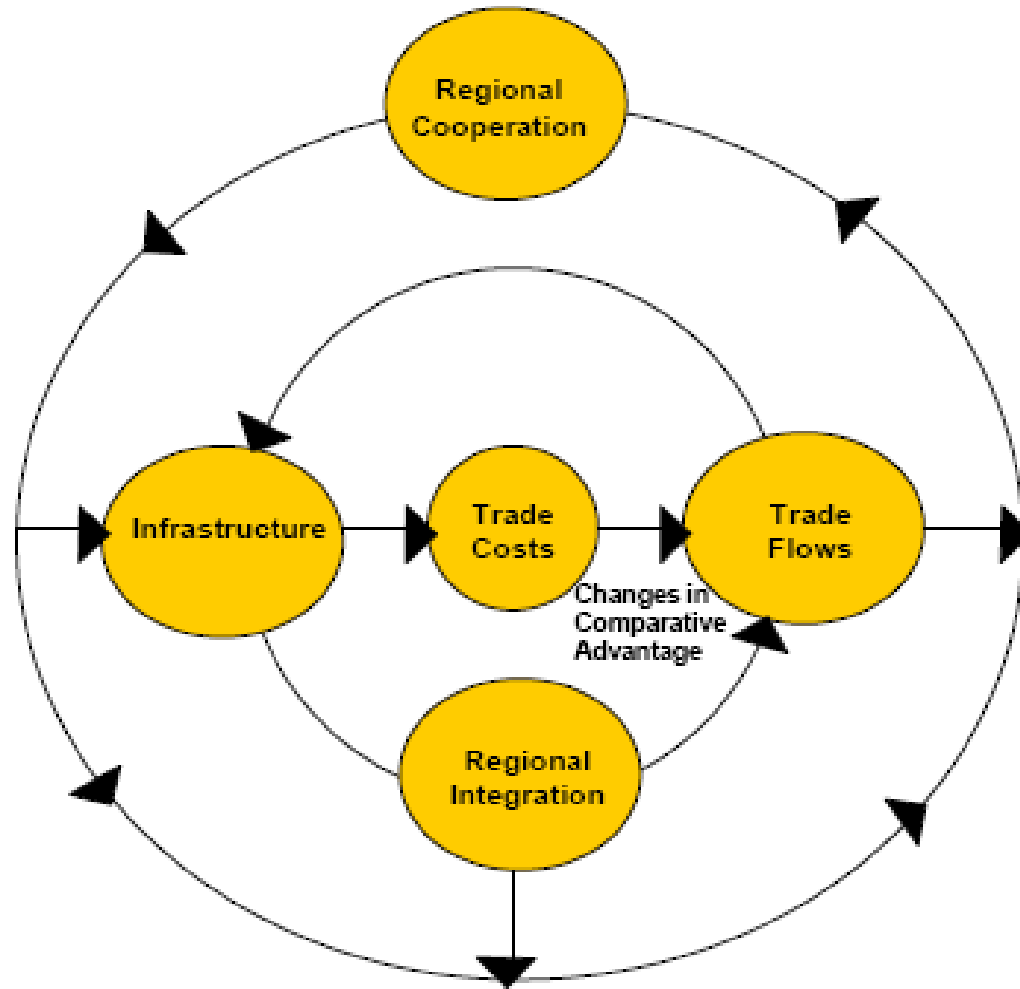


# **Facilitating South Asia's Trade: Emerging Issues and India's Role**

**Prabir De  
RIS**

**12 March 2010**

# Trade Cost and Comparative Advantage



# South Asia has high trade potential, but largely unrealized

- Regional trade in South Asia is moving below potential [RIS]
  - Intra-regional trade in 2008: US\$ 11 billion (approx.)
  - Intra-regional trade potential: US\$ 40 billion
  - About 73% of intra-regional trade potential is remained unrealized
- Causes of high underutilization of intra-regional trade are mostly economic in nature
  - High trade barriers – both visible and invisible
  - Poor transportation links
  - Inadequate trade facilitation measures
  - Lack of supply capabilities of LDCs, among others.

# Elements holding back South Asia's integration

- Inadequate infrastructure – national and regional (inadequate & poor stock and link of infrastructure)
- Absence of regional transit trade (no regional transit)
- Poor institutions and governance (no dedicated institution)
- High trade costs (transport costs outweigh tariffs)

# National infrastructure largely inadequate

- Infrastructure gap in South Asia in terms of the index widened than narrowed.
- Laggard areas (pocket of deficits) in South Asia
- South Asia's growth potential will be realized only if we can narrow the infrastructure gap, not only between them but also with the global best practice.

## Physical Infrastructure Development Index

Country	2007		2003		2000	
	Index	Rank	Index	Rank	Index	Rank
Afghanistan	0.045	40	0.017	42	0.031	40
Bangladesh	0.097	35	0.085	33	0.083	34
Bhutan	0.122	32	0.102	31	0.099	31
India	0.182	23	0.144	26	0.142	25
Maldives	0.205	20	0.150	25	0.159	22
Nepal	0.086	36	0.078	35	0.083	33
Pakistan	0.181	24	0.135	28	0.130	26
Sri Lanka	0.235	17	0.213	14	0.198	14

Notes: 1. Physical infrastructure counts Roads, paved (% of total roads); Road length (km/000' sq km of geographical area); Rail lines (km/000 sq km of geographical area); Air passengers (per 10,000 population); Electric power consumption (kWh per capita); Internet users (per 100 population); Mobile and fixed-line telephone subscribers (per 100 population). 2. Total countries counted in Asia and the Pacific = 44.

