Reforming Non-Tariff Barriers

Case for a Participatory Approach in South Asia

CUTS International

Reforming Non-Tariff Barriers

Case for a Participatory Approach in South Asia

Reforming Non-Tariff Barriers

Case for a Participatory Approach in South Asia

30 1983 2012 CUTS International

Reforming Non-Tariff Barriers

Case for a Participatory Approach in South Asia

Published by

D-217, Bhaskar Marg, Bani Park
Jaipur 302016, India
Tel: +91.141.2282821, Fax: +91.141.2282485
Email: cuts@cuts.org
Web site: www.cuts-international.org

With the support of

The Asia Foundation

In partnership with

© CUTS International, 2013

First published: July 2013

This document has been produced by CUTS International with the financial assistance of The Asia Foundation and in partnership with Unnayan Shamannay, Dhaka, Bangladesh; South Asia Watch on Trade, Economics and Environment, Kathmandu, Nepal; Sustainable Development Policy Institute, Islamabad, Pakistan; and Institute of Policy Studies, Colombo, Sri Lanka under a project entitled "Promoting Participatory Approaches for Removing Regional Trade Barriers in South Asia (COENCOSA Phase II)". The views expressed here are those of these organisations and can therefore in no way be taken to reflect the positions of The Asia Foundation.

ISBN: 978-81-8257-195-2

Printed in India by Jaipur Printers Private Limited, Jaipur

#1320

Contents

Section II – Incidence of Non-Tariff Barriers: Sectoral Case Studies

Section III – A Business Plan for Reforming Non-Tariff Barriers in South Asia

List of Tables

List of Figures

List of Boxes

List of Annexes

Foreword

South Asia holds vast potential for economic development. In relative terms, the modern era growth story of this region has picked up sustained momentum in the last decade. This growth is still fragile due to the world economic scenario, but has much promised potential.

Over the last two decades, intra-regional trade in South Asia has stagnated at a level far below its potential. The need of the hour is, therefore, to put in place specially targeted reforms to enhance trade relationships among the South Asian countries. Better inter-regional trade and investment can be a powerful tool to help the poor of our region. South Asia accounts for about one-fourth of the world's population, but its proportion of the poor of the world is much higher. For such anti-poverty strategies, the SAARC countries need to shift from the mind set of 'zero sum' negotiations to the mindset of 'win-win' strategies that can be evolved through greater regional integration, trade and investment.

While overall intra-regional trade among the South Asian countries is hovering around 5 per cent of their total trade, if we exclude bilateral trade between India and Pakistan this figure jumps to 18 per cent. Therefore, improvement in the bilateral trade between India and Pakistan, being the two largest economies in the region, is evidently crucial for the future of regional economic cooperation in South Asia. Several

encouraging initiatives have been undertaken in this direction and we hope to move forward in a positive direction.

We have not been able to see corresponding improvement in the inter-regional trade figures, even after the recent reductions in tariff rates. This has been attributed to the high cost of this trade, which implies the prevalence of non-tariff barriers including procedural barriers. Non-tariff barriers are perceived as a major challenge for enhancement of intra-regional trade in South Asia.

Government of India has been consistently taking initiatives to address challenges emanating from non-tariff barriers. It is in this context that the present study is a commendable effort as it advocates a new approach to address the cost of doing trade in South Asia – an interventionist and participatory role of the private sector, civil society organisations and other important stakeholders in the identification and removal of non-tariff barriers and other procedural barriers to intra-regional trade facilitation. It emphasises on the need for an inclusive approach, in which various stakeholders are required to share responsibilities and support governmental efforts for effectively addressing challenges to reduce the cost of doing trade in the region.

I congratulate CUTS and its partner organisations in other South Asian countries on this timely initiative and hope that it will help in advancing our agenda for a better and more balanced regional economic cooperation. I understand that CUTS will launch a network of policy champions to take forward this agenda.

I wish them success in their future endeavours on this subject.

Arvind Mehta
Joint Secretary (SAARC Division)
Department of Commerce
Ministry of Commerce and Industry, Government of India

Foreword

With Most-favoured Nation (MFN) tariffs coming down, Non Tariff Barriers (NTBs) are gaining in importance across the world including South Asia. Whilst the Agreement on South Asia Free Trade Area (SAFTA) has made some headway in moving towards duty-free access for tradable goods, NTB issues have tended to remain relatively less-addressed within the context of the South Asian Association for Regional Cooperation (SAARC).

It has been observed that the SAARC countries have in place several ad-hoc restrictions and NTBs on imports and the general consensus is that the SAFTA Agreement has not been able to address the NTB issues with due diligence. Although South Asian nations are making efforts to address the NTBs, a workable trade facilitation mechanism at regional level is earnestly required as such in most cases, Trade Facilitation and Non-Tariff Measures (NTMs) are interrelated.

Feeling the gravity of NTB issues, many international and regional organisations like UNCTAD, Transparency in Trade (TNT) have been involved to address the emerging challenges. However, NTM databases at the best gives partial coverage and vague information because of the difficulties in collecting, standardising, and formatting NTMs from scattered, complex legal texts etc. Collection of data using both reporting and survey methods have their respective fundamental

shortcomings and henceforth the information collected on NTMs does not provide an accurate picture about whether and to what extend individual NTMs act as trade barriers. Furthermore, quantification of trade costs owing to NTMs is even more difficult and only crude methods have been developed and used till date for calculating *ad valorem* equivalents of NTMs. The effort of CUTS to address the NTB issues through participatory approach i.e. consultative dialogue amongst stakeholders as an alternative mechanism is indeed commendable and value addition to efforts in this regard.

The taxonomy and evaluation of NTMs and NTBs are more complex in South Asian region as they are often characterised with syndrome like lack of political will, which being a qualitative term has not been quantitatively evaluated. Dependence remains on borrowed information instead of adoption of indigenous approach to address both NTMs and NTBs. This study has not only successfully differentiated between NTMs and NTBs but also provides rationale that how incidences of NTMs and NTBs in trade cycle have multiplier effect on cost escalation of goods and services.

The study has identified core issues pertaining to NTBs and highlighted many shortcomings in respect of regulatory framework of relevant public sector organisations, which are predominantly dictating policies whether or not suitable to address the issues. The idea for introducing suitable institutional design for NTB Reforms could thus be an important step forward and suggests a formal and well defined an effective institutional setup to address the issue of NTBs in line with Article 3(1.c) of SAFTA, which proposes for creation of effective mechanism for the implementation and application of the agreement, for its joint administration and for the resolution of disputes.

The involvement of the Private Sector in addition to other stakeholders under a unified body could only be instrumental

to address and resolve the NTB issue more effectively with laws that bind member states rather than the present inadequate mechanism that is being in existence under SAFTA's provisions. It will also help in changing the role of the Governments from regulators to facilitators. The approach to involve national chambers and federations under the umbrella of SAARC Chamber of Commerce and Industry (SAARC CCI) to notify their NTB related complaints is quite applicable as SAARC CCI is mandated to provide Arbitration in the settlements of commercial disputes. This institutional mechanism can help address NTB issues forwarded to SAFTA Ministerial Council (SMC) for policy formulation and implementation.

The study provides enough literary review, analysing patterns of South Asian trade, which shows evidence of high prevalence of NTBs, determining that trade liberalisation policies were asymmetrically applied to the effect that facilitation needs of intra-regional trade were left unattended.

International experience particularly of China and Association of Southeast Asian Nations (ASEAN) suggest improvement of other indicators like Employment Trends Index (ETI), competiveness, Logistic Performance Index (LPI), infrastructure, facilitating supply chain mechanism in South Asia. The study has quantified considerable impact on increase in cost of business operations, which is higher than China and ASEAN region.

Since on efficiency of trade systems, performance of South Asian countries are found as far below benchmarks, as the result of that many products with higher regional trade potential remain non-traded. There is plenty of empirical evidence that suggests trade within the region suffers from high non-tariff costs despite geographical proximity. The region suffers from excessive compliance costs for standards imposed because of lack of mutual recognition of standards

and product testing certification, excessive logistical costs and excessive trade financing costs. There is need for harmonisation of policies and procedures mutually recognised by all member states of South Asia.

If regional cooperation is to be deepened through vertical integration and promoting cross border supply chains, NTBs in South Asia have to be addressed adequately with due importance. Since NTBs pose the next major challenges from the perspective of strengthened regional economic and trade cooperation in South Asia, a greater political will shall be required to address the challenges of NTBs across the region.

The study "Promoting Participatory Approaches for Removing Regional Trade Barriers in South Asia : A Roadmap for Reforming Non-Tariff Barriers" is an important endeavour of CUTS, which is not only an innovative contribution to literature but also provide practical suggestions to address NTBs in more meaningful manner.

I indeed commend the management of CUTS for their vision and wish all success ahead!

Muhammad Iqbal Tabish
Secretary General
SAARC Chamber of Commerce & Industry
Islamabad, Pakistan

Preface

In this difficult time when economies around the world are yet to navigate out of the worst turbulence that they have faced in a very long time, and are looking for new policy ideas and some of them are enthusiastic to embrace change. When the financial crisis and the sovereign debt crisis hit the rich countries in the northern hemisphere in quick succession and when the danger of their impact on the rest of the world loomed large over the last five years, autarkic tendencies re-emerged and threatened to reverse the forward-looking agenda of trade liberalisation.

The great appeal of the benefits of open trade with right regulations turned out to be too robust to let such a reversal happen. As an aftermath of the crises, certain flaws of the traditional approaches to trade liberalisation got exposed. Therefore, more than ever before, the global trade community needs solutions now to make trade more welfare generating for the deprived millions.

The most critical deficit in the functioning of trade agreements is their sub-optimal influence on reforming trade barriers other than tariffs. Commonly known as non-tariff barriers, these obstacles to trade are of different varieties and a range of policy tools have been developed and applied to reduce their distortive effects.

Therefore, two different courses of action were taken at the global level. The first course was to apply specific laws

and firm enforcement system to discipline NTBs and the injured have opportunities to wage and win legal battles against unjustfiable NTBs in the WTO's Dispute Settlement Body. The second one was to assist countries, which lack the capacity to address NTBs, through aid and allied capacity building initiatives, commonly known as 'trade facilitation'.

While both approaches did help to make incremental improvements towards removing barriers, particularly, those which affect large scale trade transactions, unfortunately they failed to make any significant progress towards changing a myriad array of procedural NTBs that mostly affect small-scale traders from developing countries. This is mainly because of their poor accessibility to legal recourses and limited aid availability and their effective use.

At the same time, efforts to address NTBs at the multilateral (WTO) level are caught up in discussions on their definition, alternative methods of determination of their trade distortive effects etc. When our conceptual understanding of 'what NTBs really are' is itself a work-in-progress, it is not surprising that remedial measures also remain less than optimal.

Thus, the future of trade liberalisation undeniably depends on how well we are able to tackle NTBs. What we need now is out-of-the-box thinking and unexplored methods. This study was undertaken in such an adventurous spirit to explore alternative routes to NTB reforms in the context of South Asia's intra-regional trade. This is a region where there is a dire need of makeover in the current state of trade relations between neighbouring countries.

Our study boldly brushes aside the ongoing debates on definition, classifications and other technical details of NTBs. It looked at the term 'Non-Tariff Barriers' as per its literal meaning and dismisses the distinctions that are drawn between different types of NTBs, accepting the basic fact that a barrier remains so irrespective of how it came into being. In a

dispassionate and objective manner it examines the fundamental problems of current approaches to NTB reforms in South Asia and finds it as an example of "incentive failure" that is currently in place in the system of addressing NTBs.

While private business houses, especially small-scale manufacturers and traders who are the direct victim of NTBs, have hardly any say in the process of their reforms, governments are hesitant to make a strong case for reforms with alternative approach as they are unsure of potential monetary benefits for want of quantitative data.

In reality, it is in the self-interest of businesses to do (and they habitually do) cost-benefit assessments, considering all potential alternatives, and explore possible solutions for cost savings as well as enhancement of benefits. Businesses have the right incentives complain about the barriers that they face, they are in possession of crucial information needed for reformative actions, and they are in a position to calculate costs and benefits thereof. If this wealth of information can be fed into the governmental process of trade liberalisation, particularly reforms to remove/harmonise NTBs, it will become an incentive-driven system as costs and benefits are clearly visible to our trade policy-makers.

In an incentive-driven system, enforceability will have a secondary role to play. It would be a system with proactive participation with focus on economic costs and benefits, with transparency, with responsibility-sharing between exporters and importers, business organisations, governments and other relevant stakeholders. Such a system would limit politicisation of trade reforms and would lessen the burden of reform process on the part of the governments. The key words for this system to effectively operate are 'cooperation' and 'participation'.

Having laid out the benefits of a participatory approach to NTB reforms and the contours of a system that can act as a

vehicle to operate this approach, we have done a detailed analysis of the feasibility of operating such a system in South Asia. We found that the rudiment of a facilitative system for participation of businesses in regional trade reforms is already in place in the form of SAARC Chamber of Commerce and Industries.

This body, founded and recognised by the members of the South Asian Association for Regional Cooperation as one of its arms, is mandated with the responsibility of uniting business organisations, big and small, from all over the region and empower them in reaching out to the policy-makers at the highest level with their demands and suggestions.

Through this work CUTS and its strategic partners from other South Asian countries demonstrate that operationalisation of this participatory approach to NTB reforms in the region would remove/harmonise procedural as well as public interest related barriers to cross-border trade benefiting a large number of small-scale producers and traders and result in reduction in costs of intra-regional trade up to US$4bn annually. We have estimated that if this approach is operationalised then there will be a three-fold increase in intra-regional trade in South Asia within a short span of five to seven years.

To conclude, this work makes a well-grounded and legitimate "Call for Change". I thank The Asia Foundation and our strategic partners in South Asian countries for extending their help to CUTS for making this Call. And I encourage and urge my colleagues at CUTS to continue to work hard till this Call is realised.

Pradeep S Mehta
Secretary General
CUTS International

Acknowledgement

This publication is the result of a year-long project on "Promoting Participatory Approaches to Remove/ Harmonise Non-Tariff Barriers in South Asia", supported by The Asia Foundation. A diverse set of stakeholders, representing different interests and having deep interest on issues of regional economic cooperation in South Asia have contributed to this work. I hereby acknowledge their valuable inputs and wholeheartedly thank them for extending their helping hands.

I express our gratitude and appreciation to The Asia Foundation for their extensive support and involvement in this project. Special thanks are due to Nick Langton, Gareth Aicken, George Varughese, Saima Anwer, Shahid Fiaz, Syed Al-Muti, Veronique Salze-Lozach, Nina Merchant, Katherine Loh, Mandakini D. Surie and Diya Nag of The Asia Foundation. They have not only helped us in laying the foundation of this project but also have reviewed our work-in-progress, providing timely and valuable suggestions.

This study also benefitted from the unreserved assistance extended by our partner organisations from other South Asian countries. Their useful contributions including conducting sectoral case studies, organising local meetings, facilitating media briefings and reviewing the technical content of the study are acknowledged. I thank them for sharing our passion for bringing about policy reforms in South Asia that benefits

the people at large and for partnering with us in a strategic manner towards the realisation of this goal. They are:

- Unnayan Shamannay, Bangladesh
- South Asia Watch on Trade, Economics and Environment, Nepal
- Sustainable Development Policy Institute, Pakistan
- Institute of Policy Studies, Sri Lanka

Special thanks are due to:

- Shaheen-ul-Alam, Mahfuz Kabir and Nazrul Islam of Unnayan Shamannay
- Ratnakar Adhikari, Dhrubesh Chandra Regmi, Puspa Sharma, Neelu Thapa and Prakash Ghimire of SAWTEE
- Abid Suleri, Vaqar Ahmed and Saad Rajput of SDPI
- Saman Kelegama, Dushni Weerakoon, Raveen Ekanayake and Ashani Wickremaratne of IPS

Many subject experts and noted policy champions have made valuable suggestions to improve the content of this study. I thank all of them. They are:

- Amrit Lugun, Director, SAARC Secretariat, Kathmandu
- Atindra Sen, Senior Advisor for India, Transnational Strategy Group LLC, Mumbai
- Biplove Choudhary, Programme Specialist, United Nations Development Programme, Asia-Pacific Regional Centre, Bangkok
- Bishnu Prasad Adhikari, Senior Officer, Federation of Nepalese Chambers of Commerce and Industry, Kathmandu
- Humayun Kabir, Vice President, Bangladesh Enterprise Institute, Dhaka
- Indira Murthy, Director (SAARC Division), Department of Commerce, Government of India

- Jahangir Bin Alam, Secretary, India-Bangladesh Chambers of Commerce and Industry, Dhaka
- Khairuzzaman Mozumder, Deputy Secretary, Ministry of Commerce, Government of Bangladesh
- M. A. Razzaque, Adviser & Head of International Trade and Regional Cooperation Section, Economic Affairs Division, Commonwealth Secretariat, London
- Manab Majumdar, Assistant Secretary General, Federation of Indian Chambers of Commerce and Industry, New Delhi
- Manzur Ahmad, Adviser, Federation of Bangladesh Chambers of Commerce and Industry, Dhaka
- Majyd Aziz, Ex-President, Karachi Chambers of Commerce and Industry, Pakistan
- Moana Bhagabati, Fellow, Lal Bahadur Shastri National Academy of Administration, Mussoorie
- Mohini Datt, Trade Policy Analyst, South Asia Region, World Bank, New Delhi
- M Satish Kumar Reddy, Director, Central Board of Excise & Customs, Department of Revenue, Government of India
- Nagesh Kumar, Director Sub-Regional Office for South and South-West Asia, and Chief Economist, United Nations Economic and Social Commission for Asia and the Pacific, New Delhi
- Pankaj Pandey, Senior Programme Manager, SAARC Information Centre, Kathmandu
- Prabir De, Senior Fellow, Research and Information System for Developing Countries, New Delhi
- Pranav Kumar, Head, Trade and International Policy, Confederation of Indian Industry, New Delhi
- Rajiv Kumar, Senior Fellow, Centre for Policy Research, New Delhi

- Robina Ather, Joint Secretary, Customs and Trade Policy, Ministry of Commerce, Government of Pakistan
- Rupa Chanda, Professor, Indian Institute of Management, Bangalore
- Sabrina Varma, Trade and Economic Adviser South Asia, Australian AID, Canberra
- Sajal Mathur, Professor, Centre for WTO Studies, Indian Institute of Foreign Trade, New Delhi
- Sandeep Kumar, Commissioner, International Customs Division, Central Board of Excise & Customs, Department of Revenue, Government of India
- Sushmita Pradhan, Senior Programme Officer, SAARC Trade Promotion Network, Kathmandu
- Somi Hazari, Former President, India-ASEAN-Sri Lanka Chamber of Commerce and Industry, Chennai
- Tuhin Sen, Lead Strategist, Global Development Network, New Delhi
- Umer Bhatti, Trade Policy Expert, Ministry of Commerce, Pakistan Secretariat, Government of Pakistan
- Vikramjit Singh Sahney, President, SAARC Chamber of Commerce and Industry and Managing Director, Sun Group, New Delhi

I also thank all the participants of stakeholder consultation meetings and public-private dialogues organised in Bangladesh, India, Nepal, Pakistan and Sri Lanka. We are extremely grateful for the enthusiastic support and knowledge-sharing by the participants of our regional consultation meeting which was held in New Delhi on 11th April 2013.

Special thanks are due to Federation of Indian Exporters Organisation, Federation of Bangladesh Chambers of Commerce and Industry, Federation of Nepalese Chamber of Commerce and Industry and Federation of Pakistan Chamber

of Commerce and Industry who have partnered in organising the stakeholder consultation meetings and public-private dialogues in various cities across the region.

I am grateful to the Department of Commerce, Government of India, the SAARC Chamber of Commerce and Industry, the Federation of Indian Chambers of Commerce and Industry and many other such bodies for endorsing the approach to NTB reforms that we are advocating.

I thank my colleagues at the CUTS Centre for International Trade, Economics & Environment. With support from Taramani Agarwal and Renu Beniwal, Anuthosh Biswas coordinated the implementation of this project. With support from Vinayak Kant Mishra and Taramani Agarwal, Joseph George is the lead author of this publication.

Manjula Lal carried out the editing of this book and Madhuri Vasnani and Mukesh Tyagi did its proof-reading and lay-outing. Arun Talwar, G. C. Jain, L. N. Sharma and Sudhir Kumar handled its financial management. I thank all of them.

Many other names deserve special mention but could not be referred here for want of anonymity. I thank them all for their support.

Finally, any error that may have remained is solely ours. We assure that we will continue with our passion to make South Asia more and better integrated contributing to better standards of living of its people.

Bipul Chatterjee
Deputy Executive Director
CUTS International

Note on Contributors

Joseph George

Joseph has an M. Phil Degree in Applied Economics from the Jawaharlal Nehru University, New Delhi with specialisation in international trade, specifically in the area of trade in services. He has undertaken extensive studies and has published on the implications of the General Agreement on Trade in Services (GATS) for regulatory authorities governing financial services in India. Currently working as a Policy Analyst at CUTS, his latest research work encompasses comparative analyses of the negotiating positions of South Asian countries in the Doha Development Round of multilateral trade negotiations as well as various economic and political aspects of functioning of the South Asian Free Trade Agreement.

Mahfuz Kabir

Mahfuz is a trade expert and currently a Senior Research Fellow at Bangladesh Institute of International and Strategic Studies, Dhaka. He holds PhD in international economics from School of Economics and Finance, Curtin University, Australia. He was a key researcher of external sector and national security components of background studies of the Sixth Five-Year Plan (2011-2015) of the government of Bangladesh. His areas of interest include international trade, household survey, time series and panel data econometrics, stochastic frontier analysis, partial and computable general equilibrium modeling.

Prakash Ghimire

Prakash is Programme Officer at SAWTEE. He has conducted a number of research studies and has been engaged in many field studies on issues of regional cooperation, farmers' rights, and foreign employment and remittances. He has contributed articles in various periodicals and newspapers. Ghimire holds an MA degree in Economics from Tribhuvan University, Kathmandu. His areas of interest are agriculture development, international trade and foreign employment/remittances.

Raveen Ekanayake

Raveen is an economist with research interests in trade, foreign direct investment, and private sector development. He was previously engaged as a Credit Analyst at a state sector development bank. He holds a Bachelor's degree in Science Accounting and Finance from the University of London and a Master's degree in Public Policy specialising in Economic Policy from the Australian National University.

Saad Rajput

Saad Rajput graduated in 2012 with a Bachelor in Science in Economics degree from the Lahore University of Management Sciences (LUMS). Working with the SDPI for almost a year as a Research Analyst, he has worked in areas of South Asian regional integration, India-Pakistan Trade, Iran-Pakistan Trade and SAARC Economic Union. He also represented Pakistan's case at the UN South Asia Regional Conference on Drafting the Post-2015 MDG framework held in Dhaka in February 2013.

Taramani Agarwal

Tara holds a master's degree in Statistics (Actuarial Science) and has graduated in Economics, Statistics and Mathematics. Her area of interest includes quantitative research and developmental economics. Currently she is working with CUTS as a Research Assistant; she has been working on the issue of non-tariff barriers (NTBs) to trade, focused on regional economic corporation in South Asia.

Vaqar Ahmed

Vaqar, a PhD holder in Economics, has worked as an Economist with the UNDP, ADB, World Intellectual Property Organisation, Oxford Policy Management, Irish Rural Economy Research Center and Ministries of Finance, Planning and Commerce in Pakistan. He is a visiting faculty member at the National University of Ireland, IMT Institute of Advanced Studies in Italy and Pakistan Institute of Trade and Development. He has served as a technical associate in the economic task force constituted by the Prime Minister of Pakistan. Currently Deputy Executive Director at the Sustainable Development Policy Institute (SDPI), he has published in areas such as quantitative analysis of growth, trade, taxation policies and infrastructure development. At SDPI he is also coordinating the National Network for Socio-economic Modelers in Pakistan. His recent project aims to integrate the economics departments in public sector universities of Pakistan.

Vinayak Kant Mishra

Vinayak has submitted his Doctoral thesis in Economics and holds a post graduate degree in Economics with specialisation in International Trade. He has undertaken quantitative economic research on projects related to fund-flow analysis of flagship schemes of government of India in the area

economics of education. He has also been engaged in research on issues relating to regional economic integration and multilateral trade. In the area of international trade, his work is particularly focused on regional trade issues, with special reference to SAARC and ASEAN. In his current engagement as Assistant Policy Analyst at CUTS CITEE, he is working on the issue of non-tariff barriers (NTBs) to trade and his area of intervention covers enhancing regional trade integration in South Asia.

Abbreviations

ACIS:	Advanced Cargo Information Systems
ADB:	Asian Development Bank
API:	Active Pharmaceutical Ingredients
ASEAN:	Association of Southeast Asian Nations
ASIDE:	Assistance to States for Developing Export Infrastructure and other Allied Activities
ASYCUDA:	Automated System for Customs Data
BSTI:	Bangladesh Standards and Testing Institutions
CAO:	Custom Appellate Office
CEPA:	Comprehensive Economic Partnership Agreement
CoE:	Committee of Experts
COMESA:	Common Market for Eastern and Southern Africa
DDR:	Doha Development Round
DSM:	Dispute Settlement Mechanism
EAC:	East African Community
EPIZs:	Export Promotion Industrial Zones
ETI:	Enabling Trade Index
FDA:	Food and Drugs Authority

FSSAI:	Food Safety and Standards Authority of India
GATT:	General Agreement on Tariffs and Trade
GCI:	Global Competitiveness Index
GoN:	Government of Nepal
GTA:	Global Trade Alert
ISLFTA:	India-Sri Lanka Free Trade Agreement
ITC:	International Trade Centre
IWOGDA:	International Working Group on the Doha Agenda
LoC:	Letters of Credit
LPI:	Logistics Performance Index
MDA:	Market Development Assistance
MFN:	Most Favoured Nation
MNCs:	Multinational Corporations
MRAs:	Mutual Recognition Arrangements
NEI:	North East Indian
NFTP:	National Foreign Trade Policy
NGTF:	Negotiation Group on Trade Facilitation
NLC:	National Logistic Cell
NT:	National Treatment
NTBs:	Non-Tariff Trade Barriers
NTMs:	Non-Tariff Measures
OECD:	Organisation for Economic Cooperation and Development
PSFTA:	The Panama-Singapore Free Trade Agreement

PTA:	Pakistan Tea Association
PTAs:	Preferential Trade Agreements
RTAs:	Regional Trade Agreements
SAARC CCI:	SAARC Chamber of Commerce and Industry
SAARC:	South Asian Association for Regional Cooperation
SACU:	South African Customs Union
SADC:	Southern African Development Community
SAFTA:	South Asia Free Trade Agreement
SAPTA:	SAARC Preferential Trade Agreement
SEZs:	Special Economic Zones
SMC:	SAARC Ministerial Council
SPS:	Sanitary and Phyto-Sanitary
TBT:	Technical Barriers to Trade
TF:	Trade Facilitation
TLP:	Tariff Liberalisation Programme
TNT:	Transparency in Trade
TPRs:	Trade Policy Reviews
TRAINS:	Trade Analysis and Information System
TUFS:	Technology Up-gradation Fund Scheme
UNCTAD:	United Nations Development on Trade & Development
UNESCAP:	UN Economic and Social Commission for Asia and the Pacific
VAT:	Value Added Tax
WB:	World Bank
WTO:	World Trade Organisation

Reflections

The SAARC Secretariat would like to commend CUTS, who have been active in raising critical issues relating to trade and commerce, in bringing out this study which is well researched and well presented. The SAARC leaders and officials of the respective SAARC member states are aware of the factors that are impeding trade and commerce in the region. Non-tariff barriers or NTBs figure among the primary issues of concern and the SAFTA sub-group on NTBs was constituted with this in view. The future issues of NTBs will be addressed by the SAFTA Committee of Experts. In order to get the views of the private sector, the SAARC Chamber of Commerce and Industry is being regularly invited to some meetings dealing with trade facilitation. But for more effective voice and participation, SCCI has to become more representative of the region as has been brought out in this study. It is hoped that it is read as widely as possible both by the common person, for the purpose of greater awareness on the subject, and the policy-makers, who may find the conclusions meaningful and recommendations worth trying.

Amrit Lugun
Director
SAARC Secretariat, Kathmandu

I am pleased to read this study that aims at investigating into the nature of myriads of non-tariff barriers in South Asia which hamper growth in intra-regional trade, and outlining a plausible approach, in terms of effectively dealing with those barriers, that promises to offer a better alternative to the apparent inefficacy of the existing mechanism. As this publication accurately mentions, 'while the world markets opened up, the South Asian borders became progressively closed'. Emphasis

on extra-regional export markets meant that intra-regional trade continued to remain low with the existence of numerous non-tariff barriers and extremely inefficient land border procedures. I believe this study has rightly emphasised the need to address both policy-induced non-tariff measures and trade facilitation issues through enhanced and active participation of private sector stakeholders, as they are the ones affected by the resultant trade costs and can, therefore, provide the best impetus for undertaking necessary reforms.

Khairuzzaman Mozumder
Deputy Secretary
Ministry of Commerce, Government of Bangladesh

The policy tools, systems and institutions created for regional trade liberalisation in South Asia remain underdeveloped and far less prepared than other similar policy tools, systems and institutions that exist elsewhere. This study, in consultation with key stakeholders of this region, has proposed some alternative and more cost effective ways to remove many of these NTBs including procedural ones. It will be very useful for trade policy-makers and other relevant stakeholders of South Asian countries and should play a complementary role to trade policy-making process in the region.

Shankar Prasad Poudel,
Under Secretary
Ministry of Commerce and Supplies, Government of Nepal

Reforms in resolution of all types of Non-Tariff Barriers are crucial for improving intra-regional trade in the South Asia. This study is a timely intervention at this juncture when all the countries of the region have realised the significance of regional economic integration and are politically motivated to achieve this goal. The traditional protectionist regimes despite substantial cuts in tariffs are still ridden with import restrictions, certifications requirements, multiple standards, infrastructure inadequacies and bureaucratic inefficiencies. A business plan proposed in the study to involve business community and make regional organisations like the SAARC Chamber of Commerce

and Industry and SAFTA Committee of Experts responsible to carry out identification, evaluation, monitoring and resolution of the NTBs in the region has great promise to find better solutions. The cost-benefit analysis undertaken by the study has aptly identified the priority areas from where to start this process. However, to develop such an institutional mechanism, capacity of these organizations needs to be strengthened. It is recommended that this study may be presented in the forthcoming special SAFTA COE meeting on NTBs.

Robina Ather
Joint Secretary, Customs and Trade Policy
Ministry of Commerce, Government of Pakistan
(The views are expressed in personal capacity.)

CUTS has proposed a new approach of identifying and notification of NTBs by the actual trade practitioners to the SAFTA Committee of Experts through their respective Chambers. We at the SAARC CCI wholeheartedly agreed with the new approach as it is proposed to adopt "the cheapest alternative to the current impediments". There is no better informed group than the trading community of our region to make this pragmatic proposal to the trade policy practitioners in South Asian countries. It is also important to bear in mind that removing NTBs alone will not be sufficient as we have to re-calibrate our bureaucracy to meet the new challenges ahead in these efforts. This is the responsibility of our governments.

Kosala Wickramanayake
President - International Business Council &
Vice President, SAARC CCI
Sri Lanka

Making trade happen is always a tough task as a number of practical issues need to be addressed going beyond theoretical possibilities of or potential for trade. In our region, many of those practical issues are so deeply entrenched that the cost of doing trade is relatively much higher than many other parts of the world. To enable the South Asian countries to engage in greater volume of trade with each other, they have to be

addressed. Exporters and importers will have to be more proactive to get them corrected and adequately identified in the first place and then have these irritants removed to their satisfaction. This study has provided a simple yet powerful analysis of an interventionist and participatory approach to look into a range of procedural issues, non-tariff barriers and practical difficulties to trade facilitation. I am particularly pleased to see that it has highlighted the factors and reasons as to why business associations and groups should take more interest in the implementation of this approach. My compliment goes to CUTS for bringing out such a useful work.

Manab Majumdar
Assistant Secretary General
Federation of Indian Chambers of Commerce and Industry, India

I endorse the findings of this study and find it to be a comprehensive and well-articulated one covering almost every aspect NTB reforms in South Asia. The SAARC Chambers of Commerce and Industry, in collaboration with the apex trade bodies of the countries of the region, bilateral business organisations and also sector-specific business associations, could play a pivotal role in pursuing respective governments for doing the needful towards NTB reforms and periodically monitor their implementation.

Jahangir Bin Alam
Secretary
India-Bangladesh Chamber of Commerce and Industry, Bangladesh

Under the SAFTA framework, member countries should work on a regional agreement for mutual recognition of standards, their testing and certification. Trade facilitation measures should apply along with the concepts of creating regional transit transport network within the region. Also necessary plan should be develop to strengthen national laboratories and human

resources skills for accreditation of such laboratories. I am pleased to read that all these important measures are well-articulated in the business plan for NTB reforms in South Asia.

Bishnu Prasad Adhikari
Senior Officer
Federation of Nepalese Chambers of Commerce and Industry, Nepal

I appreciate this pioneering endeavour in conceptualising, processing and presenting the idea that the sensitive subject of non-tariff barriers should be addressed through a participatory approach in the context of South Asian trade. The most appealing aspect of the study is that it is non-prejudiced and not biased in favour of any single country, an indicator of sincerity of purpose. It is very skillfully drafted, making it easy to comprehend for a diverse set of readership, and it would surely become a source for constant and pragmatic referral on this subject.

Majyd Aziz
Ex-President
Karachi Chamber of Commerce and Industry, Pakistan

This extremely timely and interesting study makes use of an innovative approach to demonstrate the implications of non-tariff barriers for intra-South Asia trade. The issue analysed represents one fundamental obstacle in promoting regional trade cooperation; the methodology applied is insightful and thought-provoking; the results obtained are clearly persuasive; and the recommendations made, particularly in considering a sectoral approach to tackling NTBs, merit due attention. This is a must read for all relevant stakeholders who are serious about promoting South Asia's trade and investment flows involving neighbours.

M. A. Razzaque
Adviser & Head of International Trade and Regional Cooperation Section
Economic Affairs Division, Commonwealth Secretariat, London

South Asia is the world's least economically integrated region, despite its unique geography of distance and density that could propel trade between countries. For many developing regions, procedural inefficiencies and an infrastructure deficit presents daily hurdles to doing business across borders. These hurdles raise the cost of trading. In this study, CUTS proposes a broader definition of non-tariff barriers and one grounded in identifying cheaper alternatives to prevailing, costly trading conditions. It makes a persuasive argument for taking a participatory approach towards dismantling these trade barriers, inviting a bottom-up approach driven by the private sector, to flag obstacles and propose cost-effective alternatives. The database thus generated aims to present governments with ready priorities; it could also be an important platform for representing the voice of small and medium enterprises (SMEs) in particular. The suggested participatory approach would also need to be informed by high quality analysis and supported by a robust mechanism for monitoring, evaluation and dispute resolution.

Salman Zaheer
Program Director, Regional Integration
South Asia Region, The World Bank
Washington DC

Our collective understanding on non-tariff barriers, its multifaceted linkages - including but not limited to small traders - and ways and means to address their distortionary effects on international trade, is far from complete. In fact, a critical development challenge ahead for the international trading system would be to craft effective systems to tackle NTBs for easier flow of goods as a driver of inclusive growth and poverty reduction. In this respect, the most important take-away from this study is the framework of a fresh approach to NTB reforms in South Asia that is participatory and inclusive in nature. In describing this framework, the study extends our existing conceptual and analytical understanding on NTBs and exposes critical flaws made in addressing them. This work is thus a valuable addition to trade literature, which will wield its positive

influence in the coming years not only on intra-regional trade in South Asia but also on international trade in general.

Biplove Choudhary
United Nations Development Programme
Bangkok

'The high costs related to intra-regional trade in South Asia is one of the biggest constraints to South Asian integration. It means lost opportunities to accelerate growth and promote private sector development – one of the most powerful ways to achieve poverty reduction. This CUTS study strengthens the growing evidence base on the quantitative benefits, from perspective of producers and consumers, of addressing procedural non-tariff barriers to trade – one of the main sources of high trade costs in the region. By highlighting product specific issues including how they impact small and medium enterprises, and putting the private sector at the heart of addressing NTBs, the CUTS study provides a solid basis for policy makers to take action, which will lead to significant development benefits for the region'.

Sabrina Varma
Trade and Economic Adviser South Asia
AusAID, Canberra

Traditional trade theories have taught us that raising consumer welfare is the raison d'etre of cross-border exchange of goods and services. However, South Asia with its low share of intra-regional trade has not taken the full advantage of trade expansion to improve the lot of their citizens. This must change. CUTS has done a commendable job in bringing intra-regional trade back to the center stage of policy making. The focus on non-tariff and other barriers to trade expansion in South Asia is commendable and worthy of policy attention at the highest level. This work should go a long-way in re-thinking our approach to trade policy making and liberalisation in South Asia.

Rajiv Kumar
Senior Fellow
Centre for Policy Research, India

This project is a praiseworthy initiative, bringing together the representatives from the governments, civil society organisations, think tanks, scholars and independent experts to share their insights on the evolving nature of non-tariff barriers and suggest ways to overcome them through inclusive and participatory process in the interest of boosting trade in the region. I am particularly encouraged by the emergence of a consensus that a collaborative business plan would be of immense help to the policy makers to develop policy tools for addressing these nagging challenges. What is required is to initiate urgent actions to remove all barriers for realizing the huge business potential, which South Asia possesses collectively. I congratulate CUTS on undertaking such a timely initiative and hope they will continue to provide leadership for implementing the business plan stated as articulated in this publication.

Humayun Kabir
Former Ambassador of Bangladesh &
Vice President, Bangladesh Enterprise Institute, Bangladesh

As tariffs are being reduced to promote cross-border trade, NTBs are becoming a matter of concern. Though there are various initiatives at bilateral and multilateral levels, there has been little progress in reducing/harmonising NTBs affecting intra-regional trade. This study is different in the sense that it gives us a consumer welfare perspective regarding the effects of NTBs and also estimates the cost that the consumers are paying for economic non-cooperation among the South Asian countries. It also brings forward the political reasons as well as other factors for the slow progress in NTB reforms process. Its recommendation to adopt a new approach with greater involvement of the private sector in the formal system of NTB reforms is praiseworthy and can take us forward in a right direction.

Prakash Mani Sharma
Executive Director, ProPublic, Nepal

This study provides a powerful insight on non-tariff barriers that mainly hamper the big potential of trade among South Asian countries and necessitates inclusive reforms to maximise it. It has rightly focused on high trade costs largely due to NTBs and calls for trade reforms as an integral part of regional trade liberalisation agenda under the South Asian Free Trade Agreement. One would agree to the key result of the study that participatory approach to trade reforms in general and NTB reforms in particular would result in wider trade linkages and reduction in the costs of doing trade in the region. It is timely to build a more informed discourse on trade liberalisation in the region.

Shafqat Munir
President, Journalists for Democracy and Human Rights
Pakistan

Executive Summary

Introduction

Trade costs in South Asia are very high compared to other regions of the world, rendering the exchange of products with high trade potential between South Asian countries infeasible. Though the overall cost of intra-regional trade in South Asia has tariff and non-tariff components, non-tariff trade barriers (NTBs) pose a bigger threat. Trade reforms to address NTBs have been an integral part of the regional trade liberalisation agenda under the South Asian Free Trade Agreement (SAFTA).

