

Connecting South Asians: The Centrality of Trade Facilitation for Regional Economic Integration

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**A Paper presented at the
1st South Asia Economic Summit
28 - 30 August, 2008
Colombo, Sri Lanka**



Confederation of Indian Industry

Abstract

Lack of connectivity between South-Asian countries is a key impediment for the region's economic growth. Creating connectivity so that people can engage in economic exchange is in itself a development strategy; unfortunately, such a strategy has not got the importance it deserves from the policy-makers in South Asia. Border-crossings in many parts of the region involve some of the highest transaction costs in the world.

This paper presents the current state of affairs with respect to trade facilitation and transaction costs of cross-border economic exchange in different South Asian countries. The paper also provides a brief analysis of trade facilitation policies and programs in different South Asian countries and the trade facilitation component of regional economic initiatives that are pertinent to this region, i.e. SAFTA and BIMSTEC. In conclusion, the paper offers a menu of policy options to develop connectivity and reduce transaction costs of exchange between South Asian economies, and link them with South-East Asian countries.

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Introduction

Trade facilitation is the process of “simplification and harmonization of international trade procedures” covering the “activities, practices, and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”¹. It relates to a wide range of activities at the border such as import and export procedures (e.g. procedures relating to customs, licensing and quarantine); transport formalities; payments, insurance and other financial requirements. However, the concept of trade facilitation is also intrinsically linked to several factors behind the border. The quality of country’s domestic transport and logistics infrastructure and regulatory policies that impact the flow of goods and services within the countries boundaries are a vital part of the overall transaction costs of trade. Table 1 below lists the key trade facilitation issues under two heads: gateway issues related to trade facilitation at the border and behind the border issues related to transaction costs imposed on trade within the border.

Table 1: Key Trade Facilitation Concerns

Gateway Issues	Behind the border issues
<ul style="list-style-type: none">• Customs and other at the border formalities like non-tariff barriers• Transparency of Regulations• Efficacy of Regulatory Agencies• Efficacy and logistical capability of ports, airports and land border-crossings• Cost and quality of international transport linkages• Quality of international institutional linkages such as Mutual Recognition Agreements (MRA) and Pre-shipment Inspection (PSI) Agreements	<ul style="list-style-type: none">• Quality and costs of transport infrastructure• Availability of multi-modal transport• Quality of logistical support in the hinterland such as warehousing facilities• Efficacy and transparency of regulations of within country border crossings (i.e. crossing across provincial or municipal lines)

The importance of reducing the transaction costs of trade through better trade facilitation is underlined by the fact that for 168 out of 215 U.S. trading partners, transport cost barriers outweigh tariff barriers². Trade Facilitation assumes even greater importance now in the arena of international trade given recent trends in the structure of goods (and services) traded and the sophistication of such products. Modern supply chain management techniques and the rapid spread of information technologies and e-commerce have progressively increased the use of just-in-time techniques by manufacturing industry and encouraged the growth of integrated global supply, production and distribution systems. In this environment, where manufacturers rely on the uninterrupted reception of the necessary components to meet production contingencies, businesses cannot afford to have imported or exported goods tied up for long periods because of unnecessary or over-complicated trade procedures and requirements.

¹ From the WTO definition on the scope of Trade Facilitation discussions under the aegis of WTO

² World Bank, (2002a), pg. 100

It is also important to understand that the spatial distribution of global production system is no longer simply driven by labor cost arbitrage. The competitiveness of an operation within the global production system is a combined function of cost, time and reliability. Differences in cost of production, especially those related to labor are increasingly being overcome through the introduction of automated systems and greater productivity. As the opportunities of differentiation in terms of price diminish, competition within the global production system will be in terms of reliability and time. Thus, countries that ignore the issue of trade facilitation will do so at the cost of compromising their global competitiveness in the long run.

As emerging market economies, including those in South Asia seek to stimulate growth in trade, it is important for policy-makers to understand that trade facilitation plays the pivotal role in this effort. The three crucial trade expansion strategies, i.e. diversification, moving up the value chain, and encouraging export-oriented entrepreneurship, all depend to a large degree on the efficacy of trade facilitation measures³. Diversification requires the introduction of new supply chains and complementary improvements in logistic services. Moving up the value-chain to more sophisticated products would require participating in and managing a more complex supply chain and undertaking an increasing number of transactions which by definition would require better logistical infrastructure. Encourage export driven entrepreneurship in emerging countries would require that the costs of trading for small and medium enterprises (SME) are kept low. Such SMEs are typically involved in niche product segments or work as sub-contractors within the global supply chain. However, niche markets and small-scale shipments have more challenging international logistics while subcontracting requires better domestic logistics, making trade facilitation crucial for such activities⁴.

Intra-regional trade in South Asia, especially through formal channels, remains abysmally low at about 2% of total trade. While a large part of the problem is related to high-level of formal trade barriers and the political unwillingness to liberalize inter-regional trade, the poor state of trade facilitation, both gateway and behind the border issues, also plays a critical role in keeping inter-South Asian trade low. The following sections of this paper will present the broad issue of trade facilitation in the South Asian context. Section I will introduce the current scenario in terms of trade facilitation and transaction costs in the South Asian region in comparison with other parts of the developing world. Section II will provide a brief overview of some of main trade facilitation issues and policies in a country-by-country basis for the six major South-Asian economies. Section III discusses the trade facilitation content of the two major regional trade integration initiatives in the region, i.e. South Asia Free Trade Agreement (SAFTA) and the Bay of Bengal Multi-sectoral Technical and Economic Co-operation (BIMSTEC). Section IV provides some concrete policy recommendations and the way forward. Section V concludes the paper.

³ John Arnold (2007), pg. 191-192

⁴ Ibid

I. Trade Facilitation and Transaction Costs in South Asia: An Overview

While the concept of trade facilitation can cover a wide array of transaction costs imposed by the entire infrastructure of economic exchange, this paper will narrow its focus on a few specific aspects. Essentially the focus will be on

- ❖ Regulatory issues at ports of entry
- ❖ Transport and logistical infrastructure supporting both cross-border trade as well as behind the border movement of traded goods, that includes shipping, air, road, rail and inland-water-transport

The centrality of the two above themes to regional integration is highlighted by Table 2 below that provides Wilson and Otsuki's⁵ estimates on the gains for South Asian intra-regional trade accruing from improvements in regulatory and logistical issues.

Table 2. Gain in intra-regional trade from capacity development in trade facilitation (USD Millions)

	Customs Modernization	Regulatory Reforms	Port Efficiency (Air and Marine)	Services Infrastructure	Total Gain
Bangladesh	144	71	228	339	782
India	193	123	314	519	1149
Pakistan	29	42	74	191	336
Sri Lanka	63	41	97	175	376
South Asia	429	278	712	1224	2643

Source: Wilson and Otsuki 2007

While the overall gain is a substantive 2.6 billion USD in intra-regional trade, an increase of more than half of current levels of trade, there are two important messages that need to be drawn from Table 2. First, the maximum gains come from improvements in port efficiency and logistical infrastructure, the poor quality of which remains a critical impediment for trade in South Asia. Second, this table does not include the gains to intra-regional trade that can accrue from improvements in behind the border factors such as quality of roads, railways and investment in multi-modal transport. Given the high incidence of transaction costs from behind the border logistics and transport in South Asia, gains from improvements in these factors can be expected to be greater than combined gains of all the four factors in Table 2 above. Keeping these lessons in mind, the following paragraphs of this section will provide an overview of the current state of regulatory and logistical issues related to trade in South Asia. While this section provides the regional overview on the main themes, the following section will take up the country specific issues related to different aspects of trade facilitation. Section IV that follows the discussion of regional initiatives on trade facilitation will address the policy issues and recommendations related to the major trade facilitation themes discussed in this section.