# Poor links in regional infrastructure

Sector	Countries	Particular
Road transportation (passenger bus services)	India and Pakistan	Delhi – Lahore
		Amritsar-Nankana Sahib
		Amritsar – Lahore
		Poonch - Rawalakot
		Srinagar - Muzaffarabad
	India and Bangladesh	Kolkata – Dhaka
		Agartala – Dhaka
	India and Bhutan	Kolkata – Phuentsholing
		Siliguri – Phuentsholing
Rail transportation (passenger train services)	India and Pakistan	Delhi – Lahore
		Jodhpur - Karachi
	India and Bangladesh	Kolkata - Dhaka
Energy (power trading)	India and Bhutan	Power transmission lines
	India and Nepal	
	India and Sri Lanka*	

\*Proposed

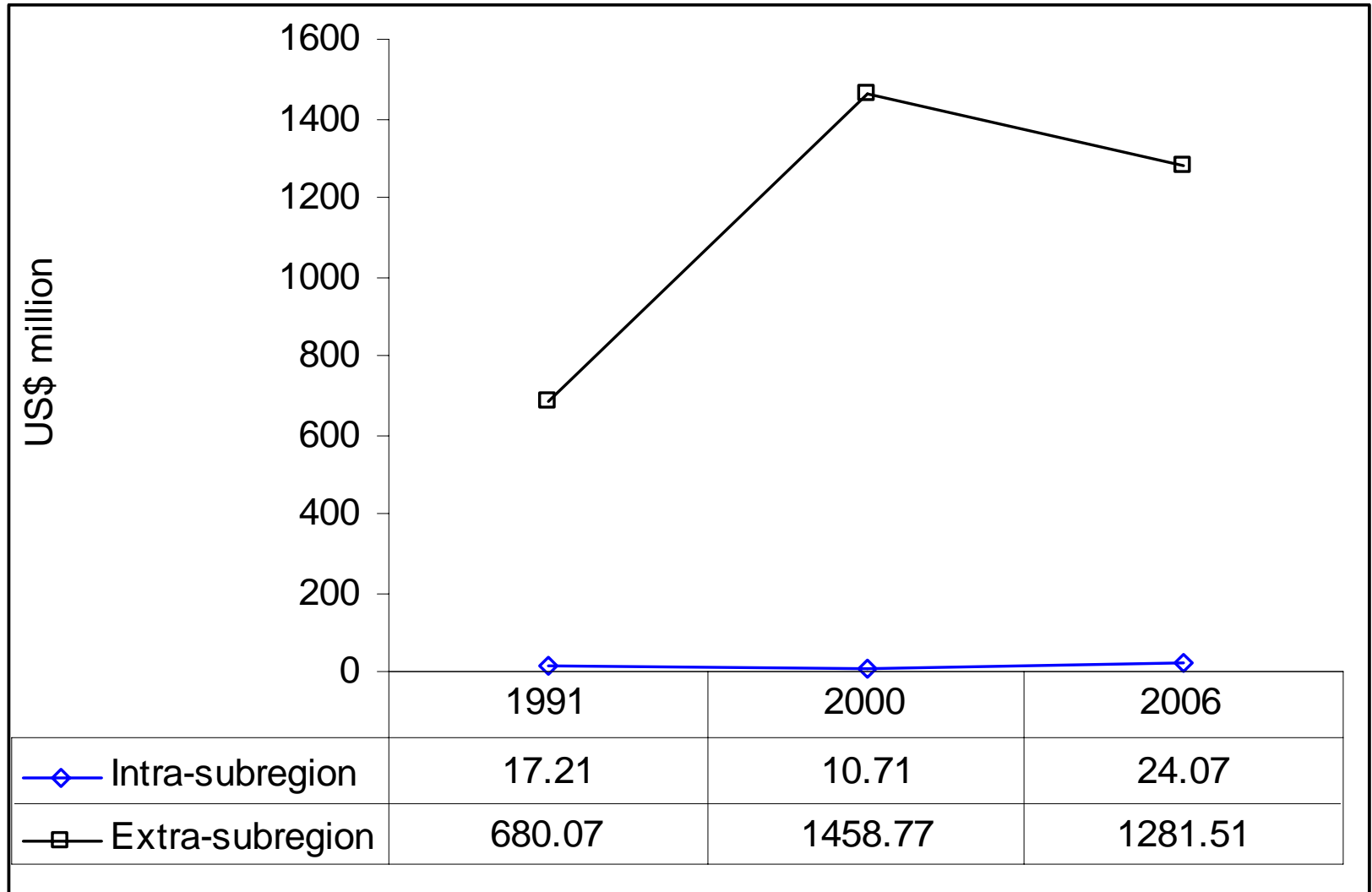
Source: De, 2010

# Lack in regional transit

<b>Agreement</b>	<b>Type</b>	<b>MFN Trade</b>	<b>MFN Transit</b>	<b>GATT signatories</b>
India-Bangladesh	Bilateral	Yes	No	Yes
India-Nepal	Bilateral	Yes	Yes	Yes
India-Bhutan	Bilateral	Yes	Yes	India – member; Bhutan – observer
India-Pakistan	Bilateral	No	No	Yes
Pakistan-Afghanistan	Bilateral	Yes	Yes	Pakistan – member Afghanistan – observer
Bangladesh-Nepal	Bilateral	Yes	Yes	Yes
Bangladesh-Bhutan	Bilateral	Yes	Yes	Bangladesh – member, Bhutan – observer
Bhutan-Nepal	Bilateral	Yes	No	Nepal – member, Bhutan – observer

Source: De et al (2008)

