aggregation. While the country-level studies provide an overall country perspective, the sector- and product-specific studies, though limited in coverage, enable an in-depth analysis. Such analysis can highlight the problems, identify the drivers facilitating informality, link them to government policies, and provide focussed suggestions.

Sub-regional analysis is not very useful, especially for a region as heterogeneous as South Asia, but it can serve as a valuable addition to the country and sector/product-level study. The pre-2005 studies focussed on country-level analysis and did not go in-depth. The post-2005 studies did in fact provide in-depth focus for particular sectors/products without placing them in an overall country or subregional perspective. These three levels of aggregation need to be complementary in nature and a study looking at all levels of aggregation is what is needed today.

Estimation problems

The partner country data comparison method, wherein the gap between exports and imports data indicates false invoicing and, thus, informal trade, has been used in the context of Central Asia. However, owing to inadequate and non-uniform reporting practices, the method is inappropriate for South Asia.

Most studies for South Asia have, therefore, relied on primary data for informal trade estimates. Even here, some studies have used a single round of perception surveys (World Bank, 2006[22]; Sarvananthan, 1994[23]; Government of Pakistan, 1996[24]; Nabi and Naseem, 2001[25]; Khan et al., 2005[26]; Rao et al., 1997[27]; Karmacharya, 2010[28]; Ahmed et al., 2015[29]). Others have processed multiple rounds of surveys using the Delphi technique (Chaudhuri, 1995[30]; Rahman and Razaqque, 1998[31] and Taneja et al., 2004[32]). Such estimates are based on the perception of respondents, not actual estimation.

The country-level estimates prepared between 1995 and 2005 were all point estimates referring to different time-periods. For India-Bangladesh, estimates prepared over the 1992-93 to 2002-03 decade range between US$215.3 million and US$500 million (Chaudhuri, 1995[33]; Rahman and Razzaque, 1998[34]; World Bank, 2006[35]). For India-Pakistan, the estimates prepared between 1996 and 2005 range between US$100 million to US$2 billion (Khan et al., 2005[36]; Government of Pakistan, 1996[37]). India's Sri Lanka and Nepal estimates for 2000-01 were US$208 million and US$408 million respectively.[38] India-Bhutan 1993-94 estimate was US$32.5 million.[39] A key finding was that India had an informal trade surplus with Bangladesh, Pakistan, Sri Lanka and Bhutan, while with Nepal it had almost a balanced trade.

Estimates from recent post-2005 studies are summarized in Table 1.

Twisted comparison ground

One of the biggest shortcomings of the available evidence on informal trade is that all the existing studies have been conducted at different points in time, ranging from 1995 to 2016. Except for a couple of studies on total informal trade between 1995 and 2005, not much has been done on this in the last ten years. So, a comprehensive study assessing India's informal trade with different partners, at the same point in time, is needed.

> Agriculture items, especially rice, wheat, pulses and sugar, are the major commodities exported informally by India to its South Asian neighbours

Different commodities that are informally traded, as identified in recent literature, have been summarized in Table 2. Agriculture items, especially rice, wheat, pulses and sugar, are the major commodities exported informally by India to its South Asian neighbours.

Although recent studies show significant informal trade in agricultural commodities, only one study, by Karmacharya (2010)[40] focuses on estimating it. Since the population of informal traders is unknown, most of these studies are based on primary surveys using a purposive sample. Preparing a sample based on knowledge of the agriculture sector could yield more focused results, even though they may be biased. There is scope for further work focusing exclusively on agriculture.

Regarding the factors driving informal trade, most studies have relied on the analysis framework developed by Pohit and Taneja (2000).[41] They argue, as per New Institutional Economics (NIE), that the thriving informal trade in South Asia suggests an institutional mechanism supporting it. They stress the role of institutions in reducing transactions costs, providing a predictable framework for exchange and overcoming imperfect information.[42] They also focus on the role of ethnic trading networks as an institution that helps economize transaction costs.

Most studies show that transaction costs in the formal channel are higher than in the informal variety. The inefficiencies of the formal channel relate to transportation, customs infrastructure, procedural delays, complexities of obtaining licenses, customs clearances, paperwork, various refunds, banking and bribes. The second most important reason the studies give is high tariffs in im-

Table 1
India's informal trade with South Asian partners (US$ million)

Country pair	Study	Year	Informal exports	Informal imports	Total informal trade
Country-level					
India-Pakistan	Ahmed et al. (2015)[44]	2013	1,789	-	-
	Taneja and Bimal (2016)[45]	2013-14	3,992	721	4,713
Sub-regional level					
India-Bangladesh	Nath (2010)[46] (Tripura only)	2011-12	360	140	500
Sector-level (Agriculture)					
India- Nepal	Karmacharya (2010)[47]	2010	651		
Product-level					
India-Bangladesh	Pursell (2007)[48] (sugar)	2003-04	70-100		
	Bhattacharjee (2013)[49] (cattle)	2012-13	500		

Source: Authors' compilation

Table 2
Summary of informally traded items

Country pair	Study	Year	Identified informal exports	Identified informal imports
India-Bangladesh	Nath (2010)[50]	2011-12	Cows and buffaloes, fertilizers, jackfruit, ginger, fish (Andhra Pradesh), tea, sugar, bamboo, Banana, potato, tobacco, *biri* (country cigarette), dry fish, cumin seeds, pineapple	Fish, Garlic, Eggs, Palm & Refined Oils, Goat, Rubber (Malaysia), Peas, Betel nut, Vegetables, Cinnamon, Dry grapes, Onion, Domestic Birds, Flowers, Food for Poultry Farms, Chicken
India-Pakistan	Ahmed et al. (2015)[51]	2013	Fruits and vegetables, spices and herbs, tobacco products, Textiles, jewellery, tyres, cosmetics	-
	Taneja and Bimal (2016)[52]	2013-14	Real jewellery, textiles, machinery and machine parts, electronic appliances, scraps, paper, chemicals, tobacco products, small amounts of packaged food, spices and pulses	Textiles, fry fruits, spices, cement, carpets, fruits and vegetables
India-Nepal	Karmacharya (2010)[53]	2010	Paddy, rice, sugar and edible oils, Musoro, fish, poultry, powder milk and oilseeds, maize, chick pea, pigeon pea, banana, chili, onion, cumin, buffalo, goat, potato and tea	Betel nuts, hides and skins/leather, apple and garlic and ginger. Other smaller imports include oranges, large cardamom, onions, turmeric, pig, poultry, and powder milk and jute/jute products

Source: Authors' compilation

porting countries.[43] The conventional argument is that illegal trade takes place when formal tariffs are high. For instance, high duties imposed by Bangladesh on a wide range of locally produced consumer goods (including para-tariffs) are a major incentive for Indians to informally export or smuggle goods into Bangladesh. At the customs, they underinvoice, misclassify or use other practices.[54] Tariff differentials between countries also are an incentive for a country to import from a third country to re-export to the high-tariff country informally. Nepalese traders are reported to be doing so as these goods fail to meet the rules of origin norms.[55]

Other than transaction cost and tariff evasion incentives, the role of other policy-related barriers has been ignored. Studies need to look at a comprehensive list of factors that incentivize informal trade.

Some possible factors that future studies should look into are:

- **Compliance of standards**
  Lack of checks for health and safety standards of informally traded food and herbs poses various risks to human health.[56] The quality of agricultural goods traded informally from India is likely to be inferior.[57]
- **Commodity restrictions**
  One of the most important examples of this is the existence of a restrictive trade policy between India and Pakistan. Pakistan does not provide Most Favoured Nation (MFN) treatment to India, allowing only a limited number of items to be imported. The 'positive list' was more restrictive for road-based trade, with only 13 items. Since March 2012, Pakistan maintains a small 'negative list' of 1,209 Indian items which are not permitted. However, the road-based trade is allowed for only 137 items.[58]
- **Domestic policy distortions**
  For food security and addressing poverty, India provides food grains (wheat and rice), sugar and other necessary items such as kerosene oil and edible oil to the poor through a network of roughly 500,000 fair-price ration shops, distributing roughly 50-55 MMT of grains annually.[59] Indian states bordering Nepal and Bangladesh get excess supplies, which are then reportedly exported informally to those countries.

Changed environment

Available estimates of South Asian informal trade were done from 1995 to 2005, when these economies had just initiated the SAARC Preferential Trading Arrangement (SAPTA) with limited tariff concessions. The South Asian Free Trade Area (SAFTA) came in 2006. Since then, India has taken unilateral tariff reduction measures. Quantitative restrictions are far less prevalent today, replaced by more rigorous product standards, which may be trade-restrictive. The recently signed Trade Facilitation Agreement under the World Trade Organisation can reduce informal trade flows. Such changes call for a holistic framework for analysing informal trade for deeper insights. ■

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South Asian Ambiguities in informal trade

Clarity is needed to divulge what we are talking about when we talk about informal trade.

Kshitiz Dahal

Many initiatives, including free trade agreements, at the regional, subregional and bilateral levels have been launched to boost intra-regional trade in South Asia, but so far this quest has proven elusive. The cliché that South Asia is the least integrated region in the world with intraregional trade hovering around five per cent still rings true after many years of commitments to transform the region into an economic union. Among many reasons for a low level of official intra-regional trade, the deeply entrenched and significantly large "informal cross-border trade" is considered to be a significant contributor.

It's big

Getting a precise estimate of the extent of informal trade is a difficult endeavor.[1] This is reflected in the fact that estimates of informal trade in South Asia remain few, covering only a limited number of countries and limited timeframes. However, judging from these estimates, and from several other studies that hypothesize the nature of South Asian informal trade, informal trade in South Asia is of a prodigious magnitude. The contiguous land borders in the region—Afghanistan-Pakistan, India-Pakistan, India-Nepal, India-Bangladesh and India-Bhutan—are all conduits for informal trade. Seaborne and airborne informal trade also occurs, most notably between India-Sri Lanka and India-Pakistan.

Studies centered on South Asian informal trade have mainly focused, and rightly so, on the magnitude of informal trade, its modus operandi, the determinants and the most common commodities involved. These studies have yielded valuable insights in terms of why informal trade thrives in South Asia, how the traders are able to solve the problems of contract enforcement and what are the major reasons for the persistence, and in some cases necessity, of informal trade.

The way informal trade is defined in much of the South Asian informal trade literature, and elsewhere, it would include a variety of trade activities. Still, not all informal trade flows are the same.