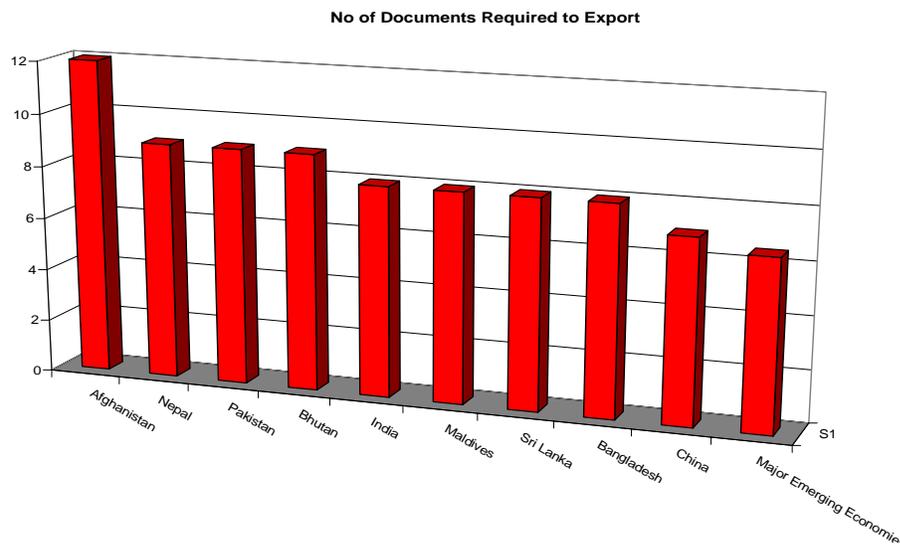
⁵ John Wilson and Tsunehiro Otsuki (2007)

REGULATORY ISSUES

Documentation Requirements and the use of IT

Keeping with the global trend of reforms of customs administrations, South Asian countries too have seen improvements in the overall quality of their customs-related bureaucracy. With the exception of Bhutan and Afghanistan, the widespread use of Electronic Data Interchange (EDI) and the increasing use of paperless transactions has become the norm in South Asia's customs administration⁶. However, the scope of EDI and the use of IT are still limited and there is ample room for improving the level of procedural simplicity and documentation requirements. In all countries, many agencies, apart from customs, involved with the clearance of goods are not yet up to the mark in automation, and hence paper trails remain. Also, it is not so much the absence of IT infrastructure, increasingly less of a concern, but the lack of movement in procedural reforms that is holding up further efficiency gains at South Asia's customs gateways. Figure 1 below presents the average documentation requirements to export while Figure 2 that follows provides the average number of days required for customs clearance.

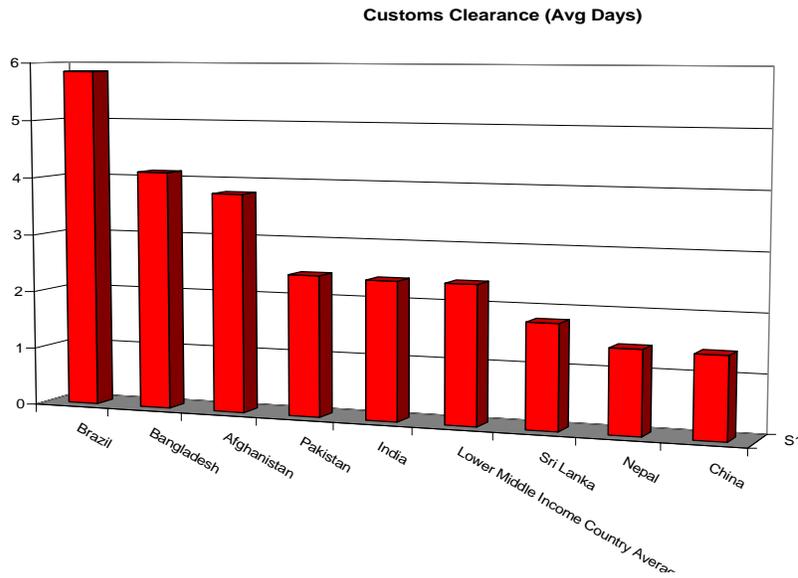
Figure 1



Source: Logistic Performance Indicators, World Bank and author's calculations

⁶ A.D. Domus (2005), pg. 13

Figure 2



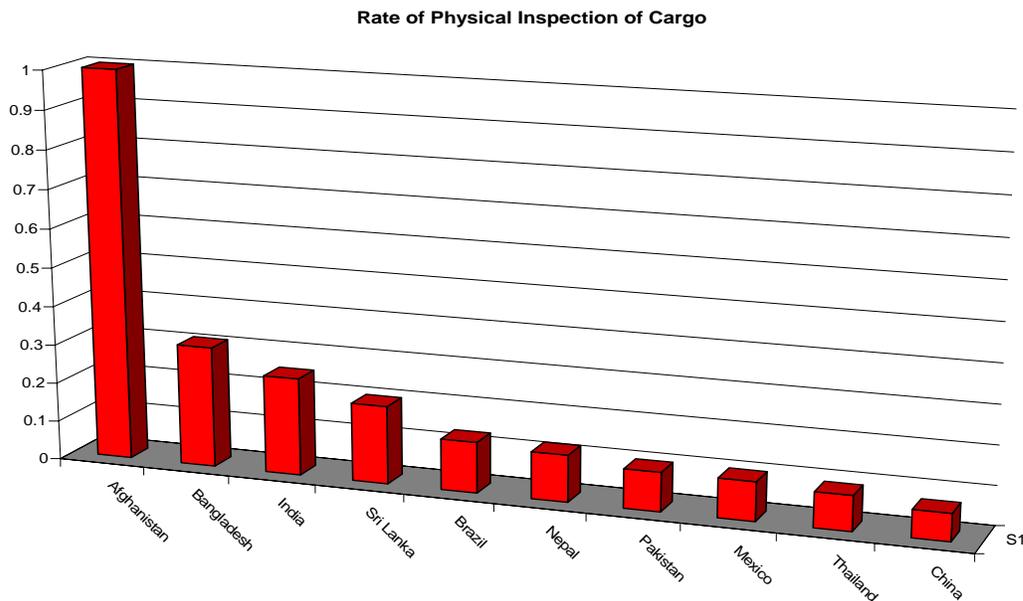
Source: Logistic Performance Indicators, World Bank and author's calculations

Figure 1 illustrates that South Asian countries have much higher documentation requirements relative to other emerging market economies and countries like China. Figure 2 shows that major South Asian economies of Bangladesh, India and Pakistan are below the average for lower-middle income economies and much below the Chinese average in terms of number days required for custom clearance. This means that despite the use of EDI, South Asian countries require further reforms in the reduction of documentation requirements and the streamlining of procedures with the use of IT if it has to reach global standards.