# Slow growth in regional transit trade





# Borders highly congested

## Transaction Time and Cost for India's Overland Exports to Bangladesh

Particulars	Subramanian and Arnold (2001)	Das and Pohit (2006)	De and Ghosh (2006)
	Survey year: 1998	Survey year: 2002	Survey year: 2005
Transaction costs (% of shipment value)*	-	10.38	16.80
Border crossing delays (days)**	2.5	3.63	3.92
Types of documents required at border (No)	29	-	17
Copies of documents required at border (No)	118	-	67

Source: De and Ghosh (2008)

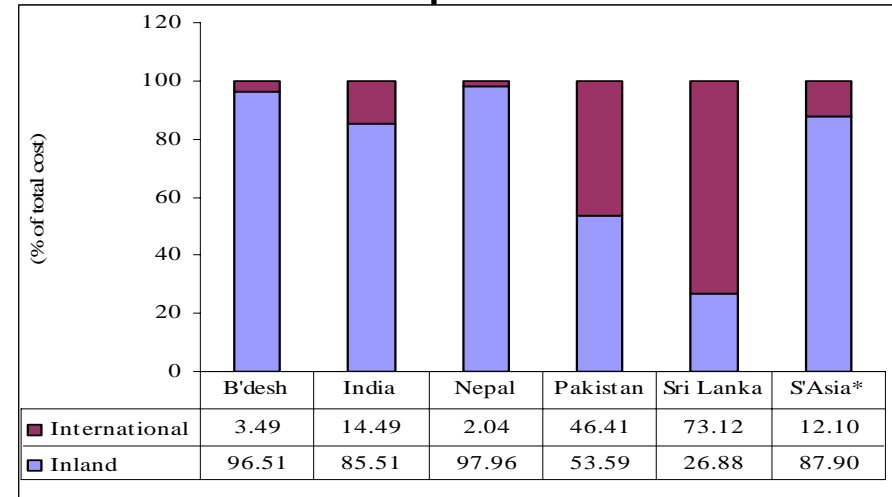
# Border contains high concentration of poor

Country	Bordering states	Bordering with	Income per capita (US\$), 2006 (avg.)	Rural poverty rate (%), 2004-05 (avg.)	Country HDI 2005
India	North-eastern states (7), West Bengal	Bangladesh	690 (860)	34 (22)	0.619
	Western and North-western states (4)	Pakistan	910 [800*] (860)	32 (22)	
Bangladesh	All states** (4)	India	450	53	0.547
Pakistan	Eastern provinces (2)	India	890 (800)	36 (32)	0.551
Nepal	Southern states (5)	India	300 (320)	48 (46)	0.534

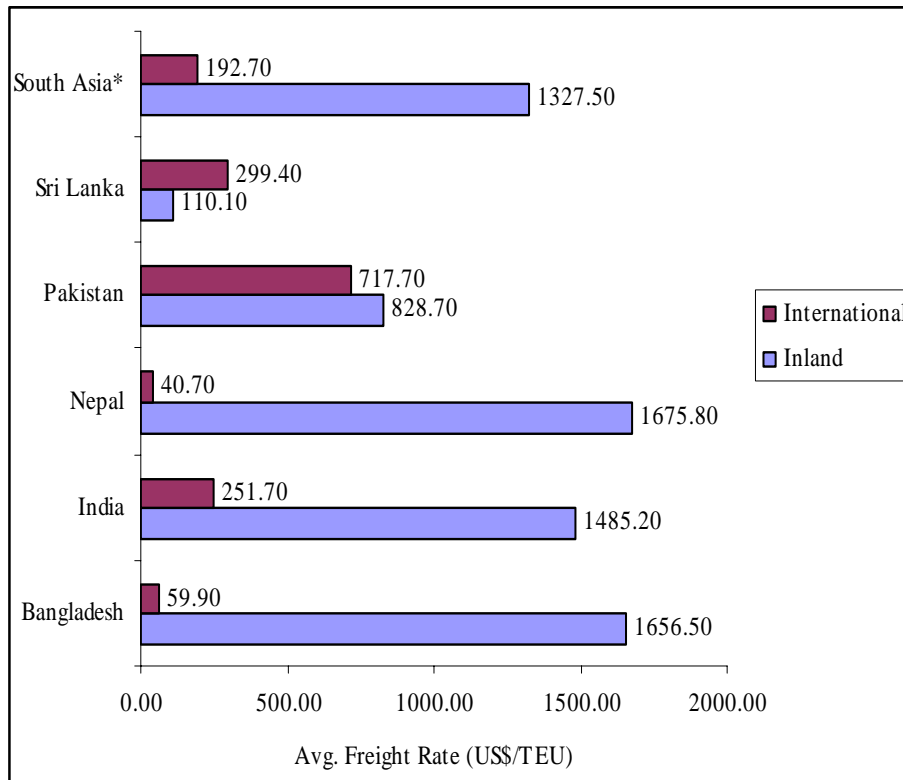
Source: De (2009)

