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India's Role in Facilitating Trade under SAFTA

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Contents

Abstract

Economic integration in South Asia is governed by India's relations with the other economies of the region and it is also at the helm of all trade facilitation and transit issues of the region. Concessions given by India under SAFTA for LDCs have greatly benefitted Bangladesh and concessions to non-LDC members have applied to its imports from Pakistan. India has given significant concessions to Sri Lanka and Nepal under bilateral trade agreements. In a major breakthrough, Pakistan has granted the Most Favoured Nation status to India in 2011, thereby giving a fresh impetus to the SAFTA process. In this changed scenario, further efforts by India would benefit the regional trade integration process much more than before. This paper examines the ground covered so far by India and the challenges that remain for it to realize the benefits under SAFTA. A number of issues that have already been addressed but need to be dealt with further, including liberalisation of tariffs (including trimming sensitive lists), non tariff barriers, transport and transit barriers and customs reforms.

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Executive Summary

India plays a central role in trade integration in South Asia and is also at the helm of all regional trade facilitation and transit issues. It strengthened its bilateral links with its neighbours by signing free trade agreements with Nepal, Bhutan and Sri Lanka and a preferential trade agreement with Afghanistan. In recent years, India has taken several measures, both bilaterally and under the ambit of SAFTA, to facilitate trade in the region. In a major breakthrough, Pakistan has granted the Most Favoured Nation status to India in 2011, giving a fresh impetus to the SAFTA process. In this changed scenario, further efforts by India would benefit the regional trade integration process more than before. This paper examines the ground covered so far by India and the challenges that remain for it to realise the benefits under SAFTA. The issues discussed include tariff liberalisation, sensitive lists, non-tariff barriers, transport, transit and customs.

An examination of the current status reveals that India allows duty free access to goods from Sri Lanka, Nepal, Bhutan and Bangladesh and has reduced the sensitive list it maintains for LDCS to just 25 items. The study suggests that items on the sensitive list can be pruned considerably for Sri Lanka and Pakistan. Another concern raised by member countries has been the imposition of non-tariff barriers by India. India can address these concerns by improving infrastructure for testing facilities, simplifying procedures and entering into equivalence agreements and mutual recognition agreements. The study suggests that very often non-tariff barriers are perceived due to lack of information regarding on each other's regulatory regimes, an issue that needs to be addressed.

Transaction costs of trading across borders continue to be high due to poor infrastructure, lack of automation and archaic transport protocols. Weak institutions restrict seamless transportation across land borders. The study suggests that improving infrastructure, amending transport protocols and modernising borders through increased automation are some measures that could help in increasing transparency and reducing transaction costs across borders.

The region has three landlocked countries- Bhutan, Afghanistan and Nepal. The region cannot be integrated unless countries grant transit rights to each other. Limited progress has been made on this issue, but the sub-region comprising of Northeast India, Bhutan and Nepal shows promise in the light of the recent measures that the members have taken. India can also take additional steps by laying down the roadmap for granting access to Nepal and Bhutan into the Pakistani market. With these measures, the risks of failed integration in South Asia would be greatly minimised.

India’s Role in Facilitating Trade under SAFTA

Nisha Taneja, Shravani Prakash and Pallavi Kalita

1. Introduction

India is the largest economy in the South Asian region accounting for more than 80 per cent of South Asia’s GDP. More than 90 per cent of the regional trade of Bangladesh, Nepal and Sri Lanka as well as a major part of their global trade is with India. Trade amongst the remaining South Asian countries is much smaller than India’s trade with any of its South Asian partners. Owing to its central geographical location in the region, India is also at the helm of all regional trade facilitation and transit issues. The pace and direction of economic integration in South Asia, therefore, is largely a function of India’s relations with the other economies of the region.

India strengthened its bilateral links with its neighbours by signing free trade agreements with Nepal, Bhutan and Sri Lanka and a preferential trade agreement with Afghanistan. In 2006, India, along with Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka, signed the South Asian Free Trade Agreement (SAFTA) under the aegis of the South Asian Association for Regional Co-operation or SAARC (Afghanistan was included as a member in 2007). The main element of the agreement was a reduction in tariffs by all members under a tariff liberalisation programme (TLP), except on items that are included in the Members’ sensitive lists. Members also agreed to the elimination of para-tariffs and non-tariff barriers and the adoption of trade facilitation measures to remove barriers to cross-border movement of goods.

In recent years, India has taken several measures, both bilaterally and under the ambit of SAFTA, to facilitate trade in the region. A number of initiatives been implemented to liberalise the tariff regimes facing imports from South Asia as well as to address non-tariff barriers and transport impediments. However Intra-SAARC trade, continues to be very low (at about 5 per cent of the region’s total trade), and India’s imports from rest of South Asia is less than 1% of its total imports. This is largely due to the high transaction costs incurred while moving goods across the borders in the region. The strained relations between India and Pakistan, the two largest economies in the region, have also prevented fruitful implementation of the major chunk of trade facilitating measures in the region. However, in a major breakthrough, Pakistan granted the Most Favoured Nation status to India in 2011, giving a new lease of life to India-Pakistan trade relations and to the SAFTA process. In this changed scenario, further efforts by India would benefit the regional trade integration process more than before. South Asian trade integration needs to be pursued with a greater degree of conviction as trade complementarities exist in both trade in goods and services (Das, 2009).