Security Requirements: Protecting citizens and consumers

Gateways have important security concerns related to protecting the nation's consumers from harm by using stringent quality controls including sanitary and phytosanitary standards (SPS) related standards applicable to food and agricultural products. Given the sensitivity of issues related to cross-border terrorism and narcotics, gateways also need to implement proper policing requirements to protect their citizens from drugs and terror. However, current procedures in the implementation of health and safety certification at the borders of South Asia remain far from efficient. There is a lack of co-ordination between different agencies that are involved in this process and there is limited use of IT. Procedural reforms to streamline the verification and certification process and modern risk-management techniques are also lacking. Figure 3 compares the average rates of physical inspection, in South Asian and some other emerging economies.

Figure 3



Source: Logistic Performance Indicators, World Bank and author's calculations

Figure 3 clearly shows that South Asian countries have far higher rates of physical inspection relative to their counterparts in the developing world, especially those in South-East and East Asia. This is reflective of the poor risk-management techniques and efficient sampling methods that cut back on the need for physical inspection of goods.

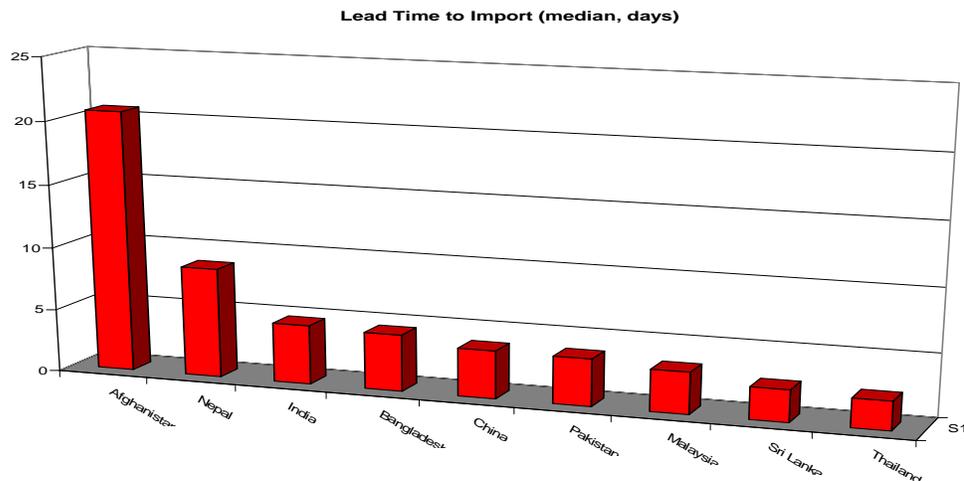
LOGISTICS AND TRANSPORT ISSUES

Efficacy of Ports

Efficient ports (sea and land-based) and airports that can handle large volumes of container traffic and is linked to an efficient network of multi-modal transport systems is an essential feature for a modern, successful economy. However, most of the important South Asian sea-ports are inefficient and face severe congestion and delays. While some ports such as Karachi, Colombo and JNPT near Mumbai have seen some improvements in recent years, their performance remains poor relative to ports in other parts of Asia, and not just vis-à-vis leading hubs like Dubai, Singapore and Shanghai, but even smaller less important shipping hubs like Laem Chabang in Thailand and Port Klang in Malaysia⁷. Figure 4 on the next page compares the median lead-time to import goods, which is a good proxy for port efficacy.

⁷ UNESCAP (2002) and UNESCAP (2004)

Figure 4



Source: Logistic Performance Indicators, World Bank and author's calculations

Figure 4 shows that South Asian economies, except Sri Lanka and Pakistan, are behind their leading Asian counterparts in the time taken to import goods, and the relative inefficiency of South Asian ports plays an important role in the delaying the movement of goods across borders. The average container dwell time in Chittagong (Bangladesh) is around 18 to 20 days, while it is just to 10 to 12 days in comparable ports in South-East Asia⁸. The average turnaround time for Indian ports in 4.7 days compared to averages of 1.5 to 2 days in South-East Asia while the pre-berth waiting time is almost one whole day. In many Indian ports, the equipment utilization rate is a poor 30% due to inefficient management⁹.

The development of South-Asian overland points of entry, such as Benapole between India and Bangladesh and Birgunj between India and Nepal, are even more critical to regional integration than seaports. These overland crossings are among the most inefficient in the world and there has been very little effort in improving the conditions of these crossings. Behind the border issues such as the poor quality of national road and rail infrastructure are a major cause of inefficiency of overland routes. Inadequate infrastructures at the land-ports at the border are also to blame. For example, at the Benapole border, there are lines of 1500 trucks, or more that often have to wait for up to 5 days to get clearance¹⁰. Not just infrastructure, but national policies play an important role in causing such inefficiencies. It is Bangladesh's policy of not allowing foreign trucks to operate in its territory that necessitates trans-shipment from Indian and Nepali trucks into Bangladeshi trucks causing huge delays at the border. Some of the key problems common to all South-Asian border crossings and land-ports are:

- ❖ Limited number of designated overland routes between countries and poor ICT and modern infrastructure.
- ❖ Congestion
- ❖ Trucks of one country often not allowed into the other, or only allowed under strict conditions that limit operability

⁸ A.D Domus (2005), pg. 29

⁹ Ibid pg. 45

¹⁰ Uma Subramanian and John Arnold (2001), pg. 42

- ❖ Lack of warehousing and proper storage facilities as they await trans-shipment into trucks from one side to the other
- ❖ Rent-seeking by officials
- ❖ Poor quality of transport connectivity with the hinterland and lack of multi-modal transport linkages

Overland Road and Rail linkages connecting South Asian economies

Despite having inherited an integrated road and rail network that connected most of South-Asia during the colonial era, overland connectivity between South-Asian countries today is suffering and is hostage to the political climate prevailing in the region. This is even more tragic given that India, with its central location in South Asia, has one of the world's largest rail and road systems. Pakistan's refusal to allow overland traffic to India from Afghanistan and Bangladesh's reluctance to open an overland route connecting North-East India to the rest of South-Asia and the port of Chittagong has prevented a trans-South-Asian road network from emerging. Even in the cases where overland routes do exist, such as between Nepal and Bangladesh and Bhutan and Bangladesh through India, behind the border issues such as poor quality of roads, rent-seeking officialdom and the poor quality of trucks (largely due to regulatory incentives in the region that keeps the trucking sector fragmented and small-scale) have prevented such overland road routes from emerging. Such policy oversight in investing in a trans-South-Asian road network is tragic, as a Kabul to Chittagong integrated road system could have embedded the South-Asian region as the central element within the emergent Trans-Eurasian road network stretching from St. Petersburg and Istanbul to Singapore and Busan.