However, progress made on this front is found to be inadequate, prompting a rethink on existing trade policy tools, trade governance systems and procedures that are used for NTB reforms in the region.

Why reform NTBs?

There are two important reasons behind the urgency of bringing about effective NTB reforms in the context of South Asia's regional trade liberalisation programme.

First, because of the fast-changing external market environment, South Asia's traditional export markets are increasingly becoming difficult to access. Deepening regional trade integration in other parts of the world is unsettling expansion of market access of South Asian countries in those regions, forcing the region to look for new markets.

Secondly, because of insufficient attention paid by member countries in the past, the policy tools, systems and institutions created for regional trade liberalisation in South Asia remain underdeveloped and far less prepared than other similar policy tools, systems and institutions that exist elsewhere in the world.

Looking at the shortcomings of regional trade policy reforms in South Asia, this study finds that the SAFTA system is roughly modeled upon the GATT/WTO system, albeit without the expanse of policy tools that the multilateral body has. At the WTO level, two different streams of approaches towards NTB reforms are adopted. The first one deals with non-tariff measures (NTMs) or policy-induced obstacles to trade, some of which are adopted on illegitimate grounds. There are several specific legal disciplines that exist under the WTO to regulate such trade-distorting policies.

But many NTBs hardly get addressed through the enforcement of such disciplines. The second one deals with barriers resulting from deficits in trade infrastructure. Remedies to such barriers fall under trade facilitation measures, which are addressed through Aid for Trade as well as other capacity-building and technical assistance programmes.

In the SAFTA context, elaborate legal disciplines to streamline NTMs, dispute settlement mechanisms and funds for trade-related infrastructure development to help member countries with trade facilitation measures are scarcely present. Because of these shortcomings, the system is inadequate to tackle NTBs.

Besides these systemic challenges, the current approaches are found to suffer from a number of inherent problems such as lack of clarity in definition, fragmented policy responses towards inter-related NTBs, unavailability of data, difficulties in quantifying costs and benefits of reforms, etc. Furthermore,

mismatch of interests, inadequate incentive structure, weak enforcement powers and non-inclusiveness of relevant stakeholders in the process of trade policy reforms have affected the progress to NTB reforms. As a result, many NTBs even fail to get notified in the formal review process.

Case for a Participatory Approach

Given that systemic problems are undermining the current approaches to NTB reforms, a participatory approach is proposed in this study. It is based on a comparative principle that compares current trade conditions to possible cheaper alternatives. A simple dictum can be adopted to identify barriers: if it can be found that there is a cheaper alternative to a particular condition which influences trade, then that condition may be judged as a barrier to trade. A greater level of involvement of the private sector in the formal system of NTB reforms is necessary for the success of this approach. This is because businesses possess data - quantitative as well as qualitative - on trade costs and they regularly undertake cost assessments, consider all potential alternatives and explore possible cost-saving avenues.

The proposed participatory approach has several advantages over the current approaches. It solves issues relating to definition and fragmentation of NTB reforms as all trade-distorting conditions can be raised as NTB complaints under one holistic framework. As this approach is based on cost calculations and comparison with benefits of possible remedial measures, it also helps to overcome the constraints of data deficiency. The system will automatically ensure that all barriers worth reporting will get registered as it is in the self-interest of business to do so.

Moreover, since this approach will create an incentive driven system, problems related to lack of incentives and

enforceability, etc. that poses problems to the current approaches will get self-corrected.

The SAARC Chamber of Commerce and Industry (SAARC CCI), which is officially recognised by all the member governments of SAARC as the apex body of all national federations and chambers of industries in the SAARC region, can play an important role towards realising this participatory approach.

Being created with a broader objective of *"encouraging Member Countries to accord preferential terms of trade to each other and finally strive towards the gradual realisation of the SAARC Economic and Monetary Union"*, the SAARC CCI should be entrusted with the responsibility to raise NTB-related concerns of individual stakeholders at the highest level within the framework of SAFTA.

The SAARC CCI is mandated to focus on awareness building on key economic issues such as trade facilitation, NTBs, harmonisation of customs procedures, intra-regional investment, and such others pertaining to the promotion of economic cooperation at the regional level. Therefore, there is a responsibility on the part of SAARC CCI to act as an industry voice on NTB reforms at the regional level.

However, an institutional reorganisation is required in order to enable the SAARC CCI to deliver its responsibility in a binding and forward-looking manner. A strengthened institutional mechanism will also help to scrutinise NTB related complaints at each level. As the SAARC CCI receives any complaint that has been notified by a national federation of commerce and industry, it can review it on the grounds already provided by the national federations. If it finds them meritorious, it can notify the SAFTA Committee of Experts (CoE).

This participatory approach requires that the national apex chambers of commerce of South Asian Association for

Regional Cooperation (SAARC) member countries be given due representation in its institutional mechanism. Being important stakeholders in the overall process of NTB reforms and representing the views of the private sector on NTBs, the role of these national apex organisations should be duly defined under the existing framework.

Under Article 3 of the constitution of the SAARC CCI, some of these national bodies have been recognised as members and they act as focal points of SAARC CCI in their respective member countries. These bodies should be suitably empowered to tackle the issues of NTBs being faced by their members in neighbouring countries. In addition, the membership base of the SAARC CCI has to be broadened, giving more access to other major trade and industry associations across South Asia.

In order to assess the scope of operationalising this proposed participatory approach - that is in terms of potential benefits that can be reaped from removing procedural NTBs through this approach - a calculation of aggregate benefits from NTB reforms was undertaken in this study by using a database on trade cost indicators developed by the United Nations Economic and Social Commission for Asia and the Pacific and the World Bank.

This database allows us to calculate the difference between the current level of intra-regional trade costs and possible lower level of trade costs as is revealed by improved bilateral trade conditions of South Asian countries in their trade with partners outside the region. The lowest exhibited trade cost of a South Asian country from a pool of bilateral cases was taken as a benchmark or revealed 'cheaper alternative'. Thereafter, savings on trade costs when South Asian countries adopt reforms so as to keep costs to the level of their respective benchmarks were quantified.

Impact of the Proposed Reforms

The result shows that if South Asian countries undertake a bare minimum set of reforms so as to match intra-regional trade conditions with that of their respective and existing best case scenario of trade with partners outside the region, as much as 7.26 percent of the value of their total intra-regional trade can be saved.

When we extend this analysis to further reforms that would match world ideals that are achievable, the minimum aggregate reduction in trade cost was found to be as high as 27.61 percent of the import value of intra-region trade in South Asia.

This means an annual saving of more than US$4.6bn for the year 2011. It is argued that reforms suggested above will reduce intra-regional import prices substantially, which will translate into more demand-induced growth in regional trade. These figures also indicate the immense scope for adopting this proposed 'participatory approach', as this study demonstrates that cheaper alternatives to the way South Asian countries trade with each other do exist.

Furthermore, in order to understand the impact of NTBs on producers and consumers, this study has conducted product-specific analysis for each country. Key products/ sectors such as iron and steel, pharmaceuticals, textiles, sugar and vegetables have been selected for this purpose on the basis of their trade potential, measured by supply capacity and matching import demand within South Asia.

Sector-specific survey results from five countries, viz., Bangladesh, India, Nepal, Pakistan and Sri Lanka show widespread prevalence of several types of procedural NTBs that are affecting small and medium-sized businesses and traders in particular. Besides the identification of procedural NTBs in the selected sectors, the survey analysis generated a case for giving more representation to traders in the official process of NTB reforms in South Asia so that they can raise

their grievances, which is vital for the future course of NTB reforms.

A Business Plan to Reform NTBs

Finally, this study presents a Business Plan for reforming NTBs in South Asia, to which a participatory and inclusive approach is central. It calls for more focused use of national trade policy instruments for building supply capacity in sectors that are important for regional trade and urge for better use of SAFTA instruments to enhance market access for such products within the region. It contains specific policy recommendations with an overarching message that the initial phase of this proposed NTB reforms must be sector specific, targeting a select group of products that have highest trade potential.

The underlying argument is this approach would help to establish trade linkages within the region and transaction costs of doing trade in South Asia will be gradually reduced over a period of time because of increasing and qualitatively better market information flow and the scope for improving the scalability of trading channels. This will, in turn, raise the volume of intra-regional trade flow to reach a minimal threshold level that is needed to kick-start incentive-driven trade-led growth in the region. Rate of export diversification and expansion will increase along with decreasing transaction costs. As a natural consequence, a virtuous cycle of trade creation will be in place.

Section I

Case for a Participatory Approach for Reforming Non-Tariff Barriers in South Asia

1
Introduction - Need for Addressing NTBs to Trade in South Asia

As prosperity resulting from international trade became increasingly evident, there has been a motivated global drive for developing policy tools for removing barriers to trade. This drive took shape in the form of the General Agreement on Tariffs and Trade (GATT) 1947, inspiring the formation of the World Trade Organisation (WTO) in 1995 at the multilateral level, and also in the form of numerous trade agreements between two or more countries, commonly known as Preferential/Regional Trade Agreements (PTAs/RTAs).

So far, these legal tools and institutions have been fairly successful in tackling the first and directly visible set of trade barriers, namely, import taxes or tariffs faced by traded items. But addressing the next set of trade-distorting barriers, generally grouped together and known as non-tariff barriers (NTBs), has proven to be a huge challenge for them.

Unlike tariffs, which are clearly defined and intentionally applied trade barriers, the simplified expression 'NTBs' refers to a large variety of trade-distorting barriers. NTBs sometimes arise unintentionally out of policy measures imposed for legitimate purposes like protection of human health, product safety, national security, etc. Complying with such trade policy measures – non-tariff measures (NTMs) - often raises the cost

of doing trade and thereby poses as a barrier for suppliers. In this case, it is difficult to classify them as barriers unless they are proven to be deliberate attempts to discriminate against foreign products and services. The World Trade Report, 2012, rightly summarises that 'the basic challenge in dealing with NTMs is to ensure that these measures meet legitimate policy goals without unduly restricting or distorting trade' (WTO, 2012).

Thus, one of the two broad international policy responses towards NTBs has been the development of legal tools to set norms for harmonisation of NTMs, determine the legitimacy of NTMs and address them if they are found to be on faulty grounds. The WTO agreements on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitory Measures (SPS) are crowning examples of such legal instruments, which work towards disciplining unfair NTMs.[1]

However, recent analysis based on WTO monitoring reports and the Global Trade Alert (GTA) database shows that the number of NTMs - including quotas, import-licensing requirements and other discriminatory rules - have risen sharply following the 2008 global economic slowdown. This is an indication of an increasing trend to use NTMs as a pretext for protectionism (Cadot *et al*, 2012).[2]

The second broad international policy response is related to another set of NTBs, which has no direct association to trade policy measures. This set of NTBs falls into the category of avoidable trade costs owing to inefficiencies in trade administration systems, institutions and infrastructure. Lengthy customs clearance procedures, burdensome documentation requirements, inadequate transport infrastructure, etc., are also essentially NTBs in the sense that they are 'non-tariff' in nature, but result in the creation of trade 'barriers'. Contrasting the case of NTBs originating from NTMs, the main concern is not the discriminatory intent or effect of a trade policy, but

the sheer lack of policies for improvement of trade formalities and facilities. The international trade community has responded to this problem by attempting to develop model codes of conduct, generally put together as trade facilitation measures.

On the one hand, rigorous efforts are being made at the international level, particularly under the WTO and the United Nations Council on Trade and Development (UNCTAD), to classify NTBs originating from NTMs, and collecting information on their incidence, coverage, and magnitude of trade impeding effects. Legal frameworks for disciplining NTMs is also fairly developed at the multilateral level as there are specific WTO agreements and provisions for streamlining of subsidies, standards, licensing, safeguard measures including anti-dumping and countervailing duties, and so on. However, the process of judging and penalising unfair NTMs in the light of these legal provisions has been noted as lengthy and slow, given the sensitivities and multipurpose nature of most of the NTMs.

On the other hand, trade facilitation (TF) reforms move in a different but parallel direction. TF measures mostly involve implementation costs (both upfront and recurrent) that poorer countries would fail to meet without external assistance. Moreover, such countries would be expected to take up the bulk of TF reform commitments given their underdeveloped customs processing procedures and transport infrastructure. Therefore, the course of action for TF reforms must recognise and accommodate the difficulties faced by poor countries in complying with legally binding commitments.

As a result, reformation of barriers like infrastructural and procedural shortcomings are largely sought through international aid and technical assistance programmes, which often accompany unwelcome obligations and conditions for the recipient countries. In addition, where TF reforms ease imports into the reforming country, conflict of interest issues

often arise. Increases in imports are generally viewed with scepticism and incentives for undertaking such types of reforms are weak. This is particularly true in developing countries where export expansion is often the prime motive for engaging in trade negotiations.

The distinction between reforms of NTMs and TF measures is often found to be vague. For instance, requirements of compliance with an NTM may raise the cost of trade administration and documentation, which falls under the purview of TF. It is also difficult to segregate trade costs owing to compliance with NTMs and other transactions. A friction in trade flow such as delays in inspection and clearance may occur because of inadequate facilities at customs stations or excessive procedures to verify the compliance of a consignment with applied standards. While all kinds of NTBs raise the cost of doing trade like tariffs, fragmented policy responses used to address them because of their diversity and complexity have proved to be sub-optimal.

Nevertheless, the resolve to address NTBs has been strengthening, and it has become a principal issue in the area of international trade. Tariff walls are gradually succumbing to trade negotiations at both multilateral and regional levels, giving more and more visibility to NTBs. It was famously stated by Baldwin (1970) that 'lowering of tariffs has, in effect, been like draining a swamp. The lower water level has revealed all the snags and stumps of non-tariff barriers that still have to be cleared away.' That the WTO has chosen the topic of NTMs as a focus for the latest World Trade Report is in itself a testimony to the currency and urgency of the topic.

RTAs broadly follow the multilateral approach when it comes to legal and institutional arrangements for trade integration and therefore they share many problems encountered by the multilateral system. The South Asian Free Trade Agreement (SAFTA) aims to reduce trade barriers and

smoothen trade between eight South Asian member states. The system followed under SAFTA also heavily borrows from the WTO law and practice. Certain inherent difficulties, starting from defining NTBs to designing and implementing proper remedial measures, are unavoidable because of the way in which SAFTA functions. Moreover, certain specific constraints imposed by the volatile political and economic environment under which SAFTA operates, adds to the woes of South Asia's trade integration process.

Even after achieving considerable progress in terms of tariff liberalisation under SAFTA (though it remains an unfinished agenda), intra-regional trade in South Asia still stagnates at a very low level. In a prequel to this study (Chatterjee and George, 2012), the case of trade in products that are subjected to preferential tariff rates was examined and it could be found that more than 300 such products with very high regional trade potential remain non-traded. These products are currently being imported by the region from rest of the world at a higher price than what South Asian trading partners could have offered to each other, had their trading costs been reduced by disciplining NTBs.

Abundant evidence exists in the literature, pointing towards numerous barriers to trade in South Asia other than just tariffs. Such barriers include poor trade infrastructure at borders and ports, lack of transit arrangements, procedural delays, and unjustified application of standards, rules, documentation, testing and compliance requirements, to name a few. Though documentation of NTBs is extensive, the processes used under the umbrella of the South Asian Association for Regional Cooperation (SAARC) to address them have been rarely subjected to any review. A quantitative assessment of the costs associated with NTBs, or alternatively the benefits of reforming them, is not available because of inadequate data and

appropriate methods. This report aims to address this gap in the following chapters.

Chapter 2 analyses the problems encountered in the current approach to NTB reforms in South Asia and offers a new approach that has the potential to overcome them. Chapter 3 is a stock taking of evidence on the incidence of NTBs and their costs, as can be found in existing literature as well as in some widely used global trade indicators. In Chapter 4, a quantitative assessment of trade costs in South Asia due to NTBs is presented using a newly generated database by UNESCAP and the World Bank. The figures generated on aggregate costs are used to highlight the scope for adopting the improved approach proposed in Chapter 2. Chapter 5 concludes with summary of observations and policy implications.

2
Towards a Fresh Approach to NTB Reforms

Introduction

Despite having a few decades of intense research behind it, our understanding on the incidence and impact of NTBs is still far from adequate. Though different policy tools have been developed since the GATT negotiations of the mid 1960s, NTB issues still dominate the international discourse on trade. A vast array of problems related to all aspects of NTB reforms, starting from definitions to implementation of reform measures, refuses to succumb despite intense efforts at the international level. An examination of the problems with current approaches with the objective of resolving them is inevitable at this juncture for pushing the agenda of NTB reforms ahead. Such an examination is undertaken in the following sections.

Approaches to NTB Reforms: *Status Quo*

Any definition of NTBs should include all trade distortive conditions other than tariffs. This being the literal meaning of 'non-tariff' barriers, in the general discourse, the acronym 'NTB' is often used to refer to a wide variety of conditions that affect trade adversely. Some of these barriers felt by those who are in the trading business, such as shortcomings in trade facilitating infrastructure and inefficiencies in the trading systems, which are not direct outcomes of a deliberate policy

adopted by any state. We may refer to them as incidental NTBs, not directly related to any policy measure, though their occurrence may have been prevented/reduced by policy measures to that effect, say, usage of public fund for the betterment of trade infrastructure.

Elimination of these NTBs depends on governments' conviction to adopt adequate policy reforms, which has always been sensitive to the expensive implementation costs associated with such reforms. In the parlance of international trade governance regimes, multilateral (WTO) and regional, policy reforms needed for dealing with incidental NTBs are grouped together and known as Trade Facilitation (TF) measures. It has been observed, as at the WTO Doha Development Round (DDR) negotiations on TF, that it is difficult to persuade governments to undertake TF reforms through legally binding obligations because of the lack of incentives, or capacity, or both (George, 2011). Hence, international agreements on TF reforms are heavily based on voluntary non-binding commitments as well as external aid, technical assistance and capacity building, often resulting in slow processes and poor results.[3]

It is to be noted that the initiatives for TF reforms at the regional level in South Asia also suffer from shortfalls in incentives and capacity, and are yet to produce significant results. Most of the agreements involving South Asian countries including SAFTA have weak provisions for addressing issues of trade related capacity building, standards, conformity and mutual recognition arrangements (MRAs), customs procedures, banking arrangements and trade financing, transit facilities, transport and communication infrastructure, business visa procedures etc. (Weerakoon *et al.*, 2005, Chaturvedi, 2007 and George, 2011).

While a part of the entire universe of NTBs is subsumed in the discourse on TF, the other part - constituted by NTBs

which are direct outcomes of policies - is no longer addressed as NTBs *per se*, but primarily as non-tariff measures (NTMs). The basic premise for considering policies influencing trade as measures instead of barriers is that there are several diverse sets of policies affecting trade and all of them need not be trade distortive. A measure cannot be called a barrier until it is proven beyond a doubt that it is distortive and discriminatory. Thus, NTBs are a subset of NTMs (Cadot, Malouche and Saez, 2012).

The generally accepted definition of NTMs puts them as 'policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both' (UNCTAD, 2010). The set of policy measures that may have an economic effect on trade are extremely large and diverse in nature, making it very difficult to tell apart the ones that are barriers (NTBs) and the ones that are not. Often, such policies are put in place not to discriminate against imported goods or intentionally distort trade, but to serve legitimate policy goals like ensuring a minimum quality of imported products. However, they may factually have discriminatory and distortive effects. Therefore, judging whether an NTM is an NTB, the first step towards reforms, fundamentally relies more on whether it meets a set of accepted criteria of policy legitimacy rather than on its trade distortive effects.

At the WTO, an inter-related but scattered range of principles, legal instruments, and practices are used to deal with NTMs. First, there is a system of notifications through which members are required to report NTMs applied. This is then used for analysis and review. Second, the cornerstone principle of 'non-discrimination' which is applied through the legal requirements of National Treatment and Most Favored Nation (MFN) clauses, is used to judge NTMs and remedy NTBs through the Dispute Settlement Mechanism (DSM),

whenever an NTM is raised as a dispute. Third, through specific multilateral agreements, such as Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), Agreement on Technical Barriers to Trade (TBT) and Agreements on Anti-dumping, Customs Valuation, Preshipment Inspection, Rules of Origin, Import Licensing, Subsidies, Countervailing Measures and Safeguards, etc., the WTO lays out rules, guidelines, standards and codes for fair and just application of NTMs.[4]

This multilateral system for dealing with NTMs is the result of over 60 years of deliberations following the formation of the General Agreement on Tariffs and Trade (GATT) in 1947. It is still in an evolutionary stage and suffers from several shortcomings. The notification process has only managed to collect information on a small sub-set of the whole population of NTMs applied across the world.[5] Only a handful of them were (could be) raised as disputes under the DSM as they are costly and time consuming processes and very often verdicts take years of deliberations at panels and appellate bodies.[6] As far as the role of disciplinary agreements is concerned, such agreements allow many different exemptions and exceptions, which are sometimes known to be misused to justify unfair NTMs.[7]

In summary, we can observe that the entire universe of what can be called NTBs is addressed broadly in two streams of approaches to reforms, with distinct features as follows:

- Trade Facilitation – Non-policy related NTB issues with their trade distortionary effects as a basis for reforms, and are attempted to be resolved through non-mandatory and voluntary reforms, aid, technical assistance and capacity building.

- NTMs Review and Reforms – Policy-related NTB issues with their policy illegitimacy, rather than their trade

distortionary effects, as the basis for reforms, and are attempted to be resolved through mandatory rules, laws, guidelines, standards and practices.

RTAs across the world basically follow the multilateral system, which is accepted as the most comprehensive one, and are by and large modeled on WTO Agreements and procedures. SAFTA is not an exception to this trend. The existing systems for NTB reforms under SAFTA are roughly an adaptation of the multilateral system, albeit at a nascent stage. Thus many of the problems encountered at the multilateral level have seeped into the regional trade liberalisation system.[8] The following sections contain analyses of some of these basic problems.

Problems in Current Approaches

As mentioned in the discussion above, the current approaches to NTB reforms suffer from their respective shortcomings; lack of incentives and capacity in the case of Trade Facilitation reforms, and difficulties in drawing the line between lawful and unlawful trade regulations in the case of NTM review mechanisms. As noted in the World Trade Report (2012), neither the declared aim of an NTM nor its effect on trade provides conclusive evidence of whether it is innocuous from a trade perspective (WTO, 2012). These shortcomings are but symptoms of issues at a more basic level and are manifested in the form of slow and tedious process of NTB reforms.

Issues of Definitions and Fragmentation of Remedial Measures

NTMs are defined as policy measures other than tariffs with an effect on trade. However, this definition is very broad

and covers a huge set of diverse measures. In order to collect information on such measures, an objective analysis of NTMs and some form of a classification system was found necessary. Certain classification systems group them into hard measures (e.g., price and quantity control measures), threat measures (e.g., anti-dumping and safeguards), sanitary and phytosanitary standards (SPS), technical barriers to trade (TBT), and other categories such as export measures (those applied to exports), distribution restrictions, restrictions on post-sales services, subsidies etc.[9] The most commonly used classification is the one proposed by UNCTAD, which classifies NTMs based on a branched structure.[10]

As per this system, there are 16 chapters (A to P) and each individual chapter has sub-classifications extending horizontally up to three levels or digits. The main chapters of this system are reproduced in the following Table.

UNCTAD Classification of NTMs		
Import Measures - Technical		
A	SPS	On sanitary and phytosanitary measures, refers to measures affecting areas such as restriction for substances, restrictions for non-eligible countries' hygienic requirements, or other measures for preventing dissemination of diseases, and others. This chapter also includes all conformity assessment measures related to food safety, such as certification, testing and inspection and quarantine.
B	TBT	On technical measures, refers to measures such as labelling, marking, packaging, restrictions to avoid contamination or other measures protecting the environment, standards on technical specification, and quality requirements.
C	Pre-shipment clearance and other formalities	Classifies the measures related to customs formalities.

Contd...

Import Measures - Non-Technical		
D	Price Control	Price control measures include measures that have the intention to change the prices of imports, such as minimum prices, reference prices, anti-dumping or countervailing duties.
E	Licenses, quotas, prohibition & other quantity control measures	Licenses, quotas, prohibition & other quantity control measures, group the measures that have the intention to limit the quantity traded, such as quotas. This chapter also covers licenses and import prohibitions that are not SPS or TBT related
F	Charges, taxes and other para-tariff measures	On charges, taxes and other para-tariff measures, refer to taxes other than custom tariffs. This chapter also groups additional charges such as stamp taxes, licence fees, statistical taxes and also decreed custom valuation.
G	Finance	On finance measures, refers to measures restricting the payments of imports, for example when access and cost of foreign exchange is regulated. It also includes measures imposing restrictions on the terms of payment.
H	Anti-competitive	On anti-competitive measures, refers mainly to monopolistic measures, such as state trading, sole importing agencies, or compulsory national insurance or transport.
I	Trade related investment	On trade related investment measures, group the measures that restrict investment by requesting local content and thus restricting imports, or requesting that investment should be related to export in order to balance imports.
J	Distribution restrictions	On distribution restrictions, refers to restrictive measures related to the internal distribution of imported products. These measures would hinder trade from taking place because there would b difficulty in distributing the products once entering the country.

Contd...

K	Post-sale services	On the restriction on post-sale services, refers to difficulties in allowing technical staff to enter the importing country to install or repair technological goods imported.
L	Subsidies	This chapter contains measures that relate to the subsidies that affect trade.
M	Government procurement	On government procurement restriction measures, refers to the restrictions bidders may find when trying to sell their products to a foreign government.
N	Intellectual property	On intellectual property measures, refers to the problems arising from intellectual property rights.
O	Rules	On rules of origin, groups the measures that restrict the origin of products so that they could benefit from reduced tariffs according to certain rules often set in multiple simultaneous agreements with different countries.
Export Measures		
P	Export-related measures	On export measure, groups the measures a country applies to its exports. It includes exports taxes, export quotas or export prohibitions, etc.
Source: UNCTAD (2010)		

On the other hand, NTBs requiring Trade Facilitation reforms are not confined to any definition. The mandate of the Negotiating Group on Trade Facilitation (NGTF) under the ongoing Doha Round of WTO negotiations is to clarify and improve relevant aspects of Articles V (Freedom of Transit), Article VIII (Fees and Formalities connected with Importation and Exportation) and Article X (Publication and Administration of Trade Regulations) of the GATT 1994.[11]

Though this mandate appears to be covering only soft reforms for procedural ease, cost cutting, and transparency,

the negotiations overseen by the NGTF also includes topics like establishment of one stop border post, control usage of electronic equipment for pre-arrival processing and other infrastructural improvement as should accompany soft reforms.[12]

Provisions of Articles V, VIII, X of the GATT 1994
Article V- Freedom of Transit • Permit freedom of transit through the most convenient route • Not to subject traffic in transit to undue delays • Ensure all charges are reasonable • MFN treatment should be afforded for traffic in transit. ***Article VIII- Fees and Formalities*** • All charges must be limited to cost of the services • Desisting from imposing substantial penalties for minor breaches of customs regulations • Simplification of fees and charges, formalities and documentation requirements. ***Article X- Publication and Administration of Trade*** • Publish all rulings promptly • Publish before enforcement measures imposing a new or more requirements • Enforce uniform administration of rulings • Ensure the prompt review and correction of administrative action.
Source: GATT (1947), WTO legal Texts

Now, it can be observed that certain similar reform requirements are listed under both streams. For instance, Chapters C (Pre-shipment clearance and other formalities) and F (Charges, taxes, custom valuation charges etc.) refer to trade barriers that are also covered under Article VIII and Article X of GATT. Thus a conflict may arise when a WTO

member is found to be in violation of the provisions of Article 2 (Obligations of User Members) of the Agreement on Pre-shipment Inspection if it does not discipline its pre-shipment inspection systems accordingly, while at the same time the member has already taken exemptions to undertake any measures to discipline its pre-shipment inspection system as allowed as per its obligations under the soft laws of the Trade Facilitation Agreement.[13]

While resolution of these kinds of problems (i.e. whether streamlining of pre-shipment inspection systems should be resolved through legally binding commitments or non-binding voluntary obligations) are still left to the complex and fragmented legal texts, the sufferers are the traders who simply want an easy system of inspection with bare minimum transaction costs.

In most cases, Trade Facilitation and NTM cases are interrelated. An unjustified NTM, like a standard (Chapters A or B in the UNCTAD classification) found in violation of the SPS or the TBT Agreement, usually raises trade cost in multiple ways. It raises compliance costs, testing and documentation costs, inspection requirements, and the fees and charges associated with these. Strict enforcement of standardisation of standards has cross over implications for trade facilitation measures. There are plenty of examples for such inter-linkages between policy related NTBs and non-policy related NTBs and their distinctions, made for the purpose of designing appropriate remedial mechanisms, break down at margins.

From the point of view of trade costs, as experienced by traders and businessmen who face these barriers in reality, the prices of products rise because of a series of avoidable factors. Our awareness and understanding of trade costs owing to each specific factor is very limited because of unavailability of data.

Issues of Data Availability

Availability of information, on both incidence of barriers and their trade distortive impacts, is crucial for triggering reforms. With regard to Trade Facilitation reforms, which are predominantly voluntary and unilateral, information on trade costs owing to inefficient systems essentially comes from the business community. Decisions on reform measures are taken on the basis of cost benefit analysis of upgrading trading systems, including infrastructure. But formal arrangements are not in place to collect data on trade costs due to inefficiencies in the trading system and capacity deficiency. Traders operate within a given system and often need an official agency at their disposal to report possible reduction in trade costs if reforms were undertaken. Data deficits make an objective analysis of net benefits of a particular reform measure and as a result, credible demands from the business community for Trade Facilitation reforms are overlooked.

Data collection on NTMs also suffers from similar problems. Databases on NTMs basically rely on notifications of policy measures made by countries as well as trade policy review (TPR) systems, government publications, and surveys by various agencies.[14]

TPRs have only limited content in terms of latest updates on NTMs applied by various WTO members, as TPR for each member country is done once in many years. As far as notifications are concerned, the basic problem is one of incentives; notifications are voluntary with no sanction mechanism and countries can choose whether to notify or not. Countries that do notify may expose themselves to objections and possibly criticisms. It is also difficult to judge whether lack of notifications reflects restraint in the use of NTMs or simply failure of communication (Bacchetta, Richtering and Santana, 2012). Moreover, such data collected

hardly comes to use for quantitative analysis of impact of NTMs on businesses.

The most comprehensive database on NTMs available at present is included in the Trade Analysis and Information System (TRAINS), developed by the UNCTAD.[15] Most recently, data collection efforts have been accelerated through multi-agency cooperation arrangement called Transparency in Trade (TNT).[16] Despite these efforts, NTM databases at the best give partial coverage and vague information because of the difficulties in collecting, standardising, and formatting NTMs from scattered, complex legal texts.

Collection of data using both reporting and survey methods have their respective fundamental shortcomings. In the former case there are disincentives for governments to avoid reporting for they may attract punitive action and in the latter case it is very challenging to cover NTMs through surveys as there no single repository for all the NTMs applied by any given government (Gourdon and Nicita, 2012).[17] In any case, the information collected on NTMs does not provide an accurate picture about whether and to what extend individual NTMs act as trade barriers. Quantification of trade costs owing to NTMs is even more difficult and only crude methods have been developed and used till date for calculating *ad valorem* equivalents of NTMs.[18] Thus, in both cases of Trade Facilitation and NTM reviews, lack of quantitative data obscures a clear-cut analysis of net benefits from reforms, without which the incentive for undertaking reforms is hard to come by. This brings us further to the point of incentives and enforcement related to NTB reforms in the current approaches.

Issues of Incentives and Enforcement

The problem of incentive deficits runs deeper within the current systems for NTB reforms than due to mere lack of

data on benefits. Analysing the usage pattern of NTMs, the WTO (2012) notes two key points. First, very often more than one NTM can be used to pursue the same policy objective. Second, NTMs used to pursue legitimate regulatory objectives can also be used for protectionist purposes, implying hidden protectionist motives behind apparently legitimate NTMs in many cases. In the first case, as governments are primarily concerned with meeting regulatory objectives, the need for selecting the most cost efficient NTM is often overlooked or simply cannot be practiced because of paucity of data, analytical limitations and lack of capacity. And since the cost of NTMs, if any, are to be borne by businesses and often goes unnoticed, governments may lack the motivation to conduct a detailed exercise to check the comparative costs and benefits of alternative NTMs at their disposal. In the second case, if the original intention of governments is not welfare maximisation but protective tendencies, there will hardly be any incentive for them to undertake reform even if the NTM in question is trade distortive and welfare reducing.

It is to cover for these kinds of incentive failures that legally enforceable systems are developed and depended on for disciplining NTMs under trade agreements. However, often, the scope of mandatory rules and laws and enforceable commitments falls short as proof of policy legitimacy is enough as per the requirements of laws for a government to sustain a trade distortive NTM.[19]

The proof of policy legitimacy is mostly centered on proof of non-discrimination, i.e. a government is not using an NTM to discriminate between foreign goods with different national origin (Most Favoured Nation, GATT Article I) or to discriminate between domestic and foreign goods (National Treatment, GATT Article III). In the history of NTMs disputed under GATT/WTO system, Articles I and III are the most cited legal provisions by far. In many complex and bitterly

fought multilateral legal battles on trade policy legitimacy spread over a period of more than half a century, verdicts of GATT/WTO panels and appellate bodies running into thousands of pages have examined the discriminatory nature of NTMs under the light of the requirements of non-discrimination principle in WTO law. A definitive set of criteria with which we can judge an NTM as discriminatory or non-discriminatory is still elusive.[20]

An even more crucial issue with respect to tackling of unjust NTBs through the WTO DSM is the observed bias in usage of the DSM itself. It is well noted in related literature that a vast number of developing and least developed WTO members are not found to be active users of DSM for want of capacity.[21]

The volume of trade at stake as well as legal and financial capacity of the complaining government is important determinants of access to the DSM, wherein poor countries loose out (Bown, 2005). Besides these constraints, as the access routes for a vast majority of original complainants (private business) is through their respective governments, small-scale businesses generally fail to pursue their respective governments to take on NTMs that seriously affect their businesses. A huge number of NTMs thus fail to reach the DSM and thus escape its scanner.[22]

On the other hand, and contrary to the case of NTMs, incentive failures have necessitated the development of systems with very lenient and weak legal enforceability in the case of Trade Facilitation reforms. As mentioned in the previous sections, lack of capacity, budget constraints etc., are major factors behind incentive failures in these cases and enforceability cannot cover for it. Thus, both types of experiments, with enforceability and without it, have generated only unsatisfactory responses from governments towards demands for NTB reforms.

A Participatory Approach as an Alternative

Against the backdrop of systemic failures inherent in the current approaches to reforming non-tariff barriers, as explored in the previous sections, an improved approach can be thought of. It is clear that for facilitating reforms, the first and foremost aspect is identification of conditions (policy measures or any other factors), which act as barriers to trade. If we set aside other issues and technical details like modes and methods of reforms for the later and consider the point of view of business, a barrier necessarily means an *additional* cost, over and above what should be incurred if inefficiencies of any kind were non-existent. Thus, if there is an alternate but currently inaccessible route through which a trader can transport a consignment that will reduce her cost or if there is an alternate way in which a government can implement a policy which will reduce cost of trading while meeting regulatory objectives, then the current route and the policy can easily be classified as barriers. We may standardise this notion as follows:

> *If it can be found that there is a cheaper-alternative(s) to a particular condition that influences trade, that condition may be judged as a barrier to trade*

How will the existence of cheaper alternative be known? It cannot solely be the job of governments to find out. Trade costs are fundamentally information possessed by businesses. It is in the self-interest of businesses to do (and they habitually do) cost assessments, consider all potential alternatives, and explore possible cost saving avenues. One of the elementary shortcomings of the current approaches is that they are predominantly government driven systems, though private businesses do have certain informal channels to influence the process through governments to some extent. When businesses, the primary stakeholder group directly affected

by barriers, are allowed to participate in a reform approach based on the dictum of 'cheaper-alternative', it can be immediately seen that the three main problems of the current approaches dissipate.

- *It solves the problem of definitions* – First, there is no longer a need to define and treat NTBs differently. The definition of a barrier as an existing condition with a cheaper alternative is broad enough to include many types of barriers and includes various conditions. Hence this approach offers the ease of treating all barriers that are 'non-tariff' together under one monolithic framework, without the confusions created by different terminologies and legal systems. Second, it qualifies the standard definition of NTMs as 'policy measures other than tariffs with an effect on trade, "which may have cheaper-alternatives"'.

  This simple addendum to the standard definition makes a huge difference to the way NTMs are viewed at present. Since 'cost' of a trade policy includes not only its 'implementation costs' but also foregone benefits due 'lost trade' (a trader may question a policy on the grounds of volume of trade it prevents), its 'cheaper-alternatives' must include policies which serve the same regulatory objectives with lesser implementation costs as well as minimum trade distortionary effects. Thus, equal importance will be placed on legitimacy of the stated regulated objective of a policy and its distortionary effects, if any. And when distortionary effects are given an important place, legitimacy of the regulatory objective behind it can no longer be defended simply on the basis that it is non-discriminatory, as is often the case. In effect, regulatory intentions will be subjected to tougher tests under the new approach.
- *It solves data deficiency* – A formal mechanism that facilitates registry of 'non-tariff' complaints of businesses, the system will automatically ensure that all barriers worth

raising will get registered, since the system is incentive driven. Thus, the approach can lead to creation of a better and more comprehensive repository of trade barriers. More importantly, since the singular pre-condition of a valid complaint that makes a just case for non-tariff barrier is that it should have cheaper alternative(s), quantitative expressions of the costs of the current condition and the comparative costs of the suggested alternative(s) becomes an elementary requirement. Thus costs of barriers and possible benefits (difference between the costs of current conditions and suggested alternatives) from reforms in quantitative terms are self-generated by the system, which will help decision making become quicker and more transparent.

- *It solves the problem of lack of incentives* - It naturally follows from the two arguments given above that businesses will have incentives to raise complaints and once the benefits and viability of alternative options are known, calculation of which is integral part of the approach, governments will have incentives to initiate reforms. In an incentive driven system, enforceability will only have a secondary role to play. It can work with or without strict enforceability and penalisation of non-compliance.

In addition to these advantages the 'cheaper-alternative' approach has certain positive externalities for the overall governance of trade.

- It is more participatory in nature and thereby promotes transparency and efficiency, permits accessibility of primary complainant or victim (businesses) to the complaint resolution system, allows more information flow, and facilitates cross-fertilisation of ideas.
- It is integrative and comprehensive since any 'non-tariff' complaint may be permitted, given that the complaint is

justified. Basically, there is only one criterion – that the questioned trade condition should have a known and demonstrated cheaper alternative - for admissibility of a complaint.

- It offers a simple and administratively easier system because the admitted complaint automatically comes with possible solutions, according to which reform decisions can be made. It also allows prioritisation of reform measures, as relative costs and benefits of different reform requirements can be compared, and inter-linkages between different reform requirements become visible under a monolithic framework.
- It facilitates responsibility sharing and reduces the burden of governments with respect to reform process, as private sector get involved in it starting from identification of barriers to implementation of reforms.
- It brings back the focus of policy makers on economic costs and benefits and limits politicisation of trade reforms that has been damaging South Asia's aspirations on regional economic cooperation in the past, perhaps more than any other region in the world.