This paper examines India's role in the South Asian trade integration, the ground covered so far and the challenges that remain in the areas tariff liberalisation, non-tariff barriers, transport and connectivity and inter-country transit. It attempts to compile the plethora of bilateral and regional issues that have been documented extensively in the literature, including the authors' publications on these issues which were based on secondary data and information collected through primary surveys conducted in all the South Asian countries. Based on the analysis, the paper draws a roadmap to prioritise India's agenda for future regional integration.

2. Liberalisation of Tariffs under SAFTA and India's Bilateral FTAs

In line with SAFTA provisions, India offered tariff concessions separately to NLDCs and LDCs. India also maintained separate rules of origin and sensitive lists for theses two groups of countries. However, concessions offered to NLDCs are applicable only to Pakistan, since India has an FTA with Sri Lanka and any concessions applicable to LDCs are applicable only to Bangladesh, since it is the only LDC member under SAFTA with which India does not have an FTA. (Maldives is too small and accounts for only 0.1 per cent of the GDP of SAARC Member countries).

Thus, from India's standpoint, all tariff liberalization efforts with its SAARC members are done bilaterally. The negotiations with Sri Lanka, Nepal and Afghanistan take place under the respective bilateral trade arrangements. With Pakistan the tariff negotiations are done under SAFTA for NLDCs - and with Bangladesh these take place under SAFTA for LDCs. The following sections examine the tariff and sensitive lists that govern India's trade with each of its major trading partners in SAARC viz., Pakistan, Sri Lanka, Bangladesh and Nepal.

2.1 India Pakistan

Under the Tariff Liberalisation Programme (TLP) in SAFTA, India had committed to reduce tariffs to 20 per cent in the first two years and further to the 0-5 per cent range by 2013 for NLDC members. However, India's sensitive list for NLDCs continues to be quite large (reduced to 614 items from 868 items in 2006), especially when compared to that maintained by India for LDCs under SAFTA and under a bilateral trade agreement with Sri Lanka. Taneja *et. al* (2011) suggest a methodology to prune India's sensitive list. Several items on the sensitive list are not exported by Pakistan and are unlikely to be exported to India in the near future. These, therefore, should be eliminated. India also has several items on the sensitive list, which are no longer reserved for the small-scale sector and can now be manufactured by large firms. Hence, there is no rationale for keeping these items on the sensitive list. The items on the sensitive list should include only those items in which Pakistan is competitive in the international market and India is not as these are items where India is likely to face competition. The study used paired revealed comparative advantage (RCA) for items on India's sensitive list and identified those items where India's RCA is less than unity and Pakistan's is greater than unity for inclusion in the sensitive list. It indicated that India could prune its sensitive list to just 67 items. Of these items, 20 are textile products and readymade garments. India has allowed duty free access to all other South Asian countries in the region. India, therefore, should remove products in the textile sector from the sensitive list. The remaining items on the list include vegetable products, fish and natural honey, metal and mineral products and footwear items.

Bilaterally, India and Pakistan did not have normal trade relations for several years. Beginning with the period following the partition of India and Pakistan in 1947 until the formation of the World Trade Organization (WTO) in 1995, the two countries traded in a limited number of items. In 1996, India accorded MFN status to Pakistan. However, Pakistan continued to follow "the positive list approach" for imports from India although, since 2000, it had been gradually increasing the positive list. Even with the commencement of SAFTA in 2006, Pakistan did not grant MFN status to India. In the last few decades, the positive list approach has had several trade distorting effects, even though the list of items permissible to be imported from India was gradually increased from 600 items in 2000 to 1,934 in 2009. The positive list approach lacked transparency, created uncertainties for traders and led to high transaction costs. A separate positive list of only 14 items was designed specifically for trade between the two countries by the road route. A well-documented impact of the positive list approach was that it has led to massive informal trade flows, mostly in items excluded from the list. About 90 per cent of the informal trade is routed through third countries, mostly Dubai. Estimates suggest that informal trade was almost as large as formal trade but were unaccounted for, indicating a huge bilateral trade potential (Khan et.al, 2007)**.** Finally, Pakistan's federal cabinet decided to grant MFN status to India recently in November 2011. In March 2012, Pakistan moved to a negative list with 1,209 items that cannot be traded with India and is expected phase to out the list to formally accord the MFN status to India (Government of Pakistan, 2012 and Government of India 2011).