When are cross-border trade activities informal?

A quick perusal of literature on cross-border informal trade shows that various differing definitions of informal trade have been used. A broad definition found in much of the existing literature covers "any cross-border trade activities that are unrecorded in the national accounts." Here, one can identify different types of trade falling under the purview of informal trade[2]:

1. Trade of illicit goods (for example: narcotics)
2. Trade of goods that are legal but are traded in a way that fully or partially evades the rules of customs
   i. Goods change territories in small amounts through small-scale/informal traders
   ii. Goods are traded through formal channels but evade certain customs rules (misinvoicing, misclassification)
   iii. Goods enter a country's territory through locations other than official customs check points
   iv. Goods do not directly enter a destination country, but rather through a third country to evade certain inadequacies, inefficiencies, prohibitions or high charges

Different actors, different motives, and different modus operandi

The above framework brings together a variety of trade activities that have different actors, different motivations and divergent modus operandi. The first type of trade activities that fall under this broad definition of informal trade is the cross-border trafficking of illicit goods. The most commonly traded prohibited goods are illicit drugs, arms and ammunitions and animals and animal parts. This is mostly the work of organized crime networks using various methods to traffic goods across borders undetected. In terms of criminality, among all the different types of informal trade, this is the most severe. Mitigation of such illicit trade requires measures like strengthening border security and increasing the capacity of customs officers to efficiently inspect and separate the flows of illicit goods which often come intermingled with legal goods.

It's unrecorded

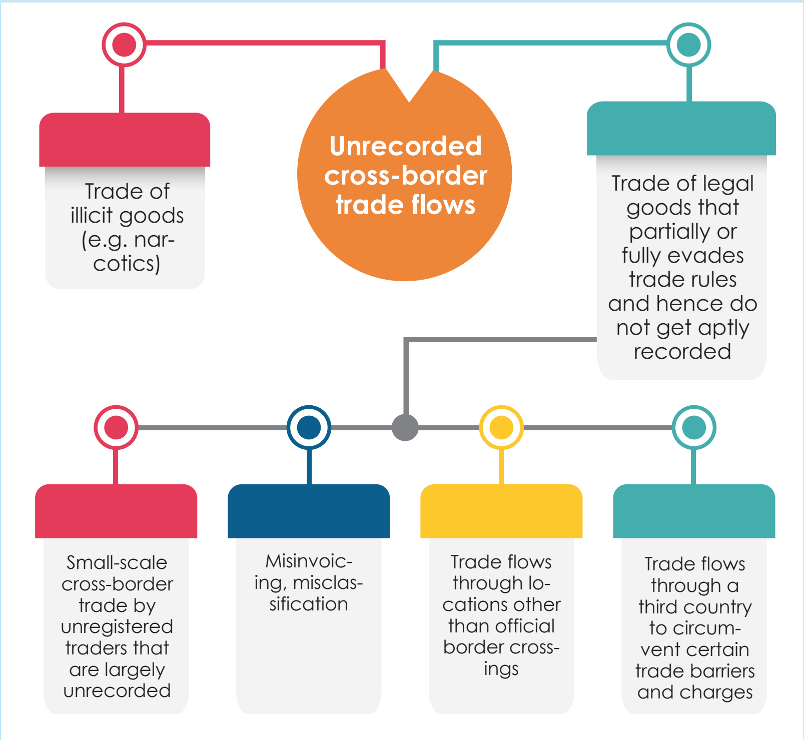
Many studies interested in analyzing and estimating informal trade exempt the trade of illicit goods from their consideration and focus on goods that are legal in nature, but do not get fully, or even partially, or correctly recorded. A closer look into legal goods that are traded informally divulges four distinct types of trade activities. Under the first category of informal trade, informal/unregistered traders cross the border on foot, bicycles or other available modes of transportation, procure the goods and bring the goods back into their territory. These trade flows are not reported to the customs as they avoid detection owing to small amounts. Small informal payments could also be a means to conduct such small-scale informal trade. Similarly, transportation for cross-border movement of people is also used to traffic the goods.

The second type of informality in trade of legal goods includes partial evasion of customs rules and tariff. The most common method of evading customs rules and, consequently, the lawful tariff is through underinvoicing and misclassification. The practice of underinvoicing dodges full duties and charges by underreporting the quantity, weight or value of the goods being traded. Similarly, misclassification involves changing the description of the commodity in question to a product type that qualifies for lower or zero tariff. Unlike the first kind of informal trade, this type is usually carried out by formal traders. Poor capacity and skills of customs officers or informal payment (bribes) to customs officers are how such evasion takes place. Thus, mitigation of these types of unethical trade practices requires, inter alia, training of customs officers, adopting proper valuation techniques, addressing the pay issues of customs officers and the use of information and communications technology.

The third type of informal trade in legal goods includes trade activities that are conducted through locations other than the official trade channels (customs offices). This type of informal trade could involve both the unregistered/informal traders and the formal/registered traders. The combination of porous borders and inefficient and inadequate official border crossing points are the primary reasons for traders resorting to unofficial channels. This mode of informal trade could be brought under formal channels by implementing trade facilitation measures like enhancing transport and transit systems, improving connectivity, reducing paper work, adopting scientific methods of risk assessment to mitigate bottlenecks, etc.

The fourth type of trading activity, where trade flows through a third country to overcome strained relations between two countries, has been observed in the case of India and Pakistan. The result of a historically tumultuous relationship between the two countries is also reflected in their trading relationship, as a huge number

Figure
South Asian informal trade



of products fall in each other's negative lists and hence are not allowed to be traded. But, as Taneja and Bimal (2016)[3] point out, this restriction is overcome by first shipping the good to a third country, mostly United Arad Emirates (UAE) port in Dubai[4], where goods are stamped with a country of origin other than India. In some cases, trade is also conducted through a "switch bill of lading" modality where ships travel directly from an Indian port to Karachi, without the ship ever making it to Dubai, even though the origin is documented as Dubai.[5] These trade flows are not correctly recorded as Indian exports to Pakistan but rather as UAE's export to Pakistan and India's export to UAE. The impossibility of trading through the formal channel, or highly restrictive tariffs, is the reason for this sort of trade flows. Normalizing trade relations, reducing the scope of negative lists/sensitive lists and reducing tariffs can eliminate these illicit flows.

Not all informal trade is the same

Different types of unrecorded or incorrectly recorded trade flows have, thus, vastly different characteristics. Hence, even a broad definition of informal trade, although factually correct, fails to give a clear picture of what informal trade exactly entails. This definition is inadequate also in the sense that it fails to distinguish between trade of illicit goods and trade of goods that are allowed to be traded. Furthermore, it does not help one distinguish informal cross-border trade from smuggling. The small-scale trafficking of goods by unregistered traders is, perhaps, what most studies refer to as cross-border informal trade. The other categories of informal trade fit the description of smuggling, as goods are trafficked stealthily or through partially or fully evading customs rules and charges.

Different types of informal trade differ in their legality as well as legitimacy. While cross-border trade of illicit drugs is extremely criminal in nature and, thus, highly illegitimate, small-scale cross-border informal trade by unregistered traders, although illegal, could have a degree of legitimacy, as they are mostly innocuous and are motivated by a simple aim to sustain their livelihood.[6]

> Even a factually correct broad definition of informal trade fails to give a clear picture of what informal trade exactly entails

Lastly, various categories of informal trade, by virtue of having vastly different characteristics, necessitate divergent policy responses. Enhancing transport and transit systems, increasing skills and capacity of customs authorities, implementing trade facilitation measures, improving customs security, reforming the tariff structure and adopting proper valuation systems are certainly proper policy responses to bring informal trade flows like misclassification and underinvoicing into the formal milieu. However, strictly outlawing and persecuting unregistered small-scale traders could jeopardize the livelihoods of many impoverished citizens, especially in South Asia, where quality employment is still scarce. Indeed, resort to informal trade may be a way for the border settlements to overcome the inadequacies of the government's own formal supply system.

It's unclear

The different categories of informal trade thus vastly differ in regard to the characteristics of traders, the nature of interaction with customs officers and the purpose of circumventing customs rules. To avoid this confusion, some of the literature, especially the ones focusing on African informal trade, makes some qualifications in the definition to impart clarity. In Africa, informal cross-border trade is generally defined as "a form of trade that is usually carried out by small businesses and unrecorded in official statistics; trade in legitimately produced goods and services, which escape the regulatory framework set by the government, and as such avoiding certain tax and regulatory burdens" (Njiwa 2013; Afrika and Ajumbo 2012 in Ama et al. 2014).[7] Defining informal trade in a precise manner like this, which seems to be lacking in much of the literature, seems necessary to remove ambiguities surrounding informal trade.

Thus, in light of all that we have discussed, when informal trade is as big as it is in South Asia, clarity is needed to divulge what we are talking about when we talk about informal trade. ■

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Notes

1. The commonly used methods to estimate the size of informal trade are discrepancies in mirror trade data, survey methods, and border monitoring. Mirror data method, although easiest to implement, is highly unreliable given the limitations like poor data recording at custom points, entry errors, trade reported in different years, misreporting at both the custom points, etc. Most of the estimates of South Asian informal trade have been made using the Delphi method, which uses structured questionnaires to survey a panel of experts in multiple rounds until a convergence is achieved in their estimates.
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PAKISTAN'S BATTLE against informal trade

Lower transaction costs, less burden of documentation, an incentive of not having to deal with customs, and quick receipt of payments encourage informal trade in Pakistan.

Syed Shujaat Ahmed and Vaqar Ahmed

Estimating informal economy is a daunting task. Various approaches have been adopted across countries and regions to measure the degree of informality prevailing in their economies. Although different results and magnitude were obtained with such approaches in Pakistan, that the size of its informal economy is increasing has not been left in any doubt. In this regard, the work of Kemal and Qasim (2012)[1] and Arby et al. (2010)[2] stands in prominence. Other research works highlight the factors responsible for informal trade. Examples are Ahmed et al. (2015)[3], Gulzar et al. (2010)[4], Madha and Sobhani (2014)[5] and Schneider (2002)[6].

Size and measures

Following the discrepancy approach on 2007-08 household-level data, Kemal and Qasim (2012)[7] calculated the total private consumption and adjusted it for trade misinvoicing. Then, they calculated the true estimate of the GDP followed by a comparison with the estimates reported in the national accounts. They found that the difference between the two—the size of the informal economy—was equivalent to 91 per cent of the formal economy in Pakistan in 2007-08.