The improved approach suggested above may have a few issues of its own and they may come in the way in due course of its implementation. But that fact does not discredit the advantages it has over the current approaches. Moreover, most of such problems may be solved in a relatively easier way. For instance, even if a cheaper alternative is found that would reduce trade costs, the issue of lack of financial and technical capacity to undertake reforms may remain if it is too costly to implement. But alternate ways of financing such reforms, such as by attracting private investments, may be considered. In fact, it would be easier to attract such private investments in a participatory system in which private enterprises are already

part of. In any case, the feasibility of a costly reform would be found to be already addressed to some extend in the new approach, as the relative costs and benefits are known. The biggest advantage is that adoption of the cheaper alternative approach does not require an overhaul of the existing system, but only a change in focus. Thus, existing institutional and legal resources could be used as and when required to cover up for the shortfalls in the implementation of the new system.

Suitable Institutional Design for NTB Reforms: The Importance of Stakeholder Participation

In order to effectively contain and restrict the use of NTBs in the South Asian region, a formal and well defined participatory approach is required by designing and building an effective institutional set-up. A proper mechanism needs to built-up in order to address the issue of NTBs. Article 3(1.c) of SAFTA contains the objective of '*creating effective mechanism for the implementation and application of the agreement, for its joint administration and for the resolution of disputes*'. Further, Article 8 calls for adoption of trade facilitation measures to support and complement SAFTA.[23] However, the existing mechanism lacks a participatory approach, and the role of governments of the member states is relatively more prominent.

The dependency of private stakeholders on their respective governments to get the NTB related complaints notified not only involves a time lag but also lacks the motivational factor to effectively present the case. The private sector, thereby, urges to change the role of governments from regulators to facilitators.[24] An institutional built-up, therefore, needs to be developed with an elaborate and concise participatory approach including all stakeholders. A unified body can address

and resolve the NTB issue more effectively with laws that bind member states rather than the present inadequate mechanism that is in existence under SAFTA's provisions.

It is required that the industry stakeholders should be encouraged, informed, and facilitated to raise NTB issues through their own channels of apex business organisations rather than depend on governmental bodies for notifying their NTB related grievances. Increasing stakeholder participation will not only help to identify NTBs but will also contribute in defining their nature and various forms. Individual stakeholders should be provided with an opportunity to approach their own national level chambers/confederations which are currently acting as focal points on behalf of the SAARC Chamber of Commerce and Industry (SAARC CCI) to notify their NTB related complaints.

As and when the complaints are reported with the national level chambers/ confederations, they must be referred for proper examination and review by experts at their level. Complaints that are found to have merit with sufficient supportive documents can be referred by the national chambers to the SAARC CCI. The constitution of the SAARC CCI in Article 2(h) empowers it '*to provide for Arbitration in the settlements of disputes arising out of commercial and industrial transactions between parties who are willing to abide by the judgement of the SAARC CCI.* [25]

The SAARC CCI can then review it again at their end and the genuine cases can be duly notified and intended to the Committee of Experts of SAFTA, who under provisions of Article 10(6) of SAFTA, can monitor, review, and recommend their comments and report the same to the SAFTA Ministerial Council (SMC), which is the highest decision making body of SAFTA.

The importance of participation of businesses and private enterprises and other stakeholders in trade liberalisation

process in various capacities is increasingly being recognised throughout the world. Several efforts in this direction are being undertaken. Even at the WTO level, which is predominantly a government driven forum, involvement of private enterprises and stakeholders in certain key areas of decision making is being considered.[26] In order to enhance its liaison with businesses, the WTO has recently launched a webpage dedicated to this cause.[27]

Recognising the advantages of an inclusive system, in many developed and developing areas across the globe, business-government consultative mechanisms on trade policy is actively promoted at the national level (ITC, 2006). For instance, the South African Customs Union (SACU), in recent years, has successfully promoted the establishment of both national and regional stakeholder forums for advancement of trade integration within the region in an inclusive way.[28] Similar initiatives are underway across several sub-regions in Africa.[29]

Trade policy formulation in partnership with business/trade organisations has also been gaining currency in various parts of Asia and recently has attracted attention in South Asia as well. The Asian Development Bank has been developing technical assistance programmes to support capacity building for implementing integration in Asia led by the private sector. These programmes and their components have been developed based on a series of consultations with several Asian chambers of commerce and governments. South Asian chambers of commerce have also expressed the need to further support integration in South Asia led by the private sector.[30] However these initiatives are to be given a definitive shape and actions are to be quickened in order to take advantage of inclusiveness.

Scope for Institutional Redesign for NTB Reforms in South Asia

The Agreement on South Asian Free Trade Area itself confers sufficient power for institutional reorganisation under Article 10(10), stating that *'the SMC and COE will adopt their own rules of procedure'*. The scope for admittance of inputs from private players by the SAARC Ministerial Council (SMC) and Committee of Experts (COE) is thereby amply provided for and therefore the need is to sensitise the apex decision-making bodies of SAFTA to adopt a participatory approach towards NTB reforms. Article 10(2) of SAFTA infers that '*the SAFTA Ministerial Council (SMC) shall be the highest decision-making body of SAFTA and shall be responsible for the administration and implementation of the agreement and all decisions and arrangements made within its legal framework'*.

Although the SMC is the ultimate authority, the day-to-day monitoring, reviewing and facilitating powers for implementing SAFTA provisions lies with the COE which, under Article 10(7) and Article 20, is also conferred the authority to act as dispute settlement body. However, the COE needs to be more strengthened and its decisions and recommendations should be legally binding and enforceable.[31]

There is lacuna of the industry's voice in pursuance to deal with NTBs under SAFTA. This is an area wherein the need and scope for institutional reorganisation for NTB reforms emerges. It requires a reformation of the institutional mechanism to accommodate industry's concerns towards the NTBs. The SAARC Chamber of Commerce and Industry (SAARC CCI), which is officially recognised by all the member governments of SAARC as the apex body of all the national federations and chambers of industries in the SAARC region, can play an important role towards realising a participatory

approach. Being created with a broader objective '*to encourage Member Countries to accord preferential terms of trade to each other and finally strive towards the gradual realisation of the SAARC Economic and Monetary Union*',[32] the SAARC CCI should be entrusted with the responsibility to raise the NTB related concerns of the individual stakeholders at the highest level within the framework of SAFTA.

The SAARC CCI is mandated to focus on awareness building on key economic issues i.e. trade facilitation, NTBs, harmonisation of customs procedures, intra-regional investment, and such others pertaining to promote economic cooperation at the regional level. Therefore, it is already a vested responsibility of the SAARC CCI to act as an industry voice on NTB issues.[33] However, an institutional reorganisation of sorts is required in order to enable the SAARC CCI to deliver on its responsibilities and to discharge its duties in a binding manner. A strengthened institutional mechanism will also help to scrutinise NTB related complaints at each level. As the SAARC CCI receives any complaint that has already been notified by a national federation of commerce and industry, it can review it on the grounds already provided by them and if it finds them meritorious it can notify the Committee of Experts set up under SAFTA.

This participatory approach requires that the national federations of chambers of commerce and industry of member states be given due representation in the whole institutional mechanism. Being important stakeholders in the overall NTBs reform process and representing the private sector views on NTBs, their role can't be overruled. However, the role and scope of these national federations of the chambers of commerce and industry requires to be duly defined under the existing framework.

Under Article 3 of the Constitution of the SAARC CCI, some of these national federations have been recognised as the members and national bodies which act as the focal points of SAARC CCI in each member state. These national federations should be suitably empowered to tackle the NTB issue of their members in their respective countries. In addition, the membership base of the SAARC CCI has to be broadened, giving more access to its powers to other major industry/trade/ business associations and organisations across South Asian member states.[34] Thus, framework for a participatory approach is already laid out in the existing laws and systems and accomplishing it in reality has the potential to benefit numerous individual stakeholders in resolving their trade related complaints in an effective and easier way.

3
Prevalence of NTBs in South Asia: Evidence from Literature

Introduction

'Invisible trade costs' appeared in the literature since models based on tariffs and other visible trade costs could not explain the gap between predicted growth in world trade due to first generation trade reforms of tariff liberalisation and its actual growth. Sequentially to the noted work by Trefler (1995) on the 'mystery of the missing trade', many studies have examined the limiting effects of hidden costs on trade growth. In the context of South Asia, missing trade is particularly evident. After applying preferential tariff rates to many products with high trade potential, the actual growth in trade volume has remained well below projected paths. Literature notes ground conditions that are cumbersome, dilatory and exasperating to the extent of deterring and discouraging trade by sinking the comparative advantage of the region in many crucial sectors. This chapter exposes evidences from past studies and draws inferences from selected country-wise indicators on efficiency of trade governance.

On Trade Facilitation Needs

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), McLinden (2006), Engman (2005), Arvis (2005), Alburo (2005) are some of the notable contributions in this regard. These studies and other notable works including Wilson *et al.* (2005) and OECD (2005) have given particular emphasis to 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.

Literature specific to South Asia finds significantly higher levels of incidence of these common trade facilitation issues in the sub-region and many more areas in which the region uniquely falls short compared to other developing regions. A series of studies commissioned by CUTS under various projects have explored the case of trade facilitation needs of South Asia in isolation, most notably, CUTS (2004) research report on Trade Facilitation under the International Working Group on the Doha Agenda (IWOGDA project). As one of the early studies of its kind on South Asia, this work carried out by a research group of 13 international trade experts examined the lacunas in international trade procedures followed in the region and found widespread wastefulness in activities, practices and formalities involved in collecting, presenting,

communicating and processing data and other processes for cross-border movement of commodities including transport, payments, insurance etc.[35]

One of the key observations of the CUTS (2004) study was that frictions in the trading systems of South Asian countries are more prevalent for intra-regional trade than that for trade with countries outside the region. This was manifested in a number of ways. Testing, certification, clearance and processing are particularly costly and time consuming for consignments bound for export destinations within the region. Transport infrastructure and facilities at land customs stations that are predominantly used for intra-regional trade have significantly lower standards. This fact is consistent with the remarks made in some studies as to the propensity of South Asian countries to focus on promoting trade with attractive export destinations in the Western Europe, North America, and the Middle East.

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

CUTS (2004) and other noted studies like Mukherji (2004), Baysan *et al*. (2006) and Weerakoon (2008) acknowledge that political rifts within the region are a major reason for neglect of intra-regional trade facilitation. Lack of confidence in market potential and trading opportunities also factor in, though to a lesser extent. Since recoupment of trade facilitation investments through increased trade volume became uncertain in the aftermath of the 1960s and 1970s ridden with armed conflicts, South Asian governments hesitated to carry forward trade facilitation reforms during the immediate period. Soaring

budget deficits in the 1980s became another constraining factor. Besides, trade facilitation reforms required technical know-how and well trained human capital, which were all in shortage during this period. Khan (2004) notes that improving even customs clearance systems need amendment in laws, development of new rules and regulations, modern equipment's and trained officials to run the system. This would drive up costs.

Following the acceleration of economic liberalisation policies in the region in the 1990s, during which the SAARC Preferential Trade Agreement (SAPTA) also came into being, trade facilitation needs eventually caught the attention of policy makers. In the early 2000s, significant improvements were made across all countries in digitising many documentation processes and dissemination of trade regulations. Bangladesh and Nepal were in the process of implementing Automated System for Customs Data (ASYCUDA) and Advanced Cargo Information Systems (ACIS), while procedural systems in Sri Lanka became the most matured in the region (CUTS, 2004). Several measures related to post entry audit and verification were underway.

However, these efforts failed to generate any substantial push to intra-regional trade growth, though they did benefit traders at the margin. A series of related studies initiated by CUTS[36] have taken stock of subsequent improvements in South Asian trading systems and found gaps in many areas such as port logistics, digitisation and clearance capacities at land customs stations, harmonisation of product codes and standards, customs notification and information sources, administrative transparency and so on. These studies have indicated that South Asia has failed to benefit from earlier reforms because of these missing links, while they also pointed out slow progress in tariff reduction under SAFTA and maintenance of large sensitive lists containing products outside

the conditions of tariff reduction till recent times as the other major reasons for low levels of regional trade.

The importance of links between various aspects of trade facilitation and the failure of South Asia in undertaking comprehensive reforms is also well documented. Banik and Gilbert (2008) finds links between lack of infrastructure (both physical and services related, measured by usage rate of digital services), government regulations (pertaining to documentation and investment in infrastructure), port inefficiency (higher shipping turnaround time), corrupt practices, etc., which have together contributed to high trade costs in South Asia. This indicates partial reforms would have only insignificant effects on reducing costs. Chaturvedi (2007) also stresses on the need for comprehensive reforms, and concludes that a part left undone will prevaricate the benefits of the part done and therefore South Asia should not delay *suo moto* introduction of reform measures for ensuring adequate trade growth.

At a broader level, some studies have also shown the strong links of direct trade facilitation measures to other bottlenecks in production and distribution. Arnold (2007) mentions how problems in inbound logistics act as trade barriers in the region. The distance between production centers and dispatch ports makes it difficult for many South Asian industries to keep up with the demands of consignment order cycles. Citing the case of Bangladesh's garment sector, this study mentions that often firms are forced to maintain high inventory stock, adding to their production costs, in order to compete in markets with less than three months order cycle. This is because inland transport and border clearance delays impose longer lead time requirement.[37] These aspects point to the need for planning corridors that serve the major gateways and centres of production and consumption, accommodating multi-modal transport options, development of production clusters serving

these corridors, etc., widening the scope of trade facilitation reforms.

A strand of literature has reported the existence of high volume and proportions of informal trade in the region, and has highlighted it as evidence of highly restrictive NTBs.[38] Informal trade occurs because of localised marketing of village produce by border communities as well as illicit trade through circuitous routes involving third countries as transit ports. Sen (2004) observes that the standard policy response of stringent checking measures owing to security threats paradoxically constrains legitimate trade and creates hugely profitable market for illicit goods. Various estimates differ widely on the exact volume of informal trade, some researchers have put it as high as or more than the volume of formal trade.[39] However, there is consensus on the fact that per unit trade cost (including transportation, warehousing, testing, and documentation) of longer circuitous trade routes are found cheaper than that of short distant direct routes – one of the principal reasons of informal trade - indicating high incidence of frictions in the formal channels of trade. In addition, non-transparent administration (often pertaining to documentation) creates space for corruption in the formal channels and very high non-official charges, which go unreported, subvert formal trade to a large extent (Ahmed and Ghani 2008).

There are many studies that attempt to quantify benefits from trade facilitation reforms. These studies generally predict a significant upward shift in trade volume even from modest reforms.[40]

For instance, according to Wilson and Otsuki (2007), if the countries of South Asia raise their capacity halfway to East Asia's average, their trade would rise by an estimated US$2.6bn, approximately 60 percent of the total intraregional trade in South Asia (including services trade). Further, if South Asia and the rest of the world raised their levels of trade

facilitation halfway to the East Asian average, the gains to the region would be an estimated US$36bn. Out of these gains, about 87 percent of the total gains to South Asia would be generated from South Asia's own efforts (leaving the rest of the world unchanged).

More recent quantitative evidence as from an econometric exercise carried out in De (2011) strengthens the case for trade facilitation reforms. This study finds that a 10 percent fall in transaction costs at borders has the effect of increasing a South Asian country's exports by about two percent. The analysis in this study shows implementation of e-filling of customs documents (a measure of trade facilitation) at the borders is a significant determinant of trade flows and an equally important area of reforms is linking of landlocked countries through transit agreements.

On Omission of Prevalence of NTMs

Although the trade facilitation needs of South Asia are well explored and documented and to some extent quantified, the literature is rather silent about the incidence and effects of NTMs. Studies on NTMs are severely constrained by lack of data. There is no single depository of trade policy measures taken by South Asian governments, and general sources like UNCTAD TRAINS[41] are the only sources of analysis, which suffer from several limitations in content as mentioned in Chapter 2. Apart from the fact that only a very small sub-set of NTMs are registered in the databases, they provide very limited scope for a thorough impact analysis, being in the form of qualitative expressions or legal texts.

Using these databases for region centric studies is even more difficult because analysis of trade restrictiveness of measures imposed by a country on selected trading partners needs more information. Generally, only discreet references to NTMs can

be found in existing literature, with the exception of certain studies which look exclusively into selected trade policies and their impacts.

A survey based country case study on India by UNCTAD (2010) identifies key export sectors such as textiles, leather, electrical, and chemical sectors as the most affected sectors by health related SPS standards and electrical equipment as most vulnerable to TBT technical regulations and standards. The report mentions that, other than large corporations, most Indian exporters and importers were unaware of the NTM web portal hosted by the government of India. On this basis, the report advocates for better information dissemination and development of formal consultation mechanisms to address NTBs. However, the information contained in the report is of limited use for assessing the effect of measures imposed by India on imports from South Asian trading partners.

A forthcoming study (Keane *et al.*, 2012) by the Overseas Development Institute aims to survey NTMs in the South Asian region. This study offers a comprehensive coverage on this topic, with latest updates and an analytical examination to the extent permitted by available data sources. Based on information from the latest Trade Policy Reviews (TPRs) of South Asian countries carried out by the WTO secretariat, it notes that South Asian TBT and SPS measures do not always adhere to WTO obligations. The report notes that 'although a degree of harmonisation exists between national and international standards, it remains an ongoing process and some members have made more progress than others (e.g., India compared to Bangladesh). Moreover, certain mandatory notifications in the cases of stringent SPS measures that goes beyond accepted international standards and the requirements of the SPS Agreement, were found missing during the TPRs of South Asian member states.

Based on the World Bank Technical Barriers to Trade (TBT) database, Keane *et al.* (2012) observe that firms in India and Pakistan have reported standards and technical regulations as being more important to their export success than other measures. However, incidence of standards as a barrier is mostly faced in major markets for these countries' exports outside of the SAARC region. A review of the standards reported to the ITC's recently introduced Trade Standards Map suggests that the major exports from the countries within the region are associated with a range of other private voluntary standards.

Analysis of reported NTBs to the UNCTAD TRAINS database across countries within South Asia suggests that most measures fall into the category of price and quantity control measures, which would include such practices as non-automatic licensing as well as price setting and interventions in food and commodity markets. These main categories are followed by monopolistic measures and technical measures. A review of most recent TPRs available for South Asian economies suggests price and quantity control measures are prevalent and do not always conform to WTO commitments because of their discretionary nature. State trading is also common. In relation to TBT and SPS measures, weak capacity and limited conformity infrastructure are highlighted as additional challenges for traders within the region.

While there is a dearth of studies on NTMs affecting intra-regional trade, there are several comprehensive studies which deal with lack of policy frameworks on trade-plus issues and also trade in services, which have cross-over implications for trade in manufactured items also. ADB and UNCTAD (2008) explore the question of NTMs that have been put in place with the intention to restrict trade. This report indicates that though such measures mostly are totally WTO-compatible and thus may not qualify as NTBs, the fact that they create

difficulties for regional exporters remains. The report thus is suggestive of establishing Mutual Recognition Agreements (MRAs), conformity assessment procedures, accreditation, etc., as well as other trade supportive agreements on application of standards, antidumping etc. to reduce the negative impact of NTMs. Chanda (2011) draws connections between trade, investments and services flow within South Asia in detail. Examining the problems and prospects of enhancing regional services trade flow in particular, this extensive study also points out positive externalities that services trade and intra-regional investments can have on the overall economic cooperation including free trade in goods, and thus calls for a broad based approach towards regional economic integration.

Evidence from Global Indicators

The relative performance of the region in trade governance can also be observed from selected indices developed and published by the World Bank and the World Economic Forum at regular intervals. These indices are contained in reports, namely, The Doing Business Report, The Global Enabling Trade Report, The Global Competitiveness Report and The Connecting to Compete: Trade Logistics in the Global Economy (which provides the Logistics Performance Index). These reports are the most comprehensive, informative and widely used as references. The latest available editions of these reports are used for the analysis presented in this section. The indicators used in these reports provide a broad scenario of the performance of an economy tested under various trade related measures. Such indicators are also used to rank the economies according to their performance and trade facilitation steps initiated by them.

Indices from the latest editions of these reports are used in this section to compare the trade scenario of South Asia with

ASEAN and few major economies across the world. For the purpose of the analysis we have taken the average figures of South Asian and ASEAN countries. Due to the exceptional performance shown by Singapore in all of these indices, we have purposively excluded it while calculating the ASEAN average.

The Doing Business Report is the World Bank's attempt to compare the regulations for domestic firms in about 183 economies across the globe. It provides quantitative indicators on business regulation and the protection of property rights, affecting 11 areas of the life cycle of a business.[42] From the indicators on time taken for completing trade transactions, it could be seen that on an average in South Asia, it takes 25 days to export as well as to import, unlike ASEAN and China where it takes only 23 and 21 days respectively to export and 24 days in each case for import (Figure I.3.1). This may not seem like much, but when it comes to the export/import of perishables, the difference in days is highly significant. Another important concern is the cost involved in the export or import of a container. In the case of China, it costs only US$500 to export a container while in ASEAN region it comes around US$826, but when we look at the South Asian scenario, it costs US$1,079 to export a container. Figure I.3.2 shows that in South Asia it costs more than double to import a container compared to China. Average cost of imports for ASEAN countries is also only around US$895 per container.

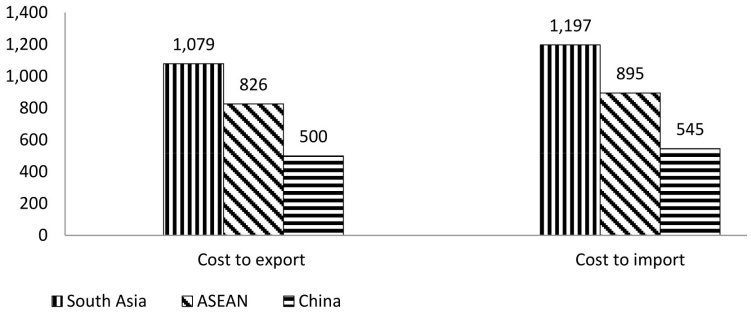
It is very clear that the South Asia is far behind compared to ASEAN and China, both in terms of time taken for export/import and costs associated with it. This reflects the inefficiency of the region and questions not only our competitiveness but also the need for urgent reforms in related regulation and systems. Moreover, unlike Singapore and Germany where only four documents are required to export/

import, the average number of documents required for export/ import in South Asian countries comes to around eight (See Annex 1).

Figure I.3.1: Comparative Performance of South Asia in Time to Export/ Import (in days)

Source: Doing Business 2012, The World Bank

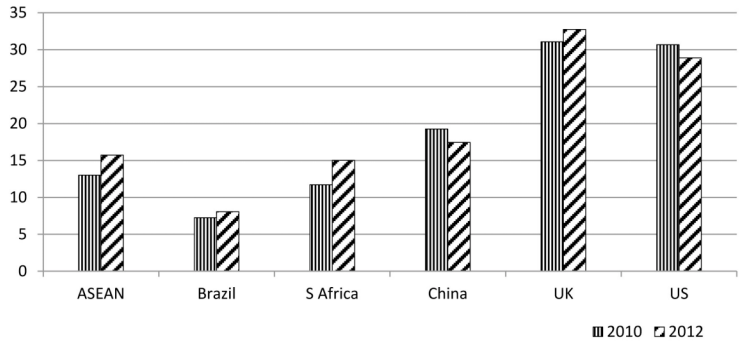
Figure I.3.2: Comparative Performance of South Asia in Cost to Export/ Import (US$ per container)



Source: Doing Business 2012, The World Bank

In the changing scenario of world trade, the scope and dimension of trade facilitation has increased. Now countries increasingly tend to specialise in tasks rather than products that cross many borders. Enabling Trade Index (ETI) developed by the World Economic Forum measures the efficacy of a country's trade-enabling support system. Its assessment of factors that enable trade serves as a reminder of the various attributes that govern a nation's ability to benefit from trade. These attributes are captured in the Enabling Trade Index, which itself comprises of four broad categories: market access, border administration, infrastructure and the business environment (See Annex 2).[43]

Figure I.3.3: Comparative deficit of South Asia with ASEAN and other countries in Enabling Trade Index (ETI) Scores (in %)



Source: World Economic Forum, The Global Enabling Trade Report, 2012

To look at the comparative performance of South Asian countries, we have taken average of the South Asian countries as well as of ASEAN countries (except Singapore[44]), along with that of emerging economies such as China, Brazil, and South Africa (considering similar economic features of South

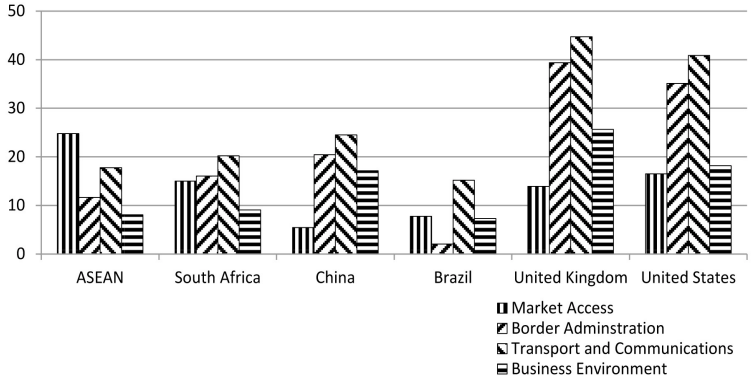
Asia with these countries), and the developed economies of the United States (US) and the United Kingdom (UK). For the purpose of the analysis we have taken the average of the scores of the South Asian countries and compiled its percentage difference with the average score of ASEAN countries and also the scores of some selected countries. This percentage difference is referred to as the comparative deficit.

Compared to the economies of ASEAN nations, the ETI score deficit of South Asia increased from 13 percent to 16 percent between 2010 and 2012. South Asia has an ETI score deficit of 15 percent and 8 percent in 2012 with South Africa and Brazil and 17 percent with China for the same period. The scenario is far worse when we compare South Asia's figures with that of the US and the UK, exhibiting a deficit of 29 percent and 33 percent respectively in 2012 (Figure I.3.3).

In the case of the sub-indices of Enabling Trade Index,[45] the performance of South Asian countries remains equally poor in each of the categories when compared to its counterparts in South East Asia (excluding Singapore) and similar emerging economies (Figure I.3.4). In case of market access sub-index, which measures the extent to which the policy framework of the country welcomes foreign goods into the economy and enables access to foreign markets for its exporters, the deficit of South Asia is found to be highest with ASEAN member states, reflecting comparatively high level of protectionism in the region. Compared with emerging economies like S. Africa, Brazil and China, the average deficit in terms of scores of South Asia comes around 14.99, 7.75 and 5.41 percent, respectively.

The average deficits of the South Asian countries in terms of scores for border administration are around 39.34 and 35.09 with respect to the UK and the US. This reflects the inefficiency of customs administration, import-export procedures, and raises concerns about the transparency of

Figure I.3.4: Comparative Defict of South Asia with ASEAN and Other Countries in the Sub-Indices of Enabling Trade Index (in %)



Source: The Global Enabling Trade Report 2012

border adminstration procedures. When compared with the ASEAN countries, the deficit in score is about 11.65 percent and 20.41 percent in the case of China. When it comes to the transport and communication infrastructure, the average deficit in score South Asia has with China is as high as 24.50 percent. This sub-index of ETI measures efficiency in movement of goods within the country and across the border. South Asia's score deficit stands to the tune of 44.70 percent with the UK.

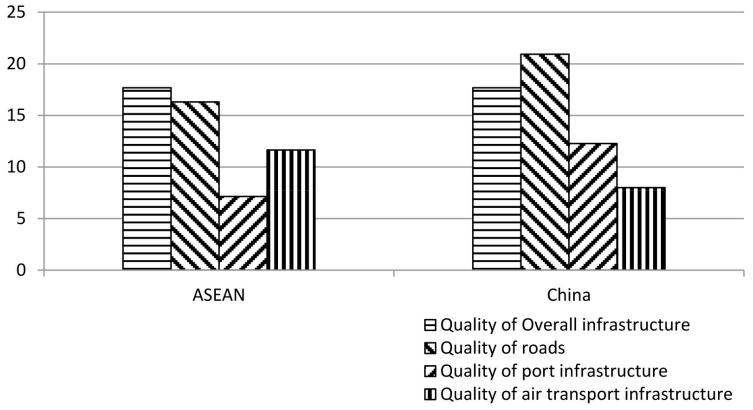
In the business environment sub-index, the quality of governance as well as the overreaching regulatory and secuirty environment impacting the business of importers and exporters active in the country are taken into account. Here also, the average deficit in South Asia is 17.11 percent when compared with China and 25.62 percent with UK. Stringent and effective measures to be taken by the South Asian countries if they are to improve the perception of overseas private sector players to invest (Figure I.3.4).

The Global Competitiveness Report covers over 100 indicators to measure competitiveness and develops a Global Competitiveness Index (GCI), which is a comprehensive tool that helps to assess foundations of national competitiveness.[46] Infrastructure, one of the sub-indices of GCI, gives a clear indication as to preparedness towards trade liberalisation for a country. Infrastructure is critical for ensuring effective functioning of the economy. The quality of roads, railroads, ports, and air transport enable entrepreneurs to timely get their goods and services to market and facilitate the movement of workers to the most suitable jobs.

In comparison with ASEAN and China, the average score for quality of overall infrastructure of South Asia exhibit deficits of 17.67 each (Figure I.3.5). In terms of quality of roads the deficit in score with China rises to 20.91 percent. The quality of port infrastructure in South Asia is also poor in comparison. The region's deficits in scores are 12.27 and 7.15 percent with China and ASEAN respectively. In case of the quality of air transport infrastructure, South Asia's deficit in scores with these two comparators are 11.65 and 8 percent (See Annex 3). The fact that South lags behind in all categories is a serious matter of concern.

Considering other sub-indices of GCI like business sophistication, innovation, goods market efficiency, and financial market development, South Asia's position remains far below other regions and countries of similar economic status. India, which is the biggest player in the South Asia region, secured an overall GCI score of only 4.30 and the South Asian average comes to only 3.82, whereas the score for ASEAN (excluding Singapore) comes to 4.46. These figures expose the drawbacks of South Asia and highlight the urgency of dealing with inefficiencies of various kinds collectively (See Annex 4).

Figure I.3.5: Comparative Deficit of South Asia with ASEAN and China in Infrastructure (in %)

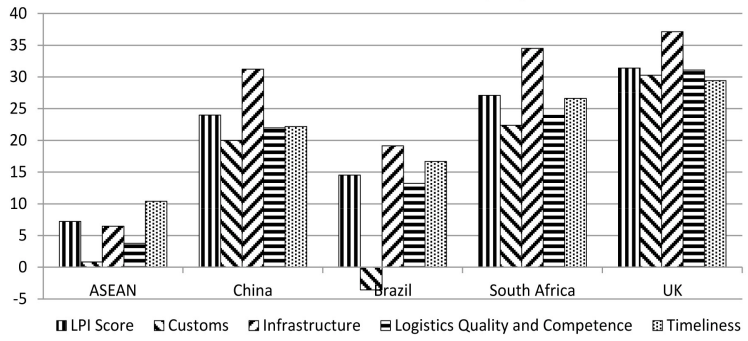


Source: The Global Competitiveness Report 2012- 2013

Connecting to Compete, Trade Logistics in the Global Economy, a report by The World Bank, summarises the findings from the dataset for Logistics Performance Index (LPI) and its components. LPI is a multidimensional assessment of logistic performance. The LPI provides a simple, global benchmark to measure logistics performance, filling gaps in datasets by providing systematic, cross-country comparisons. It is a 'coarse-grained' or roughly representative indicator that shows where a country stands. It also reflects the perspective of the global private sector on how countries are globally connected through their main trade gateways.[47] LPI figures for South Asian countries reveal a dismal picture as regards the region's relative position in standards of trade logistics.

Figure I.3.6 shows the comparative deficit in the scores of the Logistics Performance Index and its selected indicators for South Asia region by taking the average of the scores of its member countries. The comparative deficit of the South Asia's LPI score is 27.1 percent and 24 percent with that of South

Figure I.3.6: Comparative Deficit in the Score of LPI and its Indicators for South Asia with Selected Economies (in %)



Source: Connecting to Compete, 2012 Trade Logistic in the Global Economy, LPI and its Indicators, World Bank

Africa and China respectively. Compared with the ASEAN's average (excluding Singapore) this deficit is 7.2 percent. The poor performance of the South Asian countries in LPI scores, which underlines the costs of poor logistics, once again shows the extent to which these economies are lagging behind in basic infrastructural needs.

In all sub-indices, measuring efficiency of customs, infrastructure, and logistics quality and timeliness, the average score of South Asia is in deficit with ASEAN, China and South Africa. When it comes to infrastructure at ports, South Asia's deficit in scores comes to about 31.2 percent with that of China and 34.5 percent with South Africa (Figure I.3.6).

The deficit in average score of South Asia in terms of logistics quality and competence varies from 23.9 percent with that of South Africa to 10.4 percent with ASEAN's average score. Logistics performance is strongly related to timeliness, here also the performance of South Asia is found to be poor, registering a deficit in score for timeliness of about 26.6 percent with South Africa, 22.2 percent with China and around 10.4

percent deficit from the average score of ASEAN countries (See Annexes 5, 6, and 7 for details of other logistics related indicators).

A picture of widespread inefficiencies in the overall trade governance system and infrastructure emerges from the comparisons made above. It is evident that if adequate policy attention is not spared for improvement in the existing conditions, businesses seeking market expansion within the region will find themselves severely constrained and denied opportunities that could otherwise be taken advantage of.

4
Costs of NTBs in South Asia

Introduction

As mentioned in previous chapters, intra-regional trade facilitation needs were grossly neglected, as the prime focus of South Asia has been on expansion of exports to destinations outside the region. One of the outcomes of this policy bias was underdeveloped trade infrastructure and facilities which are of particular importance to regional trade. There are evidences which show that South Asian countries perform better in terms of cost minimisation in their bilateral trade relations with partner countries outside the region. Such better performances can be taken as benchmarks or revealed capabilities of trade efficiency.

Using a newly generated database on trade cost indicators developed by World Bank and UNESCAP, the aggregate benefits that can accrue to South Asia by undertaking NTB reforms that would match these benchmarks are calculated in this chapter. This database allows us to calculate the difference between current intra-regional trade costs and possible lower trade costs. The possible lower trade costs, in turn, are revealed by better bilateral trade conditions in South Asia's trade with other countries. The lowest exhibited trade cost of each South Asian country from a pool of its different bilateral trade cases is taken as the benchmark or revealed 'cheaper alternative'. Thereafter savings on trade costs, when South Asian countries adopt reforms so as to keep costs to the level of their respective benchmarks, are quantified. These figures

of cost savings generated through this method also reflect the scope of adopting a participatory approach to NTB reforms relying on the 'cheaper alternative principle' as explained in Chapter 2.

Description of the Data and Methodology

In our analysis, we have used the World Bank and UNESCAP Comprehensive Trade Cost Database released in December 2012 covering bilateral comprehensive trade costs from 2005 to 2010 of over 178 countries. Following release of a first version of the database in 2010 using trade and GDP data, an improved and expanded version 2 was released by UNESCAP in December 2011 based on gross output data and providing sectoral trade cost estimates for about 100 countries. In late 2011, UNESCAP and the World Bank (WB) joined together to develop a common standard methodology for calculating comprehensive international trade costs and provide research and policy community with a global reference.[48]

This database is based on a measure derived by Novy (2012) and is a comprehensive all-inclusive measure based on micro-theory and calculated using macro-economic data, providing an alternative measure of trade facilitation performance. This method follows a concept of measurement of trade costs developed by Anderson and van Wincoop (2004).

In this concept of non-tariff trade costs, comprehensive trade cost excluding tariff (nontariff_tij), includes all additional costs other than tariff costs involved in trading goods internationally rather than domestically.[49]

Since the scope of the present study is primarily concerned with non-tariff comprehensive trade cost (nontariff_tij) and non-tariff trade barrier reforms in the South Asian region, we have analysed the non-tariff trade cost rate data of the

UNESCAP Comprehensive Trade Cost Database for the five major SAFTA member nations (Bangladesh, India, Nepal, Pakistan and Sri Lanka).

In this study, two data sets are being used for analysis, first being the World Bank & UNESCAP database for the non-tariff comprehensive trade cost rate which is available for the year 2010 and the ITC trade map database of 2011 for the import value in the reporting country.

We have first sorted bilateral non-tariff trade cost rate data for each country to find its most efficient bilateral trading partner across the world (on basis of non-tariff_tij) and then sorted the same for selected South Asian partners. The country specific lowest non-tariff trade cost rate figures have been taken as ideal benchmark and accordingly its difference from selected countries (i.e. Bangladesh, India, Nepal, Pakistan and Sri Lanka) has been derived. For example, in case of Bangladesh the ideal benchmark (i.e. the lowest bilateral non-tariff_tij) is with Hong Kong, so we have taken its difference with Bangladesh's bilateral non-tariff trade cost rate with India, Nepal, Pakistan and Sri Lanka and reported the same as excess from non-tariff_tij.

For import value we have used ITC database for the year 2011. In cases of non-availability of data for 2011, e.g. in Bangladesh's case, ITC data for latest available year was used.

Since import value in the reporting country is the sum of domestic value in partner country and the non-tariff trade cost which can be calculated from non-tariff trade cost rate (NTB rate), we have derived domestic value in partner country from the formula:

Domestic Value = Import Value / (1+NTB Rate)

The revised import value for reporting country has been derived to estimate the potential savings from NTB reforms.

This revised import value, which is a hypothetical value, has been calculated by considering the lowest non-tariff trade cost rate which a country maintains with its ideal trading partner across the world. The formula for calculating the same is:

Revised Import Value=Domestic Value (1+ Ideal NTB Rate)

The potential savings from NTB reforms are thus, calculated by taking out the difference between import value and revised import value (derivation of which has been explained above). This potential saving from NTB reforms represents gains that South Asian countries can get if they manage to maintain this ideal non-tariff trade cost rate (which they maintain with ideal partners across world) with trading partners within South Asia.

In furtherance to our argument, we have calculated potential saving from NTB reforms for each selected country, and thereafter taken the aggregates of all member countries to derive the same for South Asian region as a whole.

Results: The Case of Region-Centric Benchmarks

The case of country-specific ideal non-tariff trade cost rate is considered first. Following the methodology explained in earlier part of this section, and using aforementioned databases, we calculated minimum aggregate potential savings for whole South Asian region. Data for non-tariff trade cost rate is available till the year 2010, while ITC database for import values (except Bangladesh) is available for year 2011. The lowest ideal non-tariff trade cost rate for each country is different and we refer them as country specific ideal non-tariff trade cost rate.