# High transportation costs making regional trade costly

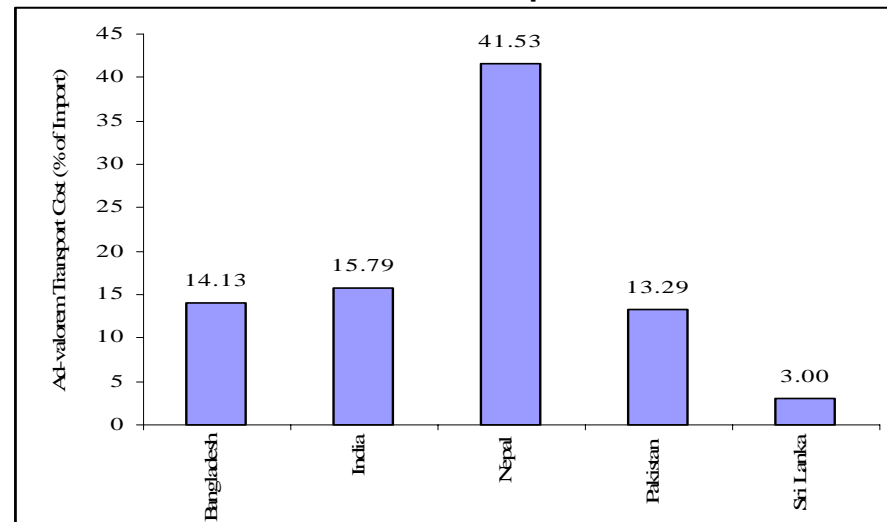
## Composition of Inland and International Transport Costs



## Estimated Average Freight Rates in 2005



## Estimated Ad-valorem Transport Costs in 2005\*



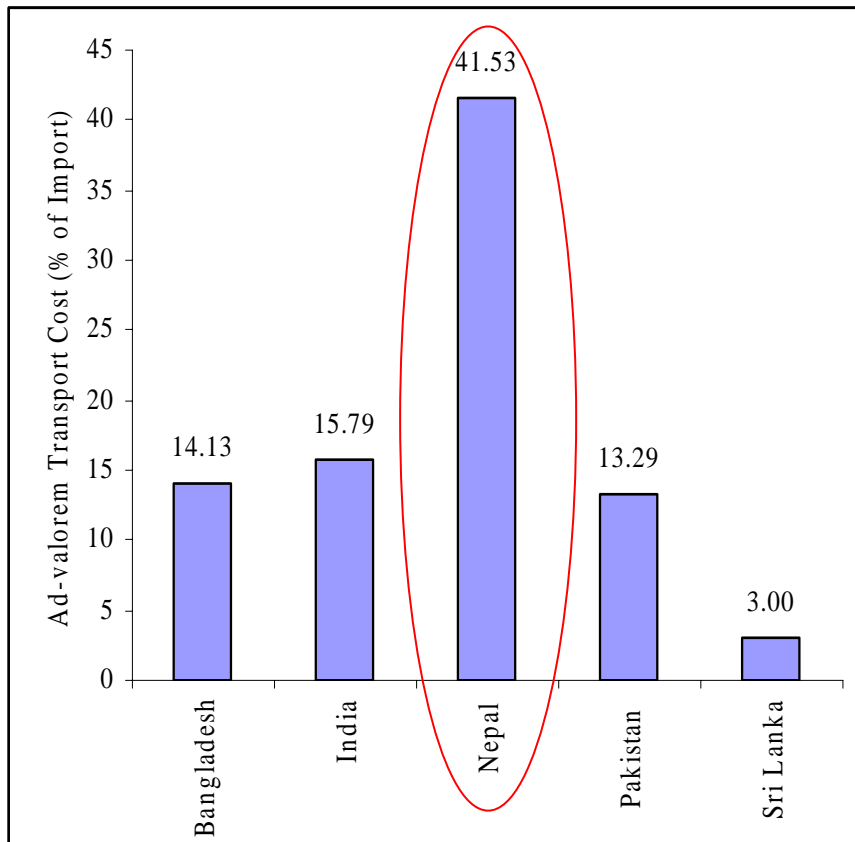
Source: De, P (2008)

Notes: \*As a percentage of import. \*\*Trade weighted over all South Asian partners.

