Trade Consignment Mapping in South Asia
A Study of Three SAARC Corridors
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Published by

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

With the support of

The Asia Foundation

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First published: February 2015

This document has been produced with the financial assistance of the The Asia Foundation under a project entitled “Trade Consignment Mapping for Better Regional Connectivity in South Asia”. The views expressed here are those of CUTS International and can therefore in no way be taken to reflect the positions of the The Asia Foundation.


Printed in India by Jaipur Printers Private Limited, Jaipur

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Acknowledgment

This publication is the effort and hard work of several individuals. A diverse set of stakeholders representing different interests and having deep interest in issues of regional economic cooperation in South Asia have contributed to this work. They were connected through untiring efforts and have helped greatly in shaping up the project and its publication. We hereby acknowledge their valuable inputs and wholeheartedly thank them for extending a helping hand.

First of all, we express our deep gratitude and appreciation to The Asia Foundation for its extensive support and involvement in this project. Special thanks are due to Mandakini D Surie and Sagar Prasai of The Asia Foundation.

The study also benefited from the assistance extended by our partner organisations from other South Asian countries. They conducted sectoral case studies, organised local meetings, facilitated media briefs and reviewed the technical content of the study. I also take this opportunity to thank them for sharing our passion for policy reforms in South Asia that benefits the people at large and for partnering with us in a strategic manner towards the realisation of the goal. They are:
• Unnayan Shamannay, Bangladesh
• South Asia Watch on Trade, Economics and Environment, Nepal
• Sustainable Development Policy Institute, Pakistan

Many subject experts and noted policy champions have made valuable suggestions to improve the content of this study. I thank all of them. They are:
• Anil Kanungo, Associate Professor, Indian Institute of Foreign Trade
• Arpit Bhutani, Consultant, United Nations Forum on Sustainability Standards, United Nations Conference on Trade and Development
• Ashish Narain, Senior Operations Officer, The World Bank Group
• D James, Deputy Secretary, Ministry of Road Transport & Highways, Govt. of India
• Dayaratna Silva, Deputy Head, Sub-regional Office for South and South-West Asia, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)
• Debasish Dutta, Chairman, Federation of Freight Forwarders’ Association in India
• Dil Maya Rai, Principal Consultant, InfoAge Consulting, Bhutan
• Diya Dutta, Centre for Policy Research, New Delhi
• Dr Arijit Das, Research Associate, The Energy and Resources Institute (TERI)
• Dr Vinayak Kant Mishra, Avalon Global Research
• Dr Vaqar Ahmad, Deputy Executive Director, Sustainable Development Policy Institute (SDPI)
• Durgesh Buxy, Deputy General Manager, Raymond India Ltd
• Hosna Ferdous Sumi, Associate Operations Officer, Trade & Competitiveness, The World Bank Group
• Joseph George, Consultant, United Nations Economic and Social Commission for Asia and the Pacific, South and South West Asia Office
• KM Zaman, Senior Director, Federation of Bangladesh Chambers of Commerce & Industry & Chairman, Management Coordination Committee, Bangladesh Garments Manufacturers & Exporters Association
• Majyd Aziz, former President, Karachi Chamber of Commerce and Industry
• Manas Bhattacharya, Senior Consultant, ESCAP – SSWA
• Manmeet Singh Ajmani, Research Assistant, Research and Information System for Developing Countries (RIS)
• Manzur Ahmed, Advisor FBCCI, Dhaka
• Md. Mofidul Islam, Director, Bangladesh Land Port Authority & Joint Secretary to the Government of Bangladesh
• Md. Mozibur Rahman, Chief Executive Officer, Bangladesh Foreign Trade
• Md. Nazrul Islam, Chairman, Bangladesh Road Transport Authority
• Md. Zafar Sadique, Senior Research Associate, Centre for Policy Dialogue of Bangladesh
• Mohini Datt, Consultant, Regional Integration, South Asia Region, World Bank
• Pema Wangchen, Joint Commissioner, Liaison & Transit Office, Royal Bhutan Customs Office, Kolkata
• Pradeep Kumar Shrestha, Managing Director, Panchakanya Group, Panchakanya Bhawan, Pulchowk
• Pritam Banerjee, Ph.D, Senior Director, Corporate Public Policy (South Asia), Deutsche Post DHL
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• Rana Hamza, Research Analyst, Sustainable Development Policy Institute (SDPI)
• Rehmatullah Javed, Chairman, Grand Group-Pakistan, SME National Committee-FPCCI, SAARC Business Promotion Committee-LCCI, Vice Chairman, Trade Facilitation Council – SAARC
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• S P Rao, Consultant, CUTS International
• Saad Shabbir, Research Analyst, Sustainable Development Policy Institute
• Saswata Chaudhury, Associate Fellow, The Energy and Resources Institute (TERI)
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• Shahabuddin Mohammad, Secretary General, Federation of Bangladesh Chambers of Commerce & Industry
• Shaheen ul Alam, Project Coordinator, Unnayan Shamannay, Bangladesh
• Somi Hazari, Managing Director, Shosova Group of companies, Board Member, Southern India Chamber of Commerce and Industry & former President, India ASEAN, Sri Lanka Chamber of Commerce & Industry
• Sudeep Bajracharya, Programme Officer, South Asia Watch on Trade, Economics and Environment, Nepal
• Sunil Mitra, Former Revenue Secretary of India
• TA Khan, Controller of Certifying Authorities, Department of Electronics and Information Technology (DEIT), Government of India
• Y S Shahrawat, Chairman, Land Ports Authority of India
• Zahid Hossain, Director, Bangladesh Freight Forwarders Association

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I also thank all the participants of stakeholder consultation meetings and public private dialogues organised in Bangladesh, Nepal and Pakistan. We are extremely grateful for the enthusiastic support and knowledge sharing by participants of our Inception meeting which was held on February 21, 2014, New Delhi and also our media partners Daily Star and The Independent, Bangladesh.