2.2 India -Bangladesh

Under SAFTA, India committed to reduce its tariffs to 20% for LDCs in two years after the commencement of SAFTA and in the second phase a reduction to 0-5% had to be done in the next five years. India removed all duties for LDCs in December 2007, ahead of the time stipulated under the tariff liberalisation programme for NLDCs. Another significant measure taken by India was the removal of specific duties. In December 2007, specific duties were brought down to zero for SAARC LDCs[1].

Tremendous progress has been made on tariff concessions offered to LDCs by India under SAFTA to allow them increased market access to the Indian market. Bangladesh has been the biggest beneficiary of the reduction in India's sensitive list from 744 items in 2006 to the current list of 25 items. The original sensitive list had included 158 apparel products, which form the major part of Bangladesh's global exports. To give greater benefits to Bangladesh's textile exports, in 2008, India introduced the provision of allowing 164 textile items from Bangladesh to enter its market at zero duty up to a limit of 8 million pieces per year. This was done ahead of the concessions that India offered to all LDCs in October 2008 and meant that the operational LDC sensitive list for Bangladesh excluded all textile products making it much smaller than the official number of 480 items. The limit was increased further to 10 million pieces in April 2011. The agreement required the garment products to be exported by December 31 every year to meet the target. Bangladesh further benefitted when, following Prime Minister Manmohan Singh's visit to Dhaka, 61 items on India's sensitive list for LDCs were allowed duty free access without any quota restrictions, including 46 items from the textiles category (Taneja and Kaushal, 2011). This effectively meant that India removed all 46 lines, which were of interest to Bangladesh, from India's Negative List for LDCs, reducing the applicable duty rate to zero without any quota restrictions. In November 2011, India reduced the sensitive list for LDC countries to just 25 items (tobacco and alcohol), with zero tariffs on all remaining items (Government of India 2011c).

2.3 India-Nepal

Indo-Nepal economic relations have been governed by the bilateral treaties of Trade and Transit and Agreement for Co-operation to Control Unauthorised Trade signed in 1971, 1978, 1996, 2002 and 2009. The rules of origin criteria have played an important role in determining the course of India Nepal trade. The 1971 treaty allowed duty-free access to items manufactured in Nepal provided they used 90 per cent Nepalese/Indian material content for export to India. This requirement was

[1] A significant measure undertaken by India was the reduction in specific duties on 248 items (mainly textile fabric and readymade garments) for all imports entering the market. India is the only country in SAARC that imposes specific duties. The duties are compound, i.e., the higher of an amount calculated using ad valorem rate or the specific amount. They drew immense criticism from all SAARC member countries. In July 2008, these duties were removed for NLDCs.[1] Removal of specific duties is an exclusive privilege that India has offered only to SAARC countries to improve their market access into India.

subsequently reduced to 50 per cent in 1993. The Indo-Nepal trade treaty of 1996 was a landmark in Indo-Nepal bilateral trade, as India provided duty-free access to all products manufactured in Nepal on the basis of a certificate of origin issued by the Nepali authorities with no minimum requirement of domestic value addition. Only three products were on the sensitive list- namely, alcoholic liqueurs, perfumes and cosmetics and cigarettes and tobacco. The 2002 treaty re-introduced the value addition norm of 30 per cent with an additional requirement of a change in classification at the four-digit level of the Harmonised Commodities Description and Coding System to qualify for preferential access to the Indian market. A tariff rate quota was imposed on four items i.e., vegetable ghee, acrylic yarn, copper products and zinc oxide, under which duty-free access was allowed only up to a specified limit. In the 2009 treaty, the tariff rate quota for copper products was increased by 2,500 metric tons.

The most liberal trade agreement between the two countries was agreed upon in 1996, when no value added criteria were required for Nepalese products to qualify for tariff concessions on entry in the Indian market. During 1995-96 and 2001-02 there was a surge in imports from Nepal which was accounted for by four major products, viz., vegetable ghee, copper products, acrylic yarn and zinc oxide. The main raw material required for these products were palm oil for vegetable ghee, copper scrap for copper products, acrylic fibre for acrylic yarn, and zinc ingots for zinc oxide. Nepal's trade with India in these products thrived because it was able to benefit from (i) the low duties that Nepal imposed on raw material import compared to the prevailing tariffs on raw materials in India and (ii) zero tariffs offered on all products imported from Nepal by India under the Indo-Nepal Free Trade Agreement. However, India reduced duties steadily on these imports from all countries as part of its reform process. As a result, the gains for Nepal from tariff arbitrage diminished over time and exports of these items also declined. In fact, Nepal's utilization of the quotas on these products remained largely unutilized. (Taneja et. al, 2011).

2.4 India- Sri Lanka

India and Sri Lanka signed an FTA in 2000, six years ahead of the signing of SAFTA. The India-Sri Lanka FTA stipulated that India reduced tariffs to zero in a period of 3 years and Sri Lanka in 8 years. India, however, imposed a tariff quota on garments (8 million pieces) and tea (15 million kg) and specified ports of entry for these items to qualify for preferential tariffs. India also added the condition that for Sri Lanka would have to source fabric for 6 of the 8 million pieces of apparel articles from India to qualify for preferential tariff.