Table I.4.1: Summary of Results on Aggregate Potential Savings from NTB Reforms in South Asian Countries On the Basis of the Country Specific Ideal Non-Tariff Trade Cost Rate

Reporting Country	Average Rate of Non-Tariff Trade Cost with South Asian Trading Partners(in %)	Aggregate Import Value in the Reporting Country for Imports from South Asian Trading Partners (US$mn)	Aggregate Domestic Value in the South Asian Partner Country (US$mn)	Revised Import Value using Ideal Non-Tariff Rate (US$mn)	Aggregate Potential Savings from NTB Reform (US$mn)	Average Potential Savings as % of import Value
Bangladesh	104.12	4,399.05	2,361.97	4,295.72	103.34	2.35
India	93.79	2,157.43	1,132.11	1,847.38	310.05	14.37
Nepal	207.03	3,756.78	2,154.27	3,753.97	2.81	0.07
Pakistan	160.40	1,753.20	796.34	1,451.91	301.28	17.18
Sri Lanka	149.33	4,709.08	2,363.91	4,207.91	501.17	10.64
Average	**142.93**					
Total		**16,775.54**	**8,808.60**	**15,556.89**	**1,218.64**	**7.26**

Note:

1. The latest non-tariff trade cost rate pertaining to Bangladesh is available only for 2007 in the WB-UNESCAP database.
2. The ideal non-tariff trade cost rate figure for 2010 is 81% of Bangladesh with Hong-Kong, 63% of India with Malaysia, 74% of Nepal with India,82% of Pakistan with Malaysia and is 78% of Sri Lanka with Maldives.
3. Due to non-availability of ITC import data for Bangladesh in 2011, we have considered the export values of Partner Countries.
4. In case of Nepal-Bangladesh, the non-tariff trade cost rate is not available in the WB -UNESCAP database.

Aggregate potential savings from NTB reforms for South Asian region comes to around US$1.22bn for year 2011 (Table I.4.1). The average potential savings for South Asia in terms of percentage to the total import value is around 7.26 percent. These figures explain the extent of impact of non-tariff barriers on intra-regional trade in five major South Asian countries. When we look at country-wise results, Nepal's potential savings is comparatively less than other four major South Asian players at US$2.8mn, because Nepal's major imports come from India with which it maintains the ideal non-tariff trade cost rate in 2011. Sri Lanka is expected to gain potential savings of around US$501.17mn, followed by India with US$310.05mn and Pakistan is expected to gain US$301.28mn of potential savings from NTB reforms in absolute terms. Among all South Asian countries, Pakistan's aggregate import value from South Asia is lowest, but this figure is set to increase in case it undertakes NTB reforms. In terms of potential savings as percentage of import value, Pakistan is expected to gain 17.18 percent, which is highest among all other partner countries.

The aggregate figures given in Table I.4.1 are derived from country-wise summary of results on potential savings from NTB reforms, as presented in the Table I.4.2.

Table I.4.2: Country-wise Summary of Results on Potential Savings from NTB Reforms

Partner Country	Rate of Non-Tariff Trade Cost	Import Value in Countries (US$mn)	Domestic Value in Partner Country (US$mn)	Revised Import Value using Ideal Non-Tariff Rate (US$mn)	Potential Savings from NTB Reforms (US$mn)	Potential Saving as % of Import Value
Bangladesh						
India	82.28	3,405.52	1,868.28	3,397.83	7.68	0.23
Nepal	–	–	–	–	–	–
Pakistan	100.02	947.23	473.57	861.28	85.95	9.07
Sri Lanka	130.07	46.31	20.13	36.61	9.70	20.95
Average	**104.12**					
Total		**4,399.05**	**2,361.97**	**4,295.72**	**103.34**	**2.35**
India						
Bangladesh	82.28	579.13	317.71	518.44	60.69	10.48
Nepal	74.26	508.21	291.65	475.91	32.31	6.36
Pakistan	121.12	352.11	159.24	259.85	92.27	26.20
Sri Lanka	97.51	717.98	363.52	593.19	124.80	17.38
Average	**93.79**					
Total		**2,157.43**	**1,132.11**	**1,847.38**	**310.05**	**14.37**

Contd...

Nepal						
Bangladesh	–	–	–	–	–	–
India	74.26	3,751.68	2,152.96	3,751.68	–	–
Pakistan	298.80	4.10	1.03	1.79	2.31	56.30
Sri Lanka	248.04	1.00	0.29	0.50	0.50	49.93
Average	**207.03**					
Total		**3,756.78**	**2,154.27**	**3,753.97**	**2.81**	**0.07**
Pakistan						
Bangladesh	100.02	82.73	41.36	75.41	7.32	8.85
India	121.12	1,607.35	726.91	1,325.32	282.03	17.55
Nepal	298.80	1.99	0.50	0.91	1.08	54.28
Sri Lanka	121.68	61.13	27.58	50.28	10.85	17.75
Average	**160.40**					
Total		**1,753.20**	**796.34**	**1,451.91**	**301.28**	**17.18**
Sri Lanka						
Bangladesh	130.07	24.35	10.58	18.84	5.51	22.63
India	97.51	4,349.23	2,202.03	3,919.75	429.48	9.87
Nepal	248.04	0.31	0.09	0.16	0.15	48.86
Pakistan	121.68	335.20	151.21	269.16	66.04	19.70
Average	**149.33**					
Total		**4,709.08**	**2,363.91**	**4,207.91**	**501.17**	**10.64**

In the case of Bangladesh, its average non-tariff trade cost rate with SAFTA partner countries is 104.12 percent and aggregate potential savings from NTB reforms comes around US$0.103bn, while share of its potential savings in its aggregate import value comes around 2.35 percent. It is to be noted here that Bangladesh has the lowest non-tariff trade cost rate with Hong-Kong i.e. 81 percent and when compared with average of non-tariff trade cost rate figures with SAFTA member countries, the difference is 23 percent. However, Bangladesh has the highest non-tariff trade cost rate with Sri Lanka (130.07 percent) and if adequate reform measures are undertaken by Bangladesh, share of potential savings as of its import value with Sri Lanka will go up to 20.95 percent. If we look at potential savings from NTB reforms in absolute terms, Bangladesh seems to gain the largest in case of its bilateral trade with Pakistan, amounting to about US$85.95mn.

In the case of India, its average non-tariff trade cost rate with SAFTA members comes at 93.79 percent, which is the lowest average non-tariff trade cost rate as compared to that of other SAFTA member countries. Potential savings of India from NTB reforms comes around US$310.05mn. The share of potential saving in import value for India comes around 14.37 percent. The ideal non-tariff trade cost rate in case of India stands at 63 percent with Malaysia. Due to volatile political and trade relations with Pakistan, the bilateral non-tariff trade cost rate between these two trading partners comes to 121.12 percent, which if reduced to 63 percent (India's ideal non-tariff trade cost rate with Malaysia) will gain India US$92.27mn, that comes around 26.20 percent of value of its total imports from Pakistan.

The average non-tariff trade cost rate for Nepal stands around 207.03 percent, which is highest among SAFTA member countries. Nepal has lowest non-tariff trade cost rate

of 74 percent with India and is the ideal in its case, yet Nepal has the highest deviation from its ideal non-tariff trade cost rate which comes at 133 percent. The potential savings for Nepal from NTB reforms is US$2.81mn and share of its potential savings to its total import value comes to about 0.07 percent. Nepal has highest bilateral non-tariff trade cost rate with Pakistan, which is around 298.80 percent (largest among any other SAFTA Member). If Nepal reduces it to 74 percent, which it already shares with India, it would easily tend to gain about US$2.31mn and this is around 56.30 percent as percentage of value of its import from Pakistan.

In the case of Pakistan, the total potential savings from NTB reforms comes to about US$301.28mn. The share of this potential savings in its aggregate import value comes around 17.18 percent. The ideal non-tariff trade cost rate for Pakistan stands at 82 percent with Malaysia and on an average it is excess to the extent of 78 percent when compared with its average non-tariff trade cost rate with other SAFTA member countries. Pakistan's bilateral non-tariff trade cost rate with India is 121.12 percent, which if reduced to its ideal non-tariff trade cost rate, i.e. 82 percent, it can potentially save US$282.03mn from its imports from India.

The ideal non-tariff trade cost rate for Sri Lanka comes at 78 percent with Maldives, which on average exceeds to around 71.33 percent as compared to its non-tariff trade cost rate with the other SAFTA member countries. The share of potential savings in total import value for Sri Lanka comes at around 10.64 percent and its potential savings from NTB reforms comes to about US$501.17mn. Sri Lanka maintains its highest non-tariff trade cost rate with Nepal and it comes around 248.04 percent. If it is reduced to Sri Lanka's ideal non-tariff trade cost rate (i.e. 78 percent), such reforms will generate savings amounting to around 48.86 percent of the

value of its imports from Nepal. If the same ideal non-tariff trade cost rate is maintained by Sri Lanka with India, it can potentially save around US$429.48mn out of its current import bills paid to India.

Results: The Case of Global Ideal Benchmark

Following the methodology discussed in earlier part of this section, we also calculated aggregate potential savings from NTB reforms for South Asian countries using a single ideal non-tariff trade cost rate. We have calculated the potential savings for each member state and also for South Asian region as whole. In order to derive a single ideal non-tariff trade cost rate, we have taken an average of 10 lowest bilateral non-tariff trade cost rates from the global pool, excluding intra-European bilateral cases.[50] This global ideal benchmark non-tariff trade cost rate is derived as about 37.87 percent (Table I.4.3).

This ideal non-tariff trade cost rate has been used as a benchmark to estimate aggregate potential savings from NTB reforms for five member states of SAFTA. This exercise is an extension of the minimum potential savings in the South Asian region which can be achieved by applying country specific ideal benchmarks, as shown in Table I.4.1 above. In the extended analysis country specific ideal non-tariff trade cost rate is replaced with the single global ideal non-tariff trade cost rate.

Table I.4.3: Ideal Benchmark of Rate of Non-Tariff Trade Costs of 10 Countries of the World excluding Intra- European Cases

Reporter Name	Partner Name	Non-Tariff Trade Cost Rate
Hong Kong, China	Netherlands	24.01
Zambia	Zimbabwe	37.50
Zimbabwe	Zambia	37.50
Mexico	US	38.16
US	Mexico	38.16
China	Korea, Rep.	39.34
Korea, Rep.	China	39.34
Malaysia	Thailand	39.67
Thailand	Malaysia	39.67
Botswana	Zimbabwe	45.38
World's Ideal Average Non-Tariff Trade Cost Rate		**37.87**

When the single ideal benchmark non-tariff trade cost rate is used to estimate aggregate potential savings from NTB reforms, the total figure of savings for South Asia amounted to US$4.63bn, which is about 27.61 percent of the total import bills they pay to each other per year (Table I.4.4). The average non-tariff trade cost rate in South Asia region comes to around 142.94 percent, which reflects that import value of any product is increased by about 1.5 times due to non-tariff costs prevailing in intra South Asian trade. However, the same stands at around 37.87 percent in case of ideal non-tariff trade cost rate. Therefore the argument is that if South Asian countries undertake reforms to match the prevalent bilateral trade cost rate in the world, they can substantially reduce the cost of trading with each other.

Table I.4.4: Summary of Results on Aggregate Potential Savings from NTB Reforms in South Asian Countries On the basis of Single Ideal Non-tariff Comprehensive Trade Cost

Reporting Country	Average Rate of Non-Tariff Trade Cost	Aggregate Import Value in Reporting Country (US$mn)	Aggregate Domestic Value in Partner Countries (US$mn)	Revised Import Value using World Ideal non-tariff (US$mn)	Aggregate Potential Saving from NTB reforms (US$mn)	Average Potential Savings as % of Import value
Bangladesh	104.12	4,399.05	2,361.97	3,256.45	1,142.60	25.97
India	93.79	2,157.43	1,132.11	1,560.84	596.59	27.65
Nepal	207.03	3,756.78	2,154.27	2,970.10	786.68	20.94
Pakistan	160.40	1,753.20	796.34	1,097.92	655.28	37.38
Sri Lanka	149.33	4,709.08	2,363.91	3,259.12	1,449.96	30.79
Average	142.94					28.55
Total		**16,775.54**	**8,808.60**	**12,144.42**	**4,631.12**	**27.61**

The scenario for the South Asia region as a whole presented in Table I.4.4 is derived from scenarios for each individual country as given in Table I.4.5. When we look at individual country gains from NTB reforms, aggregate potential saving of Sri Lanka is the highest and comes at around US$1.45bn, while share of its average potential saving to its aggregate import value from South Asian countries comes around 30.79 percent for 2011. The aggregate potential savings from NTB reforms for Bangladesh is about US$1.14bn and share of its average potential saving to its aggregate import value comes around 25.97 percent. In case of Pakistan, the share of aggregate potential savings in the total import value comes at about 37.38 percent and in absolute terms the aggregate potential savings comes at around US$655mn. For Nepal and India, the aggregate potential savings from NTB reforms comes at around US$786.68 and US$596.59, respectively.

Bangladesh seems to have its highest potential savings in the case of its trade with India which comes to about US$829.72mn. However, share of its potential savings to its import value from Sri Lanka is highest and comes around 40.07 percent (Table I.4.5). Sri Lanka's aggregate potential savings from NTB reforms is estimated to be around US$1.45bn, a larger share of which comes by its potential savings from NTB reforms with India, which is around US$429.48mn. The share of its potential savings in its total import value is about 10.64 percent and in case of Nepal it comes around 48.86 percent.

Figures for Nepal show aggregate potential saving of about US$786.68mn from reforms, which would enable the country to match its trade conditions with that of the world ideal. The share of its potential savings in total import value from SAFTA partners comes to 20.94 percent. The largest potential savings that Nepal can enjoy from these NTB reforms emerge from its reduction in bilateral non-tariff trade cost rate with India and savings are estimated to come around US$783.40mn. When

Table I.4.5: Country-wise Summary of Results on Potential Savings from NTB Reforms on the basis of Single Ideal Non-tariff Comprehensive Trade Cost

Partner Country	Rate of Non-Tariff Trade Cost	Import Value in Countries (US$mn)	Domestic Value in Partner Country (US$mn)	Revised Import Value using Ideal Non-Tariff Rate (US$mn)	Potential Savings from NTB Reforms (US$mn)	Potential Saving as % of Import Value
Bangladesh						
India	82.28	3405.52	1868.28	2575.79	829.72	24.36
Nepal	-	-	-	-	-	-
Pakistan	100.02	947.23	473.57	652.91	294.32	31.07
Sri Lanka	130.07	46.31	20.13	27.75	18.56	40.07
Average	**104.12**					
Total		**4399.05**	**2361.97**	**3256.45**	**1142.60**	**25.97**
India						
Bangladesh	82.28	579.13	317.71	438.03	141.10	24.36
Nepal	74.26	508.21	291.65	402.09	106.12	20.88
Pakistan	121.12	352.11	159.24	219.54	132.57	37.65
Sri Lanka	97.51	717.98	363.52	501.18	216.80	30.20
Average	**93.79**					
Total		**2,157.43**	**1,132.11**	**1,560.84**	**596.59**	**27.65**

Contd...

Nepal						
Bangladesh	–	–	–	–	–	–
India	74.26	3,751.68	2,152.96	2,968.28	783.40	20.88
Pakistan	298.80	4.10	1.03	1.42	2.68	65.43
Sri Lanka	248.04	1.00	0.29	0.39	0.60	60.39
Average	**207.03**					
Total		**3756.78**	**2154.27**	**2,970.10**	**786.68**	**20.94**
Pakistan						
Bangladesh	100.02	82.73	41.36	57.03	25.71	31.07
India	121.12	1607.35	726.91	1002.19	605.16	37.65
Nepal	298.80	1.99	0.50	0.69	1.30	65.43
Sri Lanka	121.68	61.13	27.58	38.02	23.11	37.81
Average	**160.40**					
Total		**1753.20**	**796.34**	**1097.92**	**655.28**	**37.38**
Sri Lanka						
Bangladesh	130.07	24.35	10.58	18.84	5.51	22.63
India	97.51	4349.23	2202.03	3919.75	429.48	9.87
Nepal	248.04	0.31	0.09	0.16	0.15	48.86
Pakistan	121.68	335.20	151.21	269.16	66.04	19.70
Average	**149.33**					
Total		**4709.08**	**2363.91**	**4207.91**	**501.17**	**10.64**

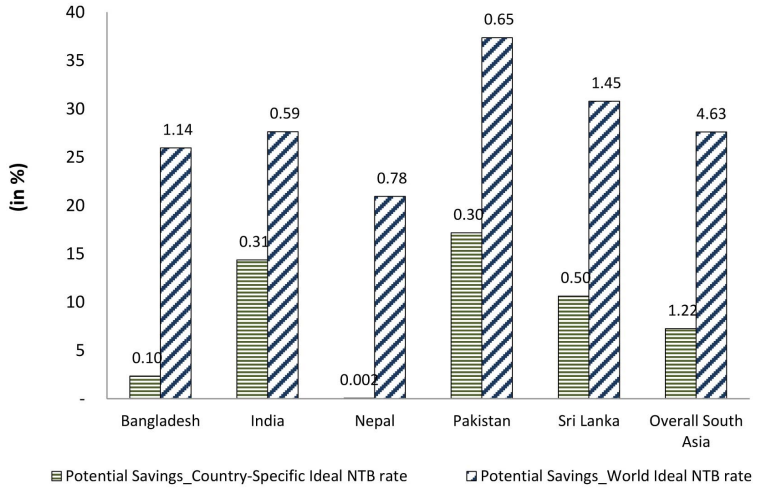
we look at the share of its potential savings in its total import value, the highest figures comes to about 65.43 percent, which it shares with Pakistan.

In the case of Pakistan, aggregate potential savings by having a world ideal non-tariff trade cost rate is estimated to be to the tune of US$655.28mn and share of these potential savings in its total import value is around 37.38 percent. If Pakistan maintains this ideal non-tariff trade cost rate with India, it is found to be able to save about US$605.16mn.

If India maintains a non-tariff trade cost rate of 37.87 percent in trade with Sri Lanka, India would save around US$216.80mn, US$132.57mn in trade with Pakistan, US$106.12mn in trade with Nepal and US$141.10mn in India's bilateral trade with Bangladesh.

Figure I.4.1 compares the potential savings that can accrue to a South Asian country in case it maintains its ideal non-

Figure I.4.1: Potential Savings from NTB Reforms in South Asia Potential Savings from NTB Reforms as percentage of Import Value (Figures in US$bn)



tariff trade cost rate with South Asian partners (which they already maintain with their ideal trading partners across the world) and the savings which they can enjoy if they maintain the world's ideal non-tariff trade cost.

In case of Bangladesh the aggregate potential gains will increase from US$0.10bn to US$1.14bn if it maintains the prevailing world's ideal non-tariff trade cost rate with its South Asian trading partners. Similarly, Nepal's potential savings will grow substantially as in the first case, its savings are coming around US$0.002bn, which could reach around US$0.78bn. The potential savings from NTB reforms could increase from US$0.50bn to US$1.45bn for Sri Lanka, if it first applies its prevailing ideal non-tariff trade cost rate in trading with south Asian partners and then moves to the world's ideal non-tariff trade cost rate.

If Pakistan maintains its ideal non-tariff trade cost rate (which it maintains with Malaysia) in its trade with South Asian partners also, it can potentially save US$0.30bn, but if it adopts reforms to attain the global ideal non-tariff trade cost rate the potential savings can go up to US$0.65bn.

In case of India, the potential savings can increase from US$0.31 to around 0.59, if India undertakes further reforms to improve its trading systems to match the global ideal non-tariff trade cost rate.

5
Summary and Conclusions

As tariff walls are gradually succumbing to a growing number of multilateral and regional trade agreements, trade liberalisation increasingly faces the far more difficult challenge of NTBs. The case of South Asia is no different. Ridden with a wide range of barriers other than tariffs, the region's efforts to enhance intra-regional trade by reducing tariffs are under the threat of subversion by NTBs. The fact that regional trade has failed to rise to the expected levels and stagnated at a very low level for the past two decades, despite actively pursuing trade liberalisation through a formal legal and institutional system, indicates certain systemic shortcomings.

Generally, NTBs are categorised into policy induced barriers and others. While the former are disciplined using enforceable laws, the latter are addressed through non-enforceable voluntary commitments, international aid, technical assistance and capacity building. The former category is referred to as NTMs, given that trade polices affect trade in many different ways as they are themselves of different varieties serving many different regulatory objectives. An NTM should be first established on illegitimate grounds in order to be termed as NTBs and therefore to be subjected to reforms. More often than not, the debates on NTMs revolve around the legitimacy of the policy in question, based on the legal requirements that determine legitimacy, while its trade

distortive effects, if any, receives less attention. With regards to trade facilitation reforms addressing non-policy related NTBs, high costs of reform measures and budgetary constraints often act as deterrents.

South Asia broadly follows the general approaches to NTB reforms. The current approaches are found to suffer from a number of inherent problems such as lack of clarity in definition, fragmented policy responses towards interrelated NTBs, unavailability of data, difficulties in quantifying costs of benefits or benefits from reforms, and subsequent problems related to incentives and enforcements. Hence their influence on NTB reforms remains sub-optimal. Further, mismatch of interests, inadequate incentive structure, weak enforcement powers, non-inclusiveness of relevant stakeholders in the process, etc. have affected progress. Many NTBs fail to get notified in the formal review process because of inadequate representation of industry organisations in the process.

Given the systemic problems that have emerged in the current approaches, a fresh approach is proposed based on a comparative principle that compares current trade conditions that may be barriers, both policy-induced and other, to possible cheaper alternatives. A simple dictum can be adopted to identify barriers: *if it can be found that there is a cheaper-alternative(s) to a particular condition which influences trade, that condition may be judged as a barrier to trade*. A greater level of involvement from the private sector in the formal system for NTB reforms is necessary for the success of this approach. This is because businesses possess data on trade costs and they regularly undertake cost assessments, consider all potential alternatives, and explore possible cost saving avenues.

It is observed that the participatory 'cheaper-alternative' approach has several advantages over the current approaches. It solves issues related to definitions and fragmentation of NTB

reforms as all trade distortive conditions can be raised as NTB complaints under one monolithic framework. As the approach is grounded in cost calculations and possible remedial measures, it also addresses data deficiency because the system will automatically ensure that all barriers worth raising will get registered as it is in the self-interests of the businesses to do so. Further, since the approach will create an incentive driven system, problems related to lack of incentives, enforceability, etc., can also be overcome.

The 'cheaper alternative' approach can be found to have additional positive effects on overall trade governance as it is more participatory, transparent, and permits accessibility of primary complainant (businesses) to the complaint resolution system. It allows more information flow, facilitates cross-fertilisation of ideas, while being a more integrative and administratively simpler system. It also facilitates responsibility sharing and reduces the burden of governments with the involvement of the private sector.

For the new approach to function, the system has to be made more inclusive, giving adequate representation to business organisations. This requires only minimal institutional reforms. An examination of the present system designed under SAARC and legal provisions of SAFTA reveals that creating an inclusive system is already provided for. Institutional reform does not require any legal amendments, it only needs more awareness generation and collective action to transform the vision of inclusiveness stated on paper into reality.

Literature analysing patterns of South Asian trade shows evidence of high prevalence of NTBs. Relatively higher levels of growth rate in trade with countries outside the region shows that trade liberalisation policies were asymmetrically applied to the effect that facilitation needs of intra-regional trade were left unattended. In all available indicators (World Bank and World Economic Forum databases for various years) on

efficiency of trade systems, performance of South Asian countries are found as far below benchmarks. As a result, many products with high regional trade potential (matching export capabilities and import demand) remain non-traded. There is plenty of empirical evidence that suggests trade within the region suffers from high non-tariff costs despite geographical proximity.

Existing literature also indicates that trade liberalisation policies were directed towards expanding export opportunities to lucrative markets outside the region, while facilitation needs of intra-regional trade were neglected. As a result, the region suffers from excessive compliance costs for standards imposed (expenditure in excess than normally required) because of lack of mutual recognition of standards and product testing certification, excessive logistical costs and excessive trade financing costs.

Using a newly generated database on trade cost indicators developed by UNESCAP, this study calculated the aggregate benefits that can accrue to South Asia from undertaking NTB reforms. This database allows us to calculate the difference between current intra-regional trade costs and possible lower trade costs as is revealed by improved bilateral trade conditions in South Asia's trade with countries outside the region. The lowest exhibited trade cost of a South Asian country from a pool of bilateral cases is taken as the benchmark or revealed 'cheaper alternative'. Thereafter, savings on trade costs when South Asian countries adopt reforms so as to keep costs to the level of their respective benchmarks are quantified.

The results reveal that if South Asian countries undertake a bare minimum set of reforms so as to match intra-regional trade conditions with that of their respective best existing conditions in trade with rest of the world, as much as 7.26 percent of their total intraregional trade value can be saved. When the analysis was extended to the case of further reforms

that would match world ideals that are achievable, the minimum aggregate possible reduction in trade costs was found to be as high as 27.61 percent of the import value when trade occurs within South Asia. This means annual savings of more than US$4.6bn for the year 2011.

It is argued that reforms suggested above will reduce intra-regional import prices substantially, which will translate into more demand induced growth in regional trade. These figures also indicate the immense scope of adopting the 'participatory cheaper-alternative approach' as this study demonstrates that cheaper alternatives to the way South Asia trades at present do exist.

References

Abbott, Roderick (2007), 'Are Developing Countries Deterred from Using the WTO Dispute Settlement System? Participation of Developing Countries in the DSM in the years 1995-2005', ECIPE Working Paper No. 1, Brussels

ADB (2008), 'How to Design, Negotiate, and Implement a Free Trade Agreement in Asia', Office of Regional Economic Integration, Asian Development Bank, Manila

ADB and UNCTAD (2008), 'Qualification of Benefits from Economic Cooperation in South Asia', Asian Development Bank and United Nations Conference on Trade and Development, Macmillan India Ltd., New Delhi

Ahmed, Manzur (2006), 'Trade Facilitation Needs Assessment-Private Sector's Perspective of Bangladesh', Regional Consultation on Trade Facilitation Needs Assessment in South Asia, CUTS International and UNDP Regional Centre, Colombo

Ahmed, S. and E. Ghani (2008), 'Making Regional Cooperation Work for South Asia's Poor, Policy Research Paper 4736, South Asia Regional Programme Unit, The World Bank, Washington, DC

Alavi, Amin (2007), 'African Countries and the WTO's Dispute Settlement Mechanism', Development Policy Review, 25(1), Overseas Development Institute, London

Alburo, Florian (2005), 'Implementation of Trade Facilitation Measures: Needs, Costs and other Issues for the WTO Negotiations', ARTNet Policy Brief No. 6, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok

Alemanno, Alberto (2008), 'Private Parties and WTO Dispute Settlement System' in Julien Chaisse & Tiziano Balmelli (eds.), *Essays on the Future of the World Trade Organization*, EDIS, Geneva

Anderson J.E. and E. van Wincoop (2004), 'Trade Costs', *Journal of Economic Literature* 42(3), 691-751

Arnold, John (2007), 'The Role of Trade Facilitation in Export Growth' in Sadiq Ahmed and Ejaz Ghani (eds.) *South Asia: Growth and Regional Integration*, ed., 191-235, The World Bank, Washington, DC

Arvis, JF. (2005), 'Transit and the Special Case of Landlocked Countries', Custom Modernization Handbook, pp. 243-264, The World Bank, Washington DC

Bacchetta, Marc, Jürgen Richtering and Roy Santana (2012), 'How Much Light Do WTO Notifications Shed on NTMs?' in Olivier Cadot and Mariem Malouche, *'Non-Tariff Measures - A Fresh Look at Trade Policy's New Frontiers'*, The World Bank, Washington DC

Baldwin, R. (1970), 'Non-Tariff Distortions in International Trade', Brookings Institution, Washington, D.C.

Banik, N. and J. Gilbert (2008), 'Regional Integration and Trade Costs in South Asia', ADB Institute Working Paper No.127, Asian Development Bank, Manila

Baysan, T., A. Panagariya and N. Pitigala (2006), 'Preferential Trading in South Asia', World Bank Policy Research Working Paper 3813, The World Bank, Washington, DC

Bown, Chad P. (2005), 'Participation in WTO Dispute Settlement: Complainants, Interested Parties and Free Riders', *World Bank Economic Review*, 19(2) pp. 287-310, Oxford University Press, London

Bown, Chad P. and Bernard M. Hoekman (2005), 'WTO Dispute Settlement and the Missing Developing Country Cases: Engaging the Private Sector', *Journal of International Economic Law* 8(4), 861–890

Cadot, Oliver, Mariem Malouche and Sebastián Sáez (2012), 'Streamlining Non-Tariff Measures: A Toolkit for Policy Makers', The World Bank, Washington DC

Cadot, Olivier and Jammes Olivier (2012), 'AVEs in TRIST', in Olivier Cadot and Mariem Malouche, *'Non-Tariff Measures- A Fresh Look at Trade Policy's New Frontiers'*, The World Bank, Washington DC

Cadot, Olivier and Mariem Malouche (Eds) (2012), 'Non-Tariff Measures - A Fresh Look at Trade Policy's New Frontiers', The World Bank, Washington, DC

Chanda, Rupa (2011), 'Integrating Services in South Asia: Trade, Investment, and Mobility', Oxford University Press, New Delhi

Chatterjee, Bipul and Joseph George (2012), 'Consumers and Economic Cooperation: Cost of Economic Cooperation to Consumers in South Asia', CUTS International, Jaipur

Chaturvedi, S., (2006), 'An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in India: Implications for the WTO Negotiations", ARTNeT Working Paper No. 4, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok

Chaturvedi, Sachin (2007), 'Trade Facilitation Measures in South Asian FTAs: An Overview of Initiatives and Policy Approaches', ARTNeT Trade Working Paper Series, No. 28, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok.

Chen, N. and Dennis Novy, (2009), 'International Trade Integration: A Disaggregated Approach', *CEP Discussion Paper* No. 908, Centre for Economic Performance, London School of Economic and Political Science, London

Chen, Natalie and Dennis Novy, (2012), 'On the Measurement of Trade Costs: Direct vs. Indirect Approaches to Quantifying Standards and Technical Regulations,' CEPR Discussion Paper No. 8883, Centre for Economic Policy Research, London

Cottier, Thomas and Petros C. Mavroidis (2000), 'Regulatory Barriers and the Principle of Non-Discrimination in World Trade Law: Past, Present, and Future', University of Michigan Press

CUTS (2004), 'Trade Facilitation: Reducing the Transaction Costs or Burdening the Poor?', Research Report, International Working Group on the Doha Agenda (IWOGDA), CUTS International, India

De, Prabir (2011), 'Why is Trade at Borders a Costly Affair in South Asia? An Empirical Investigation', Research and Information System for Developing Countries (RIS), India Habitat Centre, New Delhi

Deardorff, A.V. and R. M. Stern (1998), 'Measurement of Non-Tariff Barriers', Studies in International Economics, University of Michigan Press, Michigan

Duval, Yann, and C. Utoktham (2010), 'Intraregional Trade Cost in Asia: A Primer', Trade and Investment Division, UNESCAP Staff Working Paper 01/10, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok

Duval, Yann, and Utoktham, (2011), 'Trade Facilitation in Asia and the Pacific: Which Policies and Measures Affect Trade Costs the Most?' ARTNeT Working Paper Series No. 94, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok

Engman M. (2005), 'The Economic Impact of Trade Facilitation', OECD Trade Policy Working Paper No. 21, Organization for Economic Cooperation and Development, Paris

Francois, J, P. Rana, and G. Wignaraja (2009), 'Pan-Asian Integration: Linking East Asia and South Asia', Palgrave MacMillan, London

George, Joseph (2011), 'Doha Round Negotiations on Trade Facilitation: The Gradient of Trade Policy Reforms', in Bipul Chatterjee and Joseph George (eds.), *The Doha Round and South Asia: Need for Better Coordination*, CUTS International, Jaipur

Gourdon, J and Alessandro Nicita (2012): 'NTMs: Interpreting the New Data', in Olivier Cadot & Mariem Malouche (Eds), *Non-Tariff Measures- A Fresh Look at Trade Policy's New Frontiers*, The World Bank, Washington DC

Horn, H. and P.C. Mavroidis, (2004), 'Still Hazy After All These Years: The Interpretation of National Treatment in the GATT/WTO Case-law on Tax Discrimination', *European Journal of International Law*, Vol.15, No.1, 39-69

Horn, H., (2006), 'National Treatment in the GATT', IFN Working Paper No. 657, Research Institute of Industrial Economics, Stockholm

Hudec, R.E., (1998), 'GATT WTO Constraints on National Regulation: Requiem for an "Aim and Effects" Test', *World Trade Law*, World Trade Organization, Geneva

Ihiga, Simon Ngatia (2009), 'Monitoring Mechanism for Elimination of Non-Tariff Barriers in EAC', Support of Regional Business

Organizations in East Africa, East African Community Secretariat, Tanzania

ITC (2006), 'Business-Government Consultative Mechanism on Trade Policy: An International Comparative Study', International Trade Centre, Geneva

Keane, Jodie, *et al* (2012), 'Feasibility Study on Reducing Non-Tariff Barriers in South Asia, *Forthcoming Report*, Overseas Development Institute, London

Kee, Hiau Looi, Alessandro Nicita, and Marcelo Olarreaga (2009), 'Estimating Trade Restrictiveness Indices', *Economic Journal*, 119 (534): 172–99

Khan, U., (2010), 'Pakistan: South Asia Trade & Non-Tariff Barriers', Development Policy Research Centre (DPRC) Working Paper, Lahore University of Management Sciences, Lahore

Man Singh, Shanker (2006), 'Trade Facilitation Needs Assessment-Private Sector's Perspective of Nepal', Regional Consultation on Trade Facilitation Needs Assessment in South Asia, CUTS International and UNDP Regional Centre, Colombo

McLinden, Gerard (2006), 'Trade Facilitation: Progress and Prospects for the Doha Negotiations, The World Bank, Washington DC

Mukherji, I.N., (2004), 'Towards a Free Trade Area in South Asia: Charting a Feasible Course for Trade Liberalization with Reference to India's Role', RIS, Discussion Paper No. 86, Research and Information System for Developing Countries, New Delhi

Nath, Amala (2007), 'The SAFTA Dispute Settlement Mechanism: An Attempt to Resolve or Merely Perpetuate Conflict in the South Asian Region?', *American University International Law Review*, Volume 22, Issue 2

Nottage, Hunter (2009), 'Developing Countries in the WTO Dispute Settlement System', Global Economic Governance Programme Working Paper 2009/47, University College, Oxford

Novy, D. (2012), "Gravity Redux: Measuring International Trade Costs with Panel Data." *Economic Inquiry*, 51(1)

OECD (2005), 'Looking Beyond Tariffs: The Role of Non-Tariff Barriers in World Trade', OECD Trade Policy Studies, Organization for Economic Cooperation and Development, Paris

Panagariya, Arvind (2007), 'Trading Choices of South Asia', in Sadiq Ahmed and Ejaz Ghani (eds.), *South Asia: Growth and Regional Integration*, The World Bank, Washington DC

Sen, Julius (2004), 'Trade Facilitation and South Asia: The Need for Some Serious Scenario Planning', CUTS Research Report, CUTS International, Jaipur

Shaffer, Gregory C and Ricardo Meléndez-Ortiz (Eds) (2010), 'Dispute Settlement at the WTO: The Developing Country Experience', Cambridge University Press, London

Shaffer, Gregory, Victor Mosoti and Asif Qureshi (2003), 'Towards A Development-Supportive Dispute Settlement System in the WTO', Sustainable Development and Trade Issues, Resource Paper No. 5, ICTSD, Geneva

Staiger, R.W. (2012), 'Non-Tariff Measures and the WTO', ERSD Working Paper No. 01, World Trade Organization, Geneva

Steger, Debra P. (2007), 'WTO Dispute Settlement: Systemic Issues' in K. Padmaja (ed), *WTO and Dispute Resolution*, ICFAI University Press, Hyderabad

Stoler, Andrew L. (2011), 'TBT and SPS Measures, in Practice', in Jean-Pierre Chauffour and Jean- Christophe Maur (Eds), *Preferential Trade Agreement: Policies for Development*, The World Bank Washington, DC

Strum, D. M. (2006), 'Product Standards, Trade Disputes, and Protectionism', *Canadian Journal of Economics* 39(2): 564-581

Taneja, Nisha (1999), "Informal Trade in the SAARC Region", Indian Council for Research on International Economic Relations (ICRIER), New Delhi

Taneja, Nisha (2004), 'Informal and Free Trade Arrangements', *South Asian Journal*, Issue 4, April-June, Lahore

Taneja, Nisha (2005), 'Informal Trade in South Asia: How to Channelize to a Formal Route?', CUTS Briefing Paper RECSA 5/ 2005, Centre for Consumer Action, Research & Training, Jaipur

Tiziano, Balmelli (eds.) (2008), 'The WTO Judicial System: Contributions and Challenges', *Essays on the Future of World Trade Organization*, World Trade Organization, Geneva

Trefler, D (1995), 'The Case of the Missing Trade and Other Mysteries', *American Economic Review*, 85(5), pp 1029–46

UNCTAD (2006), 'Technical Notes on Essential Trade Facilitation Measures', Trade Facilitation Handbook Part 2, United Nations Council for Trade and Development, Geneva

UNCTAD (2010), 'Non-tariff Measures: Evidence from Selected Developing Countries and Future Research Agenda', in Developing *Countries in International Trade Studies*, United Nations Council for Trade and Development, Geneva

UNESCAP (2006), 'An Exploration of the Need for and Cost of Selected TFM in Asia and Pacific in the Context of the WTO Negotiations', Research Report, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok

Weerakoon, Dushni, (2008), 'SAFTA: Current Status and Prospect', Institute for Policy Studies, Colombo

Weerakoon, Dushni, Jayanthi Thennakoon and Bilesha Weerakoon (2005), 'Multilateral Agreement on Trade Facilitation: Important but Complex Agenda for South Asia', in *South Asian Positions in the WTO Doha Round: In Search of a True Development Agenda*, Vol. 1, CUTS International, Jaipur

Wilson, J. and T. Otsuki, (2007), 'Regional Integration in South Asia: What Role for Trade Facilitation?', Policy Research Working Paper 4423, The World Bank, Washington DC

Wilson, J.S., C.L. Mann and T. Otsuki, (2005), 'Assessing the Benefits of Trade Facilitation: A Global Perspective', The World Bank Institute for International Economics, Washington DC and Osaka University, Japan

World Bank (2010), "Logistics Performance South Asia, Connecting to Compete: Trade Logistics in the Global Economy", The World Bank, Washington D.C

WTO (2009a) 'WTO Negotiations on Trade Facilitation: Compilation of Members. Textual Proposals', Negotiating Group on Trade

Facilitation, TN/TF/W/43/Rev.19, World Trade Organization, Geneva

WTO (2009b), 'Draft Consolidated Negotiating Text, Negotiating Group on Trade Facilitation', TN/TF/W/165, World Trade Organization, Geneva

WTO (2009c), 'The Doha Round Texts and Related Documents, Information and External Relations Division, World Trade Organization, Geneva

WTO (2012), 'Trade and Public Policies: A Closer Look at Non-Tariff Measures in the 21st Century', World Trade Report, World Trade Organization, Geneva

WTO (2013), 'WTO Business Survey: Key Findings', World Trade Organization, Geneva

WTO and OECD (2011), 'Aid for Trade at a Glance', World Trade Organization, Geneva and Organization for Economic Development and Cooperation, Paris

Explanatory Note

The analysis undertaken in Chapter 4 uses a recently created trade cost database by the World Bank and UNESCAP. The database provides bilateral trade cost data for pairs of countries. Non-tariff trade cost figures in the database include all additional costs other than tariff costs involved in trading goods bilaterally between a pair of trading partners. Non-tariff trade cost figures, given in percentages, represent the percentage increase in domestic value/price of goods in country A, that occurs when they reach country B's territory because of costs of doing trade excluding tariff costs.

The methodology follows the concept drawn from Anderson and van Wincoop (2004) and developed by Chen and Novy (2009, 2012). The modified method was used initially by UNESCAP to generate trade costs between pairs of countries for numerous bilateral cases from across the globe, allowing global level comparison of trade costs (Duval and Utoktham, 2010, 2011). The database was further improved with a joint venture between the World Bank and the UNESCAP (Refer Novy (2012).