Overland railways in South-Asia are also suffering from lack of regional initiatives. A major problem is that different South-Asian countries use different track gauges, and unlike other parts of the world, especially in Europe and among ASEAN members, where there is an active effort to harmonize track gauges and other rail related equipment, South-Asia has not even started putting together a cohesive policy in this direction. Like roads, railways also suffer from behind the border issues that limit its use even when overland routes do exist as between India-Bangladesh and India-Nepal. The critical among these behind the border issues are:

- ❖ Lack of efficient railway dry-ports with logistical support
- ❖ Rent-seeking and theft of cargo while in transit
- ❖ Lack of multi-modal linkages with railways
- ❖ Lack of efficient and cheap trans-shipment facilities between rail-hubs and sea-ports (in some cases)

Like in the case of roads, a trans-South-Asian railway network (with a ferry service connecting Sri Lanka) could have become the hub for a trans-Asian rail transit system stretching from Iraq up to Singapore. While such a network looks improbable right now, but if South Asian countries play the lead, it could provide the impetus for other parts of Asia to follow suit.

Table 3 below illustrates the importance of behind the border overland routes to South Asia's trade integration within and outside the region.

Table 3: Transport time via Transshipment hubs

	From Kolkata	From Colombo
North Europe	25-32 days	13-20 days
US East Coast	36-41 days	26-29 days
Mediterranean	24-29 days	12-17 days

Source: Arnold (2007)

The high monetary and time related costs of overland routes, a result of inefficient infrastructure behind the border, do not allow a rationalization of transport hubs, especially container related hubs. As table 3 illustrates, certain hubs such as Colombo have a marked advantage in terms of time (and by association cost) over Kolkata and other ports. Similarly, exports from Nepal headed to Europe or North America would benefit if they could effectively access Mumbai port rather than using Kolkata/Haldia. For example the cost of exporting a carpet from Nepal to Europe using Mumbai instead of Kolkata would save USD 1300¹¹, a very substantive amount equaling 30% to 40% of the total value of export, and would also save 7-10 days in terms of time.

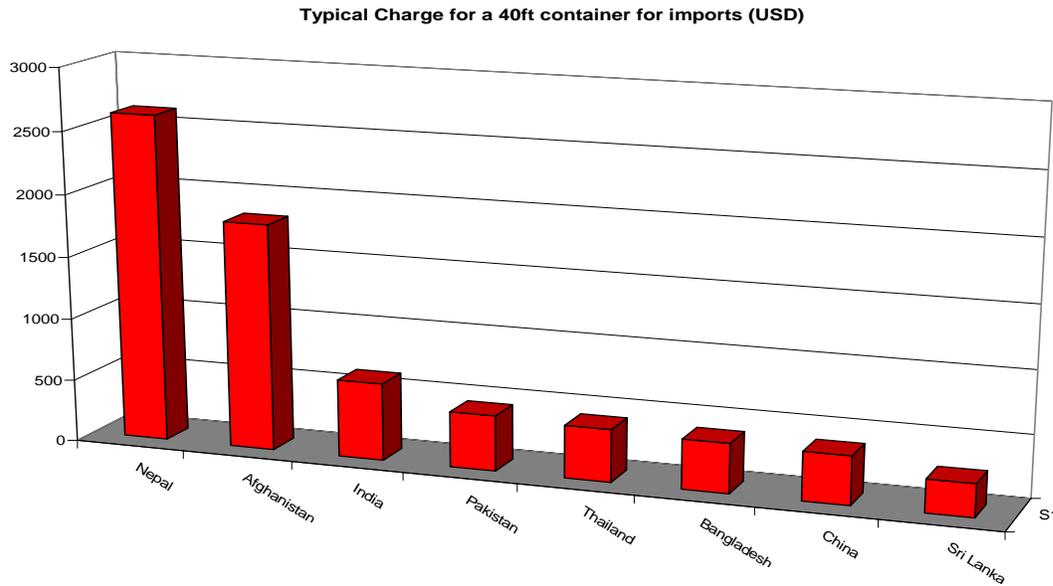
An efficient overland infrastructure would have allowed goods to smoothly move across South Asia reaching out to the most efficient hub using multi-modal means. The resultant competition would have also led to the emergence of efficient hub and feeder route combinations using rail, road and regional shipping routes, greatly reducing the transaction costs imposed on South Asia's entrepreneurs, many of whom are left out of the global and the regional market precisely because they are priced out of it by the incidence of transaction costs on trading.

Cost of Freight

The relative cost of freight from traveling from or into South Asian sea and airports is relatively high. Figure 5 compares the relative cost of a 40 feet container for import for South Asia's major economies and some selected Asian countries.

¹¹ Uma Subramanian and John Arnold (2001), pg. 58

Figure 5



Source: Logistic Performance Indicators, World Bank and author's calculations

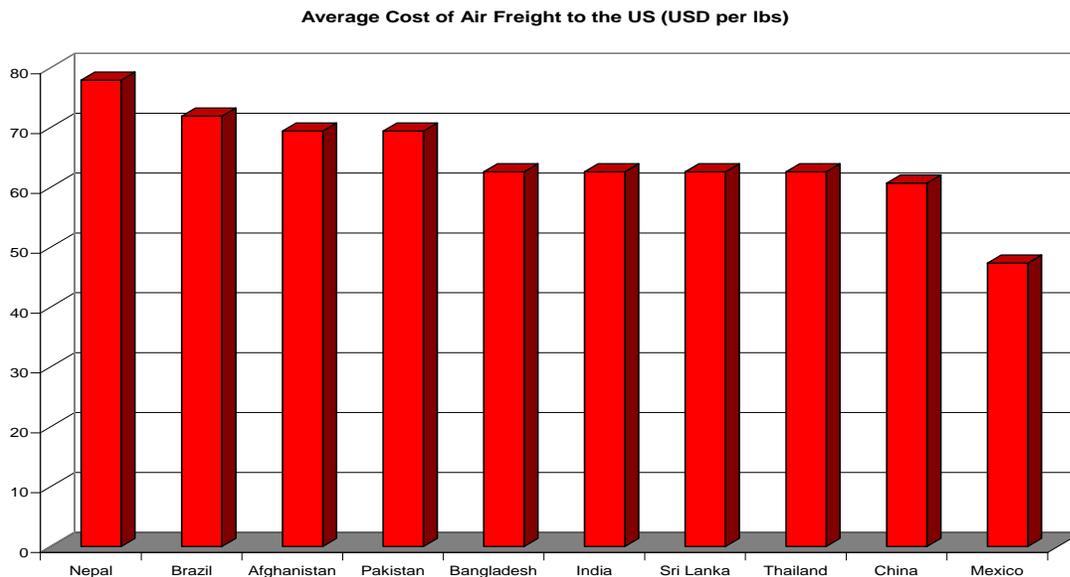
Figure 5, while underlying the relatively higher costs for containers for South Asia major economies (exceptions being Bangladesh and Sri Lanka), also highlights the point about poor behind the border logistics made earlier. Landlocked countries (Nepal, Afghanistan) and countries with relatively large hinterlands (India, Pakistan) have to depend more on behind the border logistical support as the goods move across the hinterland into the ports, increasing costs of trade. However, it is significant to note that both China and Thailand also have significantly large hinterlands and yet have much lower costs (although the economic centres that do most of the trade in both these countries tend to be near their major sea-ports). In the case of Bangladesh, though the Logistics Performance Indicators reports a low figure for import (USD 396, as reported in Figure 5) and exports (USD 210), another source¹² reports that the average cost of a container for export exceeds USD 600 and that total transport costs for textiles from Bangladesh (its most important export) account for over 15% of total costs and is more than twice (in percentage terms) than that of its competitors such as Taiwan, China, India and Sri Lanka.