In some cases, Sri Lankan exporters found it difficult to meet the rules of origin criteria. The Rules of Origin (ROO) requirement of a 35 per cent local value addition for blended tea and a 25 per cent local value addition for blended tea with Indian tea were very restrictive. As a result, less than one per cent of Ceylon tea entered the Indian market, amounting to a mere 2.7 per cent utilisation of Sri Lanka's quota limit under the FTA. (Deshal de Mel, 2010). Tea exports also suffered because of port restrictions. The removal of sourcing requirement in 2008 and the removal of port restrictions in 2007 have played a vital role in increasing exports of readymade garments to India.

One of the most contentious issues raised by Sri Lanka has been the large sensitive lists maintained by India. India's sensitive list under ISLFTA consists of 431 items. In 2008, India allowed duty free import of 216 garment items up to a limit of 8 million pieces in the bilateral sensitive list, thereby reducing the operational sensitive list to 215 items.

Even though the ISLFTA does not have any provision for reducing the sensitive lists, given India's asymmetric size in the region, it should consider rationalising its sensitive list. Taneja *et. al.* 2011, suggest that only those items in which Sri Lanka is competitive in the international market and India is not, should be on the sensitive list as these are items where India is likely to face competition. Based on these criteria, only 9 items should be retained on the sensitive list.[2] These include coconut, paper and seven items made of rubber.

3. Non-Tariff Barriers

In addition to tariffs, the SAFTA agreement contains provisions to address non-tariff, para-tariff and direct trade measures. Under the aegis of SAFTA, a Committee of Experts (COE) was formed to monitor, review and facilitate implementation of the agreement. Under the COE, a sub-group looks into problems related to non-tariff measures (NTMs) and para-tariff measures (PTMs) faced by member countries while entering into each other's territory. Under this committee, Pakistan, Bangladesh and Nepal notified 50 NTMs/PTMs that they faced in accessing the Indian market. Pakistan notified the maximum number of NTMs/PTMs (31), while Bangladesh and Nepal notified 14 each. The notified NTMs relate to TBT and SPS measures, cumbersome procedures, licenses and quotas, para tariff measures, infrastructure constraints, interstate movement of goods and other NTMs (related to valuation, trading through state enterprises and anti-dumping measures).

An analysis of the NTMs notified against India shows that some of these NTMs did not pose any barrier to entry as they are applicable to both imports and to domestically manufactured goods, and hence in accordance with the principle of

[2] The study uses paired RCAs for items on India's sensitive list and identified those items where India's RCA is less than 1 and Sri Lanka's greater than 1 for inclusion in the sensitive list.

national treatment. There are also some other measures where India has already initiated corrective action but perhaps information on such action had not yet been made available to other countries. For instance, Pakistan and Bangladesh notified that a labelling requirement under the Jute and Jute Textiles Control Order of 2000, which stipulated that each and every imported jute bag must give the 'Country of Origin' on the bag, discouraged imports as bags carrying such labelling could not be used for packing goods made in India as the label would appear to suggest that the goods contained in the bag, were made in Bangladesh. The marking requirement was amended in 2002 and directed every jute bag to be marked/printed/branded "Bag made in - Country of Origin". However, despite this amendment, Pakistan and Bangladesh had notified that the control order of 2000 was a barrier for exporters (Taneja *et.al.,* 2011c). Similarly, amendments of clauses in the Indian Customs Act relating to valuation that were inconsistent with GATT Article VII were made in 2007, yet Pakistan notified this measure as a barrier to the COE indicating a lack of awareness about the amended act.

Only 19 of the notified 50 NTMs were found to impose trade barriers. These included some TBT and SPS measures whose implementation involves cumbersome procedures, either because of involvement of multiple agencies or due to excessive formalities that increase the time and cost of trading considerably. Some TBT and SPS requirements pose as barriers due to inadequate testing facilities at ports that often lead to delays and additional costs because samples have to be sent to distant locations for testing. The absence of testing facilities at the Indian border results in consignments being held up for several days at the borders. It has also often been observed that different customs locations apply different rules to Nepalese exports to India, thereby creating uncertainty. Customs authorities reportedly create unnecessary hassles for exporters and importers while clearing goods at the Kolkata port or at the land customs station.

In other cases, Indian authorities do not accept pre-shipment test certificates from the exporting country, which again leads to delays and additional costs. For instance, India does not recognise/accept test reports from Nepalese certifying authorities in the case of agricultural and animal-related products and pharmaceutical products. Obtaining quarantine certification for agricultural items is cumbersome. Exporters of medicinal and herbal products also face similar problems, since in the case of pharmaceutical products a Certificate of Analysis (CoA) is required to be produced for every consignment, product and batch. This adds to the time and cost of transactions. It is for this reason that no pharmaceutical products are exported by Nepal to India, despite the trade potential.