Non-tariff trade cost figures (for each pair of countries (trading parners) are derived from separate calculations of comprehensive (overall) bilateral trade cost and bilateral tariff costs.

$$\mathbf{nontariff\_t}ij = \left\{\left[\frac{1 + \left(\frac{\tau ij}{100}\right)}{\mathbf{geometric\_avg\_tariff}}\right] - 1\right\} * 100$$

The calculation involves

a) comprehensive trade cost: τ_{ij}
b) bilateral tariff costs: geometric_avg_tariff

Example: Comprehensive trade cost value between two countries 'i' and 'j' is 1.875, with ad valorem value equivalent to 87.5%. The bilateral tariff cost, geometric_avg_tariff, is 1.09362, with an ad valorem value equivalent to 9.362%. Thus, non-tariff trade costs excluding tariff, i.e. nontariff_t_{ij} = [(1.875/1.09362)-1]*100} = 71.45%.

a) Comprehensive trade cost can be broken into tariff costs component, natural trade cost component and non-tariff policy related trade cost component. It is derived from a basic gravity model. The derived expression is given as follows:

$$\tau_{ijkt} = \left(\frac{x_{iikt}\, x_{jjkt}}{x_{ijkt}\, x_{jikt}}\right)^{\left(\frac{1}{2(\sigma_k - 1)}\right)}$$

at sector k, time t

where,

t_{ij} denotes geometric average trade costs between country i and country j
x_{ij} denotes international trade flows from country i to country j
x_{ji} denotes international trade flows from country j to country i
x_{ii} denotes intranational trade of country i
x_{jj} denotes intranational trade of country j
σk denotes sector-specific elasticity of substitution between goods in the sector $k3$

This equation is a measure of costs associated with both imports and exports between two countries 'í' and 'j'. According to this equation, trade costs are directly inferred from observable bilateral and domestic trade data, showing how much more expensive bilateral trade is than domestic trade. The data can be used for comparative purposes.

Example: Comprehensive trade cost between 'i' and 'j' is 1.875 and between 'j' and 'p' is 1.275. This suggests that countries 'i' and 'j' are trading goods about 1.875 times higher than their actual cost and countries 'j' and 'k' are trading goods around 1.25 times higher than the actual cost. Thus, trading within the countries 'j' and 'p' is more economic than countries 'í' and 'j'.

b) Bilateral tariff cost is measured using the geometric average, average of the tariff imposed by the two trading countries. The bilateral tariff cost is referred to as:

$$\text{geometric\_avg\_tariff} = [(1 + \text{tariff}_{ij})(1 + \text{tariff}_{ji})]^{\frac{1}{2}}$$

Here,

tariff_{ij} is simple average of effective import tariff imposed by country 'i' on country 'j'

tariff_{ji} is simple average of effective import tariff imposed by country 'j' on country 'i'

Example: Let import tariff of country 'í' to country 'j' be 15%, while import tariff from country 'j' to country 'i' be 4%.

Therefore, geometric_avg_tariff = $\sqrt{(1 + 0.15)(1 + 0.04}$ = 1.09362.

In ad valorem form, the geometric average of tariffs laid by both the countries is (1.09362-1)*100 = 9.362%

Endnotes

1 TBT and SPS Agreements basically set certain conditions for applying quality standards for traded products so that they are not used unfairly with the implicit purpose of distorting trade. See WTO (2012) for more details.

2 See Introduction by Mona Haddad in Cadot, Malouche and Sáez (2012)

3 The Draft Negotiating text of the Trade Facilitation Agreement under the WTO Doha Round Negotiations heavily relies on non-binding commitments for reforms and provides for longer adjustment period for countries with low capacity. For a detailed analysis, see George (2011). The Third Global Review of Aid for Trade held in mid-2011 provided evidence that budget-constrained poor countries could utilise Aid funds for overcoming infrastructural and administrative limitations, but lingering issues of accountability, ownership and management of Aid for Trade were also exposed and finding solutions for these remain as the principal challenge for the WTO membership (WTO and OECD, 2011).

4 These systems are not mutually exclusive and have several cross-cutting elements. For details see Cadot and Malouche (2012).

5 For an in-depth review of the functioning of the notification system, see Bacchetta, Richtering and Santana (2012).

6 In the context of participation of African countries in the WTO dispute settlement process, Alavi (2007) notes their marginal role and position because of lack of know-how and capacity. Pointing out similar reasons, Abbott (2007) observes that the vast majority of the developing country cases were launched by just five members and that around 80-90 members have had no dispute participation at all.

7 For a comprehensive examination of this topic, see OECD (2005) and WTO (2012). Strum (2006) draws connections between application of standards, compliance with disciplinary agreements and trade disputes. Stoler (2011) gives details of practical issues in the applica-

tion of SPS/TBT Agreements and instances of circumvention of provisions for protectionist purposes.

8 In addition, SAFTA being minor prototype of the GATT and being much smaller in scope and scale, many of the advanced tools under the WTO like SPS/TBT Agreements and a well-organised Aid for Trade programme are absent and hence face certain deficiencies. Problems arising out of such deficiencies are to be distinguished from the problems transmitted through replication, as referred here.

9 Definition and classification of non-tariff measures is a long-standing area of research which continues till date. Mostly definitions and classification vary according to purposes for which such exercises are undertaken. Some of the earlier and influential works include Baldwin (1970) and Deardorff and Stern (1998). In one of the most recent such studies, Staiger (2012) classifies NTMs according to whether they are applied at the border, to exports (e.g. export taxes, quotas or bans) and imports (e.g. import quota, import ban), or behind the border.

10 Trade Analysis and Information System (TRAINS) developed by the United Nations Conference on Trade and Development (UNCTAD) gives the most comprehensive database on NTMs, based on classification of NTMs according to a customised coding system which distinguishes six core categories of NTMs. See UNCTAD (2010)

11 The mandate for TF negotiations was laid out in Annex D of the July Package under the Doha Development Agenda and subsequently the negotiation process officially commenced on October 12, 2004 by establishing the Negotiation Group on TF (NGTF) by the Trade Negotiations Committee on that date. See WTO (2009 c)

12 For a details of content of Doha Round Negotiations on Trade Facilitation, see WTO (2009 b). George (2011) provides analysis of the Draft Framework Agreement on Trade Facilitation.

13 Easing of pre-shipment inspection procedures is covered under both Agreement on Pre-shipment and Draft Consolidated Negotiating Text on Trade Facilitation (yet to become a formal Agreement), wherein the former is a disciplinary agreement and the latter allows non-obligatory and voluntary commitments to be made.

14 WTO (2012) gives details of various sources of information on NTMs and their respective limitations.

15 The database includes between one and seven years of NTM information for 86 countries over the period 1992 to 2010. For some countries/years, in particular after 2001, data were collected only for a

sub-set of NTM categories. Various sources were used to provide data, including, where available, WTO sources such as notifications.

16 This is a joint venture launched in 2011 by the African Development Bank, International Trade Centre (ITC), UNCTAD and the World Bank.

17 As in most countries numerous laws and regulations affecting trade are often promulgated by different government agencies and regulatory bodies, assimilation of information on NTMs is found to be highly challenging. Also see WTO (2012) and Cadot and Malouche (2012).

18 Cadot and Jammes (2012) and Kee, Nicita and Olarreaga (2009) are two notable attempts at developing methods for quantification of trade costs due to NTMs. However, as noted by Cadot, Malouche and Sáez (2012), quantification still has limited bearing in NTM reform process, since the question predominantly revolves around the policy legitimacy of NTMs.

19 In the quest for determining policy legitimacy, i.e. whether an NTM confirms with the obligations of member countries under disciplinary agreements, trade distortive effects of NTMs are often downplayed. This prompted NAMA 11 group to propose a new facilitative mechanism under which trade distortiveness of an NTM will get more emphasis in disputes related to NTMs. See Submission by NAMA-11 Group of Developing Countries, 'Resolution of NTBs through a Facilitative Mechanism' (WTO Doc: TN/MA/W/68/Add.1 8 May 2006)

20 A huge body of literature follows various aspects of problems encountered in the application of non-discrimination principle in WTO law and lack of objective standards for determining discriminatory regulatory actions. Some of the most prolific expositions are Hudec (1998), Cottier and Mavroidis (2000), Horn and Mavroidis, (2004) and Horn (2006).

21 Although the overall usage of developing countries has increased sharply, figures illustrates that the dispute settlement activity of developing countries is highly concentrated with a few main users. Only five developing countries (Brazil, India, Thailand, Chile and Argentina) account for 60 percent of activity (Nottage, 2009). Also see note 4 above.

22 Shaffer, Mosoti and Qureshi (2003), Bown and Hoekman (2005), Steger (2007) and Shaffer and Meléndez-Ortiz (2010) raises these issues. In the context of non-compliance with DSB rulings by member governments, Alemanno (2008) notes that there is an increasing

pressure for a more direct involvement of private parties in the Dispute Settlement mechanism. The challenge is to find a way to accommodate their interests within the current system without reducing the discretion WTO Members.

23 Article 8 of SAFTA mentions a range of complementary trade measures including, simplification of customs procedures and harmonisation of product coding system, easing of banking and trade financing, licensing, cross-border investments, development of communication systems and transport infrastructure and simplification of travel visa issuance (SAFTA Legal Text).

24 Press Release, SAARC CCI, Conference on Trade facilitation in South Asia, June 16, 2012.

25 Constitution of the SAARC Chamber of Commerce and Industry (amended and approved by 51st Executive Committee and 16th General Assembly, May 19, 2011, Dhaka, Bangladesh).

26 Proposals on resolution of NTBs through facilitative mechanisms by NAMA 11 group and the EC to the Negotiating Group on Market Access are examples.

27 A recent business survey conducted by the WTO acknowledges that businesses would like to be fully involved in trade policy-making by providing feedback and input regarding business needs and by providing information on obstacles and barriers present in their export markets but also in the home country (WTO, 2013).

28 Such stakeholder forums have been instrumental in the development of regional customs policies in the areas of risk management, trade partnerships, Standard Operating Procedures, IT connectivity, and related legislation in the SACU region (SACU Annual Report 2010-11).

29 A tripartite arrangement between COMESA, EAC and SADC secretariat has called for an online NTBs Reporting and Monitoring Mechanism which provides for active stakeholder involvement in eliminating NTBs and enhances cooperation among the Tripartite Member States, government and private sector partners (Report of the 3rd Meeting Of The Tripartite NTBs Focal Points/National Monitoring Committees, 20th April 2012). The East African Community has significantly expanded the role of private sector in the regional NTB monitoring mechanism (Ihiga, 2009).

30 The Technical Assistance programmes forms part of ADB's regional cooperation and integration strategy (particularly pillar 2 on trade and investments), draws on ADB's experience in supporting FTA and

trade policy capacity building for developing member countries, and existing institutional links with DMCs, sub-regional entities, and regional development partners. See ADB (2008) and Francois, Rana, and Wignaraja (2009).

31 Nath (2007) highlights that the SAFTA agreement does not provide much guidance to the COE for examining a dispute or rendering its recommendations and it also lacks an operating framework for the COE to streamline the process and lessen ambiguity.

32 Article 2(a) of the Constitution of the SAARC Chamber of Commerce and Industry (amended and approved by 51st Executive Committee and 16th General Assembly, May 19, 2011, Dhaka, Bangladesh).

33 Article 2 (m) of the Constitution of the SAARC CCI empowers it 'to do all other things those are likely to promote the aims and objectives of the SAARC Chamber' and thereby has broadened its scope of operation.

34 Article 3 (f) of the Constitution of the SAARC CCI allows broadening of its membership base by admitting various national level chambers/ confederations/federations and specialised trade associations as associate members.

35 The CUTS study under the IWOGDA project looked at trade facilitation needs in South Asia from the point of view of South Asian participation (Bangladesh, India, Nepal, Pakistan and Sri Lanka) in WTO Doha Round negotiations on Trade Facilitation and therefore focuses on the trade facilitation topics covered under the Doha Round. Though the studies covered in CUTS (2004) are based on observations for the period 1995-2003, recent assessment studies commissioned by CUTS have suggested that most of the trade facilitation gaps identified still persist. See George (2011)

36 See Sen (2004) Weerakoon *et al* (2005), Man Singh (2006), Ahmed (2006), George (2011), Chatterjee and George (2012).

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

38 For expositions in this direction, see Taneja (1999, 2004, 2005), Weerakoon *et al.* (2005), Khan (2010) and World Bank (2010).

39 Most of the informal exports from India to Pakistan, reportedly amounting to almost double the size of formal trade and constituting mostly of readymade garments (RMG), jewellery and spices, are routed through major ports like Dubai in the Middle East. See '*A Win-Win Trade for India and Pakistan*' by Pradeep S Mehta and Abid Suleri, *Financial Express*, New Delhi, 18th October 2011.

40 ADB and UNCTAD (2008) provides a detailed country-wise disaggregated quantitative assessment of gains to South Asia from Trade Facilitation reforms.

41 UNCTAD's TRAINS database uses a classification of over 100 trade measures, including those with a discretionary or variable component. It contains NTBs reported for over 150 countries from 1988 to 2001.

42 These areas being, starting a business, dealing with construction permits, getting electricity, registering property, getting property, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers. The Doing Business report aims to supply business leaders and policymakers with a fact base for informing policymaking and to provide open data for research (See Doing Business, The World Bank 2012).

43 The ETI index is developed for 132 countries and covers nearly all aspects that help to enable trade in a wider context. ETI measures the extent to which individual economies have developed institutions, policies, and services facilitating the free flow of goods over borders. See The Global Enabling Trade Report, The World Economic Forum, 2012.

44 Since the performance of Singapore is the best in the ETI, it has not been included in the ASEAN group, considering its case as an outlier.

45 These four categories are themselves based on the 9 pillars, which are domestic and foreign market access, efficiency of customs administration, efficiency of export import procedures, transparency of border administration, availability and quality of transport infrastructure, availability and quality of transport services, availability and use of ICTs, regulatory environment, and physical security.

46 The Global Competitiveness Report, published by the World Economic Forum, in its latest edition covers 144 economies and contains a detailed profile for each of these economies. The GCI is based on the 12 pillars that are covered under the three sub-indexes, namely the basic requirement, efficiency enhancers and innovation and sophistica-

tion factors (See The Global Competitiveness Report, The World Economic Forum, 2012-13).

47 The LPI is based on a LPI survey, which is a standardised questionnaire with two parts (international and domestic). For the international section, it compares the trade logistic profiles of 155 countries and rates them on a scale of one to five. The ratings are based on 600 individual country assessments by nearly 100 international freight forwarders. On the domestic side, a survey by logistics professionals assesses the logistic environment in the countries in which they work. The domestic part thus contains more detailed information on countries' logistics environment, core logistics processes and institutions, and performance time and cost. This approach examines the logistics constraints within countries, not just at the gateways, such as ports or borders. The domestic part of the survey covers 143 countries (See Connecting to Compete: Trade Logistics in the Global Economy, The World Bank, 2012).

48 This database is available on UNESCAP website http://www.unescap.org/tid/artnet/trade-costs.asp, as well as on the website of the World Bank at http://data.worldbank.org/data-catalog/trade-costs-dataset.

49 For details of the concept and its methodology, kindly refer to the Explanatory Note annexed to this book.

50 Intra-European cases were excluded as they have a fairly better scenario when bilateral non-tariff trade cost rates are considered, given the high levels of regional integration achieved by members of European Union in trade affairs, which can hardly be matched by other regions in the short run.

Annexes

Annex 1: Selected Indicators of the Doing Business Report, 2012

Country	Trade across borders (Rank)	Documents to export (number)	Time to export (days)	Cost to export (US$ per	Documents to import (number)	Time to import (days)	Cost to import (US$ per container)
Bangladesh	115	6.00	25.00	965.00	8.00	31.00	1,370.00
India	109	8.00	16.00	1,095.00	9.00	20.00	1,070.00
Nepal	162	9.00	41.00	1,960.00	9.00	35.00	2,095.00
Pakistan	75	7.00	21.00	660.00	8.00	18.00	705.00
Sri Lanka	53	6.00	21.00	715.00	6.00	19.00	745.00
South Asia (Average)		**7.20**	**24.80**	**1079.00**	**8.00**	**24.60**	**1197.00**
Brunei Darussalam	35	6.00	19.00	680.00	6.00	15.00	745.00
Cambodia	120	9.00	22.00	732.00	10.00	26.00	872.00
Indonesia	39	4.00	17.00	644.00	7.00	27.00	660.00
Laos	168	9.00	44.00	1,880.00	10.00	46.00	2,035.00
Malaysia	29	6.00	17.00	450.00	7.00	14.00	435.00

Contd...

Philippines	51	7.00	15.00	630.00	8.00	14.00	730.00
Thailand	89	6.00	25.00	1,010.00	7.00	26.00	1,015.00
Vietnam	68	6.00	22.00	580.00	8.00	21.00	670.00
ASEAN (Average)		**6.63**	**22.63**	**825.75**	**7.88**	**23.63**	**895.25**
Brazil	121	7.00	13.00	2,215.00	8.00	17.00	2,275.00
China	60	8.00	21.00	500.00	5.00	24.00	545.00
Germany	12	4.00	7.00	872.00	5.00	7.00	937.00
Russian Federation	160	8.00	36.00	1,850.00	10.00	36.00	1,800.00
Singapore	1	4.00	5.00	456.00	4.00	4.00	439.00
South Africa	144	8.00	30.00	1,531.00	8.00	32.00	1,795.00
U.S.	20	4.00	6.00	1,050.00	5.00	5.00	1,315.00
U.K.	13	4.00	7.00	950.00	4.00	6.00	1,045.00

Source: Doing Business, 2012, World Bank

Annex 2: Selected Indicators of the Global Enabling Trade Report, 2012

	Overall Index		Market Access		Border Administration		Transport and Communications Infrastructure		Business Environment	
Country/Economy	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Bangladesh	109	3.46	65	3.96	100	3.33	123	2.74	95	3.82
India	100	3.55	130	2.60	77	3.82	84	3.58	74	4.20
Nepal	124	3.07	106	3.60	126	2.63	118	2.80	126	3.24
Pakistan	116	3.39	128	2.95	71	3.92	95	3.35	123	3.34
Sri Lanka	73	3.95	103	3.68	73	3.89	81	3.65	47	4.59
South Asia (Average)		**3.48**		**3.36**		**3.52**		**3.22**		**3.84**
Cambodia	102	3.52	64	4.00	98	3.39	116	2.80	88	3.91
Indonesia	58	4.19	17	4.86	65	4.06	77	3.72	77	4.12
Malaysia	24	4.90	32	4.62	39	4.68	20	5.25	30	5.03
Philippines	72	3.96	14	4.90	72	3.90	91	3.41	107	3.61
Thailand	57	4.21	59	4.03	47	4.41	46	4.30	76	4.13

Contd...

Vietnam	68	4.02	41	4.37	94	3.45	56	4.04	69	4.24
ASEAN (Average)		**4.14**		**4.46**		**3.98**		**3.92**		**4.17**
Brazil	84	3.79	104	3.64	83	3.59	73	3.80	75	4.14
China	56	4.22	108	3.55	45	4.42	48	4.27	45	4.63
Germany	13	5.13	67	3.90	18	5.53	5	5.79	21	5.31
Russian Federation	112	3.41	129	2.94	111	3.03	51	4.23	113	3.45
Singapore	1	6.14	1	6.20	1	6.53	1	6.06	5	5.75
South Africa	63	4.10	66	3.95	59	4.19	55	4.04	71	4.22
Taiwan, China	29	4.81	101	3.70	31	4.97	19	5.26	22	5.31
United Kingdom	11	5.18	67	3.90	9	5.80	4	5.83	28	5.16
United States	23	4.90	60	4.02	20	5.42	15	5.45	42	4.69

Source: Global Enabling Trade Report, 2012, World Economic Forum

Annex 3: Selected Indicators of the Global Competitiveness Report, 2012-13

	Infrastructure				
Country	**Quality of Overall Infrastructure**	**Quality of Roads**	**Quality of railroad Infrastructure**	**Quality of Port Infrastructure**	**Quality of Air Transport Infrastructure**
Bangladesh	2.80	2.80	2.50	3.30	3.50
India	3.80	3.50	4.40	4.00	4.70
Nepal	2.90	2.60	1.10	2.70	3.20
Pakistan	3.40	3.90	2.60	4.40	4.30
Sri Lanka	4.80	4.60	3.80	4.90	5.00
South Asia (Average)	**3.54**	**3.48**	**2.88**	**3.86**	**4.14**
Brunei Darussalam	5.10	5.20	2.10	4.50	4.90
Cambodia	4.20	4.00	2.30	4.20	4.40
Indonesia	3.70	3.40	3.20	3.60	4.20
Malaysia	5.40	5.40	4.90	5.50	5.90
Philippines	3.60	3.40	1.90	3.30	3.60
Thailand	4.90	5.00	2.60	4.60	5.70
Vietnam	3.20	2.70	2.60	3.40	4.10
ASEAN (Average)	**4.30**	**4.16**	**2.80**	**4.16**	**4.69**
Brazil	3.40	2.70	1.80	2.60	3.00
China	4.30	4.40	4.60	4.40	4.50
Germany	6.20	6.10	5.70	6.00	6.40
Russia	3.50	2.30	4.20	3.70	3.80
Singapore	6.50	6.50	5.70	6.80	6.80
South Africa	4.50	4.90	3.40	4.70	6.10
UK	5.60	5.60	5.00	5.80	6.00
US	5.60	5.70	4.80	5.60	5.80

Source: Global Competitiveness Report, 2012-2013, World Economic Forum

Annex 4: Selected Indicators of the Global Competitiveness Report, 2012-13

Country	Global Competitiveness Index (GCI)	Business Sophistication	Innovation	Goods Market Efficiency		Financial Market Development	
				Prevalence of trade barriers	Burden of customs procedures	Availability of financial services	Affordability of financial services
Bangladesh	3.60	3.50	2.50	4.20	3.20	4.00	3.70
India	4.30	4.30	3.60	4.20	3.80	5.00	4.90
Nepal	3.50	3.20	2.40	3.70	3.50	3.90	3.70
Pakistan	3.50	3.80	3.10	3.80	3.70	4.00	3.70
Sri Lanka	4.20	4.60	3.30	3.90	4.30	5.30	5.00
South Asia (Average)	**3.82**	**3.88**	**2.98**	**3.96**	**3.70**	**4.44**	**4.20**
Brunei Darussalam	4.90	4.00	3.30	4.50	4.50	4.80	4.60
Cambodia	4.00	3.90	3.20	4.10	3.90	4.40	4.20
Indonesia	4.40	4.30	3.60	4.30	4.00	4.80	4.40

Contd...

Malaysia	5.10	5.00	4.40	4.90	5.00	5.60	5.40
Philippines	4.20	4.20	3.00	4.30	3.20	5.00	4.80
Thailand	4.50	4.30	3.20	4.30	3.80	5.10	4.80
Vietnam	4.10	3.60	3.10	3.60	3.40	4.30	4.00
ASEAN (Average)	**4.46**	**4.19**	**3.40**	**4.29**	**3.97**	**4.86**	**4.60**
Brazil	4.40	4.50	3.40	3.90	3.10	5.50	4.30
China	4.80	4.30	3.80	4.20	4.20	4.60	4.60
Germany	5.50	5.70	5.40	4.70	4.90	5.80	5.10
Russia	4.20	3.30	3.00	3.50	2.90	3.70	3.40
Singapore	5.70	5.10	5.40	5.90	6.20	6.10	5.80
South Africa	4.40	4.30	3.50	4.70	4.30	6.40	5.20
UK	5.40	5.50	5.20	5.40	5.10	6.40	5.30
US	5.50	5.30	5.50	4.60	4.50	6.00	5.30

Source: Global Competitiveness Report, 2012-2013, World Economic Forum

Annex 5: Selected Indicators of the Logistics Performance Index, 2012

Country	Logistic Performance Index (Overall)		Customs		Infrastructure		International Shipments		Logistics Quality and Competence		Tracking and Tracing		Timeliness	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
India	46	3.08	52	2.77	56	2.87	54	2.98	38	3.14	54	3.09	44	3.58
Nepal	151	2.04	125	2.20	149	1.87	151	1.86	146	2.12	149	1.95	153	2.21
Pakistan	71	2.83	46	2.85	71	2.69	68	2.86	72	2.77	90	2.61	83	3.14
Sri Lanka	81	2.75	71	2.58	89	2.50	50	3.00	68	2.80	86	2.65	110	2.90
South Asia (Average)		**2.68**		**2.60**		**2.48**		**2.68**		**2.71**		**2.58**		**2.96**
Cambodia	101	2.56	108	2.30	128	2.20	101	2.61	103	2.50	78	2.77	104	2.95
Indonesia	59	2.94	75	2.53	85	2.54	57	2.97	62	2.85	52	3.12	42	3.61
Laos	109	2.50	93	2.38	106	2.40	123	2.40	104	2.49	111	2.49	118	2.82
Malaysia	29	3.49	29	3.28	27	3.43	26	3.40	30	3.45	28	3.54	28	3.86
Myanmar	129	2.37	122	2.24	133	2.10	116	2.47	110	2.42	129	2.34	140	2.59
Philippines	52	3.02	67	2.63	62	2.80	56	2.97	39	3.14	39	3.30	69	3.30

Contd...

Thailand	38	3.18	42	2.96	44	3.08	35	3.21	49	2.98	45	3.18	39	3.63
Vietnam	53	3.00	63	2.65	72	2.68	39	3.14	82	2.68	47	3.16	38	3.64
ASEAN (Average)		**2.88**		**2.62**		**2.65**		**2.90**		**2.81**		**2.99**		**3.30**
Brazil	45	3.13	78	2.51	46	3.07	41	3.12	41	3.12	33	3.42	49	3.55
China	26	3.52	30	3.25	26	3.61	23	3.46	28	3.47	31	3.52	30	3.80
Germany	4	4.03	6	3.87	1	4.26	11	3.67	4	4.09	7	4.05	2	4.32
Russia	95	2.58	138	2.04	97	2.45	106	2.59	92	2.65	79	2.76	94	3.02
Singapore	1	4.13	1	4.10	2	4.15	2	3.99	6	4.07	6	4.07	1	4.39
South Africa	23	3.67	26	3.35	19	3.79	20	3.50	24	3.56	16	3.83	20	4.03
UK	10	3.90	10	3.73	15	3.95	13	3.63	11	3.93	10	4.00	10	4.19
US	9	3.93	13	3.67	4	4.14	17	3.56	10	3.96	3	4.11	8	4.21

Source The Connecting to Compete: Trade Logistics in the Global Economy, 2012, The World Bank

Annex 6: Selected Indicators of the Logistics Performance Index, 2012

Country	Port or Airport Supply Chain			Land Supply Chain			Port or Airport Supply Chain			Land Supply Chain		
	Distance[d]	Lead Time	Cost	Distance	Lead Time	Cost	Distance	Lead Time	Cost	Distance	Lead Time	Cost
	(Kilometers)	*(Days)*	*(US$)*	*(Kilometers)*	*(Days)*	*(US$)*	*(Kilometers)*	*(Days)*	*(US$)*	*(Kilometers)*	*(Days)*	*(US$)*
Bangladesh	181.00	3	1,257.00	0	0	0	301.00	6	1,089.00	0	0	0
India	626.00	3	918.00	197.00	3	1,043.00	375.00	3	1,097.00	241.00	4	921.00
Nepal	0	0	0	777.00	7	1,651.00	286.00	5	1,957.00	712.00	8	2,322.00
Pakistan	274.00	3	731.00	369.00	3	1,051.00	363.00	5	926.00	570.00	5	1,540.00
Sri Lanka	43.00	2	616.00	43.00	1	658.00	50.00	2	575.00	43.00	2	1,732.00
South Asia (Average)	**281.00**	**2.75**	**880.50**	**346.50**	**3.50**	**1,100.75**	**275.00**	**4.20**	**1,128.80**	**391.50**	**4.75**	**1,628.75**
Cambodia	111.00	2	565.00	444.00	3	1,060.00	118.00	2	865.00	240.00	3	1,159.00
Indonesia	81.00	2	415.00	104.00	3	309.00	78.00	3	501.00	104.00	5	426.00
Laos					2	1,500.00	500.00				3	1,500.00
Malaysia	73.00	3	285.00	172.00	2	298.00	84.00	2	285.00	105.00	2	298.00
Myanmar	25.00	1	150.00	25.00	1	150.00	25.00	1	150.00	25.00	1	150.00

Contd...

Philippines	155.00	3	500.00	87.00	1	866.00	296.00	4	1,732.00	25.00	2	1,500.00
Thailand	300.00	2	707.00	300.00	2	250.00	189.00	1	1,000.00	300.00	2	
Vietnam	52.00	2	310.00	59.00	2	293.00	63.00	2	361.00	55.00	2	289.00
ASEAN (Average)	**113.86**	**2**	**418.86**	**170.14**	**2**	**590.75**	**169.13**	**2**	**699.14**	**122.00**	**3**	**760.29**
Brazil	150.00	2	612.00	83.00	3	439.00	150.00	2	274.00	150.00	5	750.00
China	162.00	3	454.00	215.00	3	645.00	133.00	4	453.00	171.00	3	637.00
Germany	150.00	1	1,500.00	868.00	5	1,784.00	150.00	1	1,500.00	483.00	4	1,145.00
Russia	750.00	2	2,000.00	3,500.00	5	5,000.00	1,620.00	3	3,162.00			
Singapore	130.00	2	178.00	25.00	2	250.00	130.00	2	266.00	25.00	2	250.00
South Africa	364.00	2	1,861.00	553.00	3	1,442.00	320.00	3	2,000.00	474.00	4	1,732.00
UK	377.00	3	1,000.00	565.00	2	1,414.00	150.00	5	1,225.00	565.00	4	2,466.00
US	206.00	2	680.00	346.00	3	745.00	126.00	2	603.00	273.00	3	729.00

Source: The Connecting to Compete: Trade Logistics in the Global Economy, 2012, The World Bank

Annex 7: Selected Indicators of the Logistics Performance Index, 2012

Country	Percentage of Shipments	Number of Agencies		Number of Forms		Clearance Time		Physical Inspection	Multiple Inspection
		Imports	Exports	Imports	Exports	Without physical inspection	With physical inspection	Percentage of import shipments	Percentage of hipments sphysically inspected
Bangladesh	79.00	4.00	4.00	5.00	4.00	3.00	4.00	10.00	5.00
India	59.00	3.00	3.00	6.00	5.00	2.00	4.00	35.00	16.00
Nepal	69.00	5.00	5.00	6.00	5.00	1.00	1.00	30.00	10.00
Pakistan	55.00	4.00	4.00	4.00	4.00	2.00	4.00	27.00	5.00
Sri Lanka	80.00	4.00	3.00	5.00	5.00	1.00	2.00	33.00	7.00
South Asia (Average)	**68.40**	**4.00**	**3.80**	**5.20**	**4.60**	**1.80**	**3.00**	**27.00**	**8.60**
Cambodia	93.00	3.00	3.00	5.00	5.00	1.00	1.00	11.00	3.00
Indonesia	51.00	5.00	5.00	5.00	3.00	1.00	4.00	31.00	18.00
Laos	97.00	11.00	11.00	11.00	11.00	3.00	2.00	75.00	75.00

Contd...

Malaysia	71.00	2.00	3.00	2.00	2.00	1.00	1.00	6.00	3.00
Myanmar	40.00	3.00	4.00	3.00	4.00	2.00	3.00	75.00	75.00
Philippines	97.00	7.00	3.00	6.00	3.00	2.00	4.00	6.00	2.00
Thailand	97.00	5.00	4.00	5.00	4.00	1.00	1.00	5.00	2.00
Vietnam	78.00	4.00	4.00	5.00	4.00	1.00	2.00	8.00	8.00
ASEAN (Average)	**78.00**	**5.00**	**4.63**	**5.25**	**4.50**	**1.50**	**2.25**	**27.13**	**23.25**
Brazil	70.00	3.00	3.00	2.00	3.00	2.00	5.00	6.00	2.00
China	69.00	3.00	3.00	6.00	5.00	2.00	4.00	17.00	5.00
Germany	80.00	1.00	1.00	2.00	2.00	-	1.00	3.00	2.00
Russia	88.00	2.00	2.00	8.00	8.00	1.00	2.00	61.00	61.00
Singapore	95.00	2.00	1.00	1.00	1.00	-	1.00	1.00	1.00
South Africa	89.00	2.00	2.00	2.00	2.00	1.00	2.00	5.00	2.00
UK	90.00	3.00	4.00	3.00	3.00	1.00	2.00	3.00	2.00
US	93.00	3.00	2.00	4.00	2.00	1.00	3.00	7.00	3.00

Source: The Connecting to Compete: Trade Logistics in the Global Economy, 2012, The World Bank

Section II

Incidence of Non-Tariff Barriers: Sectoral Case Studies

1
Background and Approach to Case Studies

In section I of the study, a macro level analysis of NTBs affecting trade in South Asian was carried out. By using non-tariff trade cost rate from the World Bank and UNESCAP trade cost database, potential savings from NTB reforms at an aggregate level for the region was also calculated. However, in order to have a deeper examination of the incidence of NTBs, a micro level analysis is necessary. Through sector specific case studies, such a micro level examination is attempted in this section. For this purpose, specific sectors have been selected based on their relevance for intra-regional trade and firm level surveys were conducted in five South Asian countries.

The results of this exercise provides a ground level picture of the impact of NTBs in sectors/products which remain non-traded despite having high intra-regional trade potential. Importers would be able to save on the selected products if they are traded within South Asia as compared to importing from the rest of the world. This indicates significant amount of consumer welfare gains from enhanced intra-regional trade. The purpose of this exercise is to examine the reasons for absence of trade in highly promising sectors and bring out views and concerns of the South Asian business community

and other stakeholders about NTBs affecting trade in such sectors.

In order to understand the impact of NTBs on producers and consumers, we have conducted product-specific analysis for each country. The products have been selected on the basis of trade potential, measured by supply capacity and matching import demand within South Asia using secondary data and through primary survey. Partner organisations which led surveys, along with CUTS (India), in their respective countries are:

- Institute of Policy Studies (Sri Lanka)
- South Asia Watch on Trade, Economics & Environment (Nepal)
- Sustainable Development Policy Institute (Pakistan)
- Unnayan Shamannay (Bangladesh)

2
Overview of Selected Sectors

The sectors in which case studies were conducted are given in Table II.1. Trade potential for each sector given in this table represents potential market size for South Asian traders. Using NTB rates (Chapter 4, Section I) potential savings are calculated that can accrue to traders if reforms are undertaken by respective South Asian trading partners.

In manufacturing sector, iron & steel and their articles have the highest trade potential of around US$3.19bn and if NTB reforms are followed in South Asia, the potential savings of about US$1.25bn could be achieved in this sector. In case of cotton and textiles, the aggregate trade potential is calculated to be around US$10.73bn with a potential savings of about US$5.41bn. Likewise, in case of Leather and its products, the estimated trade potential comes around US$1.02bn and potential savings that could accrue to the region comes to about US$514mn. In case of pharmaceuticals, the trade potential that could be trapped through NTB reforms is US$485mn and it would provide with a potential savings of US$244mn.

In case of agriculture, though non-tariff trade cost rate for various bilateral cases in South Asia is low as compared to manufacturing sector, yet huge scope for NTB reforms is exhibited in the form of potential savings calculated through the potential saving rates. In the case of tea, a trade potential of US$213mn is estimated this can provide a potential savings of around US$39.4mn. In case of vegetables and fruits, given a trade potential of US$32mn, the savings that could be gained

by the region through NTB reforms comes about US$5.4mn. Likewise, in case of meat and sugar products, though the potential savings are low due to the low trade potential, yet a saving of about US$0.038mn and US$0.032mn, respectively could be achieved through the NTB reforms in the region.

Table II.1: Sector Specific Potential Savings From NTB Reforms In South Asia

HS Code	Sectors	Exporter	Importer	Non-Tariff Trade Cost Rate Cost Rate	Average Ideal Non-Tariff Trade	Potential Savings Rate	Trade Potential (in US$ thousand)	Potential Savings (in US$ thousand)
	Manufacturing							
72	Iron & Steel	India	Pakistan	110.29	59.87	50.41	16,63,769	8,38,757
72	Iron & Steel	India	Bangladesh	81.41	62.78	18.63	9,36,149	1,74,438
73	Articles of Iron & Steel	India	Pakistan	110.29	59.87	50.41	4,06,645	2,05,002
73	Articles of Iron & Steel	India	Bangladesh	81.41	62.78	18.63	1,91,346	35,655
	Iron and Steel & Articles of Iron and Steel					**31,97,909**	**12,53,852**	
30	Pharmaceuticals	India	Pakistan	110.29	59.87	50.41	4,85,034	2,44,520
	Pharmaceuticals						**4,85,034**	**2,44,520**
41	Leather	Pakistan	India	110.29	59.87	50.41	4,02,773	2,03,050
42	Articles of Leather	Pakistan	India	110.29	59.87	50.41	6,18,221	3,11,664
	Leather and Articles of Leather						**10,20,994**	**5,14,714**
52	Cotton	Pakistan	India	110.29	59.87	50.41	39,75,092	20,03,965
55	Manmade staple fibre	India	Sri Lanka	89.11	60.75	28.35	37,014	10,494
61	Articles of apparel, accessories, knit or crochet	Pakistan	India	110.29	59.87	50.41	19,81,235	9,98,801
62	Articles of apparel, accessories, not knit or crochet	Pakistan	India	110.29	59.87	50.41	14,61,245	7,36,658
62	Articles of apparel, accessories, not knit or crochet	Sri Lanka	Nepal*	386.66	63.62	323.04	885	2,859

Contd...

63	Other made textile articles, sets, worn clothing etc	Pakistan	India	110.29	59.87	50.41	32,77,885	16,52,482
63	Other made textile articles, sets, worn clothing etc	Bangladesh^	Nepal*	N/A	N/A	N/A	2,438	-
	Cotton and Textiles						1,07,35,794	54,05,259
	Agriculture							
0902	Tea	India	Pakistan	130.65	112.15	18.50	2,13,269	39,446
	Tea						**2,13,269**	**39,446**
16	Meat, fish & Seafood preparation	Sri Lanka	India	107.86	101.05	6.82	549	38
	Meat, fish & Seafood preparation						549	38
17	Sugar & Sugar Confectionary	Bangladesh^	Pakistan	118.02	108.28	9.74	325	32
	Sugar & Sugar Confectionary						**325**	**32**
20	Vegetable, Fruit, etc	Pakistan	India	130.65	112.15	18.50	29,372	5,433
20	Vegetable, Fruit, etc	Bangladesh^	India	86.49	90.36	-3.87	147	-
20	Vegetable, Fruit, etc	Bangladesh^	Nepal*	N/A	N/A	N/A	2,595	-
	Vegetable, Fruit, etc						**32,114**	**5,433**

Notes:

1. The Bilateral Non-Tariff Trade Cost Rates are taken from the World Bank-UNESCAP Trade Cost Database for 2010.
2. The Average Ideal Non-tariff Trade Cost Rates are estimated by calculating the average of the ideal bilateral non-tariff trade cost rates of each partner country.
3. The Potential Savings Rates are calculated by taking the difference between the bilateral non-tariff trade cost rate and the average ideal trade cost rate.
4. The Trade Potential is calculated in the earlier part of the section for each country case.
5. The Potential Savings for each sector is calculated by multiplying potential savings rate with the potential trade figures.
6. ^In Case of Bangladesh, the Bilateral Non-Tariff Trade Cost Rates are available only for 2007.
7. *In Case of Nepal, the Bilateral Non-Tariff Trade Cost Rates are available only for 2009.
8. **N/A** indicates that in Bangladesh-Nepal Case, the Bilateral Non-Tariff Trade Cost Rates are not available.