Figure 6 on the next page shows that the cost of airfreight from South Asia to the US (a good proxy for air-freight costs in general¹³) is relatively high compared to some selected Asian countries.

¹² A. D. Domus (2005), pg. 29

¹³ Readers are advised to note that specific countries might enjoy advantageous freight rates in certain routes due to better connectivity and/or bilateral efforts by governments. Pakistan enjoys relatively cheap air-freight rates to the UAE and Saudi Arabia while Bangladesh enjoys relatively cheaper rates to China

Figure 6



Source: Logistic Performance Indicators, World Bank and author's calculations

Cheap airfreight is important for time-sensitive exports such as high-end agro products and high-end textiles. Given South-Asia's great distances, airfreight is bound to play a part in the expansion of inter-regional trade over the years and in this context the poor condition of the regions' airports and related freight handling services do not bode well for the regions exporters and importers¹⁴.

Having laid out the general framework of the region's institutional and infrastructural conditions for trade facilitation in this section, the next section will provide a brief overview of some of the country specific trade facilitation issues, policies and recent developments.

II. Trade Facilitation Issues and Policies in South Asian Countries: A Brief Overview

The purpose of this section is not to present a comprehensive report on trade facilitation for each of the South Asian economies, but to briefly touch upon the some of the key concerns and major policy responses with respect to trade facilitation in recent years.

AFGHANISTAN

The key issue for Afghanistan trade facilitation is the lack of connectivity, lack of trained human resources and lack of proper equipment. In terms of connectivity, a key Afghanistan's concern has been lack of access to South Asia's largest market, India due to Pakistani reluctance for the development of an overland route between India and Afghanistan via Pakistan. Afghanistan's access to the seaports of Karachi and Gwadar in Pakistan are also hampered by the poor quality of roads, security issues and logistical hurdles, though it currently remains Afghanistan's only outlet to maritime trade.

¹⁴ A.D. Domus (2005), multiple pages

Afghanistan, with help from India and Iran, is developing an all-weather double carriage road between Zaranj on the Iranian border with Dilaram in western Afghanistan. This road will link the Iranian port of Chahbahar to the Herat-Kandahar highway, linking the Persian Gulf to Central Asia and provide the Afghans with a more efficient and secure outlet to the sea. Multilateral and bilateral aid is also helping Afghanistan built crucial logistical linkages between Afghanistan and Tajikistan (Kunduz-Faizabad highway) and with Turkmenistan (Herat-Torghundi highway). Besides roads, attention has also been paid to the development of air-transport linkages. The World Bank and the Japanese government have been helping Afghanistan develop the Kabul international airport. Three other airports, i.e. Herat, Mazar-i-Sharif and Jalalabad have also been identified as priority development projects.

BANGLADESH

Historically, poor transport facilities and infrastructure have been great impediments to the development of international trade in Bangladesh. Bangladesh's infrastructure also suffers from deterioration due to periodic flooding and soil erosion. Some of the key issues for Bangladeshi trade facilitation are:

- ❖ Inadequate development of a multi-modal system that combines roads with railways, and even more importantly, inland waterways, the proper development of which can go a long way in increasing connectivity in a riverine geography like Bangladesh
- ❖ Congestion and inefficiency at major ports, especially Chittagong (sea) and Benapole (land)
- ❖ A limited role for the private sector in transport and trade facilitation
- ❖ Inefficient co-ordination and institutional deficit across four major ministries dealing with transport, commerce, customs administration
- ❖ Information technology support for basic customs functions is limited.
- ❖ Custom administration resources (both physical and human resources) are severely constrained

Since 1992, Bangladesh has undertaken substantive reforms in customs administration and has implemented ASYCUDA (Automated Systems for Customs Data) in five ports (Dhaka Customs House, Dhaka ICD, Chittagong, Mongla and Benapole). In 1999, as a part of the reforms process and implementation of ASYCUDA, a customs modernization initiative called Customs Administration Modernization (CAM) funded by the World Bank was put in place. Under the aegis of the CAM initiative, import clearance procedures were simplified by reducing the number of signatures required and the frequency of physical inspection of cargo has also been substantially reduced¹⁵. However, it still needs to implement substantive reforms in the transport sector, invest in physical infrastructure, and broaden the scope of the customs modernization project. A bilateral understanding with India that allows India overland routes (to North-East India as well as South-East Asia) has the potential to make Bangladesh a regional trade and transit hub.

¹⁵ Mostafa Abid Khan (2004), pg 98

INDIA

India still has several problem areas in trade facilitation and there is substantive transaction costs involved in trading with it. While some impressive gains have been made over the last decade in terms of eradicating transaction costs, a lot of work still needs to be done to bring India up to the global standards in this area. In India, like some of the other South Asian economies, it was felt that IT -led modernization and automation would lead to huge improvements in trade facilitation. While introduction of automated processes and EDI did enhance trade facilitation, work done by two specialized policy entities, i.e. The Task Force on Indirect Taxes of 2002 and the Working Group on Trade Facilitation (WGTF) of 2004, chaired by one of the authors of this paper, have clearly shown that without accompanying institutional and procedural changes, effective trade facilitation cannot take place¹⁶.

WGTF study focusing on the problems of Indian exporters¹⁷ found the average dwell time is between 1-2 hours. It estimated that 85% to 95% of the exports are cleared at sea formations within 4 hours, while in the case of Air Customs formations this figure is in excess 98%. However, the report also took cognizance of the fact that dwell time figures for exports may be understated because they do not take into account the clearances required from several other agencies prior to arrival of goods at customs. Further, work done earlier in 2002 by the Task Force on Indirect Taxes had pointed out that the process of prior clearances involves up to 257 signatures from 30 different agencies that may even take a couple of days to punch in the data. Clearance of goods is delayed also on account of withdrawal of samples or the verification of price of goods falling under various exports incentive schemes¹⁸. Progress has been slow since 2005 on several of these fronts.

Unlike Pakistan and Sri Lanka, India has never tried to create an umbrella trade facilitation body that includes all the major public and private stakeholders on the lines of Sweden's, or United Kingdom's. This is a major policy shortcoming, especially given India's status as an emerging economic power, one that is central to South Asian region, and thus in a position to take the lead in a South regional integration initiative with trade facilitation as its focus. There are far too many agencies involved in the clearance process in India, with leadership and accountability issues not addressed yet. A proper discussion of India's behind the border logistical and infrastructure problems, including the poor condition of its overland border-crossings with Bangladesh, Nepal, Bhutan and Myanmar would require a paper in its entirety; some of the key points are summarized on next page. It is important to realize however that given India's geography, the quality of it's behind the border infrastructure has enormous bearing on the connectivity between South Asian countries and of access to sea-ports for landlocked countries of Nepal and Bhutan.

