

## **Trade Facilitation, Trade Costs and Inclusive Development** *A Case Story of Attari-Wagah Border of India and Pakistan*

### **Background and Context**

Trade facilitation is a vital element of trade and development agenda of developing countries. In recent times, trade facilitation initiatives have been undertaken by many developing countries to provide reliable, transparent and predictable environment for the movement of goods and services, across the border. Trade facilitation measures include a broad set range of activities, such as institutional and regulatory reforms and trade-related infrastructure.

In the context of South Asia, trade facilitation emerges as one of most important areas of public policy discussion because of its role in the reduction of trade transaction costs and enhancing intra-regional trade. South Asia is one of least integrated regions in the world despite notable initiatives for regional economic integration including the implementation of South Asia Preferential Trade Agreement (SAPTA) in 1997 under the broader framework of regional economic cooperation of the South Asian Association for Regional Cooperation (SAARC). The slow growth of intra-regional trade under the SAPTA propelled South Asian countries to move forward for further economic integration by establishing the Agreement on South Asian Free Trade Area (SAFTA) in 2006. The aim of this agreement was gradual reduction in tariffs and custom duties on nearly all traded goods in the region.

Despite these developments, intra-regional trade among South Asian countries has not increased and still hovering around less than five percent of their global trade. A recent study conducted by the World Bank shows that South Asian countries are poor performers on various trade facilitation indicators. In 2013, India's overall rank on *Trading across Borders* was 132 out of 189 countries, while Bangladesh, Nepal, Pakistan and Sri Lanka ranked 130, 177, 99 and 51, respectively.

### **Current State of Trade Facilitation in India**

Literature as far as India's trade is concerned shows a wide range of trade facilitation issues, especially relating to infrastructure and documentation. India liberalised its trade regime in the year 1991 and gained a lot from this process. A pre-condition of trade-led globalisation process is that trade liberalisation has to be actively supported by trade facilitation measures in order to maximise welfare gains.

A KPMG (2010: Logistics in India) report on logistics in India shows the efficiency of the Indian logistics sector in relation to the global average. The report points out some inefficiency in the Indian logistic infrastructure: average truck speed in India is around 30-40 kilo metre per hour and the global average is around 60-80 kilo metre per hour, while the airport waiting time for exports and imports are 50 and 182 hours, respectively. The global average stands at 12 and 24 hours. As far as turn-around time at ports is concerned it takes 84 hours on an average in India whereas it takes 7 hours in Hong Kong and Singapore.

## Trade Facilitation and Trade Costs: Empirical Evidence

The importance of trade facilitation reforms for smoothening trade flows, especially trade originating from and destined to the developing world, has been thoroughly researched and well documented. UNCTAD (2006: Technical Notes on Essential Trade Facilitation Measures), McLinden (2006: Trade Facilitation: Progress and Prospects for the Doha Negotiations), Engman (2005: The Economic Impact of Trade Facilitation), Arvis (2005: Transit and the Special Case of Landlocked Countries), Albuero (2005: Implementation of Trade Facilitation Measures: Needs, Costs and other Issues for the WTO Negotiations) are some of the notable contributions in this regard.

These studies and other notable works including Wilson *et al* (2005: Assessing the Benefits of Trade Facilitation: A Global Perspective) and OECD (2005: Looking Beyond Tariffs: The Role of Non-Tariff Barriers in World Trade) have laid emphasis on trade facilitation needs and bottlenecks in reform measures in the context of the agenda of trade facilitation negotiations under the WTO Doha Development Round.

These studies report inefficiencies including poor port, rail, and road transport infrastructure, poor customs management, administrative and licensing restrictions, non-transparent trade rules etc. as some of the common problems faced by the developing regions. They also note financial and knowledge constraints on the part of inefficiency inflicted countries and hence support the WTO agenda for reforms through, voluntary commitments, aid and capacity building.

Trade costs, as defined by Anderson and Wincoop (2004: Trade Costs), include all costs incurred in getting a good to a final user other than the marginal cost of producing the good itself: transportation (both freight and time), policy barriers (tariffs and non-tariff barriers), information, contract enforcement, costs associated with the use of different currencies, legal and regulatory, and local distribution (wholesale and retail). Ultimately, these costs make goods more expensive for the consumer and compromise the competitiveness of the domestic economy.

Reducing international trade cost is an important policy measure for developing countries. Many studies have emphasised more on the need for reducing non-tariff barriers (NTBs) than tariff reforms. According to Duval and Utoktham (2010: Intraregional Trade Costs in Asia: A Primer), tariffs contribute to less than 10 per cent of the trade cost in the Asian sub-regions whereas the rest comprises of NTBs.

World trade has increased manifold in the last 50 years and the reason being decrease in trade costs, as explained by Hummels (2007: Transportation Costs and International Trade in the Second Era of Globalization). In a similar study, Walkenhorst and Yasui (2009: Quantitative Assessment of the Benefits of Trade Facilitation) argued: a one per cent reduction in trade transaction costs in the world results in raising the world income by US\$40bn.

Cook *et al* (2005: Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction) examined the impact of transport and energy infrastructure on poverty reduction in the case of China, India and Thailand. The study found that there were enormous gains to the local people from the improvement in those sectors as they have provided more business opportunities to the local people.