3
Country-wise Sectoral Case Studies

Bangladesh

In order to understand the effects of NTBs on Bangladesh's trade with its South Asian counterparts, one import and three export products have been analysed. For the import case we have selected Bangladesh imports of iron and steel and their articles while trading with India. On the export side, three products have been considered in respect of three different trading partners in South Asia region. These selected products are confectionery items, jams and jellies and fruits and vegetables.

Case I: Iron & Steel and Articles of Iron & Steel

In the present study, 'iron and steel' and 'articles of iron and steel' have been selected as the import products for Bangladesh to understand and address the issue of NTBs while trading within the South Asia region. These products are considered important for promoting industrial development, especially the manufacturing sector and supporting construction sector that demonstrated high growth of Bangladesh in the recent years. Given this, Bangladesh is a net importer of both the products and it imports mainly from Japan,

China, Korea and Malaysia. On the other hand, India exports the same to China, United States and Belgium.

In 2010, Bangladesh has imported iron and steel valued at US$1,212mn while in the same time period India has exported nearly US$6,996mn. However, trade between the two countries remained nil. Similarly, in case of articles of iron and steel, Bangladesh has imported about US$227.12mn in 2010 and India's export to world has been around US$6,367mn. Here, Bangladesh has imported about US$36mn from India, which is around 15 percent of its total import demand. It is, thereby, reflected that India can fully cater the import demand of Bangladesh in HS Code 72 and 73, but due to the lack of initiatives the same could not happen. Furthermore, in 2010, Bangladesh has imported iron and steel at a unit price of US$1,356.96 per tonne, while India has exported the same at US$1,096.03 per tonne. It clearly shows, that due to lack of intra-regional trade initiatives and other forms of barriers, the South Asian partners have to pay more for their essential imports.

Table II.2: Bangladesh-India Bilateral Trade

Iron and Steel (HS Code 72) Values in US Dollar thousand			
2010	**Bangladesh-World**	**India-World**	**Bangladesh-India**
Exports	40,595	69,96,230	0
Imports	12,12,457	1,07,01,337	0
Net Import / Export	11,71,862	37,05,107	0
Articles of Iron and Steel (HS Code 73) Values in US Dollar thousand			
2010	**Bangladesh-World**	**India-World**	**Bangladesh-India**
Exports	6,723	6,367,664	116
Imports	227,118	3,071,304	35,615
Net Import / Export	**220,395**	**3,296,360**	**35,499**

Source: ITC Trade Map Database, 2012

In order to examine the scenario of Indo-Bangla trade, we have proceeded further to the 4 digit level. Herein, in case of product code 7208, i.e., flat rolled products of iron, the trade between two nations is nil. While Bangladesh imports around US$395mn worth of flat rolled products of iron from Japan, Korea and Chinese Taipei, India exports substantial value of the same products of around US$837mn to countries like, Belgium, Spain and UAE. The figures, thus, exhibit a trade potential of about US$395mn between the two South Asian partners and India can fully cater the import demand of Bangladesh in this product segment. The same stands true in all the sub-categories of product code 72: a trade potential of US$936mn exists which could be effectively trapped by increasing the bilateral trade ties between two nations. Moreover, the price at which Bangladesh imports these products is higher than the rate at which India exports to other countries. In case of product code 7207, the unit price of

Table II.3: Bangladesh-India Trade Potential for Iron and Steel, 2010

Values in US Dollar thousand

Product Code	Product label	India's Exports to World	Bangladesh's Imports from World	India Export to Bangladesh	Trade Potential
'7208	Flat-rolld products of iron/ non-al/s wdth>/=600mm, hr, not clad	8,37,041	3,95,194	-	3,95,194
'7207	Semi-finished products of iron or non-alloy steel	2,58,278	2,56,466	-	2,56,466
'7210	Flat-rolled prod of iron or non-al/s wd>/=600mm, clad, plated or coated	14,23,302	2,40,674	-	2,40,674
'7209	Flat-rolled prod of iron/ non-alloy steel wd>/=600mm, cr,not clad	4,70,561	43,815	-	43,815
Total		29,89,182	9,36,149	-	9,36,149

Source: ITC Trade Map Database, 2012

Bangladesh imports from other countries is around US$644 per tonne, while the same is being exported by India at US$460 per tonne.

In case of the articles of iron and steel, we have followed the similar pattern to calculate the possible trade potential in the Indo-Bangla trade. In 2010, Bangladesh imported product code 7302, only of value US$0.023mn from India, while its total import of the same from Germany, UK and China stands at US$25.5mn for the same time period. Thus, a trade potential of about US$25mn exists between the two. Likewise, in case of product code 7308, Bangladesh imports from India were around US$2.6mn, while its total imports amounts around US$27mn, mainly from countries like Malaysia, China and Japan. However, in total there lies a trade potential of about US$191mn for India and Bangladesh which could benefit the trade interests of both the neighbours as well as increase the intra-regional trade in South Asia region as a whole.

Table II.4: Bangladesh-India Trade Potential for Articles of Iron and Steel, 2010

Values in US Dollar thousand

Product Code	Product label	India's Exports to World	Bangladesh's Imports from World	India Export to Bangladesh	Trade Potential
'7302	Rail, crossing piece, iron/steel	55,915	25,515	23	25,492
'7308	Structures (rods, angle, plates) of iron & steel nes	4,49,938	27,102	2,658	24,444
'7326	Articles of iron or steel nes	4,37,970	24,665	505	24,160
'7307	Tube or pipe fittings, of iron or steel	2,84,454	17,553	283	17,270
Total	**63,67,664**	**2,27,118**	**35,615**	**1,91,346**	

Source: ITC Trade Map Database, 2012

Barriers reported by Bangladeshi Importers

- **Infrastructural Deficiencies**: The most obvious barriers are poor and insufficient infrastructure at ports, inadequate connecting roads which creates a long queue of vehicles, limited number of bonded warehouses and storages. The roads are not enough for 20 tonne trucks. Loading and unloading problem often causes damage to imported goods. The businessmen are bound to pay extra money to the loading-unloading people at port who do not take any responsibility if the goods are damaged. There is scarcity of instruments for unloading. To unload products from ships to land, extra platform is needed as rivers are not deep enough for the ships to catch land.
- **Business Visa**: Businessmen often do not get enough time to fill the application online and there exists huge application load. Even after this, when they fill the 4-5 pager form, they cannot find the visa interview dates, which could only be found at mid-night and after 15 days of application. Also, sometimes they are not granted visa that prevents them from attending important business meetings in India.
- **Testing Certificate**: Bangladesh Standards and Testing Institutions (BSTI) lack proper facilities to test and are not widely recognised.
- **Trade Financing**: The financial barricade regarding loans from banks is enormous. Banks often provide loans to big businessmen rather than to small new people. For the new businessmen, banks need 200-300 percent collateral. The interest rate is almost 18 percent for industrial loan, which is very high compared to businessmen abroad.
- **Other Issues**: There are problems in terms of documentation, submitting extra papers and visiting more than one office to obtain clearance certificates, customs predicaments and it takes longer time.

Stakeholders' Suggestions:

- The existing warehouses of the importers should be considered as bonded warehouse by India. Until getting the health report, the products will be kept in the importer's warehouse under lock and key. They will start selling the products after getting the health clearance.
- Indian land customs should entertain the 'Gate Pass' and allow Bangladesh vehicles to enter India to unload the goods.
- The maximum distance for the vehicle entrance should be 20 km so that the vehicles can unload the goods to the nearby importer's warehouse.
- Shipment should be allowed in absence of Customs Super and some Acting Customs Super should perform this activity.
- Shipment should be allowed if the trucks reach the port in a particular day (even not in a serial).
- The working period of land ports should be increased and it should be minimum 12 hours a day, from 7 am to 7 pm.
- Arbitrary shifting of products from 'duty-free' to 'heavy duty' category is clearly against the spirit of SAFTA. This should be reversed to reap benefits of this regional agreement.
- Construction of warehouse and vehicle loading-unloading shed is essential.
- Business visa fee should be reduced by Nepal to promote trade flow.
- Restricted port of entry has led to 'overload' on some specific ports like Benapole and Tamabil. This should be given a second thought to utilise capacity of other land ports and reduce cost of doing business.
- Mutual recognition of standards should be considered to promote trade flow.

Case II: Fruit Juice and Confectionery

To understand the NTBs in the exports by Bangladesh to its South Asian counterparts, we selected food products of some certain categories, mostly fruit juice and confectionery items that are being exported by Bangladesh to the world as well as South Asian countries but they have more export potential for intra-regional trade considering the per unit price differences.

Table II.5: Bangladesh-Pakistan Bilateral Trade Sugar Confectionary (HS Code 1704)

Values in US Dollar thousand

2010	Bangladesh- World	Pakistan-World	Bangladesh-Pakistan
Exports	325	32,874	0
Imports	1,758	3,164	0
Net	1,433	29,710	0

Trade Potential for Sugar Confectionary (HS 1704)

Values in US Dollar thousand

Code	Product label	Bangladesh exports to the World	Pakistan's Imports from World	Bangladesh export to Pakistan	Trade Potential
1704	Sugar confectionery (incl white choc), not containing cocoa	325	3,164	0	325

Source: ITC Trade Map Database, 2012

The data1 reveals that Bangladesh exports US$10.78mn of these six food items in South Asia and US$1.77mn in rest of the world. Of this volume, US$7.13mn has been exported to India in three items, which was 56.8 percent of the total exports of these items to the world. After that, Bhutan and Nepal are the most important destinations of these items with 23.6 and 3.6 percent of the export share, respectively. Given overarching position in South Asia terms of the volume of export, the business community in Bangladesh perceives that

the export potential is much higher than current actual export, but the tapping the potential is subject to a number of NTBs.

Table II.6: Bangladesh-India Bilateral Trade
Jams and Jellies (HS Code 2007)

Values in US Dollar thousand

2010	Bangladesh-World	India-World	Bangladesh-India
Exports	147	64,800	0
Imports	571	1,921	0
Net	424	62,879	0

Trade Potential for Jams and Jellies

Values in US Dollar thousand

Code	Product label	Bangladesh exports to the World	India's Imports from World	Bangladesh export to India	Trade Potential
2007	Jams, fruit jellies & marmalades	147	1,921	0	147

Source: ITC Trade Map Database, 2012

When we considered the scenario of Bangladesh and Pakistan's trade in sugar confectionery (HS Code 1704), we have found that though Bangladesh has a limited capacity to export the same yet if sufficient incentives are provided for the intra-regional trade, a trade potential of about US$0.325mn and can be explored in this case. Since, trade between the two nations is nil, we cannot rule out the possibility of more trade for this product. Furthermore, Pakistan imports the same at a unit price of US$1,832 per tonne, while it is being presently exported by Bangladesh at a unit price of US$900 per tonne.

Bangladesh exports jams and jellies worth around US$0.147mn and India imports the same valuing US$1.92mn from the world. However, the trade between the two nations is nil in this product segment. Though Bangladesh is a net importer of the same, while India is a net exporter of the same, yet there exists a trade potential of US$147, considering the

fact that Bangladesh exports it at a unit price of US$574 per tonne and India exports it a unit price of US$1,807 per tonne.

Table II.7: Bangladesh-Nepal Bilateral TradeFruits and Vegetables (HS Code 2009)

Values in US Dollar thousand

2010	Bangladesh-World	Nepal-World	Bangladesh-Nepal
Exports	5,069	14,662	0
Imports	1,166	2,595	0
Net	3,903	12,067	0

Trade Potential for Fruits and Vegetables (HS 2009)

Values in US Dollar thousand

Code	Product label	Bangladesh exports to the World	Nepal's Imports from World	Bangladesh export to Nepal	Trade Potential
2009	Fruit & vegetable juices, unfermented	5,069	2,595	0	2,595

Source: ITC Trade Map Database, 2012

Bangladesh is a net exporter of fruits and vegetables and exports nearly US$5.07mn of the same to world, Nepal at the same time imports fruits and vegetables worth US$2.60mn from the world but the trade between the two neighbours remains nil. Moreover, Nepal imports the same from India, Thailand and Malaysia at a unit price of US$872 per tonne, while Bangladesh exports them to Ghana, UAE and Somalia at a price of US$485 per tonne.

Barriers reported by Bangladeshi Exporters

- **Bonded Warehouse:** Recently customs authorities of North East Indian (NEI) states promulgated a new rule, i.e., all importers must have a 'bonded warehouse' collocated to the land port where they will have to keep their imported goods under lock and key until they get the health certificate of those goods. This is creating the following problems:

a. To take a bonded warehouse, the importer needs a 'Bank Solvency Certificate' of Rs 5 million. This is a huge amount for an importer. S/he needs to mortgage a big portion of his property to get the certificate. Thus, many of the importers are discouraged to do business.
b. For this bonded warehouse the importers need to pay extra rent, thus their expenses are increased. This is also reducing profit and discouraging continuation in the business.
c. Previously the exported goods used to be unloaded in the land port (Indian part) from the exporter's (PRAN) transport, were loaded in the importer's transport and were taken to the importer's warehouse. Now the goods are unloaded in the land port (Indian part) from the exporter's (PRAN) transport, loaded in the importer's transport and then taken to the bonded warehouse.
d. Laboratory testing is required for all products. Bio-security and SPS requirements are involved for import permit in which risk analysis of the products is complex. However, after getting the 'Health Report', the goods are again taken to the importer's warehouse. Thus the transport and labour costs double.
e. As per the decision of customs authority, the bonded warehouse should be located within the perimeter of the land customs station area. At present the import volume of the PRAN importers has increased a lot and the existing bonded warehouses are not sufficient to accommodate the imported goods. Again, at present there is no additional infrastructure on any warehouse collocated to the land customs area which can be rented by the importer and can be made bonded for their use. Therefore, the import volume is being hampered in ratio to potential and the Indian government is losing the import revenue as well.

- **Gate Pass:** At present a system of 'Gate Pass' is practiced in Agartala, Changrabandha and Benapole land ports. Bangladeshi customs authority issues 'Gate Pass' to the Bangladesh vehicles which carry exported goods. Based on the 'Gate Pass', Indian customs authority allows the Bangladesh vehicles to enter the Indian part and go up to maximum 10 to unload the goods. But this pass is not allowed in other land port. Neither is Bangladeshi customs issuing the 'Gate Pass' in some ports, nor is Indian customs honouring the 'Gate Pass' and allowing the Bangladeshi vehicles to enter the Indian side. Therefore, the vehicles are compelled to unload goods in the 'No Man's Land'.
- **Shipment:** There are shipment-related problems recently being faced by the traders at Agartala Port. If the Customs Super of Agartala port remains absent for any reason or goes for leave, that day (those days) the customs does not receive the shipments of food items from Bangladesh side. Moreover, if all the trucks of a particular shipment cannot be sent in a serial, the customs authority does not receive the shipment and returns Bangladeshi trucks. Sometimes it may happen that one or two trucks are late reaching the port due to some mechanical problem on the road. But this is not considered by the Agartala port authority.
- **Customs:** Customs office at Indian side opens from 9 am to 5 pm. After and before this time they do not give clearance to entry or exit of any truck. Custom Appellate Office (CAO) is located at Shillong. If any dispute arises at the port requiring the interference or approval of the CAO, it becomes time consuming.
- **Infrastructure:** Inadequate infrastructure facilities such as warehousing, transhipment yard, parking yard and connecting roads at land customs stations also hinder exports from Bangladesh. No shed is available on either

side of the border in land ports for loading and unloading of products. This causes damage to products during rainy season.

- **Sensitive List:** In case of Nepal, the business community reported that the export potential of the selected food items to Nepal is triple of the actual volume. Majority of exported items to Nepal are drinks (both fruit & non-fruit), confectionery items, snacks, toast, jam-jelly-chutney, etc. The basic duty of food products coming from Bangladesh is very high, which is 30 percent as Bangladesh is not enjoying the SAPTA facility in Nepal for these items. Nepal has included Bangladeshi food products in the 'sensitive list', which restricts duty-free entry of such products in Nepal and it hinders Bangladeshi food products to compete in Nepal with other foreign products.
- **Business Visa:** The interviewed businesspeople also reported that visa fee for business category is very high in Nepal. It costs Rs 60,000 for six months' multiple entry business visa. Indians need no visa to enter Nepal.

General Perception

To address the problems and stop their recurrence, the bureaucracy responds by introducing new procedures and documents, which in turn considerably increases the cost of doing business without (or having meagre) effect on the origin of the difficulties. Due to the long-standing complex, sluggish and archaic procedure on the official side, the economic loss tends to increase, which also leads to altering the composition and direction of trade in eastern South Asia. Procedural complexities frequently turn out to be deterrents to Bangladesh-India trade. Despite some improvements in terms of customs automation, the customs offices in eastern South

Asia still necessitate excessive documentation, especially for imports. Documents are required to be submitted in hard copy. On an average, as high as 330 signatures on 17 documents have to be obtained by Indian exporters to Bangladesh.

India

In order to assess non-tariff barriers affecting India's exports in South Asia, we have identified three export oriented sectors of India, which have a high trade potential but they still remain non-traded in South Asia. Further, these products are being imported by Pakistan at a high price from other countries, given that India has capacity to supply them at a lower cost and of better quality. These three export oriented sectors in India are tea, pharmaceuticals and iron & steel.

In 2010-11, Indian exports to Pakistan in these three sectors stood at US$78.33mn, while their combined trade potential was close to US$2,850mn. India's export to the world is nearly five times than that of Pakistan's imports from world in 2010-11. It clearly shows the wide prevalence of trade barriers in the selected sectors. To identify the plausible non-tariff barriers that restrict the intra-regional trade of these products a firm level survey has been conducted. For each sector, 20 respondents were interviewed, taking the total number of respondents to 60. Traders were interviewed in the cities of Delhi, Kolkata, Ahmedabad, Ludhiana and Mumbai. Representatives of major chambers and trade bodies were also interviewed.

Case I: Tea

India is one of the largest tea producers in the World, though over 70 percent of the tea is consumed within India. Despite its huge consumption, India's tea export in 2009-10 accounted to US$554.3mn and its export to Pakistan was around US$15.6mn. On the other hand, Pakistan is the third largest importer of tea, importing 90,000 tonnes of tea in 2009 and 110,000 tonnes in 2010. The annual per capita consumption of tea in the World is 0.75 kg, while in Pakistan it comes

around 1 kg, which is one of the highest in the World. Kenya is the major tea exporter to Pakistan, however, it exports at a cost of US$2,732 per tonne, whereas, India exports at a cost of US$2,265 per tonne. The average annual bill that Pakistan pays for its tea imports comes around US$223.9mn, but if Pakistan starts importing from India it can save up to US$39mn per annum.

Table II.8: Indo-Pak Bilateral Tea Trade

Values in US Dollar thousand

2009	Pakistan-World	India-World	India-Pakistan
Exports	4,595	554,326	15,598
Imports	223,915	51,871	-
Net Exports	(219,320)	502,455	15,598

Source: ITC Trade Map Database, 2012

In 2009-10, Pakistan imported tea worth US$223.9mn out of which only US$15.6mn was from India, which is roughly 7 percent of its total tea imports and just 2.81 percent of India's total tea export. Thus Indian tea has a huge export potential in the Pakistani market. It has been reported that Pakistan's total tea consumption is about 225 million kg, of which 120 million kg imports are formal imports, while rest comes through informal channels.

Ratio of India's exports and Pakistan's imports in 2009-10 was 2.48:1. On the basis of 2010 data, it could be found that there has been a fall in the trade of product 090220. There has been consistent trade between the two countries only for the product 090240, which has increased up to US$0.0373mn in 2011, which constitutes 8.8 per cent of the Pakistan's total imports from the World. This implies that there are certain barriers which affect trade between India and Pakistan.

Table II.9: India's Tea Trade Potential for Pakistan, 2009[2]

Values in US Dollar thousand

Product Code	Product label	India's Exports to Pakistan	India's Exports to World	Pakistan's imports from World	Trade Potential
'090220	Green tea (not fermented) in packages exceeding 3 kg	123	14,739	1,821	1,698
'090240	Black tea (fermented) & partly fermented tea in packages exceeding 3 kg	10,068	409,744	221,639	211,571
0902	Total	15,597	554,326	223,916	213,269

Source: ITC Trade Map Database, 2012

Barriers reported by the Indian Tea Exporters

- Pakistan has not opened its land route via Attari-Wagah border for tea imports; this not only increases the cost of transportation (via sea route) but also diverts the tea exports from Indian to other markets. Thus it becomes impossible for the Indian tea exporters to export their produce at a competitive price in Pakistani markets. Due to this barrier, Indian tea exporters find it easy to export through ports like Dubai and Singapore, where there is no delay in shipments and availability of a better credit facilitation mechanism. But, this reduces the competitive advantage of Indian tea exporters in Pakistani tea market, who then divert their exports to markets like UK, UAE and Iran.
- It was reported that most of the import demand in Pakistani is for different grade variety of tea, which has only a low share in Indian exports. The grade of tea imported by Pakistan comes in bulk from countries like Kenya. However, considering the crisis faced by tea estates in India, in terms of low income and massive disguised unemployment, meeting the demand of the grade of tea in demand in Pakistani markets could help the Indian side to gain income generation opportunities for its plantation

workers and find solutions to some of the problems faced by tea manufacturing sector.

- There exist huge gaps in flow of market information and lack of trust between business establishments belonging to the tea sector in both countries. India tea production capacity is not increasing commensurately with growth in both domestic and export demand because of inefficiencies faced in the sector. It was reported that though there is a huge demand for unpacked tea from India, Indian exporters turn down such orders citing lack of availability. This indicates information asymmetry between tea production and export sectors within India and also lack of formal interaction between tea export/import sectors across the Indo-Pak border.

Case II: Pharmaceuticals

India has the third largest pharmaceutical industry in the world. There are over 200,000 pharmaceutical manufacturing units operating in the country compared to 400 in Pakistan. Over US$6-10bn has been invested by multinational pharmaceutical companies in India within the last decade which has resulted in growth of the sector. Although Pakistan's pharmaceutical and healthcare sectors are expanding and evolving rapidly, about half the population has no access to modern medicines. This presents an opportunity and there are a number of ways in which Pakistan can take advantage of a liberalised trade regime with India. One of them is the import of pharmaceutical raw material which can be procured at considerably cheaper rates compared to Pakistan's traditional suppliers. Pakistan can also advance in the area of pharmaceuticals technology through commercial interactions with India in this sector.

Indian machinery for pharmaceutical manufacturing costs less than half of other international suppliers. In addition to this, technical consultancy services may also be procured for design of plants and systems for companies in Pakistan. India is a global pharmaceutical giant having 150 United States Food and Drugs Authority (FDA) validated plants. Joint ventures with India will hugely benefit Pakistan and help the country to achieve global standards.

The core strength of Indian pharmaceutical industry today is its huge export potential. The industry is making adequate returns from the domestic sales but bulk of its profits come from the export of generic and active pharmaceutical ingredients to the developed markets. Segment wise, generic drugs account for 58 percent of total exports, non-generic category accounts for 40 percent and traditional medicines account for the remaining 2 percent. India has had a unique position among the countries in the developing world and has been able to provide medicines at prices that were amongst the lowest in the world. The Patents Acts that India has enacted and amended in recent times has played a great role in developing the domestic pharma industry.

The Ministry of Commerce and Industry has constituted a Task Force in December 2008, popularly known as the Kher Committee, to look out for the Strategy for Promoting Export of Pharmaceutical Products in India. India with its significant advantage of low cost of innovation, low capital requirements and lower costs in running facilities, well established manufacturing processes, R&D infrastructure, is strategically well positioned. The Task Force, however, recommended that in light of the various trade agreements being signed between India and other countries, these agreements need to articulate Indian concerns by addressing them as follows:

i. Partner countries may not include pharmaceuticals in their sensitive lists

ii. Drug registration process in partner countries may be harmonised and should not become a Non-Tariff Barrier (NTB)
iii. NTBs such as sanitary and phyto-sanitary regimes may not be adopted. If adopted, they may be harmonised.

Pharmaceutical is one of the sectors in which India has a lot of scope to expand trade relations with Pakistan. There exists high untapped potential for setting up joint ventures. Such ventures can give a huge boost to Indo-Pak trade, as India can provide Pakistan cheap raw materials as Pakistan is currently heavily dependent on imported medicines that are becoming more expensive as the Rupee depreciates. However there are apprehensions on the Pakistani side that in certain sub-sectors in pharmaceuticals, Indian imports threaten local producers. There are pressures from domestic sectors in Pakistan to maintain such sub-sectors in the negative lists in order to protect the local industry worth Rs 1.64 billion.

Khan, *et al.* (2007) highlighted that Indian medicines are smuggled via the Balochistan and Sindh borders at present, and an opportunity to formalise this trade will emerge if more liberal policies are adopted along with elimination of NTBs. As per this study, on an average three containers of medicines enter Afghanistan daily and half of this is smuggled into Pakistan via Balochistan. Reportedly, about 50 percent of the medicines purchased in Balochistan consist of Indian medicines because they are cheaper and more efficacious. A number of medicines are also brought in in powdered form, packaged in Pakistan, and sold under Pakistani brand names.

After the Pakistan Government's decision to ease trade with India by shifting from a Positive List Regime to a small Negative List for trade with India, new hopes have emerged for growth in pharma trade. This decision will mark a dramatic shift in the lines that can be traded, as it would mean that now almost

90 percent items can be traded with Pakistan as opposed to 17 percent earlier. Pakistani manufacturers can import raw materials, except locally manufactured basic materials, and packing material needed for pharmaceutical products once they are approved by the Director General of Health, Pakistan.

However, in order to enhance trade and mutual cooperation between the two nations, there is an urgent need to identify and reform NTBs on both sides. Taneja (2007) finds that in the case of pharmaceutical products it has been pointed out by Pakistani exporters that the requirement of registration of the drug with the Central Drug Standard Control Organisation in India is an arduous and time consuming process. The removal of NTBs will not only increase the volume of trade between the two nations but will also wipe off the informal and third-country route trade, thereby benefiting consumers on both sides.

Table II.10: Indo-Pak Bilateral Pharmaceutical Trade

Values in US Dollar thousand

2010	Pakistan-World	India-World	India-Pakistan
Exports	135,870	6,096,125	13,069
Imports	498,103	1,223,985	33
Net Exports	(362,233)	4,872,140	13,036

Source: ITC Trade Map Database, 2012

In 2010, India's exports of pharmaceutical products to Pakistan amounted to US$13.07mn, while Indian exports to the world amounted to US$6,096mn for the same period. Pakistan's import from the world amounted to US$498.1mn in 2010.

Table II.11: India's Potential in Pharmaceutical Trade (2010)

Values in US Dollar thousand

Product Code	Product label	India's Exports to Pakistan	India's Exports to World	Pakistan's imports from World	Trade Potential
3004	Medicament mixtures (not 3002, 3005, 3006), put in dosage	6,838	5,151,308	278,505	271,667
3002	Human & animal blood; antisera, vaccines, toxins, micro-organism culture	4,852	201,060	180,454	175,602
3006	Pharmaceutical goods, specified sterile products sutures, laminaria, b	23	67,105	18,281	18,258
3003	Medicament mixtures (not 3002, 3005, 3006) not in dosage	1,355	615,900	12,758	11,403
30	Pharmaceutical Products	13,069	6,096,125	498,103	485,034

Source: ITC Trade Map Database, 2012

Thus, there exists a trade potential of US$485.04mn for India in exporting pharmaceutical products to Pakistan. Pakistan's export of pharmaceutical products to India amounted to US$0.033mn and US$0.136mn to the world in 2010, while the India's import of the same from the world amounts to US$1223mn in 2010. Thus, there exists an export potential of US$135.84mn of pharmaceutical products for Pakistan to India.

India has a lot of export potential in product 3004, as our exports to Pakistan amounts to only US$6.84mn, while Pakistan imports US$278.5mn around the world, especially from Switzerland, Germany and UK. In case of product 3002, India is the fifth largest exporter to Pakistan after Denmark, Switzerland and US, yet the India's exports to Pakistan amounts only to US$4.85mn, while Pakistan imports from the world amounts to US$180.5mn thereby showing an export potentiality of US$175.6mn for India.

In product 3006, Indian exports to Pakistan amounts only a meagre US$0.023mn, while Pakistan's import under this category amounts to US$0.018mn, which it mainly imports from Belgium, US and Denmark. In case of product 3003, India's export to Pakistan is only US$1.36mn though Pakistan's import amounts to US$12.76mn mainly from Italy, Germany and South Korea, while Indian export in this category is a whopping US$615.9mn.

Barriers reported by the Indian Pharmaceutical Exporters

- Indian pharma exporters reported that Pakistan has put the Indian generic drugs under the sensitive list of the SAFTA (24 products at the 8 digit HS Code). The prices of Indian oncology drugs in Pakistan are relatively cheaper than the drugs marketed by the European MNCs but most of the drugs under this category are in the sensitive list of Pakistan under SAFTA agreement. The Pharma Export Council of India (Pharmexcil) has urged the Pakistani government to increase the range of drugs which can be exported to Pakistan and to include antibiotics and drugs of tropical diseases in the permissible list.
- The state government of Punjab in Pakistan has notified firms in Pakistan against use of active pharmaceutical ingredients (APIs) of Indian origin and to procure APIs from reliable European sources, even at higher import costs. After the 18th amendment in the Pakistani constitution, the health sector has been turned from the federal to provincial subject. In furtherance to this, under Pakistani law, only medicines that are approved and registered with the health department can be sold. Apart from this, unlike India where the pharmaceutical firms are bound by law to use local materials, in Pakistan MNCs have to import raw materials from their parent countries, thereby causing hike in the drug prices.

- The time cost and rigorous drug registration process in Pakistan makes this market non-lucrative for the Indian exporters. After the 18th constitutional amendment was made in April, 2010, the lack of a centralised drug regulatory authority in Pakistan has hindered the drug registration process, licensing of new companies, renewal of the contracts, and import of raw materials until the promulgation of the new Drug Regulatory Agency of Pakistan on February 16, 2012. This has caused a set back to the Indian pharma exporters.
- In Pakistan there is no sales tax on medicines and drugs, but the pharmaceutical companies have to pay sales tax on raw materials and inputs are liable to customs duty above 10 percent. The manufacturers cannot recover the cost from the consumers as there is no sales tax on the sale of medicines/drugs. The input cost of the pharmaceutical companies has been increased as the refund of the sales tax paid at the import stage cannot be recovered from the consumers. The same is the situation with the packing material and other inputs used in the manufacturing of pharmaceutical products.
- Another problem reported by Indian exporters is related to the bar-code requirement by the government. As a part of modernisation initiative, data matrix bar codes were assigned to Vaccine Information Statement. The purpose was to electronically identify the VIS document type (like influenza, measles, mumps, rubella, etc.). This initiative was taken to make work easier, but it was reported that this technique is not helpful, rather it is creating problems for them, as it adds more cost to the product.

Case III: Iron and Steel

India has a well-established steel industry and is a net exporter of steel and steel products, endowed with abundant raw material, highly skilled technical manpower. India has now emerged as the eighth largest producer of crude steel in the world with a production capacity of 35 million tonnes (MT). Indian production of crude steel almost tripled from 27 MT in 2000 to 72 MT in 2011. The per capita consumption of steel in the country is estimated at 55 kg. This shows that there is a huge potential of investment and growth opportunity in the steel industry of the country. India is now producing all varieties of steel and has also emerged as a net exporter of steel, which shows that Indian steel is being increasingly accepted in the global market.

The steel industry of India has attracted foreign direct investment from across the globe. However, India's steel industry went through a rough phase in mid-2000s because global steel industry was facing a downturn. The major factors that led to the revival of the steel industry in India were the rise in global demand for steel and the domestic economic growth in India. The growth of the steel industry in India is also dependent, to a large extent, on the level of consumption of steel in the domestic market. Steel consumption is significant in housing and infrastructure. In recent years the surge in housing industry of India has led to increase in the domestic demand for steel.

On the other hand, Pakistan imports iron and steel for US$1.7mn from the World, out of which only US$31.46mn values is imported from India. Main products of Pakistan steel include coke, pig iron, billets, hot rolled coils/sheets, galvanised sheets, etc. Pakistan's per capita consumption of steel is only 21.7 percent of the global average, whereas India exports about US$6,996mn valued goods to rest of the world.

Table II.12: Indo-Pak Bilateral Iron and Steel Trade

Values in US Dollar thousand

HS Code 72 (2010)	Pakistan–World	India–World	India–Pakistan
Exports	31,290	6,996,228	31,463
Imports	1,695,234	10,701,340	1,816
Net Exports	(1,663,944)	(3,705,112)	29,647

Source: ITC Trade Map Database, 2012

The ratio of Indian exports to the rest of the world and Pakistani imports to from rest of the world is 4.13:1. That means India itself is four times more self-efficient to fulfil the requirements of Pakistan for the particular product. Indian exports to Pakistan market is only 0.005 percent of the total export capacity of India, and is 0.0185 percent of the total imports of the Pakistan. Certainly, Pakistan is importing these products at high price as compared to India, from China, Japan, UAE, USA and other countries. Share of Indian export for this product in Pakistani market is just 1.5 percent, whereas, maximum is going from China, which shares about 31.3 percent of the total imports. India's import share in Pakistan's total import for Iron and Steel is just 1.7 percent, while its import share for China and Japan, is about 16 and 11 percent, respectively.

A negative growth is witnessed in India's import share in Pakistan's market. For the year 2008-2009, the growth was -29.3 percent, which slightly improved and became -5.4 percent in 2009-2010. However, Pakistan imports mainly imports from China and the growth rate is 133.33 percent, which shows that China is capturing the Pakistani market.

Table II.13: Trade Potential of Iron and Steel

Values in US Dollar thousand

Product Code	Product label	India's Exports to Pakistan	India's Exports to World	Pakistan's Imports from World	Trade Potential
7204	Ferrous waste and scrap; re-melting scrap ingots or iron or steel	0	8,944	557,628	8,944
7210	Flat-rolled prod of iron or non-al/s wd>/=600mm, clad, plated or coated	871	1,423,302	287,513	286,642
7208	Flat-rolled products of iron/non-al/s wdth>/=600mm, hr, not clad	85	837,041	260,875	260,790
7209	Flat-rolled prod of iron/non-alloy steel wd>/=600mm, cr, not clad	0	470,561	235,015	235,015
72	**Iron and Steel**	**31,463**	**1,695,232**	**6,996,230**	**1,663,769**

Source: ITC Trade Map Database, 2012

The total trade potential between India and Pakistan for Iron and Steel amounts to US$1,663.77mn and the trade potential is highest in the product code 7210. Pakistan imports this product from UK, UAE and USA. Second in the line comes the product with HS code 7208, which Pakistan imports from China, Germany and Korea. Alloy steel in ingots and other primary form has the least trade potential and China, Switzerland and Afghanistan are the top three exporters to Pakistan for this product.

India exports nearly US$22.23mn worth of Ferro-alloys to Pakistan, highest among all the products of steel while Pakistan imports US$35.27mn worth of Ferro-alloys from the world.

Table II.14: Indo-Pak Bilateral in Articles of Iron and Steel

Values in US Dollar thousand

HS Code 73 (2010)	Pakistan–World	India–World	India–Pakistan
Exports	147,985	6,367,666	18,121
Imports	424,765	3,071,303	60
Net Exports/ Imports	(276,780)	3,296,363	18,061

Source: ITC Trade Map Database, 2012

From Table II.14, it is evident that in case of product code 7204, there exists a huge demand in the Pakistani market, and the same is met by Pakistan from Afghanistan, UAE and UK at very high price, whereas India has exhibited very significant export capacity. The ferro-alloys and flat rolled products of stainless steel amount to about 3 percent of India's total Iron and Steel exports to Pakistan. The total annual reduction in the value of India's exports of iron and steel to Pakistan from 2007 to 2011 has been 55 percent, flat rolled products of stainless steel, of a width of 600 or more amounts to the maximum reduction (35 percent).

Major problem in exporting the core iron and steel (HS code 72) in Pakistan is that Indian iron ore is very high in quality, and thereby expensive, whereas Pakistani market demand is of scrap or low grade steel, which they import from China, Japan at lower prices. Thus from India only articles of steel are mostly exported, which are by-products of salvaged and recycled steel of lower quality.

In case of articles of iron and steel, Pakistan imported articles of iron and steel of worth US$424.76mn, from the World in 2010, of which US$18.12mn imports were from India, which are roughly 0.043 percent of its total imports. However, India possesses huge export potential for articles of iron and steel to Pakistan, though the present export to

Pakistan is 0.003 percent of total India's export to the rest of the World. Pakistan imports this product majorly from China and Japan at high prices whereas India has potential to export same products at cheaper rate.

The ratio of total Indian exports to total Pakistani imports was 15:1, which shows that India possesses great potential to achieve all Pakistani requirements, but still trade is negligible at present. Table II.15 shows top four products which hold huge potential to trade with Pakistan. Product 7308, structures of iron and steel holds maximum potential, with potential of US$94.78mn.

This product is coming to Pakistan from, Japan, China, Italy, UAE etc. Second is HS code 7304, tubes and hollow pipes of iron and steel, which Pakistan is importing from USA, UAE and China in huge quantities.

Table II.15: Trade Potential of Article of Iron and Steel

Values in US Dollar thousand

Product Code	Product label	India's Exports to Pakistan	India's Exports to World	Pakistan's Imports from World	Trade Potential
'7308	Structures (rods, angle, plates) of iron & steel nes	69	449,938	94,846	94,777
'7304	Tubes, pipes and hollow profiles, seamless, or iron or steel	-	410,595	75,980	75,980
'7311	Containers for compressed or liquefied gas, of iron or steel	14,040	77,020	53,733	39,693
'7307	Tube or pipe fittings, of iron or steel	-	284,454	37,960	37,960
Total	**18,122**	**6,367,664**	**424,767**	**406,645**	

Source: ITC Trade Map Database, 2012

Barriers reported by the Indian Iron and Steel Exporters

There are certain bottlenecks at the domestic level in India which affects iron and steel exports. The secondary steel manufacturers are concerned about the steep rise in the cost of raw materials due to weakening rupee. The secondary steel producers in Punjab meet 95 percent of their requirement by importing high melting scrap from different countries and regions including UK, Dubai and Africa for making steel ingot. However, the import cost per tonne of scrap has shot up by ₹2,500 per tonne, resulting into squeezing margin of furnace owners in light of suppressed demand for iron and steel. Steel re-rolling mills have also become victim of reduced output by induction furnaces as they were not getting adequate ingots for making steel products. But such domestic issues are short-term and can be easily addressed if markets in Pakistan are accessible to India's secondary steel industry located in close proximity to Pakistan in the state of Punjab.