Some Labelling requirements have also been notified as barriers. Pakistan and Bangladesh notified that in the case of pre-packaged products such as processed foods, cosmetics, toiletries, spices, etc., Rule 32 of the Prevention for Food Adulteration Act (PFA) pertaining to labelling requirements is complex and detailed. A labelling measure requiring processed food items to have a shelf life of at least 60 per cent of original shelf life at the time of import qualifies as a barrier since it violates the principle of national treatment. This is because there is no such stipulation for domestic goods, which only require the date of expiry to be mentioned on the processed food items.

Trade also gets restricted due to regulations that lack transparency. Regulations related to woollen and other textiles and jute products have not been notified to the WTO, thus creating information asymmetries for trading partners. In the case of woollen textiles, the regulation lacks clarity on the requirement of a "brand owner" certificate which can be applied arbitrarily as it is open to interpretation. Import permits required for poultry, dairy products and meat was reported to be very time consuming. Pakistan and Bangladesh notified that the process of pest risk analysis required for exporting agricultural products to India was complex and non-transparent. A detailed examination of the PRA process revealed that the process of obtaining a PRA is clearly laid down in the Plant Quarantine Order, 2003, and is available on the Ministry of Agriculture website. However, it is conducted only when a request for a PRA is made either by an importer in India or an exporter in the exporting country to the Plant Protection Quarantine Department in India. The problems may have arisen due to lack of information on the process or due to its time consuming nature.

4. Transport

Transaction costs of trading in South Asia continue to be high primarily because of poor connectivity across borders by land, which is the cheapest mode of transporting goods. Surface transport networks in South Asia continue to remain fragmented even though the basic infrastructure and facilities to establish mutually beneficial intra- and inter-regional transport linkages already exist in many countries. Land connectivity by road and rail are poor, imposing significant barriers to trade in terms of added time and cost. These problems are accentuated by poor sea connectivity for intra-SAARC trade.

4.1 Road Transport

Road transport is the most dominant mode of transport for India -Nepal and India-Bangladesh trade and is growing in importance for India-Pakistan trade as this road route was opened to bilateral trade only in 2005. Despite the importance of this mode of transport, it continues to be underdeveloped due to impediments related to infrastructure and ineffective protocols. Basic infrastructure such as warehousing, parking, scanners, weighbridges, testing laboratories and other border facilities are inadequate and in poor condition. This leads to considerable damage to goods due to long delays in queues, exposure to extreme weather, pilferage etc. There are multiple agencies involved with no single agency responsible to ensure the co-ordinated functioning of various government authorities/service providers. The access roads leading to the border points are also poorly maintained, narrow and below the capacity needed to handle international traffic. (World Bank 2008, ADB 2006, Taneja 2006, Taneja 2007, Sikri, 2009, Prakash and Taneja, 2010)

The numbers of road routes that have been opened up for trade are also limited. For instance, there is only one road route through Attari/Wagah for India-Pakistan trade(Customs Notification No. 63/94-Cus. (N.T.)). Further, only a limited number of goods are allowed to be traded between India and Pakistan. Pakistan permitted only 14 items to be imported from India by the road route. By 2012 this was increased to 137 items (Government of Pakistan, 2012). At all the road borders, the border gates are common for trucks carrying both exported and imported goods as well as passenger cars and pedestrian movement; causing major congestion at the gates.

A major concern for the region is that customs procedures at land ports remain far less efficient than at seaports. An electronic data interchange (EDI) system has been installed only at Petrapole at the India-Bangladesh border and at Raxaul at the Indo-Nepal border; however, it does not function properly and manual processing is still required. Congestion is also because of physical checking of every truck due to security concerns at India's sensitive land borders, especially at the India-Bangladesh and India-Pakistan border.

Another limitation is the necessary transhipment of goods at the borders since Indian trucks cannot move into the neighbouring country's territory and vice-versa. This is mainly due to the absence of road transport agreements for through-movement of goods across borders and restrictions on the size of trucks that move in neighbouring countries. This not only adds to time and cost, but also leads to a higher incidence of and pilferage. India-Nepal is the only border where trucks of one country are allowed to cross the border and operate in the other as per the bilateral treaty. However, it has been observed that trucks still do not cross the border, and in fact, goods continue to be transhipped at the border (Pohit, 2011). At the Bangladesh border, Indian goods have to be transhipped twice. The goods coming from states outside West Bengal are offloaded and loaded onto local trucks at Bongaon which is 5 kilometers from the border. (Pal, 2011). The second transhipment occurs across the border when one country's trucks offload goods and load them on to the other country's trucks.

Further, no containerised trucks are allowed to move across the borders, posing a major limitation to cost-efficient movement of goods across borders. There is no container movement by land, because of which all commodities requiring containerised shipment have to move by sea. Since there is no direct sailing between Kolkata and Chittagong, containerized cargo has to be shipped via Colombo to Indian ports. This significantly adds to transaction costs. Thus, there is a very strong case for opening up land routes for container movement to reduce transaction costs and delivery times.