Arby et al. (2010)[8], using a different approach, found the size to be equal to about 30 per cent of the total economy. They used the electricity consumption approach to show that the informal economy increased from about five per cent of the total size of the economy in 1970s to 29 per cent in 1990s, which then declined to an average of 27 per cent in 2000s.

Ahmed et al. (2013)[9], using a survey based approach, estimated that the inflow of goods from India to Pakistan was US$1.79 billion in 2012-13—almost the same size as the formal trade between the two countries in the same year. The study also pointed out that such trade could result in revenue losses to governments in both India and Pakistan. Rising informal exports and imports of goods fuel the overall local informal business activity.

In particular sectors like auto parts, informal trade can cripple the local industry and lower capacity utilization of (local) manufacturers. For 2012-13, Ahmed et al. (2013)[10] showed that auto parts and tyres constituted 9.8 per cent of the overall informal inflow of goods from India. The informal trade in this sector is mostly explained by high customs duties.

The complete set of items that cross border, even if their quantum is low, is worth mentioning here. These include fruit and vegetables, textile (including saris, apparels and bridal wear), medicines, spices (including cardamom, nutmeg, and mace), herbs, tea, tobacco items (including *gutka* and betel leaves), automobiles tyres and spares, cosmetics (including soaps, creams, shampoos, and hair oil), jewellery items (including bridal sets, bangles and lockets), artificial jewellery, herbal products (including black asphaltum, isaphgol, chyavanprash, beauty creams, and soaps), paper and paper products, and crockery.

Factors responsible

The factors responsible for the informal economy's existence in Pakistan originate from social, cultural and regulatory settings. They can be broadly divided into four different factors as: lower transaction costs, less burden of documentation, an incentive of not having to deal with customs, and quick receipt of payments.

Labour market laws, policies and institutions have also been found to be responsible for the rising informality in business practices. For example, Tahir and Tahir (2012)[11] explain that the lack of documented work contracts, and at times absence of such contracts, leads to the informal nature of wage setting in the labour market. Job creation in the informal economy is not optimal and rights and entitlements of the working class are not protected by law.

Lack of trust in the taxation system attributes to its rent-seeking and regressivity which greatly encourages informal transactions. Weak perceived benefits to taxpayers from taxation fuels the undocumented or cash-based economy. It is in this context that Shehryar (2014)[12] recommended that the conventional fiscal policy incentives alone cannot motivate workers and enterprises to formalize their economic activities.

In developing countries with large informal sectors, including Pakistan, low income individuals and often many middle-income professionals operating in the private services sector—such as medical doctors, attorneys, accountants, parlour owners etc.—have a much greater scope for escaping the tax net as compared to their counterparts in manufacturing industries. This is because the government revenue authorities have a better record of supply chains and transactions in the various large and small scale manufacturing sub-sectors. Such a skewed sectoral tax collection has implications. But the effect of tax evasion on the vertical equity in developing countries may not be as clear as in the case of developed countries, where extensive systems of third-party reporting exist.[13]

In case of Pakistan-India trade, apart from avoiding the costs associated with tariff and non-tariff barriers, the availability of better quality products is also a motivating factor. The desired quality may not be there in formal channel goods, especially if they are in the negative list. The key reason for informal exchange of most of these items are the complicated customs processing and related costs. This was particularly the case for spices and jewellery. To transport the products, traders also carry these items as personal baggage using the 'Green Channel' facilities at international airports or railway stations.

A migrant sending country, the informal money transfer system such as hawala and hundi also operates in Pakistan as much as it operates in the South Asia region. The international connections of these traders are said to be primarily in Afghanistan, United Arab Emirates, Europe and China. Due to the perceived monetary benefits of avoiding regulations, fees and taxes, informal money transfers become attractive.[14] The hawala and hundi systems are said to be highly responsive to the needs of retailers and consumers. Most of this financial business takes place on the basis of personal trust and social connections where legal and compliance conditions of trade are not considered. Generally, details of informal transactions are less accessible to authorities.

Regulatory responses

The monetary value of Pakistan's underground economy was estimated to be as high as US$15 billion, annually.[15] The forgone economic growth opportunity by the formal agriculture and industrial sectors, due to lost competitiveness and braindrain, may be a far more important implication. Also, when corruption is taken into consideration, as it distorts production and consumption decisions, all ultimately lead to a misallocation of resources in the economy-wide setting. As for the private sector, the growth of the undocumented sector ultimately acts as a disincentive to future savings and investment.

The growth of informal trading channels helps strengthen organized criminal networks, like smugglers and human traffickers. Pakistan's past evidence indicates that those operating outside the formal radar were benefiting from the weak control over Afghan Transit Trade and insufficiently regulated Federally Administered Tribal Areas and B-areas of Balochistan.[16] This leaves the space for many groups to leverage off the increased trade activities even while supplying goods in demand within the country.

> Most financial business takes place on the basis of personal trust and social connections where legal and compliance conditions of trade are not considered

The real estate market in Pakistan plays a pivotal role as a key destination for funds generated in the illegal economy. Some money laundering channels allow black money to move out of Pakistan and then re-enter as investment in real estate from abroad. Limited financial access in rural areas allow several real estate agents to even manoeuvre law in their favour. This avoidance of the formal banking system creates a bubble effect, where market prices are found to be inflated. Such artificial prices act as a barrier for the entry of genuine business actors or first-time buyers.

Informal trade and smuggling are closely linked. At one point, Pakistan's business community used to claim that several Indian goods destined for Afghanistan through Pakistan were found smuggled into Pakistan for sale in cities like Lahore, Karachi, Rawalpindi, Peshawar and Quetta. These smuggled goods end up competing with the locally produced goods, which have been subjected to taxes by law. The impact of such trade on (lost) revenue to the government and the local private sector had amounted to approximately five billion dollars in 2010.[17]

Local small-scale manufacturing and sub-sectors have suffered the most due to informal trade. Locally made products cannot compete in Pakistan with smuggled goods, with the latter having less landing and distribution costs. Informal markets prosper as (informal) wholesalers benefit from non-duty paid products—the customs duty, general sales tax at import stage, federal excise duty (if any) and regulatory duties. The actual loss from smuggled inflows to the overall economy also depends on multiplier effects, which are harder to account given the difficulty of estimation.

While governance, distortive incentives and arbitrarily high trade taxes encourage the informal economy, ultimately, regulating such activities means increasing the state expenditure on law enforcement, criminal justice systems and security. More enhanced border control and customs procedures may be required, at least in the short to medium term. Specifically, the land trading routes at Chaman, Wagha and Torkhum will also require an improved Integrated Transit Trade Management System.

The government of Pakistan has taken steps to curtail informal flows of merchandise. Such measures also include more controls over transfer of funds. For example, the State Bank of Pakistan has introduced the "Anti-Money Laundering and Combating the Financing of Terrorism Regulations for Banks & DFIs". Their key objective is to ensure that bank products and services are not used to encourage informal and illegal means of business and transactions. The regulations take care of customer due diligence, maintaining of records of correspondent bank services and keeping a detailed information on wire and fund transfers (and their reporting to central bank beyond a certain limit).

Second, the government also strengthened the Anti-Money Laundering Act, 2010 through appropriate amendments in 2015. The act focuses on prevention of money laundering, financing of terrorism or any other activity termed illegal under the law.

Third, the Benami Transaction Prohibition Act, 2016 has also been implemented. It deals with tax evasion and black money problems, especially in the real estate sector and any transaction that is carried out in other people's names to avoid one's own liability. This legislation empowers the government to recover any such property or asset acquired through laundered money or other illegal channels.

Ways to plug the leak

Pakistan's private sector will need to become a partner in helping the government identify the informal economy sources and plug them with appropriate policy measures. The private sector has played such a role in the past.[18] Similarly, measures to formalize this trade can be discussed at the Track-I and Track-II levels of dialogues among South Asian countries.[19] Strengthening of value chains across South Asia through intraregional trade and investment could also lower the incentives for informal trade.[20]

South Asia needs to explore the role of improved automation and technologies that help prevent informal flows of merchandise and capital

The public sector authorities across South Asia need to explore the role of improved automation and technologies that help prevent informal flows of merchandise and capital. Here, enhanced forensic audit capacities of revenue and customs authorities will certainly help. ■

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Informal trade in agri-inputs

in Eastern South Asia

The occupation of a large portion of the population living along the borders is reflected in the informal trade in agricultural products among Bangladesh, India and Nepal.

Suvayan Neogi

Economic and trade relations among Bangladesh, India and Nepal are shaped by geographical contiguity, social, cultural and ethnic linkages, and a shared value system. These factors not only act as a strong facilitator of both cross-border formal and informal trade in Eastern South Asia, but also occupy an immense importance in the socio-economic transformation of the people living in the border areas. Informal trade here is concentrated in agricultural products, reflecting the occupation of a large portion of the population living along the borders.

Agricultural products are also the mainstay of trade among these countries. Agricultural produce or food products constitute a major proportion of India's trade with Bangladesh and Nepal. Formal bilateral trade flows between India and Nepal and India and Bangladesh were US$876.92 million and US$419.22 million, respectively in 2016.[1] India-Bangladesh and India-Nepal informal trade is substantial, yet too difficult to measure because of its stealthy nature.

Illegal, para-legal

The term informal is used to denote illegal economic activities or parallel markets unregulated by the government and it may also refer to extra-legal activities. If we consider trafficking in drugs, narcotics or arms as informal trade, then that is the illegal component. It may take an illegal form also if pure smuggling of goods across borders to circumvent tariff and non-tariff barriers is considered. In this regard, to understand the drivers influencing informal trade in agricultural inputs across the India-Nepal and India-Bangladesh borders, Jaipur-based Consumer Unity and Trust Society (CUTS) International undertook a primary survey along the shared borders of the three countries titled "Linkages and Impact on Cross-border Informal Trade in Agricultural Inputs in the Eastern South Asian Region" in 2016–2017.

In the case of Nepal and India, an open border between the two countries and relatively free cross-border movement of people aid informal exchanges of goods. Even though tariff barriers are almost non-existent, informal trade is prevalent to circumvent non-tariff barriers. Similarly, domestic policy distortions and resultant differences in the prices of the commodities also manifest prominently among the reasons for informal trade between the two countries.