- Despite opening up of the ICP at the Attari-Wagah land route in Punjab, the steel re-rolling industry of Punjab in India has not reaped any benefit. Pakistan has banned export of around 125 steel products from India through land route, allowing it only through Mumbai, and this in turn increases the cost of transportation and thereby reduces the competitiveness of Indian export. The Pakistani authorities have allowed import of only alloy steel items through Wagah border, banning entry of non-alloy steel items through this route. Since all mills produce around 95 percent non-alloy steel items like angles, channels and other items, the Pakistan order has inflicted a huge disadvantage for Punjab's steel industry.
- The excise officers are transferred very frequently which not only delays the custom clearing process but also increases the non-transparency in procedures.

- The exporters have to pay the container cleaning cost (about ₹3,100) which increases their cost of transportation.

Apart from these sector specific NTBs, some apprehensions of general nature in the Indo-Pak trade has been reported by the exporters. Most prominent of these is a lack of trust among the exporters due to volatile political involvement in trade governance. It has been suggested that business information portals, more interactions between business associations and supporting trade instruments, reliable contractual recognition, etc., can facilitate increase in trade more than any other measures.

Extended duration for the clearance of Letters of Credit (LCs) issued by banks belonging to both sides and lack of market information causes serious damage to trade relations. Some exporters expressed doubt on reliability of importers due to reported cases of fake orders. Such incidents can be curbed if steps are taken to allow direct business-to-business interactions. In this direction, simplification of visa procedures is cited by most traders as a must have prerequisite.

Table II.16: Sector Specific Trade Reform Priorities

Tea	• Inclusion of tea and sub-categories in the Pakistan's list of items that can be traded through the Wagah-Attari land route. • Enhancement of liaison between tea exporters in India and organisation of tea importers in Pakistan, preferably by appoint a joint commission consisting of Pakistan Tea Association (PTA) and the Tea Board of India. • Opening of an official tea trade portal and publish authentic and approved data on import houses and other detailed market information, including contractual requirements, product testing requirements, authorised labs etc.

Contd...

Pharmaceuticals	• Removal of generic drugs and sub-categories from the negative list of Pakistan. The prices of Indian oncology are cheaper than the drugs marketed by the European MNCs but most of the drugs under this category are in the sensitive list of Pakistan under SAFTA agreement. • Review of ban of the use of API (active pharmaceutical ingredients) products produced in India by government of Punjab in Pakistan. • Review of the drug registration procedures adopted by Drug Regulatory Agency of Pakistan. • Ensuring MFN treatment to drugs originating from India on all areas of market access.
Iron and Steel	• Inclusion of iron and steel and sub-categories in the Pakistan's list of items that can be traded through the Wagah-Attari land route. • Removal of multi-layered payments system and introduce single-window access system for consignments of iron and steel and articles thereof on a priority basis. • Open up an online trade portal for iron and steel and articles thereof which can be accessed by manufacturers/exporters in India and importers in Pakistan through registration. The portal shall be used for placing of and bidding for consignment orders.

Nepal

Since Nepal is landlocked country and its major trading partner in South Asia is India, with whom it maintains the lowest non-tariff trade cost rate. However, with other South Asian partners, Nepal has a very high bilateral non-tariff trade cost rate and the same is highlighted in this case study.

For the purpose of the analysis we have selected two products in which Nepal is net importer and South Asian partners are net exporters. Apart from this, Nepal imports these products at a high price from China and Thailand while its South Asian counterparts export them at relatively low price. The two import items selected for the survey after applying these criteria belong to textile sub-categories.

Case I: Textiles (HS Code 6212)

Nepal is the net importer of the brassieres, girdles, corsets, braces, suspenders & parts (product code 6212) and imports mainly from China, Thailand and India. In 2010, Nepal has imported brassieres of around US$0.885mn, out of which value of about US$0.812mn has been imported from China and the rest from India, Thailand and US. On the other hand, Sri Lanka has exported brassieres amounting to US$326mn mainly to US, Italy and United Kingdom.

Table II.17: Nepal-Sri Lanka Bilateral Brassieres Trade

Values in US Dollar thousand

2010	Nepal – World	Sri Lanka – World	Nepal–Sri Lanka
Exports	9	3,26,675	-
Imports	885	4,441	-
Net Imports/ Exports	876	3,22,234	-

Source: ITC Trade Map Database, 2012

In 2010, Nepal has imported the aforementioned product at a unit price of US$63214 per tonne, while the same has been exported by Sri Lanka at US$59,601 per tonne. Considering the proximity of the two nations and the prevailing tariff concessions rates under the SAFTA agreement, the estimated price difference could even be wider. At the same time, it is worthy to mention that the present trade between Nepal and Sri Lanka is nil in these product categories.

We have further analysed the scenario at the 6 digit level, to estimate the trade potential between Nepal and Sri Lanka in the aforementioned product segment. In case of product code 621210, (i.e. Brassieres and parts thereof, of textile materials) Nepal has imported the same amounting to US$0.799mn in 2010, while in the same year, Sri Lanka has exported around US$323mn to US, UK and Italy. Since, Sri Lanka can cater the whole import demand of Nepal in this product segment, we can coin it as a trade potential of about US$0.799mn in case of Sri Lanka-Nepal Trade.

Table II.18: Nepal's Trade Potential with Sri Lanka

Values in US Dollar thousand

Product Code	Product label	Nepal's Imports from the World	Sri Lanka's exports to the World	Sri Lanka's exports to Nepal	Trade Potential
'621210	Brassieres and parts thereof, of textile materials	799	3,23,028	-	799
'621220	Girdles, panty girdles and parts thereof, of textile materials	63	939	-	63
Total	885	3,26,646	-	885	

Source: ITC Trade Map Database, 2012

Likewise, in case of product code 621220, Sri Lankan export to the world stands at US$0.939mn, while the import demand in Nepal comes at about US$0.063mn. Thus, in both the cases, Sri Lankan exporters are in a position to fully cater the import demand of Nepal but the presence of non-tariff barriers limits the same.

Case II: Textiles (Bed, Table, Toilet and Kitchen Linen) (HS Code 6302)

Nepal is the net importer of bed, table, toilet and kitchen linen (HS Code 6302) and imported nearly US$2.87mn of the same in 2010. It imports mainly from India, China and Thailand. On the other hand, Bangladesh (its most proximate neighbour) exported this product to the tune of around US$460mn, mainly to UK, Sweden and France. Nepal has imported 212 tonnes of bed, table, toilet and kitchen linen at a unit price of US$9,028 per tonne, while on the other hand Bangladesh has exported 67,500 tonnes of the same at unit price of US$5,984 per tonne in 2009.[3]

Table II.19: Nepal-Bangladesh Bed, Table, Toilet and Kitchen Linen Trade

Values in US Dollar thousand

2010	Nepal–World	Bangladesh–World	Nepal–Bangladesh
Exports	75	4,60,917	0
Imports	2,868	2,249	0
Net Imports/ Exports	2,793	4,58,668	0

Source: ITC Trade Map Database, 2012

When we have looked the scenario of Nepal's import potential from Bangladesh at the 6-digit level, it has been found that Nepal Bangladesh have the highest trade potential in product code 630232, i.e. *bed linen, of man-made, nes*. In all

the sun-categories under the product code 6302, the trade between Nepal and Bangladesh is almost nil and both Nepal and Bangladesh are net importers and exporters, respectively.

At the aggregate level, there exists a trade potential of US$2.44mn between the two countries. Bangladesh, which is a net exporter of the product code 6302, can fully cater the import demand of Nepal in all the sub-categories at a much cheaper rate.

In case of product code 630221, Nepal meets its import need at a unit price of US$10,681 per tonne, mainly from China, while Bangladesh exports the same at a unit price of US$7,498 per tonne to the European countries. The same stands true in case of product code 630232, wherein the unit price at which Nepal imports comes at about US$8,282 per tonne while Bangladesh export price remains at US$6,196 per tonne. Thus, due to the lack of intra-regional trade Nepal is spending much more which can be saved by intra-regional trade between the two countries.

Table II.20: Nepal's Trade Potential with Bangladesh, 2010

Values in US Dollar thousand

Code	Product label	Nepal Imports from the World	Bangladesh's exports to the World	Bangladesh exports to Nepal	Trade Potential
630232	Bed linen, of man-made fibres, nes	716	33,140	0	716
'630221	Bed linen, of cotton, printed, not knitted	550	1,51,558	0	550
'630260	Toilet kitchen linen, of terry towels or similar terry Fabio cotton	432	1,07,149	0	432
'630239	Bed linen, of other textile materials, nes	202	229	0	202
Total	**2,868**	**4,60,917**	**-**	**2,438**	

Source: ITC Trade Map Database, 2012

General Perception

Interview with the stakeholders reveals that while importing from South Asia, there are no particular NTBs in Nepal. Furthermore, many of the respondents do not have information on it because they have not brought/imported those items from the South Asian countries yet. A few respondents said they are clueless about such barriers because the import agents deal with all those issues on behalf of the importers. And, some respondents shared NTBs that they were facing while importing goods from South Asian countries. However, the NTBs reported were of general nature and not particularly limited to the South Asian imports.

Barriers reported by the Nepalese Importers

Government of Nepal (GoN) has bound its Most Favoured Nations (MFN) tariff rate on import of brassieres up to 30 percent at the WTO.[4] However, it has set only 20 percent applied tariff rate to its import.[5] Besides the customs duty, the imported goods from all countries have to pay value-added tax (VAT) at 13 percent. So, altogether 35.6 percent is charged to the imported brassieres at customs point.[6] Moreover, GoN has kept it in the sensitive list under SAFTA. It has not given any tariff preference to South Asian countries. Regarding the towels, Nepal has bound its basic tariff rate at 30 percent level at the WTO.[7] However, it has set 15 percent basic customs duty currently. Since import of towels from every country is obliged to pay VAT at 13 percent, the import of towels has to face 23.45 percent total custom duty and towels.

The non-tariff barriers reported both in general and product/country specific nature are listed below:

- **Transportation problems:** The importers do not know about the producers/suppliers of those items based in other South Asian countries except India. Furthermore, they don't know

about associated service providers—especially about transport service. As far as Nepalese importers know, there is no regular transport/carriage service between Nepal and the stated countries. Moreover, size of the demand of Nepalese importers is smaller compared to western traders' demand. So, neither the exporters of those countries facilitate for the delivery of the goods; nor any transport service provider is eager to provide service to the Nepalese importers on competitive basis. In this context, importing those items from China is cheaper and easier. In addition—according to the interviewed importers—the transport vehicles are outdated and inefficient and their services are poorer compared with Chinese services.

- **Transit hassles:** The interviewee-importers opined that transit hassle is one of the major problems that Nepalese traders are facing currently. Nepal has to use Indian Territory while trading with the third countries. And, India has permitted only Kolkata port to access the sea to the Nepalese traders. While doing trade through Kolkata port, Nepalese traders need 'Customs Transit Document'. Moreover, Kolkata port is already over utilised on account of current capacities. Therefore, Nepalese containers have to wait long for processing the transit clearance. Such delay in the transit clearance adds to the cost of trade. Interviewees said that Chinese, Thai and other western countries' suppliers hire/recruit their agents for Kolkata port who work to facilitate the transit clearance process. However, they have not found such agents of Bangladeshi and Sri Lankan origin yet. Therefore, transit clearance process of the containers from Bangladesh and Sri Lanka is relatively slower.
- **Custom Procedures:** Nepalese customs procedure is time consuming and is against the Citizen's charter which states that physical inspection will not take more than 2 hours, as

inspection time is more. Respondents further said that GoN is implementing currently an incentive policy targeting customs officials, including police. If the customs officials or the other concerned authorities inform and arrest illegal and tax-evaded trade, they are awarded monetarily. This policy has discouraged traders because government employees are checking the loaded containers more than necessary, seeking incentives offered by the government.

- **Arbitrary Custom Valuation System:** The GoN has adopted performance based incentive policy to the customs employees. This policy aims at increasing the growth of the revenue mobilisation at each customs point. The respondents said that such incentive policy has made the customs officials more focused on revenue collection without giving adequate attention to trade facilitation. They also said that there is arbitrary customs valuation system at Nepal customs. They use reference price, which is normally higher than the importers' actual payment. Moreover, Nepalese customs officials—as well as private sector—are not adequately updated about standard customs processes, official procedures and bureaucratic requirements as set by the government. This has added cost to the consumers while purchasing these imported goods in the market.
- **Payment system:** Many respondents prefer hundi to pay the bills of the imported goods. Hundi is a kind of informal money transfer method from one country to another and is operated on trust between lenders and borrowers, i.e., there are no formal documents between lenders and borrowers during the transaction of money.

  The interviewee-importers said that they don't know about any hundi service and other trade- related service providers in other South Asian countries except India. The case was different for China, they were aware of such kinds

of service providers there. Therefore, importers were more interested to import from China than from other South Asian countries.

- **Information gap:** It is found from the field study that Nepalese consumers as well as the importers/traders are not properly acquainted with South Asian products. During the interviews, most of the respondents were surprised hearing about the price competiveness of Bangladeshi towels and Sri Lankan brassieres. i.e., the producers from these South Asian countries do not market their products well and so are unable to penetrate adequately within the region. The importers said that South Asian exporters don't supply smaller quantity as one could import from China. Since the size of the market in Nepal doesn't allow importing larger quantity, the South Asian productions have become dearer compared to the Chinese production.
- **Other obligations:** Besides tariff and VAT, no other charge is imposed on import of brassieres and towels. However, there are some bureaucratic procedures that every import consignment has to pass through. While bringing goods into the country, the importers have to submit some specified documents such as the purchase bill and packing list. GoN provides equal treatment to the imports of those items from all countries/regions. Therefore, custom requirements do not seem to be a major barrier for intra-regional trade of brassieres as well as toilet and kitchen towels.

Major Observations

- Nepal is net importer of brassieres (HS Code 6212) and bed, table, toilet and kitchen linen (HS Code 6302). China and India are the main source of import of both the items. The reason for Nepal's high import of these two items from China and India constitutes many causes – such as family

relationship between the business families, geographical proximity, efficient delivery and payment system.

- Indian brassieres and towels are getting tariff preferences in Nepal. Towels are getting such preferences by two percentage point at basic rate level. Other South Asian countries are not getting any such preference in Nepal.
- Regarding NTMs while importing textile sub-categories, the requirements and procedures for all the countries are almost same. Though there are no particular NTBs as such, there are many NTBs of a general nature, like transportation problems, transit hassles, border inefficiency, arbitrary customs valuation system, among others, which are creating additional cost of the import resulting in high prices to consumers.
- Nepal is importing the above mentioned items in less number or none from the South Asian countries not because of the prevalence of NTB but because of the lack of information such as—product quality, price ranges, designs, trading route, trade-related services – among the Nepalese importers. It is found from the perception study that Nepalese importers are less aware about availability of products they are importing in South Asia. Also, the exporters of those items from the above mentioned countries are not giving sufficient time and other resources to expand their business relationship with Nepalese traders.
- Small and medium level business communities do not focus much on exploring other competitive business parties, learn about prospective service providers and other associated issues in South Asia. They are not aware about recent product developments, changes in the tariff rates, and other trade related issues. Also, they are not updated about standard customs processes, official customs procedures and requirements.

- In order to promote intra-regional trade in South Asia, producers have to work on improving product quality, enhancing the variety and up scaling the designs; governments should increase its effort to improve customs administrations, trade related infrastructure and services of trade related service providers such as transportation, banking service etc.
- Training on business enterprises exclusively to the importers and other awareness/sensitisation programme on standard customs processes, official procedures and requirements of the customs are required.

Pakistan

In order to study the perception of Pakistani exporters about NTBs in their trade within South Asia, three export oriented products from Pakistan have been selected. Pakistan offers a lower price for its exports yet India imports the same at a relatively higher price from the rest of the world. A firm level survey has been conducted to record the perception of Pakistani exporters. It had 20 respondents each from the three sectors which are the focus of the study – textiles, leather, and fruits and vegetables. While a considerable overlap of HS Codes existed between each product category, it would be prudent to treat each of these sectors as broad categories producing and trading commodities of various HS Codes within their respective sectors. So for example, the leather sector would include commodities such as raw leather hides, treated and finished leather hides, leather products such as saddlery, purses, belts, etc.

Similarly, in the case of textiles, different product categories are included, such as cotton yarn, filaments, polyester fibre, raw fabric and printed/finished fabric. The fruit and vegetable sector too acts as a representative for a range of products such as mangoes, tomatoes, oranges, potatoes etc. From each sector, 20 respondents were interviewed, taking the total number to 60. Traders were interviewed in the cities of Karachi, Lahore and Rawalpindi. To identify the major barriers in trade of these selected products, we have also consulted with the representatives of major chambers and trade bodies in Pakistan.

Case I: Leather

The leather industry of Pakistan is involved in the production of raw leather hides, finished/treated leather and

finished leather products (saddlery, belts, footwear, handbags, etc.). The finished leather products industry in Pakistan is not developed enough to export substantial amounts to other countries. However, Pakistan's finished/treated leather ranks number two in the world in terms of quality right after Italian leather. This is the main source of exports for the leather industry of Pakistan.

Table II.21: Pakistan-India Bilateral Leather Trade (HS Code 41)

Values in US Dollar thousand

2010	Pakistan–World	India–World	Pakistan–I ndia
Exports	415,651	775,611	12,878
Imports	77,965	481,123	440
Net	337,686	294,488	12,438

Source: ITC Trade Map Database, 2012

In 2010, Pakistan has exported leather products (HS Code 41) of nearly US$415mn to the world, while the export of the same to India during the said period amounted to only US$12mn. Though Pakistan is a net exporter of these products and India imports nearly US$294mn from the rest of the world, the prevalence of NTBs have restricted the bilateral trade of these products between the two neighbours.

When we look at the 4 digit level, we find a total trade potential of US$402mn remains untapped due to possible NTBs. In the case of HS Codes 4113 and 4107, Pakistani products have a high trade potential with India, amounting to US$185mn and US$150mn, respectively.

Table II.22: Pakistan's Leather (HS Code 41) Trade Potential

Values in US Dollar thousand

Product Code	Product label	Pakistan exports to the World	India's imports from the World	Pakistan exports to India	Trade Potential
'4113	Leather further prepared after tanning or crusting incl. parchment-dressed leather	186,782	7,434	1,240	185,542
'4107	Leather of other animals, o/t leather of hd no 41.08/41.09	159,918	55,307	9,621	150,297
'4112	Leather further prepared after tanning or crusting incl. parchment-dressed leather	46,010	3,525	1,221	44,789
'4104	Leather of bovine/equine animal, other than leather of hd 4108/4109	17,193	2,27,965	574	16,619

Source: ITC Trade Map Database, 2012

In case of HS Code 42, Pakistan's export to the world stands at around US$618mn, while its export to India remains only at US$0.622mn, thereby suggesting a huge trade potential between the two in this product. At the 4-digit level, a total trade potential of around US$618mn has been estimated that remains untapped. In case of product code 4206, Pakistan has trade potentiality of around US$590mn and in product code 4202, the trade potential of US$14mn can be tapped by way of increased leather trade between Pakistan and India.

Table II.23: Pakistan-India Bilateral Leather Trade (HS Code 42)

Values in US Dollar thousand

2010	Pakistan-World	India-World	Pakistan-India
Exports	618,843	1,446,996	622
Imports	17,875	133,900	-
Net	600,968	1,313,096	622

Source: ITC Trade Map Database, 2012

Pakistan's leather tanneries have a higher capacity but are not able to produce an output that would do justice to this capacity due to lack of raw material, i.e., raw leather and livestock. Import markets for these raw materials include Iran, Saudi Arabia, New Zealand and parts of Africa, none of which belong to the South Asian region. The import of these raw materials from countries such as India and Bangladesh is banned in Pakistan, as was reported by one of the respondents. A small quantity is imported from Nepal, which mainly include wet-blue coats of an inferior quality than those produced locally. The main buyer of Pakistan's finished leather in the South Asian region is India. India has only recently started importing leather hides from Pakistan for its booming leather footwear industry.

Furthermore, shoe factories need cow leather which is not available in large quantities in India. Sri Lanka, on the other hand, is an emerging market since its leather footwear market is also picking up. Respondents claim that they expect to supply finished leather to Sri Lanka in the near future.

Respondents showed particular interest in importing certain dyes and chemicals from India, which are currently being imported from other more expensive markets. For certain dyes, they claimed that the tariff applied on Indian dyes by Pakistan needs to be brought down. Currently, Pakistan is importing chromium sulphate from India only. Chrome powder, also needed for the treatment of raw leather hides, is being imported from Germany and China, whereas it can be imported at a cheaper rate from India if the tariff on it was brought down.

Table II.24: Pakistan's Leather (HS Code 42) Trade Potential

Values in US Dollar thousand

Product Code	Product label	Pakistan exports to the World	India's imports from the World	Pakistan exports to India	Trade Potential
'4206	Articles of gut, of goldbeater's skins, of bladders or of tendons	590,716	317	-	590,716
4202	Trunks, suit-cases, camera cases, handbags etc., of leather, plas, tex, etc.	14,911	1,13,333	411	14,500
'4204	Articles of leather or composition leather for technical uses	6,656	-	-	6,656
'4201	Saddlery and harness for any animal, of any material	6,558	115	5	6,553
Total		618,843	133,900	622	618,221

Source: ITC Trade Map Database, 2012

Certain respondents were exporting large amounts of leather to Bangladesh for its finished leather products industry. In the international market however, Pakistan and Bangladesh are competitors in finished leather products and therefore there is no possibility of carrying out trade in this product category. A veterinary certificate is required for exporting finished leather to Bangladesh, which increases the cost of exporting to the country, according to one respondent. This certificate is not required in European markets. The implementation of this requirement is also infrequent-while whole shipments may be exported without customs officials in Bangladesh asking for this document, sometimes even samples sent to the buyer for review required the document. The same respondent claimed that while trading with India, he faced the same issue of the implementation of Custom rules and required documents. An exporter of leather garments claimed that while exporting to India, the master packing of his product is usually

destroyed under the guise of 'thorough examination' of the shipment and its goods.

When political relations between the two countries are healthy, most requirements are overlooked while in times of political tensions, even the most stringent of requirements are not left unaddressed. Therefore, it is absolutely at the discretion of the customs official present at the port if he wants to create a hassle or not. As for lab test certificates, these are often expensive to obtain. Some lab tests can go up to US$500 on a single shipment of US$5,000. Also, not one but several tests are required, thereby making trade in small quantities infeasible. While the fees for these lab tests are borne by the importer in European markets, they are borne by the exporter while trading with countries such as India and Bangladesh. Some of the respondents claimed that they had to export to India and Bangladesh by air via Dubai, just to avoid the unusual scrutinisation of documents at sea ports. This greatly added to their cost of exporting to these countries.

On the implementation of the new visa agreement between India and Pakistan, respondents informed about different experiences in this regard. For the leather exhibition being held in Chennai in February, Pakistani leather exporters planned to set up stalls. The visa process for these participants was reportedly much easier after the new visa agreement between the two countries. They reported that their passports would be required for only two to three days by India authorities, who had also verbally assured of not imposing the same entry/exit point condition. However, there were other leading leather exporters of the country who complained that their passports had been held for two to three months by India authorities, and even though the date requested for travel on the applications had passed, their passports were still not returned. Therefore they were unable to file applications for visas to other countries. Thus, there were mixed responses as

to how the new visa regime signed between the two countries had been implemented so far.

Case II: Textiles

The textile sector is also one of Pakistan's leading export sectors, with products including raw cotton, yarn, fibre, fabric (dyed and non-dyed) as well as finished apparel. A leading yarn exporter of the country reported that yarn was being exported to Bangladesh in limited quantities. He also claimed that Sri Lanka was not a big enough market for yarn, although finished fabric is being exported there. As for India, trade in cotton and yarn is carried out regularly, and there is no set balance of trade in yarn and cotton with India. At times Pakistan has been the buyer of these commodities while at others, India has been the buyer.

Numerous textile exporters who were selling textile products to importers in Bangladesh and India complained of financial barriers they had to face. Commercial banks in Bangladesh were known to cause delays in payment, which usually ranged from 20-30 days beyond the date mentioned on the L/C. This held true across the board for all textile exporters carrying out trade with Bangladesh. Therefore they preferred that the importer on the other end had an arrangement with an international bank. Even in the case of India, certain respondents complained that the Central Bank of India delayed the release of payments. Others, however, complained of no such experience while trading with importers in India.

In 2010, Pakistan's total export of textiles stood at around US$11,600mn and Pakistan remained a net exporter of textiles to the world. However, at the same time, India's import of the textiles from across the world stood at around US$5.8mn but from Pakistan remains at a low level.

Table II.25: Pakistan-India Bilateral Textile Trade

Values in US Dollar thousand

2010	Pakistan-World	India-World	Pakistan-India
Exports	11,633,788	27,911,940	57,514
Imports	2,855,745	5,801,764	3,70,377
Net	8,778,043	22,110,176	-3,12,863

Source: ITC Trade Map Database, 2012

Table II.26: Pakistan's Textile Trade Potential

Values in US Dollar thousand

Product Code	Product label	Pakistan exports to the World	India's imports from the World	Pakistan exports to India	Trade Potential
'52	Cotton	4,013,419	458,881	38,327	3,975,092
'63	Other made textile articles, sets, worn clothing etc.	3,284,531	267,211	6,646	3,277,885
'61	Articles of apparel, accessories, knit or crochet	1,982,423	74,619	1,188	1,981,235
'62	Articles of apparel, accessories, not knit or crochet	1,461,643	101,356	398	1,461,245
TOTAL		11,633,788	5,801,764	57,514	11,576,274

Source: ITC Trade Map Database, 2012

At the disaggregated level, there exists a trade potential of about US$11,600mn. For the product code 52, i.e. cotton, the trade potential has been estimated to be around US$3,900mn, followed by the product code 63, i.e. other made textile articles, sets, worn clothing, etc. having a trade potential of US$3,200mn. A much more optimistic picture thus could be drawn from the table and improved trade relations between the two countries could harness the desired results.

A major barrier to textile trade in South Asia, as was reported by one respondent, was the absence of organised

buying. Taking his point further, he gave the example of American retail outlets like Walmart, who are absent in this region of the world. Thus the absence of large retailers leads to an absence of long-term organised buying, and therefore small orders from South Asian countries. The respondent claimed that most of the South Asian countries are self-sufficient in textile products as well, thereby making any trade possibilities negligible. Large exporters thus do not accept orders from South Asian countries since these are smaller orders, and therefore the economies of scale do not kick in while trading in small quantities. Since margins in the textile sector are already squeezed due to international competition, exporters need large orders to get benefits in terms of increased economies of scale.

India was reported to be the highest user of NTBs in the region. India has a historic distaste for imports, which is even more severe in the case of products from Pakistan. Documents are closely scrutinised and samples are randomly taken for lab testing. A respondent narrated his experience of exporting a dyed fabric to India a couple of months ago. The fabric had a 10-colour design, and was chosen to be tested in Indian labs for hazardous dyes. One of the nine colours was claimed to be cancerous according to the lab report, the results of which could not be challenged. The same fabric was exported to countries in the European Union, and the same fabric cleared all hazardous dyes tests there. The procedure also took a total of 23 days, during which the importer in India had to face substantial demurrage charges. Furthermore, these lab tests are destructive in the sense that they do not allow the fabric to be re-used, upon which the test is conducted. Therefore, small trade in small and more expensive apparel becomes infeasible.

Another respondent claimed that while exporting a particular fabric to India, he had mentioned in the description

document that the fabric was composed of 50 percent polyester and 50 percent cotton, with a plus-minus range of five percentage points. Upon testing at an Indian lab, the fabric was rejected due to a 'discrepancy in description documents' for it carried two additional percentage points of polyester. The exporter clarified that it was mentioned in the same document that the composition of the fabric could be different by five percentage points. However, the fabric was still rejected.

One of the respondents claimed that the Indian importer he conducted trade with, always asked him to send his shipments to any other port such as Pune, but not Mumbai. This was again due to the fact that customs procedures, due to local prejudices or other factors, were more severe at the Mumbai port. Going through any other port such as Pune, however, greatly added to the freight cost.

Freight charges for shipping to Bangladesh were also reported to be unusually high, thereby acting as another NTB that substantially increased the cost of trade. In comparison to trading with East Asian countries such as Malaysia and Indonesia, freight charges to ship goods to Bangladesh were exceptionally high. An estimate of this unusually high freight was provided by one yarn exporter. He claimed that a 40-ft container of yarn cost US$400 to be shipped to China, while the same container cost US$1,100 to be shipped to Bangladesh.

Textile traders also complained that South Asian ports lacked the infrastructure and storage capacity to handle large amounts of consignments in comparison to developed countries' ports such as those in Europe and the United States. Long queues are usually present while traders try to get their goods cleared at South Asian ports. Machinery, such as cranes, is unreliable and can malfunction any moment causing further frustration for traders. Besides, corruption and bribery are rife among South Asian customs officials. Bribes may be taken

in the form of cash, or in the form of random samples from the shipments.

An exporter of denim fabric narrated one of his experiences while trading with India. According to him, he had located a buyer in India for his denim fabric. Samples were sent and approved by the Indian buyer after different quality control tests. However, once the complete order was sent to the Indian buyer, he rejected the same fabric claiming that it was defective and of lower quality. The respondent claimed that that was his first and only experience with a trader in India. He currently exports different varieties of his denim fabric to Bangladesh, Turkey, Argentina, Brazil and the United States of America.

Case III: Fruits and Vegetables

Almost all respondents from this sector were unaware of the market potential for their products in other South Asian countries, except for India. Others informed about their willingness to export to other South Asian markets, especially Bangladesh, but they claimed that this was only possible through transit trade via India. Due to the perishable nature of their product and incapacities at South Asian ports with respect to warehousing, cold storage facilities as well as infrastructure, they claimed that they were better off supplying to India out of all South Asian countries. Even when trading with India, most respondents claimed that the agricultural subsidies in India make their products uncompetitive in Indian markets. However, trade in this sector was usually carried out in times of local shortages on either side of the border. Otherwise, both countries were self-sufficient in the production of these commodities and therefore claimed that the potential for trade in perishable items such as fruits and vegetables is very low.

When we analysed the Pakistani prospects for export of fresh fruits and vegetables (HS Code 20) it has been found that Pakistan exports around US$30mn of the same and the exports to India amount to US$1.60mn. However, the removal of non-tariff barriers can substantially improve this trade and may provide impetus to the Pakistani exporters.

Table II.27: Pakistan-India Bilateral Fruits and Vegetables Trade

Values in US Dollar thousand

2010	Pakistan–World	India-World	Pakistan-India
Exports	30,974	274,524	1,602
Imports	23,955	62,324	2
Net Export/ Import	7,019	212,200	1,600

Source: ITC Trade Map Database, 2012

At the 4-digit level, we have assessed the total trade potential for the Pakistani exporters and have found that a trade potential of US$29mn exists in this product. The product code with HS Code 2009, i.e., fruit and vegetable juices unfermented, a total trade potential of US$20mn could be tapped if trade barriers are removed between the two neighbours. In case of HS code 2001, i.e., cucumbers, gherkins and onions preserved by vinegar, a trade potential of US$3.3mn exists, which can benefit the Pakistani exporters.

There are limited exports with India in fruit and vegetables, and in most cases the respondents were unaware of the documentation and procedural requirements for exporting to India. The documentation required for exports to India are the same as required for other destinations. However, certain respondents claimed that the quality standards demanded by the Indian authorities are much more stringent and different from the rest of the world. Therefore, additional certification

is needed in order to export to India than required for exporting to European and Western markets.

Table II.28: Pakistan's Fruits and Vegetables trade potential

Values in US Dollar thousand

Product Code	Product label	Pakistan exports to the World	India's imports from the World	Pakistan exports to India	Trade Potential
'2009	Fruit & vegetable juices, unfermented	22,245	27,129	1,587	20,658
'2001	Cucumbers, gherkins and onions preserved by vinegar	3,387	1,609	15	3,372
'2005	Prepared or preserved vegetables nes (excl. frozen)	1,936	3,406	-	1,936
'2007	Jams, fruit jellies & marmalades	1,874	1,921	-	1,874
Total		8,729	35,195	15	29,372

Source: ITC Trade Map Database, 2012

Another interesting phenomenon that was found during the survey was that tariff rates were exceptionally high for the import of agricultural products in India. Whereas the average duty for import of agricultural products in Pakistan was around 20 percent, in India the same duty was over 35 percent. Other than the basic tariffs, a range of other duties such as countervailing duty, education cess, and special countervailing duty are also applied to imports in India, further inflating the amount of duty that the importer in India has to pay. While the non-transparency of these duties applied is another issue, the sheer aggregate amount of duty applied inflates the price of Pakistani fruits and vegetables in India to such an extent that they become uncompetitive. For example, in case of a local citrus fruit produced in large quantities in Pakistan (kinnow) and in which Pakistan has a huge competitive advantage, the effective duty applied in India ranges from 40-50 percent of the transaction value of the consignment.

A respondent who had exported fruits to India in the past informed that India's sanitary and phyto-sanitary (SPS) regime was rather strict, and deliberately discouraged the import of fruits in India. According to the respondent, he stopped exporting to India solely because of the strict regulations of the Indian SPS regime and instead tried to penetrate Western markets.

Volume of exports in fruit and vegetable is also limited due to a lack of coordination between quarantine departments in Pakistan and India. The function of the quarantine departments is to observe the existence of diseases of plants, and they can therefore disallow the import of fruits and vegetables on the ground of common diseases.

A respondent also blamed the inconsistent policies of the Government of Pakistan regarding exports of fruit and vegetable items. He cited the example of onions, whereby exports of onions was banned in the past due to a shortage in the local market. The respondent felt that the Government of Pakistan should ensure that shortages do not occur, rather than act when shortages have already occurred. He also claimed that certain lobby groups created artificial shortages to cause hikes in the domestic price of the product, thereby depriving traders of the opportunity to export these goods to India.

Exporters of Pakistan while exporting through Wagah-Attari border came across high cost of transportation, scanning of trucks and laden cost. According to respondents the scanning and laden cost is payable to the National Logistic Cell (NLC) which is around ₹11.5 per box in which ₹1.50 is just payable to labour for shifting of goods. Furthermore, Pakistani trucks cannot enter Indian territory. Therefore, the trucks have to be unloaded on the Pakistani side, upon which porters carry these goods by hand to the other side of the border. There, they are reloaded onto Indian trucks and transported to the final destination. The whole process causes huge time delays

and frustration for traders on both sides of the border. Traders recommended that Pakistani trucks should be allowed into Indian Territory and vice versa.

Rapidly increasing energy prices in Pakistan have further increased the cost of production of fruit and vegetables. On the other side of the border, subsidies are provided to Indian farmers ranging from low cost fertilisers to low cost electricity, thereby making Pakistani products uncompetitive. Thus, the quality demanded by the Indian importers with respect to price is less profitable for local exporters.

Certain respondents considered India as a vibrant market for their product. According to them, movement of export items via road will not only be cost effective but will also give them sense of relief for timely delivery of their goods to end users. Thus they recommended the opening of more check points along the land border between the two countries. On the other hand, certain traders feared that India might dump its horticulture goods in the local Pakistani market because of comparative advantage due to mass production. In the production of fruit, the annual production volume of India is around 8 million metric tonnes whereas in Pakistan it is around only 2 million metric tonnes.

Some of the respondents believed that the road infrastructure in Pakistan is much better than that of India. Inter-city and inter-state transportation of goods in India took considerable time and thus they blamed the road infrastructure in India for the lack of timely delivery of their goods.

Issuance of business visas by Indian authorities is one of the impediments to the growth of Pakistani exports to India, although business entities affiliated with SAARC Chamber of Commerce have easy access to Indian visas. However, the affiliation fee with SAARC chamber is quite high and unaffordable for common fruit exporters.

According to respondents, exports to India give more mental satisfaction as compared to other destinations due to the vulnerable nature of their product. Those exporting through Choakati border say the border only opens three days a week and the opening days are not fixed. It could open any days in a week. Such uncertainty on this trade route affects the quality of their product and its eventual price and competitiveness in the Indian market.

General Perception amongst Traders

Most respondents from all three sectors were pessimistic about the possibility of South Asian trade due to a number of factors. First and foremost was the reason that India existed as the only viable export market for their products due to the large size of the market, while other South Asian countries were smaller markets and therefore a sustainable trade relation based on large volumes was not possible with them. Secondly, trading relations between India and Pakistan were subject to political oscillations, and therefore long-term sustainability of trade was also lacking here. While respondents saw the recent government level talks between the two countries as a bright sign, most were of the view that these talks could be halted at any moment if an ugly incident in Kashmir took place, or if another terrorist attack in India was blamed on Pakistan.

For the region as a whole, major exporters claimed that they saw a lack of initiative within the countries of the SAARC region as a major impediment to trade. While meetings among South Asian countries are regularly held, they are not objective-oriented and lack a focus-based approach. No 'homework' was done by any country before coming to these meetings, and therefore they ended with little future objectives, let alone the policies needed to pursue these objectives.

Sri Lanka

Sri Lanka's trade with South Asia amounts to US$5.4mn, wherein imports account for US$4.7mn and exports US$0.7mn. In terms of its total trade, South Asia accounts for 18.2 percent, wherein imports from the region account for 24 percent and exports for a mere 6.97 percent of its total exports. Within South Asia, India's trade with Sri Lanka accounts for 91.2 percent and 74.5 percent, in case of imports and exports, respectively.

In the present exercise, we have looked upon reasons why share of South Asia is merely 18.2 percent of Sri Lanka's total trade. Through our desk research, we have identified two products, one each having export and import potential for Sri Lanka while trading within South Asia. It has been found that in these selected products, trade is not happening with the region despite considerable price differences. These two sectors are yarn for import and processed meat for export. In order to ascertain reasons responsible for low trade with South Asia and to identify NTBs, if any, we have conducted a firm level survey of exporters and importers dealing with South Asian trade. For identifying plausible NTBs that restrict intra-regional trade of these products, representatives of major chambers and trade bodies were also interviewed.

Case I: Yarn of Synth Staple Fibre (HS Code 5509)

In the case of yarn (HS Code 5509), it is clear that Sri Lanka is a net importer, while India is a net exporter. In 2010-11, Sri Lanka's import of yarn stood at US$43.72mn, while India's export amounted to US$447mn. Considering the fact that Sri Lanka's imports consist of only US$5.5mn from India, it is evident that a huge trade potential remains untapped between the two nations. However, Sri Lanka imports the same from

China, Vietnam and Indonesia at a higher price of US$3,799 per tonne, while India offers a per unit price of US$2,956 per tonne to Turkey, Brazil and Egypt which is relatively low. Thus, due to low volume of trade between the two nations, Sri Lanka has to pay more despite having geographical proximity with India.

Table II.29: Sri Lanka – India Bilateral Trade
Yarn of synth staple fibre (HS Code 5509)

Values in US Dollar thousand

2010	Sri Lanka-World	India-World	Sri Lanka-India
Exports	177	447,164	0
Imports	43,718	118,978	5,538
Net	43,541	328,186	5,538

Source: ITC Trade Map Database, 2012

Furthermore, to look at trade potential more precisely, we have considered trade data at 6-digit level. Herein, we have found that a trade potential of about US$ 37mn could be explored by both countries through increased regional trade ties. In case of product code 550922, trade potential comes at around US$12mn, if Sri Lanka imports the same from India. Apart from this, Sri Lanka imports it a unit price of US$3,841 per tonne from China and Indonesia, while the price at which India exports it to Turkey and Egypt is US$3,386 per tonne, which is relatively low. In case of product codes 550921 and 550999, we have estimated a trade potential of around US$8.3mn and US$3.8mn, respectively. Such a huge trade potential remains untapped due to low volume of trade which necessitates address of the issue by both countries. Sri Lanka imports product code 550912 from Hong Kong and China at a whopping per unit price of about US$31,652 per tonne, while India exports the same at a much cheaper unit price of US$17,373 per tonne to US and Kenya. The less volume of

trade, therefore, harms trade interests of both countries. This study investigates the reasons for the same.