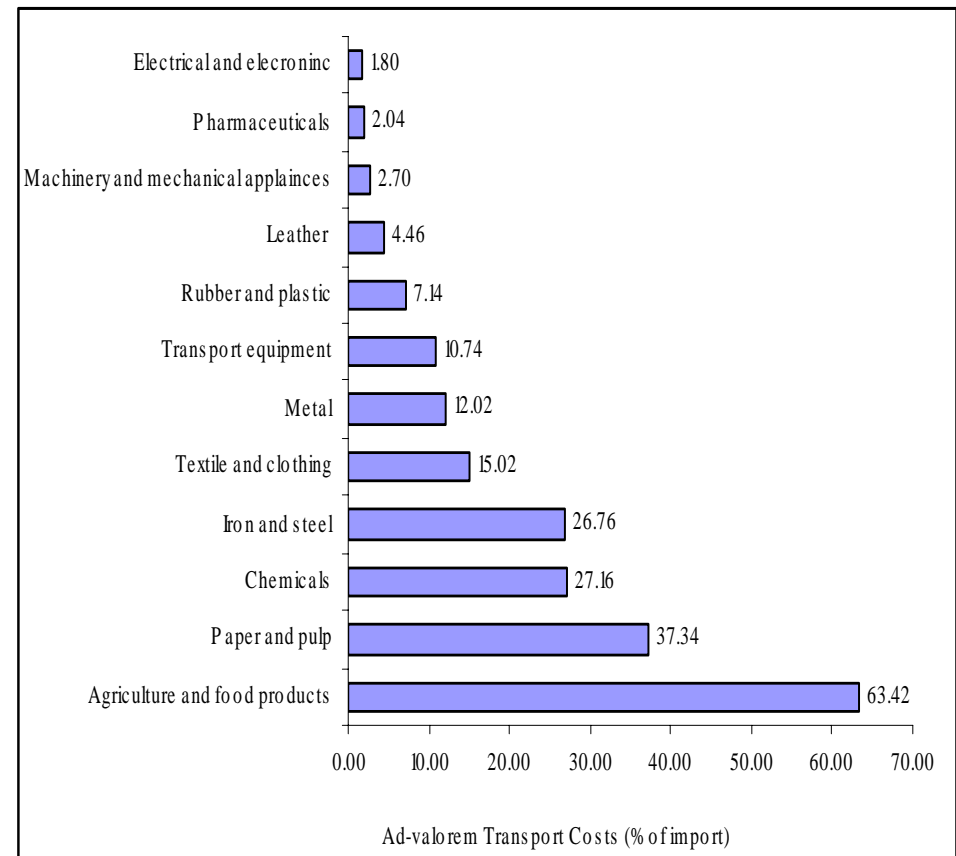
# Wide-variations in transport costs

## Ad-valorem Transportation Costs (2005)

### At Country Level



### At Commodity Level



# South Asia - net importer of weight

- If a country (or a region) is a net importer of weights, it will be having a net deficit in transportation costs
- The transportation of heavier goods would cost more than lighter goods.
  - If a country (or a region) is a net importer of weights, it will be having a net deficit in transportation costs [e.g. China]
- Ad-valorem shipping prices are sharply increasing in product weight/value ratio
  - Elasticity is +0.4 [Hummels and Skiba (2004), *JPE*, Vol. 112]

## Import of Weight per US\$

**Estimated Weight-Value Ratio (kg/US\$) in 2005 by Bilateral Partners**

Importer	Exporter					
	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Total
Bangladesh		2.195	0.252	0.015	0.613	3.075
India	2.716		3.322	2.241	0.946	9.226
<b>Nepal</b>	<b>7.351</b>	<b>8.127</b>		<b>0.863</b>	<b>0.584</b>	<b>16.924</b>
Pakistan	2.613	3.850	0.517		1.351	8.330
Sri Lanka	0.884	1.550	0.654	0.828		3.917

Source: De (2008b)

# Full regional connectivity – transportation costs hold the key

Importer	Exporter	Ad-valorem Transport Costs (%)*	Applied Tariff (%)**
Bangladesh	India	30.50	39.54
	Nepal	6.20	4.46
	Pakistan	17.40	15.64
	Sri Lanka	20.70	18.56
India	Bangladesh	29.40	15.87
	Nepal	48.20	22.66
	Pakistan	45.00	24.35
	Sri Lanka	11.90	23.29
Nepal	Bangladesh	81.90	9.05
	India	63.10	14.70
	Pakistan	24.10	10.40
	Sri Lanka	18.80	15.43
Pakistan	Bangladesh	21.10	6.58
	India	53.60	7.91
	Nepal	16.60	6.83
	Sri Lanka	15.60	6.58
Sri Lanka	Bangladesh	13.20	6.81
	India	5.00	9.20
	Nepal	12.00	11.72
	Pakistan	5.90	3.76

**Estimated  
Bilateral Ad-  
valorem  
Transport Costs  
in 2005**

Source: De (2008b)

# Deepening South Asian integration

1. South Asia has entered into the second era of regional integration (FTA)
2. Vision is to achieve Common (Single) Market through Customs Union and then Economic Union

# Vision of a Single Market

## SAARC Integration Next Stages: Customs Union (2015) => Economic Union (2020)

	Harmonized & integrated road and railway network	Maritime & waterways network	Aviation policy	One 'Customs'	Transit	Competition Policy
EU (10)	✓	✓	✓	✓	✓	✓
ASEAN	x	✓	✓	✓	✓	x
NAFTA	x*	✓	✓	✓	✓*	✓
SAARC	x	x	x	x	x	x

\* Except US and Mexico



# Tasks ahead

- To enhance investments in infrastructure
- To strengthen cross-border infrastructure (economic corridors)
- To improve the efficiency of border corridors
- To promote multimodal transportation and opening of South Asia Regional Transit

# Enhance infrastructure investments

- To sustain 8% regional GDP growth, South Asia needs US\$ 108 billion every year (about 12% of regional GDP) in physical infrastructure sector
- Policy suggestions:
  - Manage the infrastructure deficit through a regional infrastructure fund
  - Exchange of experiences in infrastructure financing and development

**Infrastructure Investment Need**

Countries	Annual Investment Need (2008-2012)	
	Amount (US\$ billion)	Share in GDP (%)
Bangladesh	11.55	11.24
India	74.68	9.56
Nepal	3.44	12.22
Pakistan	13.28	10.78
Sri Lanka	4.90	12.07
Total	107.85	11.64

Source: RIS (2008)

# Strengthen regional infrastructure

- Expected rise of regional trade and production network due to SAFTA, India – Thai FTA, India – Sri Lanka FTA, a.o.
  - Automobile and components
  - Textile and clothing
  - Electrical and electronics
- Regional Infrastructure to help realize the regional trade potential.
- South Asia yet to make a major breakthrough in cross-border infrastructure projects (CBIP)
  - Latin America: US\$ 68.27 billion by 2010 in CBIP
- High potential of CBIP in South Asia due to geographical contiguity.
  - India – Bhutan Partnership in CBIP (hydropower)
- Regional infrastructure attainment needs to be addressed explicitly as a part of the programme of SAARC for promoting balanced regional development.
- Need to adopt a regional strategy to facilitate CBIP
  - South Asia Regional Infrastructure Facility (SARIDF)

# Regional infrastructure investment needs in Asia

- According to ADB/ADBI (ADB-ADBI, 2009),
  - Asia needs to invest approximately **US\$ 8 trillion** in overall national infrastructure between 2010 and 2020.
- In addition, Asia needs to spend approximately **US\$ 290 billion** on specific regional infrastructure projects in transport and energy that are in the pipeline.
  - Of these regional projects, 21 high priority projects that could be implemented by 2015 at a cost of US\$ 15 billion have been identified.
  - The successful implementation of these high-priority projects and their wider regional benefits would create a strong drive toward further strengthening regional infrastructure networks.
- This amounts to an overall infrastructure investment need of about **US\$ 750 billion** per year during 2010-2020.