A number of measures have been initiated by all countries to address the situation of inadequate infrastructure for cross border movement of persons, vehicles and goods. One major step has been taken in synchronizing working hours at both sides of the border on the India-Bangladesh, India-Nepal and India-Pakistan border. The Indian Government initiated the setting up of 13 integrated check posts (ICPs) at identified entry points on the international land borders to provide integrated services for road transport with dedicated passenger and cargo terminals and other facilities in a single complex (Government of India, 2011a). The ICP at Attari/Wagah on the India - Pakistan border became operational in April 2012 (Government of India, 2011b). However, a field visit to the facility showed that it is already running at full capacity since the expansion in trade by the road route to such an extent was not envisaged.

4.2 Rail Transport

Among surface transport modes, railway has great potential as a mode of surface transport for long distance freight and passenger traffic movement across South Asia. However, it is not the preferred mode of transporting goods across borders in the region due to a number of barriers that override its cost-effectiveness. Rail movement is constrained by technical problems and the absence of a regional agreement for direct intra-regional movement.

Only limited rail routes are currently operational for cross-border trade, and on these also, preference is given to passenger train movement (Arnold, 2010) especially on the India-Pakistan and India Bangladesh routes. This is largely because of the differences in gauges of tracks and braking systems on the two sides of the border and restrictions on the types of wagons that can move. For instance, Indian Railway wagons are longer and heavier than Bangladesh Railway wagons and therefore the trains have to be reconfigured at the border (World Bank, 2008). On the other hand, Indian Railways and Pakistan Railways have the same broad gauge railways, but due to problems in the wagon balancing systems, and inadequate infrastructure facilities at the rail cargo station, only Pakistani Railways is carrying cargo between Amritsar and Lahore. Restrictions on the types of wagons further create restrictions on the types of commodities that can move by rail along bilateral routes. The quality of rolling stock used for cross-border trade is poor as wagons, locomotives; coaches etc are antiquated and poorly maintained. As in the case of road transportation, there is no containerized rail movement of goods, except between Birgunj and Kolkata where regularized containerized rail traffic is operational but caters mostly to third country trade.

There are also differences in operating standards between Indian railways and railways of other countries. Timings for rail movement are limited as night navigation is not allowed across borders.

Apart from these, rail cargo movement is constrained by a the lack of multimodal linkages of road with railways, and the lack of efficient and cheap transshipment facilities between rail hubs and seaports in some cases (Roy and Banerjee, 2010)

India and Bangladesh have taken steps to improve rail connectivity. In the January 2010 India-Bangladesh Joint Communiqué, both countries agreed to allow for containerised cargo movement by rail to encourage bilateral trade. However, almost three years after the signing of the agreement this facility is still not available.

4.3 Sea Transport

Sea transport is considered the most well developed mode of transporting goods from India and maximum reforms have taken place at sea ports. However, there continue to be a number of inefficiencies in using the sea route for trade within South Asia. There are capacity constraints at many of the ports, together with heavy siltation at channels where depths fluctuate with tides. Physical barriers include old and poorly maintained cargo and ship-handling equipment, old floating craft, poor road and rail connectivity and a lack of roro ferry vessels and passenger handling facilities at Cochin and Tuticorin (ADB, 2006).

Draught constraints limit the accessibility of large ships at Indian ports, due to which main line and deep-sea container ships currently call only at Colombo, which serves as the transhipment hub. Chittagong Port is the major seaport in Bangladesh. But there are no direct vessels between Haldia and Chittagong. As a result, most sea trade between India and Bangladesh also takes place through Colombo. This circuitous route increases costs considerably.

The biggest reform in sea transport has been between India and Pakistan, both of which had followed a very restrictive maritime protocol since 1975. The protocol was revised in 2005, allowing third country vessels to lift cargo originating from India or Pakistan for other countries. This amendment also allowed Indian and Pakistani vessels to lift cargo destined to a third country from the ports of either country, bringing it on par with global maritime arrangements (Taneja and Kalita, 2011c).

Customs clearance at seaports is much more efficient and automated than at land ports, with EDI available at all ports. However, operational efficiency and intermodal connectivity need to be improved.

5. Transit

Trading goods across borders is severely restricted also by the lack of transit agreements that would allow seamless movement of goods across the region. Transit is a major issue between Bangladesh, Nepal, Bhutan and India's northeast states. India does not have access to its northeast states through Bangladesh. While transit protocols exist to permit movement of goods between Bangladesh and Nepal, for goods to move between the Kakarvita-Panitanki border point at the Nepal-India border and the Phulbari-Banglabandh border point at the India-Bangladesh border, transhipment of trucks has to be done twice (Rahmatullah, 2011). There is some amount of bilateral cargo traffic through the inland water transport (IWT) route. There is an Inland Water Transit and Trade Protocol between India and Bangladesh, under which inland vessels of one country can transit on specified routes through the other country. The protocol was first signed in 1972 and it is being renewed after every two years. For inter-country trade, four ports of call have been designated in each country – Haldia, Kolkata, Pandu and Karimganj in India and Narayanganj, Khulna, Mongla and Sirajganj in Bangladesh.