Trade facilitation reforms in administrative procedures and documentation will decrease the number of days spent at the border. Wilson (2009: Examining the Effect of Certain Customs and Administrative Procedures on Trade) showed that decrease in time spent at the border has considerable gains for exporting as well as the importing country. The two parameters that the study has considered are: number of documents and signatures required to export or import in a region. As per this measure, South Asia ranks second from last, just above Sub-Saharan Africa, with 8.1 documents and 12.1 signatures on an average while exporting and 12.8 documents and 24.0 signatures on an average while importing. On an average, the total time taken to export is 33.7 days and 46.5 days to import.

### **A Case Story of Attari-Wagah Border of India and Pakistan**

Given these evidences, the main objective of the study undertaken by CUTS International was to assess the impact of current trade facilitation initiatives in India and their impact on the reduction of trade costs and inclusive development. In this study, a survey was carried out at specific border points to understand the impact of trade facilitation measures in promoting cross-border trade and socio-economic development of the local economy.

India and Pakistan share an important border point at Attari-Wagah, which is the only land route for trade between the two countries. Although cross-border trade at this border point is confined to only 137 products mutually agreed between the two countries, they understand the importance of this border point for improving their bilateral trade. India's major export to Pakistan include soya meal cake, fresh fruits and vegetables, biscuits, fresh meat, cotton bales, household goods and polypropylene granules. On the other hand, India's major import from Pakistan include gypsum rock, clinker, gypsum powder, salt, soda ash, dry fruits, caustic flake, dry dates, herbs, hydrogen peroxide, limestone, calcium, sugar and household goods.

In recent years, some trade facilitation measures at the Attari-Wagah border point have played an important role in improving trade between the two countries and changing the livelihoods of people living across border areas. In 2012, the Government of India established an Integrated Check Post (ICP) at Attari in Indian Punjab, bordering Wagah in Pakistan Punjab. It has a dedicated cargo terminal building measuring 4700 square metres, import ware house measuring 7400 square metres, export ware house measuring 3400 square metres and a parking area of trucks measuring 55000 square metres for efficient cargo processing. It provides one-stop integrated facilities such as quarantine, isolation rooms, fumigation centres, weigh bridge, public address system, boom-barriers, dormitories. Similar facilities are being developed at Wagah, the Pakistan side of this border point.

### **A Snapshot of Attari-Wagah Border**



According to the data provided by the Indian Customs, in 2012-13, the total value of imports through this border was US\$ 292 million (54% of India's total imports from Pakistan in that year) as against US\$ 161 million in 2011-12, while exports touched US\$ 509 million in 2012-13 (25% of India's total exports to Pakistan in that year) as compared to US\$ 229 million in 2011-12. This increase in trade was mainly attributed to the establishment of this ICP. Traders have shared that the commencement of the ICP has significantly reduced their trade transaction costs and provided a speedy clearance of consignments across borders.

This ICP can now handle ten times the number of trucks to pass conveniently as against 100-150 trucks a day earlier and the cargo movement between the two countries is allowed for 12 hours (from 0700hour to 1900 hour) as against eight hours earlier. Traffic congestion is negligible since the token system for traffic clearance was introduced. In short, since the establishment of this ICP the number of trucks, volume of export as well as import had increased substantially (Table 1).

Year	India's Export to Pakistan		India's Import from Pakistan	
	No. of Trucks	Volume (Metric Tonnes)	No. of Trucks	Volume (Metric Tonnes)
2012-13	41248	871,597	33,599	1,174,565
2013-14	46105 (11.78%)	937,157 (7.52%)	39,379 (17.20%)	1,476,161 (25.68%)

*Note: Figures in parentheses are annual growth in percentage.*

*Source: Amritsar Customs, Central Board of Excise & Customs, Department of Revenue, Government of India*

In our survey, we found that this ICP has not only helped in reducing trade transaction costs through speedy clearance of goods but also changed the socio-economic conditions of local people across borders. Improvement in trade-related infrastructure has facilitated greater commercial activity and created employment opportunities. Local people have started their own shops, hotels and restaurants, transport agencies and communication centres in surrounding areas. Private banks have also started setting up their branches. Trade-induced services are thriving in the surrounding areas which have positive impacts on the lifestyle of the local people.

While it is obvious that the establishment of this ICP has played an important role in increasing bilateral trade flows between India and Pakistan through the Attari-Wagah border, increased movement of number of trucks and volume of trade have positive impact on other commercial activities in that area.

### **Lessons Learned**

This case of Attari-Wagah border (the only land trade route between India and Pakistan) clearly signifies the importance of trade facilitation measures and their impacts on the reduction of trade costs and inclusive development. Effective trade facilitation measures have provided seamless flow of consignments across this border point and significantly increased the trade volume. The local trading communities have expressed that this development has created more business opportunities for both the countries, leading to job creation and skills development.

It is also observed that there is a need for integrating the railway line at Attari into the ICP in order to speed up the process of clearance of consignments. This is particularly important for bulk items such as gypsum, cement.

Furthermore, the Pakistan side of this ICP lacks adequate facilities for substantial enhancement of trade volume and this asymmetry needs to be corrected on a priority basis, in view of increasing trade flows across this border.

This ground level evidence on the impacts of trade facilitation on inclusive development suggests that both countries should not only increase the number of goods to be traded through this border point but also provided a strong case for opening other border points for enhancing cross-border trade between India and Pakistan.