# South Asian transport integration

- Three strategies:
  - Asian level planning – UNESCAP
  - Regional / subregional level planning & implementations: ADB [SASEC]
  - National level planning & implementations: Individual countries, ADB, a.o
- UNESCAP: ALTID [AH + TAR]

# India's initiatives in South Asia

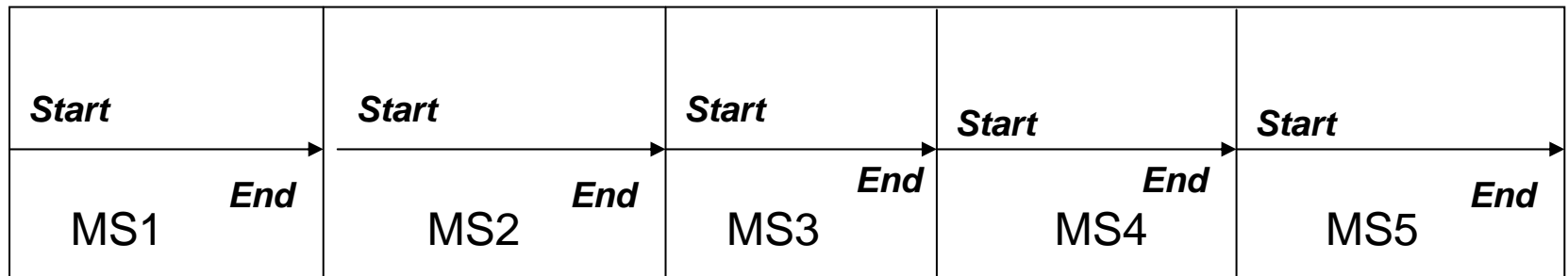
- India is providing assistance of Rs 7.47 billion for upgradation/ construction of the 215 km long road from Zaranj to Delaram in Nimroz Province in Afghanistan. The project commenced in July 2004 and a major part is completed in June 2008.
- India has developed a 34-km road project (Pasakha-Manitar Road) in Bhutan to avoid the unstable area at Sorchen on Thimphu-Phuentsholing Highway has been completed and handed over to Royal Government of Bhutan in February 2008.
- India had upgraded the Tamu-Kalewa-Kalemyo road (160 km) in Myanmar across Manipur from 1997 to 2001 at a cost of Rs. 1.20 billion. The Government of India are presently responsible for upkeep of the TTK road in Myanmar.
- India and Myanmar signed agreement (March 2008) to develop Kaladan multi-modal transit transport project in Myanmar with an investment of Rs. 5.45 billion. It envisages connectivity between Indian ports and Sittwe Port in Myanmar, and road and inland waterway links from Sittwe to India's North Eastern Region (NER). The time-frame for the project is 5 years from the date of actual commencement of the project.

# Regional transport: Progress so far

- There has been some progress in regional transportation in South Asia in recent years.
  - After the 14th SAARC Summit in 2007, the SAARC Ministers of Transport for the first time met in New Delhi on 31 August 2007.
  - SAARC Transport Ministers agreed to accord a Regional Transport and Transit Agreement, and a Regional Motor Vehicle's Agreement in 2008.
- Following SRMTS, South Asian countries have decided to launch few pilot subregional and regional projects:
  - Birgunj-Kaatihar-Singhabad-Rohanpur-Chittagong with links to Jogbani, Biratnagar and Agartala;
  - Kathmandu-Birgunj-Kolkata/Haldia;
  - Agartala-Akhaura-Chittagong;
  - Phuntsholing and Hashimara;
  - Colombo and Chennai;
  - Ferry link - between Colombo and Cochin and Colombo and Tuticorin;
  - Air link - Malé-New Delhi and Islamabad-New Delhi;
  - Establishment of modern border crossing facility at Phuntsholing.
- Feasibility study done by India to help extend railway networks in Bhutan, Nepal, Myanmar.
  - Feasibility study for setting up railway line between Birganj and Kathmandu (160 km) completed in October 2008.
  - Feasibility study for Bhutan going on
  - Construction of railway line from Jiribam-Tupui (near to Imphal) has commenced
- Agreement signed with Myanmar on Kaladan Multimodal Transport project.

# Common Transit Procedure for South Asia

Traditional transit procedure - a series of standardized national transit procedures