The almost 4,096 km long boundary between India and Bangladesh is unlike any other. Despite the presence of security forces, the borders between India and Bangladesh are remarkably porous. This is the reason for a flourishing informal trade between the two countries—estimated to be as large as the formal bilateral trade. In 2009, Bangladesh's high commissioner to India estimated that informal exports from India stood at US$4 billion[2], or as large as the formal trade between the two. Estimates based on a survey in Bangladesh, undertaken in 2002–2003, put the figure at a whopping US$500 million. This is about 42 per cent of Bangladesh's recorded imports from India and 30 per cent of total (recorded plus informal) imports during the same year.[3]

Factors fuelling informality

Non-tariff measures

The trade policy regime in Eastern South Asia is restrictive and uses varying degrees of controls on export and import of agricultural inputs. Many agricultural inputs are either restricted or prohibited for trade. These restrictions compel traders and local people to seek cross-border informal trading. Literature shows that high tariff barriers act as a major factor behind the thriving cross-border informal trade in this region. This has always been a profitable venture for traders, farmers and end consumers.

India-Nepal and India-Bangladesh trade agreements are either a free trade agreement (FTA) or a preferential trade agreement (PTA) requiring a Rules of Origin certificate for exports. The complexity of acquiring the certificate of origin provides excuses to block official trade and this leads to high transaction costs in the official channel, a persuasive incentive for informal trade. Similarly, the profit generated from circumventing official trade channels also encourages traders to evade them. In other words, traders evade duties and taxes to sell products through informal channels, thus generating higher economic gains for themselves. Secondly, consumers are able to purchase informally traded products at relatively cheaper prices. The vested interest of both parties motivates them to engage in such practices. Tariffs are noted as one of the major factors behind the persistent rise of cross-border informal trade in Eastern South Asia.

Rapid growth of cross-border informal trade is also caused by the prevalence of a large number of non-tariff measures (NTMs). Formal trade is subject to a range of NTMs, primarily in the form of sanitary and phytosanitary (SPS), technical barriers to trade (TBT) and other specific restrictions. For instance, Bangladesh, India and Nepal have their own specific food safety and SPS-related regulations that largely aim to check the quality of imported agricultural products. The problem is that there are many occasions when SPS and TBT-related regulations have been used in a disguised manner to prevent imports.

Countries in Eastern South Asia have the perception that India imposes certain NTMs to restrict access to its market. Both Bangladesh and Nepal cite cases like the Indian customs' refusal to accept quality test certifications issued by Nepal or Bangladesh; or Bangladesh products not given 'national treatment' in India as warranted by Agreements. Sub-optimal trade infrastructure, lack of testing agencies at land ports, cumbersome trade procedures and inefficient customs clearances are some other barriers leading to high informal trade. The cumulative effect of these NTMs amplifies the cost of cross-border formal trade, thus acting as its deterrent. As a result, many traders prefer to indulge in informal trade. This helps them save trade costs significantly.

Domestic policy distortions

Policy induced distortions act as major drivers of cross-border informal trade. This is particularly the case with social- and welfare-oriented schemes like the Public Distribution System (PDS). The system requires governments to intervene in markets and sell many essential products at a lower price than the market price. People living in border areas can thus "siphon off subsidized items" through informal channels in neighbouring countries and generate huge profits. This trend is widely observed in the case of agriculture inputs in Eastern South Asia. The Economic Survey of India, 2016 stated that three eastern states—West Bengal, Assam and Tripura—which border Bangladesh, are facing a severe shortage of fertilizers due to informal trading. A majority of the farmers in Border States of India have to buy Urea and Diammonium Phosphate

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(DAP) from the black market, as subsidized urea is easily smuggled to neighbouring countries.

Thus the price difference between Nepal and India, India and Bangladesh, due to subsidized or administrated price mechanisms, is playing a vital role here. This could be considered an important factor influencing the rise of cross-border informal trade in agriculture inputs.

Meanwhile, formal trading procedures are extremely complex in these countries, where poorly designed formal arrangements do not provide traders with a predictable framework and the necessary business information. Cumbersome procedures, along with bribes at different stages of the formal trading regime, increase transaction costs of formal trade.


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Non-policy factors

Non-policy related factors, such as cultural and social linkages, non-availability, and higher productivity of select agricultural inputs, also result in cross-border informal trade in Eastern South Asia. People living in border areas have a deep bondage and a sense of belongingness but are divided by political boundaries. This bonding allows them to take advantage of distorted markets. People living in border areas reportedly find it hard to understand or are unaware of the basics of cross-border formal trade, mainly because of lack of education and awareness. This results in rampant cross-border informal trade. Perceptions of high productivity of informally procured products also result in informal trade. Unavailability of agricultural resources in border areas pushes people to procure them easily from the markets of the neighbouring country, informally.

From informal to formal

According to New Institutional Economics, due to burdensome rules and regulations and inefficient government machinery, poorly designed formal institutions increase the transaction cost, lower traders' incentives to comply and hinder political and economic participation. A rational behaviour always implies that a more efficient institution, in terms of lower cost, should be preferred over a less efficient one.[4] It is also evident that informal trade in Eastern South Asia is reasonably large, which cannot be addressed by any policy dialogue. Hence, there is a need for institutional reforms to lower the transaction cost. This should have a larger impact in the form of expansion of formal trade in this region.

For illiterate informal traders and farmers, the prevalent information gap is also an important aspect of informal trading. Such gaps should be filled by suitable dissemination of information and creation of awareness among the rural people living in border areas.

Addressing or eliminating informal trade in this region is a challenge. There are socio-ethnic linkages between neighbouring countries and people are largely dependent on illicit trade for their livelihood. Trade arising from such linkages cannot end easily. There can be ways to minimize the risks involved in informal trading through mutual agreements, such as a Mutual Recognition Agreement (MRA) on harmonization of trade and technical and regulatory standards among the neighbouring countries. It would be good if these countries streamlined their policies for those products that are mostly traded informally. Without improvements in the transacting environment of formal trade in these countries, informal trade will coexist with its formal counterpart, even if free trade is established between Nepal and India and India and Bangladesh.[5] ■

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Sri Lanka's quest to link its informal economy with global market

Connecting the informal sector to the global market, through international trade, can bring in multiple advantages to Sri Lanka.

Asanka Wijesinghe

Available labour statistics show several salient features of the informal economy of Sri Lanka. Agriculture is dominated by informal employment. The main activities of such employment consist of rice and other crop cultivation, fishing, livestock farming, cottage industries and non-traditional activities such as bakeries and small groceries.

Informal sector employment is a precarious proposition because of seasonal fluctuations in income, longer working hours and gender discrimination. Formalizing such employment is an ambitious task that policy makers must take up to connect the informal sector to global markets.

Parameters of informality

The national data on the informal sector are compiled and disseminated by the Department of Census and Statistics of Sri Lanka (DCSSL) through the Annual Labour Force Survey (ALFS) after 2006.[1] DCSSL uses three key characteristics to identify informal economic activities of any business firm—non-registration either at Employees' Provident Fund or Department of Inland Revenue, lack of formal book keeping and less than ten regular employees working for the firm.

These stringent parameters characterize a vast majority of occupations, such as farmers, handicraft makers, independent construction workers, small vendors and fishermen among many others, in the informal sector. ALFS 2015 reported that the contribution of the informal sector employment to the total employment was about 59.8 per cent. At the sectoral level, 86.3 per cent of agricultural employment took place in the informal sector the same year.

In non-agricultural sectors, the share of formal employment was slightly higher (50.8 per cent) than the informal sector (49.2 per cent). The ALFS 2015 statistics show that the informal sector dominates in occupations like hospitality, shop and related services management (70.2 per cent) services and sales (52.4 per cent), skilled agricultural forestry and fishery (97 per cent), craft and related trades (72.8 per cent), plant and machine operation and assembly (59.1 per cent) and elementary occupations (62.4 per cent). Genderwise, male employees comprised 68.7 per cent of informal sector employment with females making up the rest.

Rural employment is dominated by the informal sector as the rural population is dependent on agriculture, with 86.3 per cent of its informal employment. Given the seasonal nature of the agricultural activities, there are fluctuations in working hours, income and the availability of vacancies. The formal sector employment in agriculture is mainly in the plantation sector. After the land reforms of 1972 and 1975, most of the employment was formalized by bringing land under state ownership.

Education level of the workforce and state agriculture and land policy are the major reasons for the dominance of the informal sector. More than 80 per cent of the informal labour force has less than six years of schooling. Statistics show formal sector absorbing the more educated. Around 50 per cent of the formal work force has 11 years of schooling.

Motivated by welfare intentions of the state, Sri Lankan land policy does not allow land consolidation by depriving farmers of individual land ownership. Government agencies are not in favour of a complete removal of the protective tenurial conditions.[2] Although there is no clear consensus on the need for individual legal title to enhance productivity, there is evidence to show that informal arrangements have led to the creation of larger operational holdings to cater for higher investments, greater use of technology, more commercialization of production, and increased displacement of inefficient cultivators.

Female employees in the labour force are proportionately higher in the formal sector than in the informal sector. While 63.2 per cent of male employees of the labour force were in the informal sector, for female employees that percentage was 53.2 in 2015. The female percentage in the formal sector is boosted by employment opportunities in the manufacturing sector and trade- and tourism-oriented services.[3] However, in other informal sectors, especially in rural areas, female participation is much ignored and hardly documented.

Further, poverty in the rural population is higher among women than men. Female informal employment means lower wages, non-monetary compensation as opposed to hourly wage rate and no entitlement to holiday pay or sick leave. In a predominantly agricultural context, most women are engaged in trade sector activities such as selling food items, joysticks, bags, envelops, coir products and garments. Most of the informal sector activities of women are carried out to increase their family income.

Female entrepreneurs have weaker access to credit for capital and do not have the necessary technical assistance. Women perform well in the informal sector if they have good marketing opportunities, training to enhance skills and easy availability of raw materials. The factors that hinder their performance are mainly issues created by the society, lack of education to run the business effectively, lack of transportation and lack of access to working capital.

From informal to formal

Connecting the informal sector to the global market, through international trade, can bring in multiple advantages. It can reduce poverty, especially in the rural sector where a large number of informal workers are located. Informal sector products can fetch a higher price in the world market than in the domestic market. It can alleviate chronic seasonal fluctuations in income due to enhanced options and opportunities in the global market. It can contribute more to the government tax revenue by coming under the official statistical umbrella.