¹⁶ Jayanta Roy and Pritam Banerjee (2007), pg. 310-311

¹⁷ Data is for June to September 2003 for four sea Customs formations viz. Mumbai, Chennai, Cochin & Kolkata and two air Customs formations namely the Chennai and Mumbai reported by the Working Group on Trade Facilitation (WGTF)

¹⁸ Jayanta Roy (2002)

Logistical Issues in India:

- ❖ Lack of multi-modality, and poor use of its extensive rail network
- ❖ Congested, inefficiently run ports
- ❖ Lack of nearby air-cargo ports in large parts of the country
- ❖ Near non-existence of any effective inland water transport system feeding into ports, despite the huge potential
- ❖ Inefficiently run state-level (provincial) border crossings. Complaints of rent-seeking and harassment in the name of security abound
- ❖ Overlapping jurisdictions implementing gateway (border) related procedures leading to delay, discretionary powers to officials (and associated rent-seeking), and lack of transparency
- ❖ Extremely poor feeder roads in large parts of the country combined with poor warehousing and logistics

NEPAL

Nepal's mountainous terrain and associated difficulty of connectivity has been a major impediment for effective trade facilitation. Nepal faces an acute shortage of trade facilitation related equipments such as weighbridges, X-ray machines and even enough computers and faxes¹⁹. Nepal's customs administration also lacks personnel with adequate training and experience to implement modern trade facilitation procedures²⁰.

While the country has implemented ASYCUDA and has introduced a new single custom declaration form (Single Administrative Document or SAD), rate of physical inspection remains high²¹, though it has come down in recent years. Despite the implementation of SAD, documentation requirements also remain relatively high, as do the number of bureaucratic procedures. An important development for Trade Facilitation in Nepal has been the implementation of the Advanced Cargo Information System or ACIS. The ACIS allows traders to track their shipments and also get advance notice of cargo arrival allowing for better logistical co-ordination.

The absence of a direct rail link between Nepal and Kolkata, and the congestion and inefficiency at the Birgunj border with India are major trade facilitation issues for Nepal. The existing route for most Nepalese exports through Kolkata involves trans-shipment via Singapore or Colombo adding to costs of trading. As discussed earlier, better overland connectivity to Mumbai which has direct shipping facilities to EU, Middle-East and the United States will go a long way in helping Nepal's trade. Nepal is strategically located between India and China, and adequate investment in trade facilitation infrastructure at its borders combined with investment in roads can allow to the country to emerge as a major trading hub between Western China (including Tibet) and India.

¹⁹ Navin Dahal (2004), 124

²⁰ Ibid

²¹ Dahal (2004) pg. 125 reports a high number of almost 100% for the rate of physical inspection, however the recent LPI data as reported in section I shows that Nepal has low incidence rate of physical inspection of just 12% in 2006

This is very much within the realm of possibility as relationship between the two Asian giants, India and China normalizes, and Chinese investment in its Western provinces lead to increasing demand for imports²².

PAKISTAN

Like other South Asian countries, Pakistan too suffers from the lack of an integrated transport network and absence of institutional convergence between the various ministries and departments that regulate, plan and/or control its road, rail, air and maritime transport systems. However, Pakistan's ports have seen substantive improvements in the recent past, especially in the container terminals at Karachi and Port Qasim. Pakistan also on average has better roads than other parts of South Asia and one of the lowest road-transport tariffs in the world²³.

Trade facilitation activity commenced in Pakistan in August 2001 with establishment of National Trade and Transport Facilitation Committee (NTTFC) and initiation of work on a World Bank funded Trade and Transport Facilitation Project (TTFP) with technical assistance of UNCTAD. NTTFC is chaired by the Secretary, Ministry of Commerce and its membership comprises of the Ministries related to trade transport and finance, public sector organizations dealing with customs, trade and transport, and private sector bodies representing the industry, trading community and service provider like insurance companies²⁴. The NTTFC's institutional structure is one that should be followed in other South Asian countries. However, the success of the NTTFC has been modest and mostly related, like the trade facilitation efforts across the border in India, to customs reform.

The three major projects achievements under the aegis of the NTTFC have been:

- ❖ Introduction of a Single Administrative Document (SAD) as the standard for the Pakistan Goods Declaration (GD)
- ❖ Introduction of automated Custom clearance system based on the Risk Management System (RMS)
- ❖ Development a comprehensive single window for all customs clearance operations called the Pakistan Customs Computer System (PACCS). The PACCS is completely paperless, web-based online system.

However much needs to be done in terms of developing Pakistan logistical infrastructure. The country's railways, under-funded and under-utilized, need attention. Special attention also needs to be given to the proper development of Inland water transport. Overland routes from Afghanistan, should be given priority development status and made more secure. Given Pakistan's geography it can emerge (as the region has historically been) the centre of a trading network connecting Central Asia, Persian Gulf countries and South Asia. The two pre-requisites for that to happen are infrastructure and political understanding with its neighbors.

²² Jayanta Roy and Pritam Banerjee (2005)

²³ Shahid Bashir (2007), pg. 4

²⁴ Ministry of Commerce, Government of Pakistan, National Trade Facilitation Strategy Report (2007), pg. 23-25

SRI LANKA

Sri Lanka is the pioneer of trade facilitation in South Asia. The country set-up an umbrella body of private and public stakeholders called the SRILPRO as early as 1980. The mandate for SRILPRO was to aid the government eliminate superfluous regulatory and procedural mechanisms and make the customs administration more transparent. However, lack of proper funding, inability to retain the right kind of interest, and lack of interest on the part of certain important stakeholders led to its demise by the late nineteen-nineties²⁵.

The country's next major initiative has been the Sri Lanka Automated Cargo Clearance System implemented since 2002, which allows electronic processing of documentation related to imports, exports, transshipments and e-banking²⁶. However, the assumption that automated electronic processing would necessarily lead to efficiency seems to have not been fully borne out, and recent evidence suggest that total time requirement for dealing with administrative formalities have not come down significantly²⁷.

The Colombo trans-shipment hub, despite some problems, remains one of the most efficient ports in the region. The ambitious expansion plans for this port, once completed, will lead to reduction of congestion and better facilities. Sri Lanka's biggest challenges in terms of Trade Facilitation are behind the border problems. The extremely poor quality of Sri Lankan roads makes transport from the hinterland to the ports very difficult. The concept of multi-modality (i.e. using a combination of rail and road) does not exist and anyway difficult to achieve in a country with the size and terrain of Sri Lanka. The ongoing political tensions add security challenges add to the transaction costs of domestic movement of goods and services.

III. Trade Facilitation Measures in Regional Agreements in the South Asian Region

This section will briefly discuss Trade Facilitation measures in the South Asia Free Trade Agreement (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation (BIMSTEC), the two trade related regional agreements currently in place in South Asia²⁸. Both the SAFTA and BIMSTEC disappoint in terms of their scope, ambition and commitment to trade facilitation. The failure of both these agreements to proactively take up trade facilitation measures seems especially stark in comparison to initiatives the like The Greater Mekong Sub-region (GMS) comprising of Cambodia, China, Laos, Myanmar, Thailand, and Vietnam. In 1992, with ADB's assistance, these six countries entered into a program of sub-regional economic cooperation specifically designed to enhance the development of infrastructure and promote the freer flow of goods and people²⁹.