In the January 2010 India-Bangladesh Joint Communiqué, both countries agreed that trucks carrying goods from Bhutan and Nepal be allowed to enter about 200 meters into Zero Point at Banglabandh at Banglabandh-Phulbari land customs station. To facilitate development of regional connectivity, Bangladesh and India agreed to allow the use of Mongla and Chittagong seaports by Nepal, Bhutan, and India. The two countries also agreed that the Rohanpur/Singabad-Kathihar-Rauxal-Brigunj broad gauge rail link would be available for transit traffic between Nepal and Mongla Port and that the Akhaura-Agartala rail link would be reconstructed. Ashuganj was also designated as a new 'port of call' and transhipment port for onward movement of container/cargo to Agartala by road. Besides, the two countries agreed to allow bilateral trade to be carried in containers through rail and water transport (WT) routes (Taneja and Kalita, 2011a).

India and Nepal on the other hand, have a transit treaty in place since 1950. For a land-locked country like Nepal, India is of crucial importance as its nearest seaport is through India. Accordingly, after the first treaty was signed in 1950, it has been renewed periodically. The latest transit treaty between the two countries was signed in 2009, which increased the number of transit points to 27. Efforts have been made to simplify procedures for the transit of Nepalese import and export cargo and to expand the number of transit points to facilitate Nepal's trade with India and third countries through Indian Territory.

Along with the transit treaties, India and Nepal have signed agreements to control unauthorised trade. India's concern has always been about the possible diversion of transit goods into the Indian market. During the 1980s and early 1990s, transit goods were deflected into the Indian market. Tariff differentials between Nepal and India were high, making it profitable to sell third country goods in India. Sensitive goods have been subject to special provisions to control the unauthorised trade of transit goods. Several transit procedures were designed to check smuggling of transit goods into India. Currently, the import of sensitive items into India is permitted only though the land customs stations (LCS) at Kakarbhitta/Naxalbari, Biratnagar/Jogbani, Birganj/Raxaul, Bhairahawa/Nautanwa, Nepalgunj/Nepalgunj Road and Mahendranagar/ Banbasa.

Despite various transit treaties being in place, there is no free flow of goods from Nepal. Cumbersome custom procedures as well as poor transit route for Nepal to Bangladesh through Indian territory has hindered the free movement of goods. The density of traffic at the "Kakarvita (Nepal)-Panitanki (India)-Fulbari (India)-Banglabandha (Bangladesh)" corridor is very low. Appropriate steps need to be taken so that Nepalese trucks and Bangladesh trucks can move through Indian Territory without trans-shipment.

Pakistan has not given any transit rights to India to access the Afghanistan market for its exports. India has used the road route through Wagah for importing goods from Afghanistan since 1948, but not for exports. Pakistan has signed a transit treaty with Afghanistan, which is a landlocked country. Until recently, Afghan transit goods in Pakistan were transferred under the Afghan Transit Trade Agreement (ATTA) signed by the two countries in 1965. In July 2010, Afghanistan and Pakistan signed an amended transit trade agreement, the Afghanistan-Pakistan Transit-Trade Agreement (APTTA), which improves the joint transit system to reflect current economic conditions, infrastructure, technology, and transport practices. The new transit regime provides for an increased number of transport routes available to trucks from Pakistan and Afghanistan, lowering the cost of imports and making exports more competitive in the global market. However, the APTTA does not allow India's exports to Afghanistan through Pakistan via the land route.

6. Prioritising India's Agenda for Future Regional Trade Integration

India can take several steps to enhance the pace of regional trade integration in South Asia. It has taken a series of trade integration measures since 2007 and it is important to keep the momentum by undertaking the remaining measures in a time bound manner.

The progress on tariff reduction by India has been ahead of what had been envisaged under SAFTA. Going forward, India should offer deeper tariff concessions to NLDCs to an extent that Pakistan gets the same tariff concessions are Sri Lanka. In addition, India's sensitive lists for NLDCs should also be pruned so that Pakistan gets greater duty free concessions. If the timelines laid down by Pakistan and India to normalise trade relations are met, then the pace of tariff liberalisation will be enhanced considerably.

To address the various non-tariff barriers, it is important to ensure that regulatory regimes are transparent. One way of doing this is for all member countries to notify non-tariff measures to the WTO. Making available trade-related information through the electronic media is another measure that could reduce information asymmetries. India and Pakistan have adopted a unique and simple method to create awareness amongst the Pakistani government officials and businesspersons about their regulatory regimes. The two countries have arranged business-to-business and government-to-business interactions to address information gaps on regulatory regimes. This has served not only as a powerful confidence building measure but also as an effective way to facilitate further trade. Such an initiative could be adopted for other countries as well.