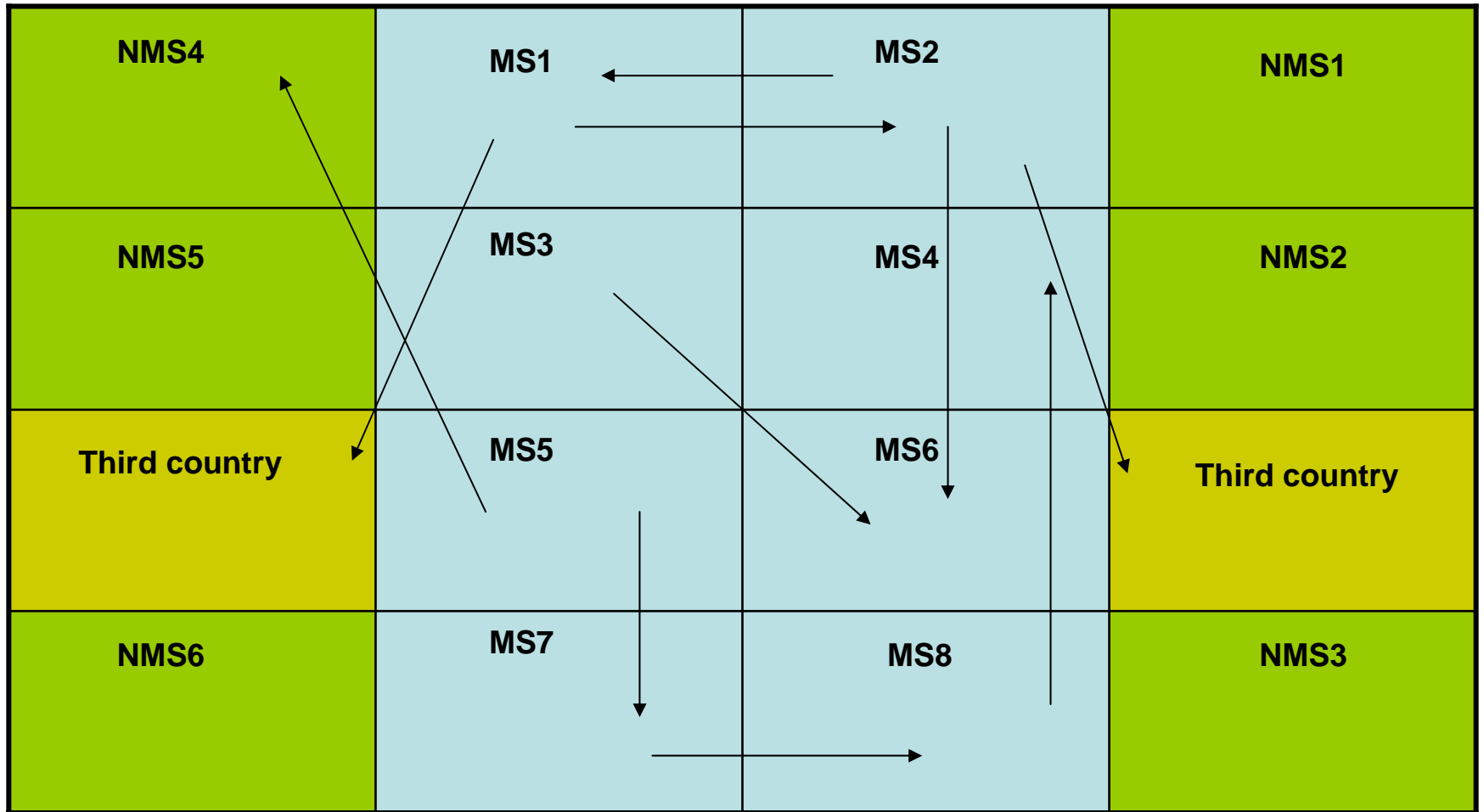


Common transit procedure - one single procedure from start to finish





# No free circulation of goods in South Asia

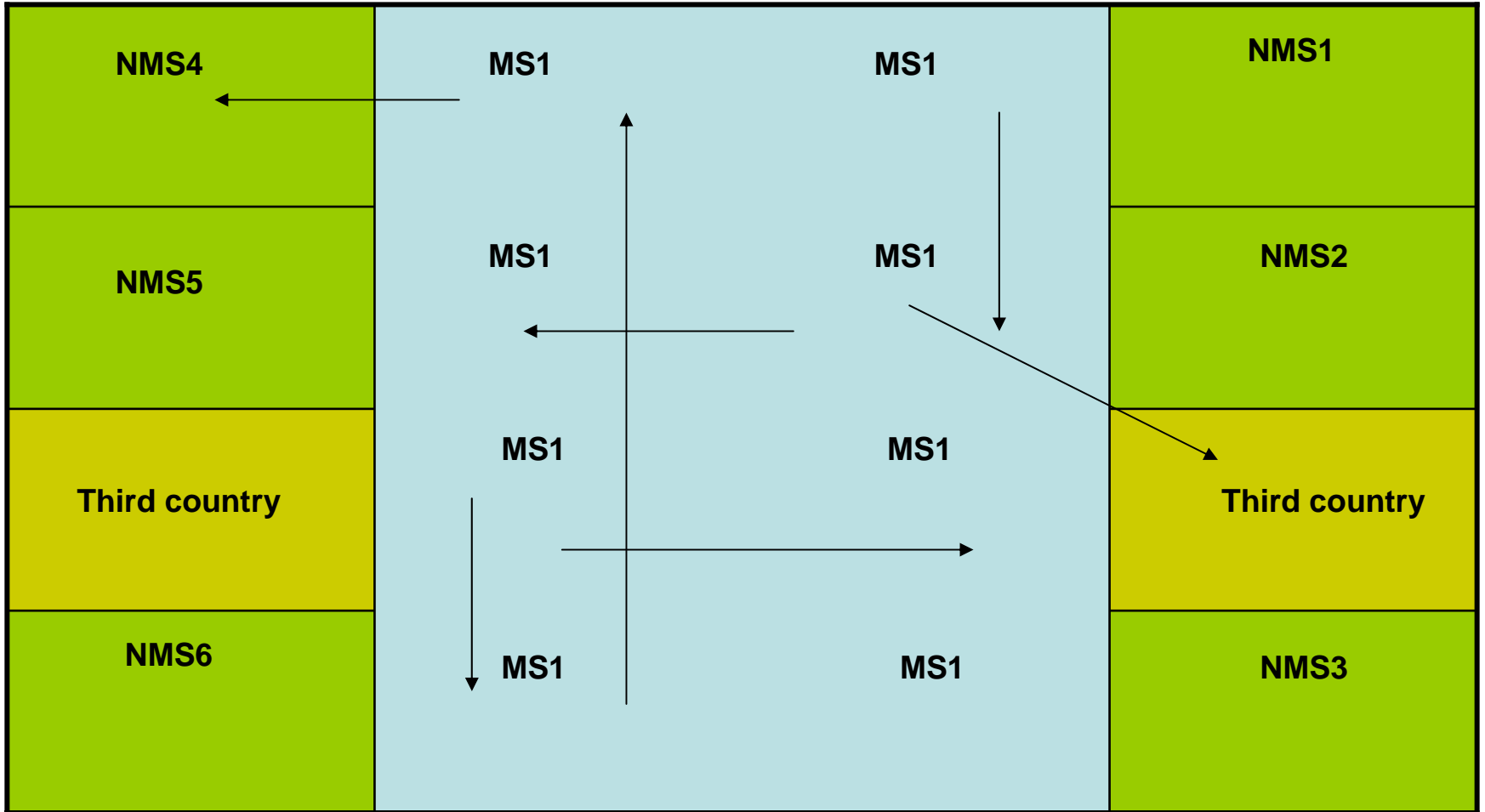


MS: member state (SAARC) (Bangladesh)

Third country – (EU)

NMS: Non-member state (SAARC), (Myanmar)

# Common transit must for SAARC common market



# Regional transit – benefits to small countries

- Bangladesh can earn hefty revenue (over US\$ 1 billion per annum) as transit fees from Indian vehicles plying to and from India's North Eastern Region (NER) to rest of India using Bangladeshi soil using two corridors. The amount may go-up if other corridors between India and Bangladesh are also counted.
- Similarly, transit arrangement between India, Pakistan and Afghanistan will fetch a hefty royalty to Pakistan for movement of vehicles between India and Afghanistan using Pakistani soil.
- There are also huge gains associated with energy conservation due to transit and efficient use of resources.

## Estimated Transit Revenue of Bangladesh for India – Bangladesh Trade

CORRIDOR	COUNTRIES	BORDER CROSSINGS	REVENUE OF BANGLADESH FROM TRANSIT (US\$ PER ANNUM)*
SHILLONG – SYLHET – DHAKA – KOLKATA (721 KMS)	INDIA & BANGLADESH	DAWKI (INDIA) /TAMABIL (BANGLADESH), BENAPOLE (BANGLADESH) / PETRAPOLE (INDIA)	US\$ 660 - 1060 MILLION
AGARTALA – AKHAURA – DHAKA – KOLKATA (478 KMS)	INDIA & BANGLADESH	AGATALA (INDIA)/ AKHAURA (BANGLADESH), BENAPOLE / PETRAPOLE	US\$ 110 - 180 MILLION

Note:\* Average during the period 2007 to 2010. Several assumptions applied.  
Source: RIS

# Regional transit: Progress so far

- All SAARC countries have in-principally agreed to regional transit.
- Motor Vehicle Agreement is being negotiated.
- India's initiative to strengthen land border
  - India's ICPs and LPA [INR 7 billion investment]
- Harmonization of standards and mutual recognition in transport sector has been the key issue in South Asia.
  - SAARC has Inter-Governmental Group (IGG) to advice on facilitation of transport in South Asia.

# Improve efficiency of border corridors

- The full regional connectivity in South Asia would likely to redistribute the regional trade and traffic among the existing corridors.