²⁵ De Silva (2006)

²⁶ Parakrama Dissanayake (2005), pg. 13

²⁷ De Silva (2007)

²⁸ The section does not discuss bilateral agreements such as the India-Sri Lanka FTA

²⁹ Details of this regional initiative are available in its website <http://www.adb.org/GMS/default.asp>

SAFTA

The SAFTA, the stated objective of which is to create a free trade area in South Asia (that includes all the member states of the SAARC³⁰) by 2016, also incorporates a few modest goals in terms of trade facilitation and trade facilitation co-operation on a regional basis. Some of the specific trade facilitation measures in the SAFTA include³¹:

- ❖ A protocol ensuring regular publication of laws and regulations pertaining to trade related measures by all member countries (transparency measure)
- ❖ Notification of any changes to mandatory requirements that affect trade (transparency measure)
- ❖ Right of appeal for disputes/disagreements related to eligibility for preferential treatment
- ❖ Recognition of Certificate for Rules of Origin (ROO) issued by the exporting member by the importing member³², and consultation mechanism in case of disputes regarding ROO³³

❖ In addition, Article 8 of the SAFTA makes a vague 'commitment' by members to 'consider' the following trade facilitation measures³⁴:

- ❖ Simplification and harmonization of standards, customs procedures, and customs classification based on HS coding system
- ❖ Co-operation mechanisms between customs administration, especially with respect to disputes at customs entry points
- ❖ Mutual recognition of tests and reciprocal accreditation of testing laboratories
- ❖ Overland transit facilities for efficient intra-SAARC trade with special regard to the needs of landlocked countries
- ❖ Development of transport and logistics infrastructure
- ❖ Simplification of procedures for business visas

While not explicitly mentioned in Article 8, customs co-operation entails the development of protocols to move towards mutual recognition of electronic signatures and digital certificates³⁵.

Thus, the SAFTA steers clear of making any specific, actionable, and time-bound commitments on the critical trade facilitation issues affliction cross-border transactions in South Asia such as overland transit facilities, poor administrative quality of customs and other bureaucracies at the border, the lack of harmonization of rules and procedures, the lack of institutional trust between authorities in different countries, and any real movement towards convergence of the IT platforms so that data can move seamlessly between the operating systems of different countries. Further, the

³⁰ Pakistan has refused extend the provisions of the SAFTA to India till the time the Kashmir dispute is settled

³¹ Chaturvedi (2007)

³² Annex B of the SAFTA draft available at <http://www.saarcsec.org/data/agenda/economic/safta/OCPs%20Anx-B%20of%20Annex-IV.pdf>

³³ Ibid, Article 21, pg. 7

³⁴ SAFTA draft available at <http://www.saarc-sec.org/data/agenda/economic/safta/SAFTA%20AGREEMENT.pdf>

³⁵ Chaturvedi (2007)

agreement, unlike the GMS initiative, offers no mechanism to address the critical logistics and transportation bottlenecks', including the substantive behind the border issues discussed in previous sections, and makes no commitment to the development of efficient overland border-crossings.

BIMSTEC

The BIMSTEC is a sub-regional grouping with the explicit ambition of integration the South and South-East Asian regions. The group's members are Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. BIMSTEC does not include any formal, explicit agenda on trade facilitation. The agreement identifies transport and communication as a priority sub-sector for 'voluntary' co-operation and makes vague commitments to implement mutual recognition of standards, establish protocols for ROO, and engender institutional co-operation between customs administrations. It also proposes preparatory work on three transportation projects³⁶:

- ❖ Feasibility Study in Short-Sea Shipping Development in Bay of Bengal (Thai Proposal)
- ❖ Preparation of BIMSTEC Framework Agreement on Multimodal Transport (Thai Proposal)
- ❖ Detailed Design of Three Pagoda Pass Railway line on the Thai-Myanmar border

The relevance of the BIMSTEC as a vehicle for trade facilitation in South and South-East Asia has declined since the two main drivers, i.e. India and ASEAN (i.e. Thailand and Myanmar) are negotiating a comprehensive FTA. India already has a FTA with Sri Lanka, an economic protocol with Bhutan and is in the process of negotiating a new, comprehensive treaty on economic exchange and co-operation with newly elected government in Nepal. However, all the above-mentioned FTAs and economic protocols lack an ambitious trade facilitation agenda. The next and final section of this paper dealing with policy recommendations thus starts with suggestions on how a reformed BIMSTEC could meet this deficit by becoming a treaty on comprehensive trade facilitation reform.

IV. Policy Recommendations

Given the lack of trust between India and Pakistan that has persisted over the decades, with no prospect of resolution in the near future, it is difficult for the SAFTA to emerge as a dynamic institution for regional integration. South Asia's economic integration is too important a part of the regional development agenda to be made hostage to a bilateral political dispute that excludes six of the eight countries of the region. A trans-South Asian linkage with Central Asia via Afghanistan has also been made subject to the India-Pakistan bilateral political dispute. The BIMSTEC has emerged as an alternative institutional basis for South Asian integration as it includes all SAARC countries besides Pakistan, Afghanistan and Maldives. The BIMSTEC can easily be extended to include Maldives and, simultaneously a joint protocol between Afghanistan, Iran, India and Sri

³⁶ Details available at the BIMSTEC website, http://www.bimstec.org/project_3.html

Lanka can create an integrated transport agreement linking Afghanistan and rest of Central Asia to South Asia via the Persian Gulf port of Chahbahar.

South Asian member countries of the BIMSTEC, in conjunction with Thailand and Myanmar, should consider extending the membership of the group to Maldives, Laos, Cambodia, Vietnam, Malaysia and Singapore and re-orient the focus of this grouping (following the foot-steps of GMS) as a nodal agreement on trade facilitation. The following paragraphs will outline the agenda for such a nodal agency towards comprehensive trade facilitation for the South and South-East Asian regions of Asia. It needs to be strongly reiterated that such an agenda will have to meet three stringent conditions to have any chance of success; it would have specific targets, the targets have to be mandatory for all member states, and the parties would agree to achieve these targets within a specific time frame. These specific trade facilitation targets will have to cover institutional, technological, logistical, and transport related issues as outlined in the following paragraphs.

INSTITUTIONAL AND TECHNOLOGICAL FACILITATION

Seamless borders

- ❖ Bilateral protocols on customs and other administrative processes and harmonization of standards and certifications including reciprocal recognition of standards and laboratories
- ❖ Harmonization of IT operating systems to allow digital transfer of all forms and signatures
- ❖ Availability of adequate and modern communication facilities and logistics support at the border
- ❖ Pre-shipment Inspection protocols with private sector (industry chambers) participation
- ❖ Adaptation of modern risk management techniques. Protocols for capacity building in such techniques for the less advanced member countries like Nepal, Bhutan, Myanmar, and Laos
- ❖ Simple Rules of Origin (ROO) with private sector (industry chambers) involvement in the certification process for ROO

Technology

- ❖ Use of standardized containers with a harmonized systems of bar-codes that provide an unique identification sequence for each container
- ❖ Automated weigh-bridges at all border crossings
- ❖ X-Ray machines compatible for use for large size containers
- ❖ Electronic lock-systems that prevent and/or allow detection of tampering while in transit for all containers

Administrative Protocols

- ❖ Member states must allow the use of their roads by commercial vehicles of other countries. This would eliminate the need for trans-shipment between trucks at borders and is a necessary condition for seamless border discussed above
- ❖ All commercial vehicles that are allowed cross-border travel permit must be issued a special BIMSTEC registration number. They must also be assigned an

unique bar-code that allows their identification with all details of origin, cargo-consignment, ownership and point-of-entry

- ❖ Customs administrations of member states will set the goal of completely harmonizing their product classification systems according to HS coding system up to 6 digit level of disaggregation within five years of the agreement on Trade Facilitation coming into force

TRANSPORT AND LOGISTICS FACILITATION

A crucial element of the regional trade facilitation agenda would have to be an ambitious transport and logistical development program that creates multi-modal linkages between member -states, playing special attention to behind the border segments of such a transport and logistical network. Key areas of rail, road, and shipping are highlighted in the following paragraphs.