Agricultural products are the major products of the informal sector in Sri Lanka. Since the plantation sector is more formalized than other agricultural occupations, attention should be paid to non-plantation agriculture. Sri Lanka is a traditional exporter of spices like cinnamon, pepper, nutmeg, ginger and cloves. These crops are cultivated in the rural sector by informal smallholders that are not registered with the government. Further, Sri Lanka has a vast inheritance of traditional handicraft products such as brassware, pottery, woodwork, handloom fabric and garments and traditional homeware. A significant number of these producers are women entrepreneurs. These products can be integrated with the global market through ways such as tourism, e-commerce and general export.

Table
Product clusters based on revealed comparative advantage

Product cluster	Products at HS4 level	Structural performance
Tea growing and processing	0902: Tea	Snail
	2101: Extracts of coffee, tea and mate	Star
Cinnamon	0906: Cinnamon whole	Traditional Product
Coconut	1203: Copra	Emerging Product
	0810: Coconuts, Brazil Nuts and cashew nuts	Star
Kandyan Home Garden spices	0907: Cloves	Traditional Product
	0908: Nutmeg	Emerging Product
	0904: Pepper, whole	Traditional Product
Captured and processed fish	0304: Fish fillet or meat*	Traditional products
	0302: Fish excluding fillets*	Star
	0303: Frozen fish, excluding fillets	Star
Ornamental fish	0301: Ornamental fish, live*	Emerging product
Foliage and cut flowers	0604: Foliage, branches and other parts of plants*	Emerging product
	1211: Plants used in perfumery, in pharmacy or for insecticide	Star
Vegetable products	1404: Vegetable products not elsewhere specified	Emerging Product
	2001: Vegetables fruits, nuts , preserved by vinegar	Traditional Product

Source: Weerahewa (2017)[4]
** Starred product groups at HS4 level (column 2) are among the top 25 products groups with highest Product Complexity Index (PCI), exported by Sri Lanka*

After the end of the civil war in 2009, tourist arrival increased to two million arrivals by 2016 from less than half a million in 2009. The monthly occupancy rate of hotel rooms in cities like Kandy, Anuradhapura and Polonnaruwa was over 75 per cent.[5] This provides a wider market for traditional crafts in the informal sector, and formalizing them would certainly help. This also shows the need to connect Sri Lankan artisanal craftsmanship with the global value chain.

Strategies linking the informal sector to the global market should be mainstreamed with the government's overall trade policy. The government reaffirmed its commitment for a trade-led economic growth in 2016. It said that it wants to create an export-led industry focused on Europe, China, Japan and the United States and the crescent of markets around the Indian Ocean. The Middle East, Iran, Afghanistan, Pakistan, India, Bangladesh, Myanmar, Thailand, Malaysia, Singapore and Indonesia house a fast-growing population, currently of over two billion people, which is estimated to create a combined market of up to three billion consumers by 2050.[6] Such an ambitious trade policy requires products with high comparative advantage, better structural performance[7] and high export potential in those markets. Eight potential product clusters with the highest export potential can be identified based on the revealed comparative advantage index. They are tea, cinnamon, coconut, Kandyan home garden (KHG) spices[8], captured and processed fish, ornamental fish, foliage and cut flowers and vegetable products (Table).

Among these eight product clusters, except tea growing and processing, all others are directly related to the informal sector. Fish fillet or meat, ornamental fish and foliage plants have a higher product complexity index (PCI). The diversity of its products makes a country achieve a higher economic complexity index (ECI). Countries with a high value of ECI produce a wide range of relatively complex products, while countries with low ECI produce only a few and relatively simple products. ECI is positively correlated with income.[9] Hence a significant income increase can be expected by targeting informal sectors producing these high PCI products, in trade-boosting programmes.

Market access constraints

However, there are constraints to global market access for the informal sector. First, due to lack of education, informal sectors workers' knowledge about information technology, awareness regarding business strategies, access to credit for capital and their literacy in foreign language are not satisfactory. To fully utilize the market opportunities the government should intervene to provide the required knowledge, soft skills and credit.

The second constraint is the lack of digital infrastructure. The internet, which is a necessity for e-commerce, has become a public utility all around the world as vital as telephone and electricity. Studies have found that broadband access leads to establishment of new businesses in rural areas, while greater adoption of broadband services is associated with an increased median household income and lower unemployment for rural residents. Sri Lankan government has committed itself to provide affordable and secure internet connectivity to every citizen in any part of Sri Lanka, remove barriers to cross-border international trade, create a platform for cashless payments and incorporate digital technology as a new subject in the school curriculum.

The third constraint is the general tendency to evade globalization. Recently, public and professional bodies came out to oppose the proposed comprehensive economic partnership agreement between Sri Lanka and India and the free trade agreement between Sri Lanka and Singapore. Such general suspicion could create political pressures and hinder further liberalization of cross-border trade. The informal sector of Sri Lanka has benefited from recent trade agreements. Betel leaves (HS 14049020) export is an example that benefited highly from a free trade agreement with Pakistan, which came into effect in 2005. The leaves are grown by the rural informal sector. The professionals and policy makers must be able to convey the benefits of trade agreements to every stratum of the society.

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INFORMAL SECTOR Important for Bangladesh

The informal sector is the most important contributor to Bangladesh's economy in terms of labour force participation and sector-wise contributions.

Selim Raihan and Md. Nazmul Avi Hossain

In 1972, the International Labour Organization stated a few characteristics on which informality depends. The ease of entry, reliance on indigenous resources, family ownership, small-scale operations, use of labour-intensive and adaptive technology, unregulated and competitive markets and skills acquired outside of the formal sector define informality.[1] In 1993, the International Conference of Labour Statisticians (ICLS) agreed to a unique statistical definition of the informal sector as including micro-enterprises comprising informal employers and hiring one or more employee(s) on a continuing basis, or family workers on an occasional basis. In 2003, the 17th ICLS amended the definition of the informal sector by taking into account certain types of informal

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wage employment and employment outside informal enterprises.

The informal economy mostly appears to be defined depending on the economy's employment structure. The forms of informal employment include agricultural day labourers, urban street vendors, paid domestic workers and at-home producers of clothing and other manufactured goods. Informal jobs mostly fall outside the domain of the government's labour market regulation. Moreover, informal workers do not function with the types of legal protection concerning the number of working hours, health and safety, nor do they have the types of mandated benefits that would normally be a feature of formal employment opportunities in large firms, whether in the private or the public sector.[2] According to Chen (2004)[3], the informal economy comprises the informal sector and other informal wage workers and industrial workers, particularly industries, that have no fixed contracts with employees.

Rampant informality

The informal sector has become the major component of the growth dynamics in Bangladesh. Similar to other developing countries, it is a dominant force in employment generation. Two types of informal sector activities are evident in Bangladesh depending on the nature of the job and the nature of the business. The nature of jobs focuses mainly on casual jobs, temporary jobs, unpaid jobs and subsistence agriculture, while, sometimes, this category also includes multiple job holdings. The latter mainly steers the illegality of business, that is, tax evasion, avoidance of labour regulation and other government or institutional regulations. The company does not undergo registration and engages in underground activities, or activities which are not registered by statistical offices like crime, and bribery, or corruption.

> The informal sector has become the major component of the growth dynamics in Bangladesh

Raihan (2010)[4] presented the major characteristics of the informal sector in Bangladesh. They are similar to those in the other developing countries and include: (i) unregistered, small-scale operation; (ii) low level of productivity; (iii) low level of income generation; (iv) low level of institutional credit access (sometimes lack of access to formal credit); (v) employment based on kinship, personal/social relations and casual employment but mostly not on a contract basis; and (vi) generally the absence of recognition or regulation by the government.

The Asian Development Bank (ADB), in 2010, provided some estimates of informal sector contribution to Bangladesh's gross domestic product, or GDP (Table). Agriculture, fishing, trade, hotel and restaurant, manufacturing and real estate and other business activities are predominantly informal. The table also calculates the shares of formal and informal sectors in sectoral GDP. It is evident that, on the whole, the informal sector accounts for 43 per cent of GDP. It is also estimated that 94 per cent of the agricultural activities are informal. The corresponding figures for fishing, trade, hotel and restaurant and real estate and other business activities are 45 per cent, 67 per cent, 42 per cent and 25 per cent, respectively.

Table
Share of informal sector in the GDP of Bangladesh

S.N.	Industry	Total share in GDP (%)	Share of formal sector in GDP (%)	Share of informal sector in GDP (%)
1	Agriculture	15.0	1.0	14.0
2	Fishing	3.6	2.0	1.6
3	Mining and quarrying	1.2	1.2	0.0
4	Manufacturing	17.9	11.1	6.8
5	Electricity, gas and water	1.1	1.1	0.0
6	Construction	8.3	5.6	2.7
7	Trade	14.9	5.0	10.0
8	Hotel and restaurant	0.8	0.5	0.3
9	Transport, storage and communication	10.7	8.0	2.7
10	Financial intermediation	1.8	1.8	0.1
11	Real estate and business activities	6.8	5.1	1.7
12	Public administration	2.8	2.7	0.1
13	Education	2.7	2.4	0.3
14	Health	2.3	2.2	0.1
15	Community and other private services	10.2	7.9	2.3
	Total	100.0	57.0	43.0

Source: ADB Country Report (2010)[5]

Figure 1 shows the distribution of employed persons in formal and informal sectors. It appears that, for the economy as a whole, more than 86 per cent of the total labour force is employed in the informal sector. As per the broad categories of employment, in agriculture, almost 98 per cent of the employment is informal. In industry and service, the informal employment is 90 per cent and almost 71 per cent respectively.

Figure 2 explains that 95.4 per cent of the total female labour force (15 years and above) is employed in the informal sector. The corresponding figure for male labour force is not encouraging either, with just 17.7 per cent in the formal sector as against the whopping 82.3 per cent in the informal sector. This situation shows the urgent need for increasing formal sector jobs in Bangladesh, more so for its female workers.

Figure 3 shows that, in rural areas, 89.3 per cent of the employment of population 15 years and above is in the informal sector, whereas only 10.7 per cent is employed in the formal sector. However, in urban areas, formal sector employment is 21.9 per cent and informal sector employment accounts for 78.1 per cent of total employment.