- An efficient corridor is very important in order to maximize the benefits of full regional connectivity.
- Efficiency of border corridors and land customs stations (LCSs) is an important factor for South Asia's competitiveness and its trade prospects.
- The renewed objectives of the trade facilitation measures would be to
  - Constantly improve the performance of border corridors and land customs stations (LCSs)
  - Eliminate the asymmetry between the LCSs pair
  - Effective coordination among border management authorities
- Set-up **SAARC Single Window** [Customs] – ASEAN case in point
  - India's LPA and ICP forward looking steps
- Set-up South Asian Regional Standards Organization

# **Deepening regional integration: Policy recommendations**

- **Narrowing the Infrastructure Gap and Initiatives for Infrastructure Financing**
- **Multimodal Transportation and Opening of South Asia Regional Transit**
- **Opening of SAARC regional economic corridors**
- **Building a Trans-South Asian Railway Network**
- **Strengthening Inland Waterways, Ports and Shipping, and Aviation**
- **Accession to International Conventions of Transit Trade**
- **Strengthening and Harmonizing Rules, Regulations, and Standards**
- **Simplification of Processes and Procedures in Trade Transactions**
- **Financing Cross-border Transport Projects**
- **Strengthening Coordination among Countries and Stakeholders**
- **Stronger security**
- **South Asia Common Transport Policy**

# Comprehensive Transport Action Plan

- A **Comprehensive Transport Action Plan** for entire South Asia:
  - Integrate national connectivity with regional connectivity, multimodal transportation
  - Transit MUST [no multiple handling at borders]
  - Remove the barriers at borders – visible and invisible
  - Improve regional air connectivity, touching capital cities of Asia
  - Negotiate MVA, Customs cooperation, etc.
  - More engagement of private sector in cross-border transport projects
  - An exclusive South Asian fund for capacity building of LDCs and landlocked countries in cross-border transportation
- Keep expanding and strengthening South Asia's overland linkages through regional/subregional initiatives
  - ALTID
  - GMS corridors
  - CAREC highways
  - BIMSTEC highways
  - Other regional corridors [e.g MIEC]

**Thank you**