Roadways

Dedicated road transport corridors joining important overland border-crossings with main economic centres and ports need to be identified. Based on an agreed upon time-frame, these corridors need to be upgraded to international standards, preferably with private sector involvement. Some important corridors are:

- ❖ Delhi-Siliguri-Guahati-Imphal (all India)-Tamu (Myanmar) with feeder linkages from Nepal at Kakarbhitta and Birgunj, and from Bhutan through Phuentsholing
- ❖ Varanasi-Mumbai (both India) with linkages from Nepal via the Nautanwa (India)-Sunali (Nepal) border
- ❖ Birgunj (Nepal)-Kolkata/Haldia (India)
- ❖ Kolkata (India)-Dhaka-Chittagong (both Bangladesh)-Sittwe (Myanmar)
- ❖ The old 'Stillwell Road' linking North-East India with Northern Myanmar via Ledo (India)

India being the central geography of this system will have to simultaneously integrate its national highways development project linking Mumbai, Kolkata, Bangalore, Chennai, Vishakapatnam and Delhi with all the major overland border crossings with its neighboring member states.

Railways

The South-Asian railway system, the bulk of it in India, will have to be linked to South-East Asia via Myanmar. The first step would be to harmonize track gauges, freight cars, and integrate the traffic control systems of India, Bangladeshi and Nepalese railways. The second step would be to develop overland railway routes connecting three key routes:

- ❖ Kathmandu (Nepal)-Siliguri (India) via Birgunj (Nepal)
- ❖ Kolkata (India)-Chittagong via Dhaka (both Bangladesh)
- ❖ Kolkata-Imphal (both India) via Dhaka (Bangladesh) and Agartala (India)

The final step would be to develop railway linkages between South-East Asia and South Asia at three points

- ❖ Northern Route: via Tinsukia (India) on to Northern Myanmar
- ❖ Dhaka (Bangladesh)-Agartala-Imphal (both India) onto Myanmar
- ❖ Chittagong (Bangladesh)-Sittwe (Myanmar)

The general planning of development of such cross-border railways have already been undertaken as a part of the Trans-Asian Railway (TAR) projects southern corridor plan³⁷.

Ports

South Asian ports, both inland and at sea, will have to be rapidly expanded and upgraded. It is important to use private sector resources and open up the ports for private investment. The development of Free Ports should be encouraged. Key inland ports for development are New Delhi (India), Varanasi (India), Birgunj-Raxaul (Indo-Nepal border), Benapole (India-Bangladesh border), Kakkarbhatta (India-Nepal border), Nataunwa-Sunali (India-Nepal border), Phulbari (India-Bangladesh border), Hyderabad (India), Bangalore (India), Ledo (India), Moreh-Tamu (India-Myanmar border), and Teknaf (Bangladesh-Myanmar border).

The key seaports that need to be developed/and or expanded are Mumbai (India), Tuticorin (India), Colombo (Sri Lanka), Vishakapatnam (India), Haldia (India), Chittagong (Bangladesh), Mongla (Bangladesh), Sittwe (Myanmar), and Dawei (Myanmar). Logistical elements such as state of the art warehousing facilities and multi-modal linkages should be a part of the port development process.

ROLE OF THE PRIVATE SECTOR

Throughout the above discussion on priority policies on trade facilitation, the importance of private sector involvement has been underlined. The private sector in all member countries, with the industry associations taking the lead, should be encouraged to come up with proposals on all aspects of the trade facilitation agenda as discussed above. The nodal trade facilitation secretariat (as proposed, a reformed, re-oriented BIMSTEC), should have a special private sector cell that will engender cross-border private sector co-operation and investment. The private sector will have to take the lead in development of logistics facilities and ports as well as evolving protocols on ROO and PSI. Private sector inputs and experience will also be vital to the development of common IT platforms and cross-border digital information systems. The development of standardized containers and bar coding for trucks and containers will not be possible without the proactive support of private sector stakeholders.

In order to fully engage the private sector in the development of transport and logistics, some of the behind the border regulations on distribution services, transport services and shipping would have to be revised in member states, allowing for investment and

³⁷ For details, visit the UNESCAP website, <http://www.unescap.org/ttdw/common/TIS/TAR/scorridor.asp>

removing regulatory disincentives that prevent effective private sector participation in these sectors. Cross-border flow of capital also needs to be allowed so that larger companies can develop integrated cross-border supply chains involving several modes of transport. The interests of small-scale service providers can be protected through some in-built local content arrangement for these services that would require larger companies to integrate the smaller players into their large integrated logistics network.

V. Conclusion

Section II shows the relatively poor state of trade facilitation in South Asia and the high transaction costs associated with cross-border exchange in the region. Section III and IV highlights the lack of adequate initiatives, both unilaterally on the part individual South Asian countries, as well broader regional trade initiatives. Thus, the future agenda is clear, the need for proactive unilateral trade facilitation (with a focus on behind the border issues) that is buttressed by regional initiatives (focused more on the border issues that are requires co-operation across countries). Given current geo-political realities in South Asia, this paper suggests that making any regional development agenda subject to the resolution of a long-standing bilateral political dispute is counterproductive. It is for this reason, the proposed Afghanistan-Pakistan-India-Bangladesh-Myanmar international corridor as a new silk route, though attractive, does not appear to be feasible in the short to medium-term. Thus, the policy target should be to use an existing agreement that includes all the South Asian countries willing to commit themselves fully towards a regional economic agenda like the BIMSTEC as nodal agency for regional trade facilitation.

To be successful, the regional trade facilitation agenda must include measures that are mandatory on the contracting parties and set a specific time-frame for achievement of these measures. Focus will have to be on at the border issues of custom modernization and the development of cross-border rail, road and ship linkages. Equally important are behind the border issues like providing decent logistics and transport networks that feed into the regional transport corridors. While such behind the border issues are best handled unilaterally, setting region specific targets will provide incentives to policy-makers to prioritize.

A regional integration agenda can never succeed without proper trade facilitation. As mentioned in the introduction, in many cases it is transaction costs rather than tariff barriers that keep entrepreneurs from taking advantage of opportunities across border, and this is especially true of small and medium entrepreneurs (SME). The South Asia-South East Asia regional exports are often driven by such SME, and thus trade facilitation is a crucial aspect of any trade integration agenda for this region. Trade Facilitation has not got the attention it deserves in the past, but is increasingly gaining prominence, both in policy circles, as well as in the popular media. It is high time to leverage this new interest in trade facilitation and reduction in transaction costs to push for an aggressive reform agenda for the South Asia-South-East Asia region with full support of the governments and the private sector.

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