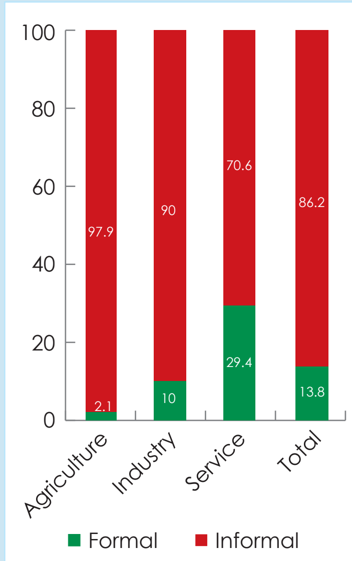
There are many factors that drive informality in Bangladesh. Raihan et al. (2016)[6] have shown education level of workers, family dependency, family landholding, sex, age and self-employability as the major drivers of the informal sector in urban areas.

The conventional argument is that an expansion of the informal sector obstructs economic growth in developed as well as the developing countries as the informal sector may create a barrier to increased productivity and economic growth. However, there are some contrasting views that see the informal sector as a solution to poverty reduction and economic growth, by absorbing labour, which would otherwise remain unemployed.

Raihan (2010)[7], using the social accounting matrix and the Computable General Equilibrium (CGE) model, studied the linkages between the formal and informal sectors of Bangladesh. The findings of that study suggested that a growth in formal sectors results in growth in informal sectors too. It was observed that the major factors that led to growth in the informal sector were- a rise in household demands for informal sector goods and services, as well as a rise in the demand for intermediate inputs. It appeared that the growth in the formal sector affects the growth in the informal sector in two ways: increased demand for intermediate inputs from the informal sector and increased demand for final goods produced in the informal sector as a result of the increased household income.

Figure

Informal employment in the overall economy (%)



Source: BBS (2016)[8]

Informal is important

In terms of labour force participation and sector-wise contributions, the informal sector is the most important contributor to the economy and total employment of Bangladesh. Therefore, it is pivotal to formulate policies in order to improve the employment opportunities in the formal sector and ensure a balance between informal and formal sectors. In the coming decade, Bangladesh will be aiming at formulating strategies to achieving its Sustainable Development Goals (SDGs), where SDG 8—decent work and economic growth—requires a high emphasis. In order to push job opportunities towards decent work, a convergence towards the formal sector is important. Further, informal trade within countries, and across countries, of South Asia needs to be analyzed critically so as to reflect its effects on the informal sector of those countries.

The authors are associated with South Asian Network on Economic Modeling (SANEM), Dhaka.

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From COP23 to 24

In climate negotiations, 2018 marks a key year. This year's COP24 is set to finalize Paris Rule Book including the monitoring of compliance under the Paris Agreement

Vositha Wijenayake

The 23rd Conference of Parties (COP23) to the United Nations Framework Convention on Climate Change (UNFCCC) was held in Bonn, Germany from 6 to 7 November 2017. It was the first COP to be presided by a Small Island Developing State, Fiji, and was politically and technically important due to diverse reasons. Let us highlight the outcomes that focus on the needs of the developing countries, and the activities that will follow in 2018, as there are aspects crucial to regions such as South Asia.

Divergent topics, conflicting views

While mitigation of carbon dioxide and other Green House Gases is important, countries that are already impacted by climate change need urgent adaptive measures. The discussions on adaptation at the climate change negotiations were focused on many tracks, among which are Nairobi Work Programme (NWP), Adaptation Committee, Adaptation Communications, National Adaptation Plans, as well as issues relevant to adaptation finance.

Progress in the discussions on Adaptation Communications will be important for developing countries. Adaptation Communications could be seen as a tool under Paris Agreement that will contribute in highlighting adaptation-related priorities and the support for adaptation. Progress would highlight the need for reporting on adaptation efforts and support, as well as drawing interlinkages between Sustainable Development Goals (SDGs) and Sendai Framework on Disaster Risk Reduction. However, actual negotiations on the topic saw divergences among countries on responsibilities and respective capabilities, national circumstances and flexibility on reporting.

The discussions on National Adaptation Plans (NAPs) were another key element for developing countries. The COP23 discussions had focused on the support provided through Readiness and Preparatory Programme of the Green Climate Fund (GCF). Under GCF Readiness Programme, developing countries are allocated up to US$3 million per country to formulate national adaptation plans and other adaptation planning processes by National Designated Authorities (NDAs) or focal points.[1]

Readiness Programme aims to facilitate the development of NAPs that focus on national priorities while developing adaptation measures. During the negotiations on NAPs, developing countries had complained about several hurdles in accessing GCF Readiness Support. This included the lengthy time needed to get approval for Readiness Support. Since a very low number of approvals have been received for applications, the importance of fast tracking and facilitating access to finance for NAP readiness was emphasized.

Finance was expected to play a key role in the negotiations as they are cross-cutting. Long-term finance, finance under Nationally Determined Contributions (NDCs), Transparency Framework and Global Stocktake, GCF, Global Environment Facility (GEF) and Adaptation Fund did feature in the discussions and also during the negotiations of Standing Committee on Finance.

One of the key issues was the commitment of developed countries to jointly mobilize US$100 billion per year by 2020, agreed in 2009 in Copenhagen. The next round of updated biennial submissions were requested from developed countries and a summary report will be prepared through these submissions. The upcoming intersessions in May 2018 will see the organizing of an in-session workshop on the topic, where a summary report will be prepared for COP24. Two assessments of climate finance are expected to be published in 2018 and 2020 to provide further information.

It was reported during the GCF negotiations that the Fund is truly operational, delivering on its mandate. However, it was noted that accreditation for GCF financing remains a challenge for many entities. Therefore, a review of the accreditation framework is going to be a challenge in upcoming negotiations.

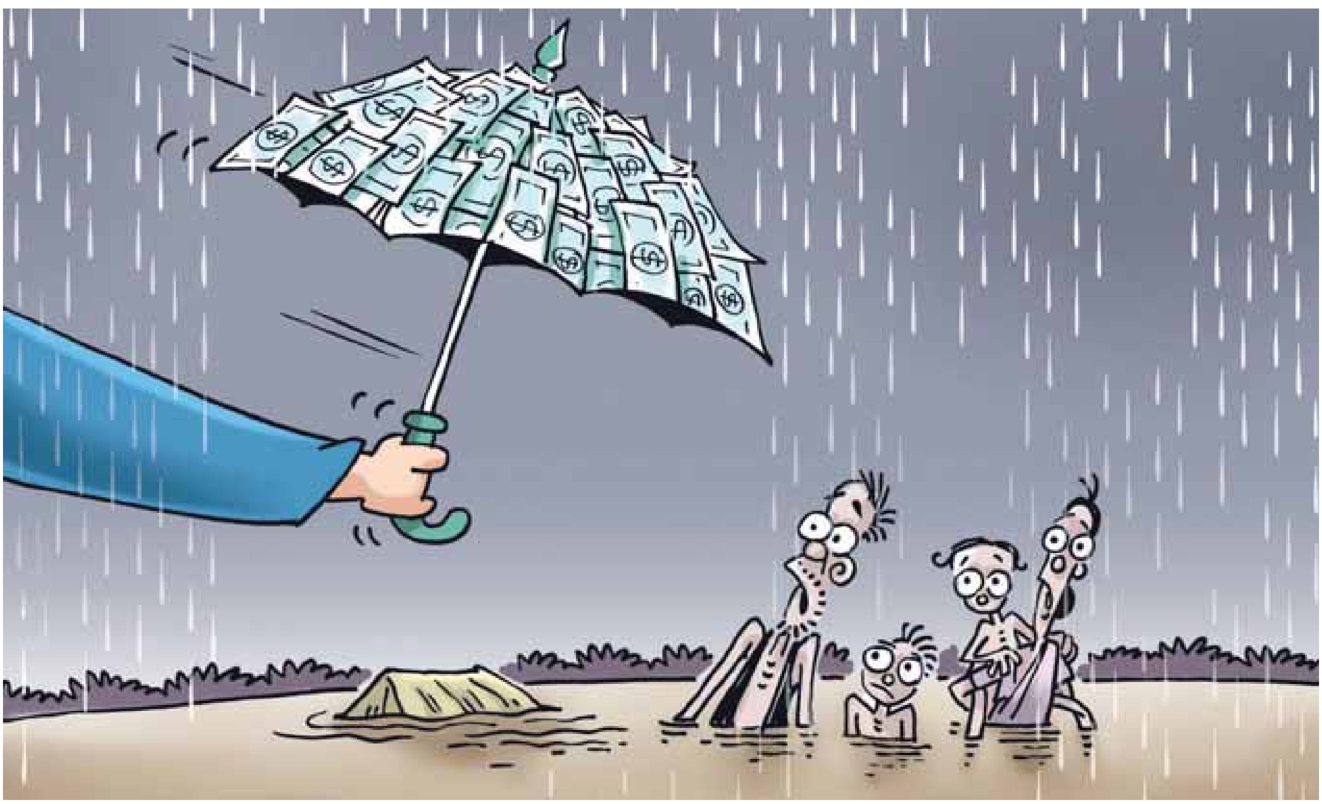
Another topic of interest on climate finance, Adaptation Fund, has been a cause of divergence in COP22 as well as in COP23. The member countries of the Kyoto Protocol agreed at COP23 that the Fund shall serve the Paris Agreement. This removed the doubts on the placement of the Fund. Pledges to the Fund amounted to US$93.3 million, Germany pledging an additional US$50 million. Similar pledges were made to the Least Developed Country Fund (LDCF) at COP23.

Finance for Loss and Damage was not a win for the developing countries during the last COP. While developing countries see loss and damage as one of the pillars next to mitigation and adaptation, at present climate finance does not cover Loss and Damage while the other two pillars are included in it. However, there were discussions on the topic, during the COP, focused on the work of the Warsaw International Mechanism on Loss and Damage (WIM), the five-year rolling plan, and the setting up of an expert dialogue. Suva Expert Dialogue on Loss and Damage was organized during the May session, held in Bonn. The discussions on the topic was important for developing countries to understand the ways in which the topic of Loss and Damage can play a key role in climate change actions. They help show how finance can be mobilized to address the losses and damages incurred by developing countries due to adverse impacts of climate change.

Agriculture has been another topic of divergence for over many years in the COP process. However, COP23 terminated the years of deadlock with an agreement which aims to address food security and climate change impact on agriculture. This is considered the first substantive outcome in the history of the United Nations Framework Convention on Climate Change (UNFCCC) processes on agriculture.[2] The COP23 agreement established Koronivia Joint Work on Agriculture, which focuses on developing co-benefit based actions in the sector. This would mean that new actions and strategies will be implemented focusing on adaptation and mitigation and emphasizing reduction of emissions and building of resilience in the agriculture sector.