In order to address TBT and SPS measures, India has actively engaged in capacity building with Nepal and Bangladesh. The measures include assessment of laboratories for export testing; supporting officials to develop certification systems; development of residue monitoring plans (RMP) and establishing a national accreditation system. It is essential that this process of capacity building should be completed within a stipulated timeframe. India should also simplify further its import procedures to help reduce transaction costs. In order to address the issue of non-acceptance of testing and certification, India should enter into Equivalence Arrangements and Mutual Recognition Agreements with its trading partners. Further, testing facilities should be made available at land borders so that consignments do not have to be sent to far off places for testing. To reduce the complexity of procedures, India should review and simplify cumbersome procedures for all products, especially food and agricultural products; processed foods and pharmaceutical products.

Providing transit to landlocked countries has remained a major concern for the region, although several steps have been initiated to address the issue since 2010. The revised Afghanistan-Pakistan transit treaty will open up several additional transit corridors in Afghanistan and Pakistan that will link Pakistan to the Central Asian countries. If Bhutan, India and Nepal are able to formulate and implement transit arrangements as effectively as Afghanistan and Pakistan, then Bhutan and Nepal’s dependence on India alone would be greatly reduced and the ground would be laid for a transit arrangement at a regional level. The regional agreement will eventually connect Nepal and Bhutan to Pakistan through the Indian Territory; and Afghanistan to Nepal and Bhutan through Pakistan and India.

Removing rigidities, which have existed for decades at the borders, to enable the movement of goods across at lower cost is part of the unfinished South Asia trade facilitation agenda. There are important lessons that can be learnt from recent experiences. India has the most liberal road transport protocol with Nepal whereby trucks are allowed to move in each other's territory. Yet, studies have shown that transhipment at the India-Nepal land border continues to take place because of weak institutions that have inhibited the effective implementation of these protocols. On the other hand, the India Pakistan road route had been the most restrictive since it was opened up recently in 2005 after more than six decades and that too only for a limited number of items. What is noteworthy is that despite having been closed and restricted for a long period, opening up of the road route did not encounter any resistance, indicating that that the institutional framework supporting trade between the two countries is strong enough to counter lobbyists and interest groups that may have opposed this change. It is therefore important for countries to strengthen border institutions so that trade facilitation measures can be adopted effectively. Apart from reforming bilateral trading arrangements, India needs to address domestic issues as well, especially at the Bangladesh border where transhipment of goods is done twice.

Modernising land borders is an important step that could make borders more efficient. The setting up of ICPs is a positive step in this direction. Use of information technology in all trade procedures is perhaps the first step that countries should make. An inherent weakness of land borders is that the official charges are almost negligible. In comparison, seaport charges are several times higher than those at land ports. But the services provided at seaports are also commensurate with these charges. South Asian countries should collectively strive to make land ports as efficient as seaports. The modernisation of land ports should be completed within a targeted period of three to five years.

Trade through all modes should be opened up so that there are enough options available to traders in both countries. However, to begin with, one major multimodal route can be planned such that at least one major seaport in each of the countries is connected through the land route. For instance, a containerised rail service could be made available between the JNPT port in Mumbai and the seaport at Chittagong. This would not only link the two countries with each other but would also ensure seamless multimodal transportation of goods between the two countries and the rest of the world.

Customs is one area where the most progress has been made in all South Asian countries. However, customs efficiency is still far below potential and addressing this should be accorded high priority. A fair amount of automation has taken place in India with the introduction of the EDI system. However, automation in India and other neighbouring countries has not resulted in streamlining bilateral trade. A significant step that can be taken to increase the efficiency of customs inspection at the land borders would be increased co-operation between customs authorities on both sides of borders and the establishment of one-stop, joint inspection facilities that would eliminate duplication of processes.

7. Concluding Remarks

The progress in implementing trade enhancing measures in the last two years, particularly with respect to India's trade with Pakistan and Bangladesh, is unprecedented. It is unlikely that this process will be reversed. India's trade with Pakistan has been on a different footing since 2004. Despite politically sensitive events such as the Samjhauta Express blasts in 2007 and the Mumbai terror attacks in 2008, the two countries adopted a series of trade facilitation measures such as the expansion of the positive list, revising the maritime protocol and opening a road route. Similarly, a series of measures were implemented successfully to enhance trade with Bangladesh. With these developments, the risks of failed integration in South Asia have been greatly minimised.

Improved connectivity holds the key to successful integration of trade in goods; however, this will require large investments. While it was extremely important for governments to agree to change the transport and transit protocols, building infrastructure would require financial resources. Member countries would need to think collectively to raise these resources. Otherwise, connectivity in the region may have a setback.

Other challenges include institutional reform at the borders. Since land borders have been rigid for several decades, vested interests, who are likely to resist change, have developed have developed. It is important to identify and adopt strategies to deal with such forces.

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