Table II.30: Trade Potential for Yarn of Synth Staple Fibre (HS Code 5509)

Values in US Dollar thousand

Product Code	Product label	Sri Lanka's imports from world	India's exports to World	India export to Sri Lanka	Trade Potential
'550922	Yarn >/=85% of polyester staple fibres, multiple, not put up, nes	13,478	46,316	1,239	12,239
'550921	Yarn,>/=85% of polyester staple fibres, single, not put up	10,056	33,298	1,777	8,279
'550999	Yarn of other synthetic staple fibres, not put up, nes	5,480	4,314	496	3,818
'550912	Yarn,>/=85% nylon polyamides staple fibres, multi, not put up,nes	2,912	4,100	38	2,874
Total		43,718	4,47,164	5,538	37,014

Source: ITC Trade Map Database, 2012

Barriers reported by the Sri Lankan Importers

- **Delay in Shipments:** A majority of yarn importers in Sri Lanka are also importers of other textile and garments related accessories such as cotton yarn, buttons, zippers, lace, elastic tapes etc. Importers when quizzed on the reasons for not exploring regional markets to source their imports were of the view that importing from countries in the region was subject to excessive delays as compared with importing from China and other Southeast and East Asian countries given that import consignments are subject to delays in South Asian ports. This they largely attribute to inefficiencies in South Asian ports and poor quality of freight forwarding services in these countries. Many traders

questioned the integrity of freight forwarders in relation to delivery/tracking status of consignments. Freight forwarders in these countries, they argue, are notorious for giving misleading information and falsifying delivery status of consignments. Delays in consignments lead to cancellation of orders by their buyers and as such these importers prefer to import from countries such as China as the delivery lead time is more consistent and predictable.

In India especially, traders cited that during festive season a large backlog of shipments arise which leads to delays sometimes in excess of 3-4 weeks and such incidents adversely affect operation of their businesses. Traders were of the view that the implementation of a real-time consignment tracking system is necessary such that importers could track the delivery of the consignments to better assess the lead time as well as overcome issues pertaining to freight forwarder integrity.

- **Uncertain Governments Regulations:** A pressing concern voiced by importers was relating to the uncertainty and unpredictability surrounding government regulation and policies in South Asian countries. Citing the example of the ad hoc banning of cotton from India over the years, this has had direct adverse consequences on the import of cotton yarn from the country. In such circumstances, key supply chains are disrupted and lead to cancellation of orders which once again adversely impacts the integrity of importers and their relationship with buyers. For fear of similar occurrences, traders are reluctant to import from India to avoid such awkward situations.
- **Quality Issues:** Another reason cited by traders for not engaging in trade with South Asian countries is that despite lower prices, the quality of the products supplied is below the standard of products supplied by manufacturers in East and Southeast Asia. Thus when taking into account both

price and quality dimensions, importing from South Asia is not viable especially as yarn imports feed into a key export commodity (i.e. textiles and readymade garments) where quality is a prime concern.

- **Trading through Agents:** Traders note much of trade with India is carried out via agents (buying offices) as opposed to directly transacting with manufactures. Whilst high-quality products samples are shown to them by these agents at the time of placing orders, once the import consignment arrives, the quality of products shipped is well below the standard originally agreed to. As such, traders voice their concern over the integrity of these agents and the lack of logistical services to undertake third-party pre-shipment inspections to verify the quality of consignments prior to shipment. Substandard quality often leads to cancellation of orders and adversely impacts the business relationship with their buyers
- **Lack of Information:** Traders also complain of not being adequately informed of trade opportunities under regional and bilateral arrangements such as the ISLFTA, PSFTA and SAFTA. Concerns were also raised with regards to regulations imposed by the Reserve Bank of India which discourages transactions being carried out under Documents against Acceptance terms which adversely impacts smaller traders with limited access to trade finance. Traders were generally content with the current trade regime in Sri Lanka.

Case II: Sausage & Similar Products of Processed Meat (HS Code 1601)

Sri Lankan manufacturers of processed meat products export their produce mainly to Middle East countries and only a handful of enterprises have entered the Indian and Maldivian

market of late, however, not in any major way. Interviews with exporters revealed that huge potential for export exists within the region, especially with India, given that the demand for such produce is seasonal in nature, where periods of large shortages exist.

Table II.31: Sri Lanka-India Bilateral Trade Sausage & Similar Products of Processed Meat (HS Code 1601)

Values in US Dollar thousand

2010	Sri Lanka–World	India–World	Sri Lanka–India
Exports	1,446	836	891
Imports	-	1,440	-
Net Imports/ Exports	1,446	604	891

Source: ITC Trade Map Database, 2012

In case of product code 1601, Sri Lankan exported to India come to around US$0.891mn in 2010, while its total exports to the world are about US$1.45mn, nearly the same as Indian imports from the world. Thus, Sri Lanka is in a position to fully cater the import needs of India in this product segment if both countries take initiatives to improve bilateral trade ties. It is thus clear that a trade potential of US$0.549mn could be explored by increasing bilateral trade ties.

The price at which India imports the same from countries like, Japan and UAE is moreover equivalent to what Sri Lanka exports to Mauritius, Maldives and Oman. However, in case of increased bilateral trade in this product segment, both countries can benefit from geographical proximity between the two.

Table II.32: Trade Potential for Processed Meat

Values in US Dollar thousand

Product Code	Product label	Sri Lanka's Exports to World	India's Imports from World	Sri Lanka Exports to India	Trade Potential
1601	Sausage & sim prod of meat, meat offal/blood food prep based on these prod	1,446	1,440	891	549

Source: ITC Trade Map Database, 2012

Barriers reported by the Sri Lankan Exporters

- Delay in Issuance of Import Licenses: Despite this huge potential, exporters stressed that one of the major area of concern which makes them reluctant to export to India is misuse of NTMs by Indian authorities to create procedural obstacles to offer protection to their domestic industries. One of the widely cited obstacles in this regard is import licences. Exporters claim that Indian authorities purposefully delay the issuing of import licences to their importers and as such export consignments are stranded in ports all over India for period of over 2-3 months. Such measures lead to losses by both the importing and exporting parties. Given the perishable nature of the produce, a number of consignments have perished whilst in transit in ports. As a result of such measures, exporters argue that they suffer massive losses and their working capital gets held up for excessive periods, which adversely impacts other business operations as well.
- Testing and Certification: A similar and related obstacle pertains to the testing and analysis of products samples. Indian authorities do not accept third-party testing and certification and as such require products to be tested in their own labs. Under such circumstances, exporters noted that sampling may take as long as three weeks, during which

time consignments are stranded in ports. As in the earlier instance products, may perish prior to the consignment being cleared and as such exporters suffer financially.

- Labelling requirements: Another widely raised concern by exporters relates to labelling requirements. Exporters voiced concern that Food Safety and Standards Authority of India (FSSAI) in a very ad-hoc manner regularly changes labelling requirements without giving sufficient time for the exporter to accommodate such changes. Under such circumstances, exporters are levied with massive penalties when the product enters the Indian market, which in effect significantly erodes both the profitability and competitiveness of the exported products.

Endnotes

1 Export Promotion Bureau of Bangladesh.

2 Note: Data taken as of 2009, because unavailability of data for the latest years at sub-sectoral level.

3 The figures for Nepal are estimated by UNSD. For further information, please refer to the UNSD explanatory note.

4 http://tariffdata.wto.org/TariffList.aspx accessed on 01 February 2013.

5 http://www.customs.gov.np/integrated-tariff/ accessed on 01 February 2013.

6 Website of the Department of Customs of Nepal shows that basic customs duty at 18 and 19 percent respectively has to be paid on Indian and Tibetan brassieres.

7 ibid

Section III

A Business Plan for Reforming Non-Tariff Barriers in South Asia

1
Introduction

The challenges facing trade liberalisation have changed significantly over the past two decades. The first stage challenge of removing tariff barriers could be effectively tackled using policy tools designed in the form of multilateral trade agreements under the WTO and in the form of numerous bilateral and regional trade agreements. However, these policy tools are now found wanting, as the next stage challenge of reforming non-tariff barriers (NTBs) is too complex and beyond the scope of existing policy tools. Therefore, a rethink on existing trade policy tools, trade governance systems, and procedures is necessary to further trade liberalisation.

As the need for such a rethink is increasingly being recognised world over, the urgency for the same is paramount in the context of South Asia's regional trade liberalisation programme for two important reasons. First, because of fast changing external market environment, South Asia's traditional export markets are increasingly becoming inaccessible. Deepening regional trade integration in other parts of the world is unsettling expansion of market access of South Asian countries in those regions.

Besides, slow rate of recovery from the economic crisis of 2008 which originated in the US as well as the looming European sovereign debt crisis are threatening to unsettle South Asia's export promotion plans. Second, because of insufficient attention paid by member countries in the past, the policy

tools, systems and institutions created for regional trade liberalisation in South Asia remain underdeveloped and far less prepared than other similar policy tools, systems and institutions that exist elsewhere in the world.

There is much empirical and anecdotal evidence which shows intra-regional trade in South Asia is currently far below its true potential, one of the main reasons being high unjustified trade costs due to widespread prevalence of NTBs (Box III.1). Given the inadequacy of existing policy approaches in making progress, an improved alternative approach towards NTB reforms, which is participatory in nature, is needed. This participatory approach, in which trade/business organisations and other key stakeholder groups would join hands with relevant governmental bodies, has several advantages and distinguished features which will help to overcome shortcomings of the existing approach.

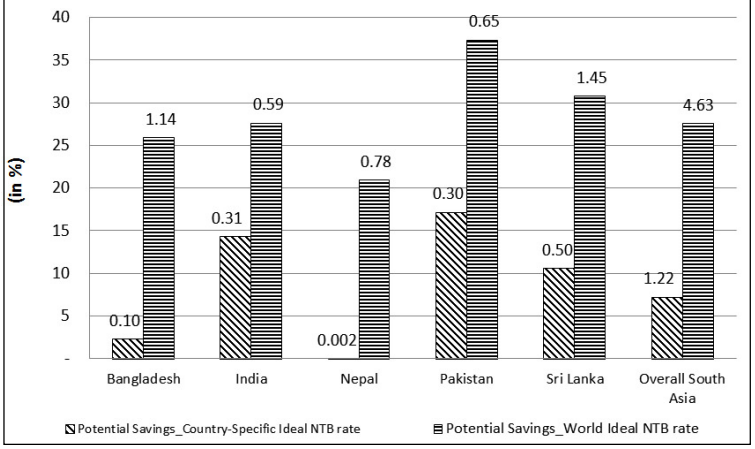
An examination of the working of the existing system and gaps therein as well as the ingredients needed for implementing a participatory approach shows that an overhaul of the existing system is not needed, but only awareness generation and through it, empowerment of stakeholders is required for making it inclusive. However, the specific roles of various stakeholders have to be clearly defined so that their participation becomes mutually complementary and reinforcing. A mapping and diagnosis of trade policy environment in South Asian countries at a macro level is carried out in this Policy Brief to arrive at a policy plan for a result- and action-oriented business plan. The plan envisaged here aims at tangible and incremental progress towards regional trade reforms through governmental initiatives that are reinforced by participation of all relevant stakeholders.

Box III.1: Potential Savings from NTB Reforms in South Asia

Trade cost has been much higher for South Asian countries when engaging with trading partners within the region. Indications of this anomalous fact were available from poor performance of South Asian countries in notable global rankings of countries based on various aspects of their trade governance, infrastructure and systems. But this could not be quantitatively verified till recent times for want of data. Trade Cost Database (2012) initiated by the World Bank and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) provides bilateral trade cost data from amongst a pool of countries from all across the globe. It provides quantitative data on bilateral average non-tariff trade costs, measured by the difference between domestic market value of a consignment in the exporter's territory and the market value of the same in the importer's territory after landing, when two countries trade with each other.

While considering South Asian cases, it could be observed that average bilateral non-tariff trade costs of five major countries were considerably higher with regional partners compared to

Figure III.1: Potential Savings from NTB Reforms as percentage of Import Value, 2011 (Figures in US$bn)



Contd...

that with partner countries outside the region, despite the advantage of geographical proximity and shorter transportation routes. This reflects high prevalence of procedural NTBs which hike up landing prices to unacceptable proportions.

On the flip side, these figures indicate the potential amount of savings on landing prices if adequate NTB reforms are undertaken. For instance, the least possible non-tariff trade costs incurred on India's exports in 2011, in trade with partner countries outside the region, was 63 percent of the domestic value of Indian consignments.

On the other hand, the least possible non-tariff trade costs incurred on India's exports in 2011, in trade with regional trading partners, was 74 percent (case of India-Nepal Trade). Through reforms, non-tariff trade costs can be substantially reduced to the level of current exhibited least costs. Thus, a saving of at least 11 percent could accrue to traders in Nepal on imports from India if better conditions exist between them. The ultimate goal of South Asian countries should be to facilitate trade in a better way so that a global average bilateral non-tariff trade cost of 38 percent shall be achieved in regional trade as well. The savings that could be had from such reforms is quantified in CUTS (2013) from actual intraregional trade volume in 2011. It shows a possible aggregate savings of about 27 percent of total intra-regional import value in 2011, which translates to a whopping US$4.6bn.

2

Trade Policy Environment in South Asia: A Diagnostic Overview

By the mid-1990s, South Asia's trade policy outlook underwent significant transformation. Four of the largest South Asian economies became founder members of the WTO in 1995 and Nepal was making progress in its accession to the multilateral trade governing body. South Asian trade policies became naturally aligned along the lines of multilateral rules and objectives. The focus of national trade policies was on enhancing exports to destinations such as the EU, North America and the Middle East countries, which were thought of as the most lucrative markets.

By the early 2000s, South Asian countries started increasingly following the global trend of deepening trade linkages through preferential and bilateral trade agreements with selected countries. In particular, Bangladesh and India accentuated initiatives for closer trade relations with the Association of South East Asian Nations (ASEAN) because of their sharply rising economic and strategic importance and geographical proximity.

Though intra-regional trade integration was part of the overall trade policy agenda of all South Asian nations, till recent

years it was side-lined. As a result, the provisions of national trade policies primarily catered to sectors, institutional and infrastructural arrangements and other channels, trade services, regulatory environment, support systems, etc., which facilitate South Asia's trade with partner countries outside the region.

Such discriminatory open trade regimes delivered only marginal improvements to trading systems and facilities that are used for intra-regional trade and, over the years, rendered them comparatively more burdensome for prospective traders who would export to and import from regional markets. This explains comparatively higher trade costs involved in the conduct of regional trade, indicative of strong prevalence of procedural NTBs.

In order to achieve a growth in regional trade volume which is at least at par with overall trade growth, all South Asian countries will have to undergo a reversal in their adverse trade policy bias towards regional trading partners and sustain policies that would address the needs of regional trade in the coming years. This should start from identification of sectors and products that are of importance for regional trade, in the light of supply-demand complementarities that exist between South Asian countries, and usage of existing policy instruments to develop trade capacity in such sectors.

Such a detailed identification exercise was carried out by CUTS and it was found that more than 300 product lines with very high trade potential, if given adequate policy support, can together contribute to raise intra-regional trade by more than double its current figure within a span of less than five years (Box III.2).

Box III.2: Potential Savings from Tariff Liberalisation and Related Trade Reforms on Priority Products

From the Perspective of Consumer Welfare Gains

There are many products which South Asia imports from outside the region at higher prices, even while the same are exported in abundance by trading partners within the region. A closer examination shows that the cost of sourcing, hence the import price, would be much lower for many such products for South Asian importers if they switch current imports from rest of the world with imports from within the region. Yet, this does not occur as many of those products have been kept in the sensitive lists of SAFTA member countries and hence preferential tariff rates guaranteed under the Agreement were not applied on them. Some other such products are excluded from the sensitive lists, but high non-tariff costs make intra-regional trade impractical. Hence, full-fledged tariff and non-tariff reforms on these products will immediately result in a substantial rise in regional trade volume, as it would then be possible for importers to shift to less costly alternative sources within the region. This would allow consumers to enjoy access to cheaper alternatives. Also, there will hardly be any risk to domestic manufacturing sectors because of import surges, as scope for imports of such products has already been high.

The consumer welfare impact of SAFTA is almost completely ignored in much of the existing literature. CUTS (2012) undertook an empirical exercise to assess consumer welfare gains from SAFTA arising out of subjecting currently excluded products to preferential rates under the Agreement as well as subjecting other important sectors/products to non-tariff reforms and trade facilitation measures.

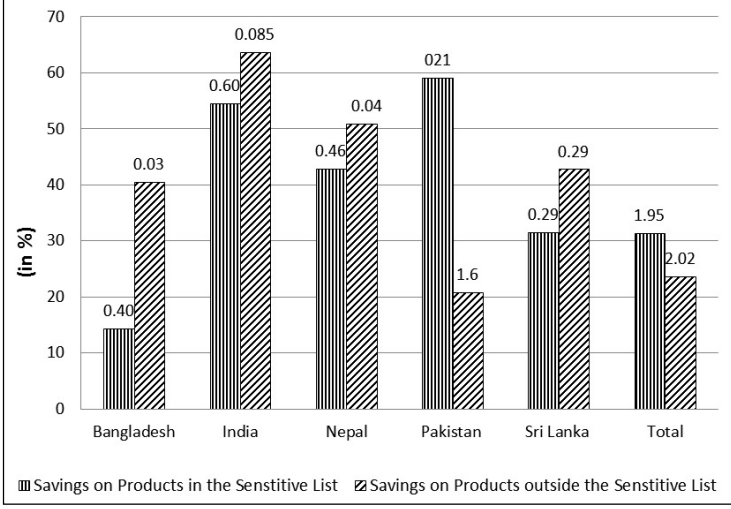
Using an algorithmic process of selection, products with high intraregional trade potential currently retained in the sensitive lists and other important products already excluded from the sensitive lists of the five largest South Asian countries (Bangladesh, India, Nepal, Pakistan and Sri Lanka) were chosen. Potential consumer welfare accruing to each country was then derived by taking the difference between the total import expenditure in the

Contd...

selected products incurred by the country under consideration and likely import expenditure if that country were to import the same products from SAFTA trading partners at a lower price that is currently offered by them.

Results show aggregate minimum consumer welfare gain of more than US$1.95bn per annum to the South Asian region by way of savings on aggregate consumer expenditure if select products are phased out from the sensitive lists. This figure is about 31 percent of the total current import expenditure on these categories. The exercise also helped to identify products with maximum trade potential for each country and therefore, qualify for removal from their respective sensitive list and should be prioritised for other sectoral trade reforms. (See CUTS, 2012)

Figure III.2: Consumer Welfare Gains from Tariff and Non-tariff Reforms under SAFTA, 2009-10 (Figures in US$bn)



Since a paradigm change in the overall national trade strategies of South Asian member states is warranted, it is instructive to see the main common features of their current strategies. Approach to trade liberalisation has been founded

on two basic pillars; national policies to enhance supply capacity and engagement in international trade negotiations for securing export market access. For instance, India adopts a five year National Foreign Trade Policy (NFTP), with annual addendums. India's NFTP has extensive provisions for several instruments like Focus Market Scheme, Focus Product Scheme, Technology Up-gradation Fund Scheme (TUFS), and Assistance to States (ASIDE), etc., along with assistance for special economic zones (SEZs) and funds for export promotion councils (EPCs).

These policy instruments cater to the needs of exported products and are administered to create advantage for such products in export destinations. On the other hand, India has so far concluded 10 free trade agreements in addition to its membership at the WTO, five limited scope preferential trade agreements and is in the process of negotiating/expanding 17 more agreements with a number of economic powers and trading blocs across the world.

On both pillars of trade liberalisation strategies of South Asian countries, needs of intra-regional trade have largely been under-represented owing to a number of factors.

Supply Capacity

Identification of sectors which are of particular importance to regional trade has not been carried out by individual member countries. Hence special targeting of such sectors using existing policy instruments has been lacking. For instance, under the provisions of Chapter 3.2 of India's NFTP (2009-14) financial assistance is offered for export promotion activities on focus country, focus product basis.

None of its trading partners in the South Asian neighbourhood features in the list of India's focus markets, which includes even several small Central American states

like Guatemala, Belize and El Salvador, with which there exists hardly any significant prospect for exploiting trade advantages, given the composition of India's export basket.[1]

Many sub-sectors like certain pharmaceutical ingredients, articles of iron and steel and machine tools (small scale sectors) which have high import demand and overall trade quotient in South Asia fail to receive assistance as focus products. Most of the region specific sectors also fail to take advantage of other capacity building provisions of technology-up gradation and export promotion zones (EPZs).

Trade Agreements

While preferential trade agreements and even deeper economic partnership agreements involving South Asian countries have proliferated, SAFTA is still found struggling to generate notable advancements. With the exception of India-Sri Lanka Free Trade Agreement, this is now being transformed into a Comprehensive Economic Partnership Agreement (CEPA), bilateral initiatives in the region have also failed to generate notable improvements. There are two aspects to SAFTA's relative underperformance. First, potential export sectors with minimal distortionary risks to domestic markets in importing countries (because of already high import demand) have remained in the sensitive lists of member states and therefore preferential tariff rates were not applied to them.

Second, SAFTA has weak provisions and lack supporting agreements and policy instruments to deal with removal of trade barriers other than tariffs (NTBs).[2]

Apart from the general policy environment, several intangible factors that evolve over time and are shaped by market forces directly dictate the way international trade relations develop. Governed by similar principles that lead to the formation of industrial clusters, trade relations grow

gradually on account of easiness of communication, business-to-business interaction, information flow on market conditions, and convenience of usage of established trade networks and infrastructure. The most critical impact of biased trade policy regimes on South Asian trade has been that such intangible factors hardly developed in the context of intra-regional trade.

Usually, analysis of trade patterns does not take into account the effects of lack of access to information, paucity of cross-border business relations, etc., because of difficulty of quantifying them and ignore the "scalability effects"[3] of trade infrastructure and support services that link two or more trading partners.

Having established trade linkages with conventional trading partners, transaction costs for South Asian business houses to enter into and execute trade contracts with traders from such markets will gradually reduce over a period of time because of market information flow and scalability of trading channels. Rate of export diversification and expansion increases along with decreasing transaction costs. As a natural consequence, a virtuous cycle of trade leading to more trade ensues.

However, the volume of trade flow has to reach a minimal threshold level in order for such a vicious cycle to begin. Evidently, South Asia's intra-regional trade is yet to reach the threshold level. Perception survey conducted during the earlier phases of the CUTS study clearly reveals that traders' perceived risks associated with regional trade are substantially high.

Trade environment has been hardly found to be conducive, wherein getting business visas, availing trade finance, enforcement of contracts, exchange of information and extending business relations are found to be extremely difficult and major deterrents in the South Asian context.

Therefore, along with usage of direct policy instruments for developing supply capacity and market access, a group of soft core policies, such as special-track business visas, hosting

of regional business data portals, etc., are needed to reduce transaction costs and kick-start business-to-business interaction.

3
Policy Treatment Plan

As outlined in the previous section, a host of interrelated factors pull back growth of intraregional trade in South Asia and hence a multipronged approach is essential. Given that reform measures are of different nature and are to be undertaken at different levels (national and regional) with different gestation periods and costs of implementation, a prioritisation of reforms is warranted, taking into account the expected response time of various measures, difficulty of planning and execution, expected benefits and implementation costs.

The overall objective should be to raise the volume of regional trade flows to a threshold level of not less than US$45bn or approximately 15 percent of the current aggregate trade volume of South Asia. This would help to attract lot of businesses to come forward and explore trade opportunities on their own in due course of time.

Resource's for mainstreaming intra-regional trade into trade policy agenda of South Asia has to be found within the two main pillars of supply capacity building through national trade policies and securing market access through trade agreements (SAFTA). Next stage reforms measures under these two pillars – requiring minimal institutional changes, placing minimal burden on policy making resources and consuming minimal implementation time and costs – may be found as follows.

Supply Capacity

The precondition under this head is that all South Asian countries select a few priority sectors with high regional trade potential and capacity to generate sufficiently high trade volume so that their respective policy instruments designed for the use of supply capacity building can be directed towards such sectors (Table III.1). A road map for product selection as well as list of high potential sectors with respective trade volume is given in CUTS, 2012.

Table III.1: Supply Capacity Measures

Trade Barriers	Policy Treatment Plan
Limitations of production capacity	All SA countries need to bring top 10 potential regional exports sectors under the purview of focus/target products under national trade policies. • Financial and technical assistance to focus products in India's NFTP (2009-04) under Market Development Assistance (MDA), Technology Up-gradation Fund Scheme (TUFS) and preference to such products in Export Promotion Industrial Zones; • Financial and technical assistance under EPZ facilitation plan and Export Development Fund in Perspective Plan of Bangladesh (2010-2021) and proposed Comprehensive Trade Policy (2012-17); • Financial and technical assistance under Technology Development Fund and SEZs in TYHDF (2006-2016) of Sri Lanka; • Financial and technical assistance under product development schemes and proposed SEZs in Trade Policy (2009) of Nepal

Contd...

Limitations of regional market connectivity	Nepal has recognised SAARC countries under Trade Policy (2009), Sri Lanka has recognised India and Pakistan under TYHDF (2006-16), Bangladesh has recognised India under proposed Comprehensive Trade Policy (2012-17), Pakistan has recognised Sri Lanka under Strategic trade Policy Framework (2012-15) as focus countries. With these exceptions, exporters from SAARC countries fail to get assistance to explore regional markets under market access support schemes under their respective national trade policies. • All member states shall recognise SAARC countries as focus/target countries and make market access assistance to focus products under relevant schemes.

Trade Agreements (SAFTA)

Regional trade agreements (RTAs) involving more number of signatories would work better for optimal trade liberalisation outcomes than bilateral agreements, because of their ability to set a level playing field for a larger number of competing suppliers of different national origin. RTAs limit the harmful effects of trade diversion to a greater extend and lead to self-selection of the best supplier groups from a regional pool. RTAs also provide greater scope for a larger assimilation of resources and hence greater coverage and power to deal with wider range of trade impediments.

South Asia, therefore, should rely on SAFTA and its provisions rather than working through bilateral engagements and invest their negotiating resources for making it a more endowed and empowered policy platform.

Firstly, from the point of view of usage of SAFTA, full implementation of the tariff liberalisation programme (TLP)

as envisaged under Article 7 of SAFTA must be accomplished. However, this would only be meaningful if all member countries phase out high potential products from their sensitive lists and bring them under the ambit of TLP. A plan for phasing out products in a result oriented manner is presented in detail in CUTS 2012, along with a selection of top priority products from the sensitive lists of all member states.

Secondly, provisions for building trade support systems, as stated under Article 8 of SAFTA (Additional Measures), have to be used with utmost urgency. Specifically, recognition and accreditation of testing laboratories (Article 8a), harmonisation of product classification based on HS coding system (Article 8c), dispute/complaint resolution at customs entry point (Article 8d), banking procedures and trade financing (Article 8f) and simplification of business visas (Article 8m) are to be pursued upfront, as these areas cover the most reported sticking issues in the region (Table III.2).

Table III.2: SAFTA Measures

Select Issues	Policy Treatment Plan
Harmonisation of product code	• The SAFTA Ministerial Council (SMC) should immediately appoint and authorise a task force to develop a unified SAARC product code system, harmonising HS codes adopted by member states. • As a priority, top ten regional focus products and subsectors should be submitted by all SAARC member states for the consideration of the task force. • The task force should be entrusted as the appellate authority for complaints related to product code discrepancies and shall fast-track proceedings on such complaints and

Contd...

	issue directives to relevant customs authorities of the member states.
Compliance with standards	• Each member states should submit standards applied on top ten focus products and the SAFTA Committee of Experts (CoE) should review issues reported on recognition of testing and related issues of compliance with standards. • The SMC should issue directives to importing countries for assisting compliance related problems faced by exporting countries on these top priority sectors.
Banking and trade financing	• All SAARC member countries should allow licence of operation within their territories (preferable at major port cities) for at least one branch of select native banks of each of all SAARC trading partners within a year. • The SMC should convene a meeting of respective central banks/financial regulatory authorities at the SAARC Secretariat and appoint a joint task force on trade financing within SAARC region with immediate effect.
Business travel permits	• All SAARC member states should adopt special-track SAARC business visas within a year. The SMC should pass a resolution to this effect in the next ministerial meeting. • Special track visas may be applied by individual traders through registered membership in an apex national business association. Offices of selected apex business associations should be authorised to conduct preliminary verification and forward applications for special-track travel permits and shall be held responsible for security breaches. • All SAARC member states should initiate liaison between respective governmental authorities for visa issuance and recognised apex business associations in this regard at the earliest.

As the specific measures mentioned above require better coordination between member countries rather than unilateral efforts, a regular joint task force to monitor and direct the implementation process is to be appointed. Currently, the SAFTA Ministerial Council, the apex decision making body, is briefed by a CoE appointed under Article 10 of SAFTA. However, the CoE, entrusted with the authority of facilitation of implementation, is required to meet only once in six months. This slows down the progress of implementation. The CoE may appoint a regular task force as per the authority conferred on it under Article 10 (10), which, in turn, shall oversee day-to-day progress of fast-tracked reform measures.

For the overall development of regulatory environment of regional trade, certain measures are to be unilaterally undertaken by member states aiming at improving transport and virtual connectivity. Though these initiatives are to be taken up voluntarily, coordination among the member states is necessary as the efforts need to be complementary as well.

These initiatives would not be strictly voluntary as these measures fall under the purview of Article 8 and therefore are obligatory on the part of SAFTA member states. Implementation of such initiatives would result in establishment of trade channels that have 'scalability', which in turn would substantially improve regional business environment (Table III.3).

Table III.3: Connectivity Measures	
Select Issues	**Policy Treatment Plan**
Transport connectivity through land routes	• Establishment of electronic documentation and single window clearance at 5 of the most important land customs stations in region viz., and extension of the recently established Integrated Check Post (ICP) model (Attari Indo-Pak border) at these 5 stations.* • Take steps to adopt the UNCTAD-led ASYCUDA World system so as to reduce load factor at 5 main customs stations. • All regulatory limitations imposed on transport through land routes shall be removed. Land route restrictions imposed by Pakistan on 137 products from India should be removed with immediate effect.
Business information and virtual connectivity	• Creation and hosting of comprehensive SAARC trade information portals by national governments, with SAARC trade procedures, available SAARC trade assistance measures, regulations and rules, focus products and sectors, market information and applicable trade regulations of SAARC member-states. • Apex business associations host South Asia specific webpages containing sector wise data, contact details of relevant membership, and virtual open forum for prospective traders.

**The proposed ICPs in the order of their importance are Pertapole (India-Bangladesh), Raxaul (India-Nepal), Jogbani (India-Nepal), Sutarkhandi (India Bangladesh), and Chandrabangha (India-Bangladesh). The Government of India has approved 13 ICPs including these. Work on Raxaul and Jogbani ICPs has already commenced. Since these border trade posts will facilitate trade between India, Pakistan and Bangladesh, upon their completion they (along with Attari ICP) would account for more than 70 percent of South Asian trade through land routes and would substantially reduce land route trade costs.*

4
Participatory Approach to NTB Reforms

Given various elements of trade liberalisation, including need for disciplining unfair subsidies, standards, etc., detailed provisions are needed, which are currently lacking in the SAFTA Agreement, limiting its scope. For deeper levels of commitments from member countries and faster rates of liberalisation, various safeguard clauses are also needed in addition. At the multilateral level separate legal agreements on conditions for imposition of standards and safeguard instruments are designed under the WTO. In addition, the WTO has a full-fledged dispute settlement body. In the absence of such support systems SAFTA operates under several limitations. In other words, SAFTA is fighting the same battle as that of the WTO without the weapons that multilateral trade body has.

Though in the long run such developments are envisaged, in the short run, participating governments' responsibilities of identifying NTBs, finding and implementing solutions thereof, have to be shared by private businesses. This would speed up the reform process and make it more transparent, effective and contributory.

The SAARC Chamber of Commerce and Industry (SAARC CCI), which is officially recognised by all the member governments of SAARC as the apex body of all the national

federations and chambers of industries in the SAARC region, can play an important role towards realising a participatory approach. Being created with a broader objective *"to encourage Member Countries to accord preferential terms of trade to each other and finally strive towards the gradual realisation of the SAARC Economic and Monetary Union"*,[4] the SAARC CCI should be entrusted with the responsibility to raise NTB related concerns of individual stakeholders at the highest level within the framework of SAFTA.

The SAARC CCI is mandated to focus on awareness building on key economic issues i.e. trade facilitation, NTBs, harmonisation of customs procedures, intra-regional investment, and such others pertaining to promotion of economic cooperation at the regional level. Therefore, it is already a vested responsibility of the SAARC CCI to act as an industry voice on NTB issues.[5]

However, an institutional reorganisation of sorts is required in order to enable the SAARC CCI to deliver on its responsibilities and to discharge its duties in a binding manner. A strengthened institutional mechanism will also help to scrutinise NTB related complaints at each level. As the SAARC CCI receives any complaint that has already been notified by a national federation of commerce and industry, it can review it on the grounds already provided by them and if it finds them meritorious it can notify the SAFTA CoE.

This participatory approach requires that the national federations of chambers of commerce and industry of member states be given due representation in the whole institutional mechanism. Being important stakeholders in the overall NTBs reform process and representing the private sector views on NTBs, their role cannot be overruled. However, the role and scope of these national apex business/industry organisations need to be duly defined under the existing framework (Table III.4).

Table III.4: Measures for Inclusiveness	
Select Issues	**Policy Treatment Plan**
Inclusion of business associations in the reform process at the national level	• All SAARC countries initiate a national level regular consultative mechanism between governments and selected national level apex business/trade chambers/organisations with the agenda of collecting feed backs from the industry and delegation of responsibilities related to implementation of reforms wherever applicable.
Inclusion of business associations in the reform process at the regional level	• National governments assist apex business organisations to avail membership at the SAARC CCI. • SAARC CCI take initiatives to broaden its membership • SAARC CCI should have regular liaison with SAFTA COE • SAARC CCI conducts bi-annual meetings involving its membership and shall nominate representatives to the joint task force appointed by SMC.

Under Article 3 of the constitution of the SAARC CCI, some of these national federations have been recognised as members and they act as the focal points of SAARC CCI in each member state.[6] These national federations should be suitably empowered to tackle the NTB issue of their members in their respective countries. In addition, the membership base of the SAARC CCI has to be broadened, giving more access to its powers to other major industry/trade/business associations and organisations across South Asian member states. Thus, framework for a participatory approach is already laid out in the existing laws and systems (Box III.3).

Box III.3: Importance of Stakeholder Participation

South Asia broadly follows the general approaches to NTB reforms. The current approaches are found to suffer from a number of inherent problems, such as lack of clarity in definition, fragmented policy responses towards interrelated NTBs, unavailability of data, difficulties in quantifying costs and benefits of reforms, and subsequent problems related to incentives and enforcements. Hence, their influence on NTB reforms remains suboptimal. Further, mismatch of interests, inadequate incentive structure, weak enforcement powers, and non-inclusiveness of relevant stakeholders in the process etc. have affected progress. Many NTBs fail to get notified in the formal review process because of inadequate representation of industry organisations in the process.

Given that systemic problems undermine the current approaches, a fresh approach is proposed based on a comparative principle that compares current trade conditions to possible cheaper alternatives. A simple dictum can be adopted to identify barriers: if it can be found that there is a cheaper-alternative(s) to a particular condition which influences trade, that condition may be judged as a barrier to trade. A greater level of involvement from the private sector in the formal system for NTB reforms is necessary for the success of this approach. This is because businesses possess data on trade costs and they regularly undertake cost assessments, consider all potential alternatives, and explore possible cost saving avenues.

A participatory approach has several advantages over the current approaches. It solves issues related to definitions and fragmentation of NTB reforms as all trade distortive conditions can be raised as NTB complaints under one monolithic framework. As this approach is based on cost calculations and comparison with benefits of possible remedial measures, it also helps to overcome the constraints of data deficiency. The system will automatically ensure that all barriers worth reporting will get registered as it is in the self-interests of businesses to do so. Further, since the approach will create an incentive driven system,

Contd...

problems related to lack of incentives and enforceability, etc., that dilutes the current approaches will get self-corrected.

For detailed analysis of problems of current approaches, possible solutions, need for a participatory approach, its distinguishing features and modalities for its implementation, see CUTS 2013.

Endnotes

1 As per Appendix 37 C of NFTP (2009-14) of India, there are 83 Focus Market countries, 29 New Focus Market countries and 41 Special Focus Market countries

2 Pruning of sensitive lists has achieved significant progress in recent times, but largely remains an unfinished agenda. For a detailed examination of sensitive lists, and country-wise list of products with minimal distortionary effects please see CUTS (2012)

3 Scalability is the ability of a system, network, or process to handle a growing amount of workload that the system, network, or process is designed to carry. Here scalability effects refers to the trade systems and channels initially created with traditional trading partners. Convenience of usage of these channels tends to attract prospective traders to explore only such channels, ignoring other market opportunities elsewhere. The reference is also to the fact that a channel with scalability has not been properly established within South Asia yet.

4 Article 2(a) of the Constitution of the SAARC Chamber of Commerce and Industry (amended and approved by 51st Executive Committee and 16th General Assembly, May 19, 2011, Dhaka, Bangladesh)

5 Article 2 (m) of the Constitution of the SAARC CCI empowers it to do all other things those are likely to promote the aims and objectives of the SAARC Chamber and thereby has broadened its scope of operation.

The SAARC Chamber of Commerce and Industry has to become more representative of the region as has been brought out in this study.

Amrit Lugun, *Director*
SAARC Secretariat, Kathmandu

This study has rightly emphasised the need to address both policy-induced non-tariff measures and trade facilitation issues through enhanced and active participation of private sector stakeholders.

Khairuzzaman Mozumder, *Deputy Secretary*
Ministry of Commerce, Government of Bangladesh

This study proposes some alternative and more cost effective ways to remove NTBs, including procedural ones, and thus will play a complementary role to trade policy-making process in the region.

Shankar Prasad Poudel, *Under Secretary*
Ministry of Commerce and Supplies, Government of Nepal

It is recommended that this study may be presented in the forthcoming special SAFTA Committee of Experts (COE) meeting on non-tariff barriers.

Robina Ather, *Joint Secretary,*
Customs and Trade Policy, Ministry of Commerce, Government of Pakistan

This study has provided a simple yet powerful analysis of an interventionist and participatory approach to look into a range of procedural issues, non-tariff barriers and practical difficulties to trade facilitation

Manab Majumdar, *Assistant Secretary General*
Federation of Indian Chambers of Commerce and Industry, New Delhi

We at the SAARC Chamber of Commerce and Industries wholeheartedly agreed with the new approach as proposed in this study to adopt "the cheapest alternative to the current impediments".

Kosala Wickramanayake
President - International Business Council & Vice President
SAARC CCI, Sri Lanka

ISBN 978 81 8257 195 2
9 788182 571952
₹250/US$25

CUTS International
www.cuts-international.org