These outcomes remain of great importance to countries of South Asia, and other developing countries, as climate change impacts are strongly felt by small holder farmers. These farmers contribute approximately 70 per cent of the global food production. Impacts felt by these farmers affect food security and increase existing vulnerabilities of communities of the region. With support from multiple actors, small holder farmers of developing countries can build their resilience to face the impacts of climate change.

Similarly, COP23's gender negotiations made a decision to develop Gender Action Plan (GAP). The aim was to enhance the participation of women in the overall UNFCCC process and also in implementing the Paris climate agreement.



The Plan's activities include capacity building, knowledge sharing and communication. Integrating gender perspectives and enhanced knowledge on gender-responsive policy, planning and programming, gender balance and participation and gender-responsive implementation are also included. The means of implementation with improved social and gender assessments and information and direct access for grassroots women's groups, and gender-responsive climate technologies are other highlights. The GAP aims to integrate gender with the various levels of work in addressing climate change. This includes monitoring and evaluation of climate action.

The decision on gender remains important for developing countries, where women are vulnerable to climate change and where their voices and concerns are usually not reflected in the decision-making processes. In highlighting the need for integrating gender into the climate change processes under the UNFCCC, GAP provides scope for women to engage more in climate change initiatives. This allows them to contribute to, as well as to benefit from, the actions taken to address climate change.

Local Communities and Indigenous Peoples Platform was another highlight of COP23. It provides space for indigenous communities to share experiences and best practices in addressing climate change.

There are two key developments that could be linked to adaptation and the Loss and Damage discussions. They are the mode for addressing risk transfer and ways of insuring vulnerable communities against the impacts of climate change. Climate change insurance has been a topic of debate and seen as a negative element in cases where the communities are requested to insure themselves. This places an additional financial burden on them. Here, InsuRelience Global Partnership presents a different structure for risk management.

Funded by German Federal Ministry for Economic Cooperation and Development (BMZ), through a contribution of £110 million (US$125 million), the Partnership focuses on disaster risk finance and provides insurance solutions. The aim is to provide affordable insurance for vulnerable groups. An additional £30 million (US$39 million) contribution was made by the United Kingdom, a commitment made in July 2017.[3] The Partnership builds on the InsuResilience initiative founded during the German G7 Presidency in 2015. The aim was to provide insurance for an additional 400 million poor and vulnerable people in developing countries against climate risks by 2020.[4]

> Finance was expected to play a key role in the negotiations as they are cross-cutting

COP23 also saw the launch of Fiji Clearing House for Risk Transfer and an online resource aimed at providing access to vulnerable countries to the best available information on affordable insurance and solutions.[5] However, the process that directly contributes to accessing information through the online resource provision by vulnerable communities remains vague. A person with access to internet and resources could address one's questions to the experts on the system. However, it is unlikely that marginalized and vulnerable communities will realistically be able to question the experts and make decisions on how to address risks on climate change. While the launch of the platform is appreciated, more work remains to be done on the ground for it to realistically meet its objective.

From COP23 to COP24

Regarding climate negotiations, 2018 marks a key year. This year's COP24 is to finalize Paris Rule Book, carry out negotiations on issues related to setting the framework for NDCs, reporting of adaptation efforts, transparency and the Measurement, Reporting and Verification (MRV) framework and elements of the global stocktake, besides finalizing monitoring of compliance under the Paris Agreement.

In May, in Bonn, and in the months leading to COP24 in Katowice in Poland, the discussions will focus on finalizing the Rule Book and enhancing and building on the outcomes. The unresolved elements of COP23, such as climate finance discussions focusing on article 9.5 of the Paris Agreement relating to developed countries, will also be discussed, not to mention reporting on climate finance flows to developing countries, which was left unresolved by COP23.

In order to benefit from these negotiations it will be important for developing countries to stay focused on their national and global priorities to address the sustainable development of their populations. It will be equally important for them to find avenues for integrating climate change negotiations at the global level with their sustainable development priorities at the national and local levels. The priority must be on the needs of the vulnerable communities most affected by the impacts of climate change. ■

The author is Executive Director, SLYCAN Trust, Colombo and Regional Facilitator for Asia, Southern Voices on Adaptation. Ms. Wijenayake was also a member of the Delegation of Government of Sri Lanka to COP23. Views expressed are personal.

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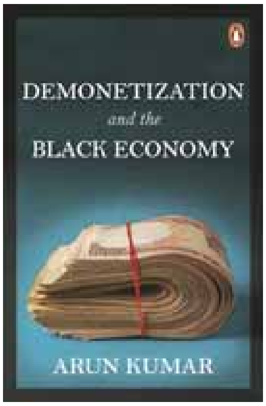


Demonetization demonization

Title: Demonetization and Black Economy
Author: Arun Kumar
Publisher: Penguin Random House India Private Limited, 2017
ISBN: 9387326411

Dikshya Singh

When Indian Prime Minister Mr. Narendra Modi announced, on 8 November 2016, that large denomination currency would cease to become legal tender, Indians readily agreed to undergo through the ensuing pain.

The drastic move was apparently taken to pull the rug from underneath the illegal hoarders and movers of Indian currency by rendering their stash useless. Obviously, this section of people was considered to be those with the 'black' money in their hands and, hence, the target of the policy.

It did cause nation-wide distress while the move was even perceived as having an imperceptible dent on the black economy. The question 'was it worth it?' is the central theme of 'Demonetization and the Black Economy', a book written by India's scholar on black economy Prof. Arun Kumar.

Mr. Modi had called demonetization a 'mahayagna' to purify India from corruption, black money, fake notes and terrorism. The step meant 1.3 billion people had a 50-day window to convert all the 1,000 and 500 denomination notes in circulation into new notes. No wonder, chaos ensued. People struggled to make purchases; businesses faced hard time to make payments and banks were running against the clock to exchange notes and restock ATMs.

The organized sector suffered, but the unorganized sector, such as small businesses and farms that employ 93 per cent of the workforce, was devastated. Some figures even quote a 60-80 per cent drop in economic activities. About 1.5 million jobs were estimated to have been lost in the initial days.

The book published in January 2018 explores whether the primary agenda of the demonetization—rendering black money useless—was fulfilled. Moreover, as 99 per cent of the demonetized cash had already made it back before the end of December 2017, that motive seemed to have been defeated. The Indian government was quick to move to an emphasis on "formalization" and "digitalization" through cashless transactions, not just the black economy motive. Monetary transactions through bank transfers and digital wallets would remove anonymity, thus, discouraging illegal payments. The resultant surge in electronic payments due to initial cash shortage did justify this goalpost shifting. Notably, such surge also turned out to be temporary as digital payments receded to pre-demonetization levels once cash shortage was over.

Prof. Kumar, who is considered an authoritative scholar on black economy, reiterates his hypothesis that black money can never be controlled until the triad of corrupt businessmen, politicians and executives in the bureaucracy, police and judiciary, is broken. He says that Indian black wealth is a result of political and policy failure.

That black money is always held in cash and that the black economy is aloof from the informal economy do not always ring true in India. Inter-linkages between the so-called black and white economies guarantee that any action taken on one will have a perceptible impact on the other.

Another crucial aspect of demonetization, and one that the book does not touch upon, is its international dimension. In other words, what about people holding Indian currency (IC) in other countries? The size of the Indian economy and the Indian diaspora in neighbouring and other countries make it impossible to deny that this large IC economy needed to have its concerns met as well. Nepal and Bhutan are said to be sitting on a sizeable IC holding.

The informal people-to-people ties between the two countries mean that such relations are very complex in the economic sphere as well. This aspect of economic life itself deserves enough scholarship for several books. The one under review has not even scratched the surface of demonetization's international dimension.

The book recounts that among many losers there were a few winners. Undoubtedly, Mr. Modi and his ruling party emerged victorious in the ensuing elections, because of the large section of voters who believed that they would be better off with the move, just like Mr. Modi promised.

Prof. Kumar blames the prime minister for undermining democracy through demonetization. He lambasts the step for being taken in full secrecy without following due procedures as expected in a functioning democracy. But, there may not have been an alternative way. Worse, the government branded anyone who spoke against the move as anti-nationalist and bullied them into silence. The author concludes that demonetization was more to do with politics than economics—without any perceptible impact on actual black money. ■

The author is Research Officer at South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu.

WTO's dispute settlement mechanism

By being a part of the WTO, member countries agree to the Dispute Settlement Understanding (DSU)—a set of rules and procedures of dispute settlement.

Peter Trondalen

The foundation that led to the creation of World Trade Organization (WTO) was General Agreement on Tariffs and Trade (GATT) set up in 1947. It aimed to prevent trade tensions in the aftermath of World War II, thus underlining the building blocks of much of today's international trade.[1] The organization was further developed through Uruguay Round (1986-1995) of trade discussions among 123 countries. Uruguay Round led to the reform of the 1947 GATT into the 1994 GATT that WTO encompasses today.[2] The world organization has grown steadily since 1995 and now has over 163 members. Today, WTO works as, among other things, the only organization that handles trade disputes between nations.[3] WTO's Dispute Settlement Mechanism (DSM) was created to aid in trade related conflicts. Since 1995, the mechanism has played an important part in over 500 disputes.[4] The WTO dispute settlement system is one of the most active adjudicatory systems in the world.

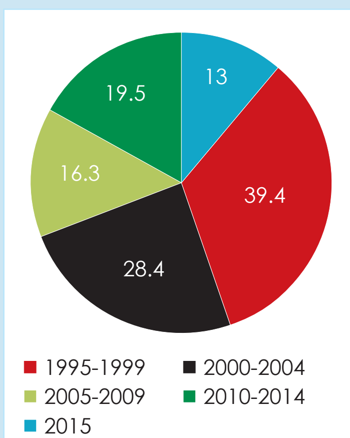
Forum for governments

WTO operates as a forum for governments to negotiate trade within a set structure that intends to foster peaceful and safe trade relations amongst the member nations. It is thus perceived as one of the cornerstones of today's multilateral trade order.[5] When member nations believe that rules governing trade relations have been violated, they approach WTO to help solve the issue.[6] Dispute settlements had already been taking place through GATT (1947) in earlier years, but, after Uruguay Round, DSM at the WTO became more structured and effective.[7]

Disputes taken to WTO first go to Dispute Settlement Body (DSB), which consists of members from all the WTO countries. DSB can authorize panels to review cases and provide expertise in the dispute settlement procedures, monitor implementation and sanction countries that do not cooperate.[8]

DSM starts its first phase when a dispute settlement is requested by one of the parties. This stage consists of mediation and consultation. The goal of the first step is to make the countries in conflict solve the dispute between themselves. This stage is the most important phase of conflict resolution. A member of WTO enters the consultations within 30 days. If there is no settlement even after 60 days the dispute is taken to the second stage. Nevertheless, consultations can be reverted to later date, if required.

Figure 1
Number of disputes brought to the WTO, 5 years' average

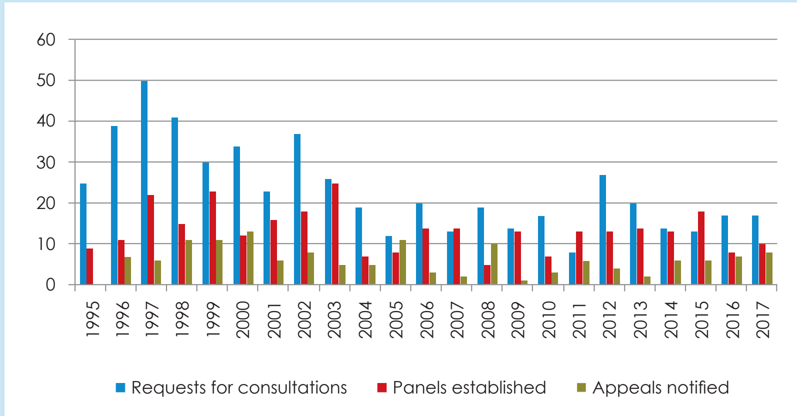


Source: The WTO Dispute Settlement System 1995-2016: A Data Set and its Descriptive Statistics[9]

If the 60-day period passes and the dispute is still not resolved, the complaining country can request a panel to review the case. DSB has 45 days to appoint this panel and consists of three relevant experts from countries that are not connected to the dispute. Such a panel is established on a DSB consensus. DSB also establishes case-specific deadlines for the appointment of a panel. The opposing country can reject the appointment of such a panel, but it can do so only once.

In the second phase, the countries present a written document of their case to the chosen panel. The complaining country then raises its case during a hearing at the panel. Moreover, both parties give written statements and oral arguments at this meeting allowing themselves to be questioned by experts on technical and scientific matters if needed. The panel then drafts the first report that consists of descriptive argumentation. The disputed parties have two weeks to comment on the first draft. Following that, the panel submits an interim report with its findings and conclusions and the two parties are given one week to review it. Finally, the panel introduces

Figure 2
Number of disputes brought to the WTO, panels established and notifications of appeal



Source: World Trade Organization[14]

the final report, which is shared with all WTO members. The panel then decides if there has been a violation of the WTO trade agreements and proposes viable solutions to solve the dispute. The panel report can be considered for adoption by DSB after 20 days from the date it was issued. In any case, it will be adopted within 60 days, unless DSB concludes otherwise. This stage can take up to six months. The entire process can take up to a year, that is, if one or both parties do not request an appeal and prolong the process further.[10]

If the ruling is appealed against, the case is handled by Appellate Body that can uphold, modify or reverse previous rulings.[11] Appellate Body consists of seven members who are chosen by DSB. A chairman is elected among the members to oversee Appellate Body's general responsibilities.[12]

Appellate Body rulings replace any former rulings and must be accepted by the parties involved within 30 days of their issuance. However, it is important to note that Appellate Body only takes in issues of law and legal interpretations and the discussions here cannot exceed 60 days.

In addition, if the country is unable to adopt the changes prescribed by the final report, DSB gives the party a reasonable time to comply and will continue to monitor the party until the dispute has been resolved.

Trade related, not sanctions

WTO provides a stable and predictable trade paradigm for member countries to follow. By being a part of WTO, member countries agree to Dispute Settlement Understanding (DSU)—a set of rules and procedures that encompasses the subject of dispute settlement. This implies that the countries are a part of a structured system that solves disputes rather than allowing them to act independently even when they step on others' toes. For instance, in April 2018, China sent a request for consultation with the United States (US) to further discuss the tariff measures that the US had imposed on Chinese products, due to suspected article violations based on GATT 1994. This case is currently in its consultation phase.[13] Had they not been a part of WTO, the countries would have acted independently of each other's sensitivities thus resulting in a more unpredictable effect on the global market. However, it is important to note that WTO's DSM goal is trade related conflict resolution, not sanctions enforcement. ■

Appellate Body rulings replace any former rulings and must be accepted by the parties involved within 30 days

The author is an Intern at South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu.

Notes

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SDPI conference on sustainable development

THE Sustainable Development Conference (SDC 2017) was held in Islamabad by the Sustainable Development Policy Institute (SDPI) from 5 to 7 December 2017. This was SDPI's 20th edition of the conference and themed 'Seventy Years of Development'.

The conference discussed issues such as improving connectivity and regional integration in Central and South Asia, reforms to accelerate and sustain inclusive growth, women's access to justice, moving from diversity to pluralism, small and medium-sized enterprises sector financing in Pakistan, the China–Pakistan Economic Corridor, structural inequalities in South Asia, private sector role in sustainable development, federal and provincial tax reforms, sustainable management of forests and societies and so on.

SDPI Executive Director Dr. Abid Qaiyum Suleri said that the conference explored ways to attain sustainable development goals for South Asia and beyond.

The two–day conference saw participation of researchers, academicians, scientists, policymakers, legislators and experts from different fields both from Pakistan and abroad. ■

Tenth South Asia Economic Summit held in Kathmandu

THE Tenth South Asia Economic Summit was organized by South Asia Watch on Trade, Economics and Environment (SAWTEE) in Kathmandu between 14-16 November.

The theme for the Kathmandu meet was "Deepening Economic Integration for Inclusive and Sustainable Development in South Asia." Ministers, legislators and policy makers of South Asia came together to stress that the region could achieve sustainable development on the back of regional integration.

Inaugurating the Summit, Nepa-

S. Asia Judicial Barometer launched

THE first South Asia Judicial Barometer was launched in Colombo on 27 November 2017. The Barometer is a publication covering the regional assessment of access to justice and the judiciary in South Asia.

The publication aims to increase the understanding of how the judiciary in South Asian countries interacts with, shapes and is shaped by key social, economic and political developments.

It contains chapters from five South Asian countries—India, Bangladesh, Sri Lanka, Nepal and Bhutan, with a brief note on Pakistan. Four main issues highlighted in the publication are labour rights, rights of minority groups, freedom of speech and association and national security and terrorism.

It was conceived as a collaborative research project between the Law and Society Trust (LST), Colombo and FORUM-ASIA in 2015. ■

lese Finance Minister Mr. Gyanendra Bahadur Karki expressed his country's readiness to collaborate with the South Asian Association for Regional Cooperation (SAARC) partners for cooperative initiatives like the various trade and transit improvement activities and the shortening of sensitive lists of South Asian Free Trade Area (SAFTA) imports.

The three day event saw policy makers and experts deliberate on 14 different sessions covering intraregional trade, investment, electronic commerce, World Trade Organization (WTO) affairs, climate change, disaster risk reduction, Sustainable Development Goals (SDGs), energy cooperation, rural enterprise, intellectual property rights, among others.

About 300 participants, including renowned researchers, academicians, experts across various disciplines, government officials and diplomats from the region as well as abroad, participated in 20 sessions over three days.

There were four plenary sessions, during which eminent personalities of the region discussed issues related to integration of South Asia, the future of SAARC and the possibilities of tapping SAARC observers as dialogue partners, not to mention the tremendous challenges of deeper engagement.

A book titled "Reimagining South Asia in 2030" was launched by the panellists on the occasion. The book is a compilation of the proceedings of the Ninth South Asia Economic Summit held in Dhaka in 2016.

The South Asia Economic Summit was launched in 2008 as a platform to discuss and analyze development challenges facing South Asia. The annual event brings together South Asian regional experts from various fields.

South Asia Watch on Trade, Economics and Environment (SAWTEE), Nepal; Centre for Policy Dialogue (CPD), Bangladesh; Research and Information System for Developing Countries (RIS), India; Sustainable Development Policy Institute (SDPI), Pakistan; and Institute of Policy Studies of Sri Lanka (IPS) take turns to organize the event. ■

Services Waiver: Maximizing benefits for the LDCs

SOUTH Asia Watch on Trade, Economics and Environment (SAWTEE) participated in the 11th Ministerial Conference (MC11) of the World Trade Organization in Buenos Aires, Argentina that took place from 10 to 13 December 2017. SAWTEE also organized a session "Services Waiver: Maximizing benefits for the LDCs" in the Trade and Sustainable Development Symposium (TSDS) 2017 organized by a Geneva-based International Centre for Trade and Sustainable Development (ICTSD) on the sidelines of the MC11. ■

Weerakoon new IPS executive director

DR. DUSHNI WEERAKOON was appointed as the new Executive Director of the Institute of Policy Studies of Sri Lanka (IPS) in October 2017.

She succeeds renowned economist and one of the Regional Advisory Board members of this magazine, the late Dr. Saman Kelegama, who passed away in June 2017.

Dr. Weerakoon has over 23 years of experience at the IPS and has been serving as its Deputy Director since 2005. ■

Bangladesh-India farm trade NTBs to be studied

A stakeholder consultation was organized on 19 December 2017, in New Delhi, by Jaipur-based Consumer Unity & Trust Society (CUTS) International, on the procedural, operational and regulatory challenges faced by Indian agricultural traders with Bangladesh.

CUTS is conducting an in-depth study of the existing non-tariff barriers (NTBs) with the support of United States Agency for International Development (USAID). The focus is on barriers at borders for trade in agricultural products.

The stakeholder consultation sought inputs from exporters, importers, the private sector, think-tanks, academia, foreign missions and non-governmental organizations to help finalize the contours of the study, its objectives, strategies and envisaged outcomes.

Bipul Chatterjee, Executive Director of CUTS International, said that while economic and trade relations between India and Bangladesh are expanding, they are hampered by a large number of non-tariff NTBs. ■

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South Asia Watch on Trade, Economics and Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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