I thank my colleagues at CUTS Centre for international Trade, Economics & Environment and especially the regional economic cooperation group team successfully led by Surendar Singh.

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

Many of other names deserve special mention but could not be mentioned here as they prefer anonymity. I thank them all for their support.

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

CUTS Centre for International Trade, Economics & Environment
Abbreviations

ACU  Asian Clearing Union
ASEAN  Association of Southeast Asian Nations
ATC  Agreement on Textiles and Clothing

CFS  Container Freight Stations
C&F  Carrying & forwarding agents
CTD  Customs Transit Document
CVD  Countervailing Duty

EDI  Electronic Data Interchange
FDI  Foreign Direct Investment
GI  Galvanised Iron
GPS  Global Positioning System

ICD  Inland Container Depots
ICP  Integrated Check Post

LCSs  Land Customs Stations
LDCs  Least Developed Countries

NAFTA  North American Free Trade Agreement
NBP  National Bank of Pakistan
NLDCs  Non-Least Developed Countries
NTBs  Non-Tariff Barriers

OECD  Organisation for Economic Co-operation and Development

PFA  Prevention of Food Adulteration
PNB  Punjab National Bank

RBI  Reserve Bank of India

SAARC  South Asian Association for Regional Cooperation
SAD  Special Additional Duty
SAFTA  South Asian Free Trade Area
SBI  State Bank of India
SBP  State Bank of Pakistan
SPS  Sanitary and Phyto-sanitary
WTO  World Trade Organisation
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Venugopal holds a master’s degree in Economics with specialisation in International Trade. His area of interest includes political economy of trade and regional trade agreements. He was engaged in CUTS International as a Research Assistant. Presently, he is aspiring for further studies.
The top most important trend affecting business decisions today stems from the increased pricing pressure for anything that appears to be a commodity. This means entrepreneurs have to do three things: figure out where to buy the cheapest inputs, find out where to get them manufactured at the cheapest cost and think of how to deliver the commodity more cheaply than others. At the core of this quest lies the need for an efficient global supply chain management system. Efficiency in moving commodities across borders needs quality transport systems, matching border infrastructure, full information on regulatory requirements and capacity for storage. South Asia lags behind all other regions in these areas with predictable consequences for regional trade.

Governments in the South Asian region have to take much initiative to help economies breakout from the prevailing vicious circle of inefficiency in regional cross-border supply chain management. There is no denying the absence of quality in land ports, highways, & warehouses. Despite the favourable geography for rail connectivity, rail links are deficient and where they do exist, they are underutilised. The absence of container traffic over road or rail, is one example of regulatory lethargy amongst South Asian countries towards efficient regional integration.

Harnessing the economic potential of South Asia requires channelling resources into infrastructure and building a conducive regulatory environment to govern intra-regional trade. Since financial resources are scarce, there is a compelling need to prioritise investments into select corridors which hold most promise. At the same time, there is need to build a regulatory environment which encourages trade and takes us towards economies of scale in the selected corridors. Towards this end, the most important enabling move comes by way of the proposed SAARC cross-border Motor Vehicles Agreement. This agreement has the potential for enabling a tectonic shift for intra-regional trade and customs regulations. Despite the lack of success in SAARC Summit in Kathmandu (November 2014), it is heartening to note that the transport secretaries of Bangladesh, Bhutan, India, Nepal (BBIN countries) met in February 2015 and were able to agree to a text and recommend it to the respective transport ministers for consideration.

Smart policy decisions require skilled data mining and analysis. This study undertaken by CUTS holds great promise in terms of filling gaps in information necessary for smart decision-making. The second important contribution of the study is in terms of advocacy. In order to capture regulatory mind space and engage regional administrations to reform, CUTS has played a significant role by persistently focussing on data-based studies. Recognising the role played by CUTS in promoting discussion and debate on intra-regional trade, coordinated border management and trade issues, they have been recently awarded with the World Customs Organisation (WCO) Certificate of Merit on the occasion of the International Customs day 2015.

This study is as thought provoking as their previous study on the India-Bangladesh Trade Potentiality: A Study on Trade Facilitation. I wish them all the best and hope to see CUTS contribute to discussions on the regional integration with more such publications.

Sandeep Kumar
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Ministry of Finance, Government of India

(Views expressed in this Foreword are personal)
Preface

Trade facilitation has emerged as an important international trade policy tool for enhancing cross-border trade. Recent research indicates that reduction in trade transactions costs through better trade facilitation measures at national and regional levels can bring enormous economic benefits to South Asia in general and India in particular. As a result, trade facilitation issues have emerged as a core subject of trade policy discourse.

South Asia is one of the least integrated regions of the world despite strong facilitating factors such as geographical proximity, a long open border and similar value systems. Even the formation of the South Asian Free Trade Area (SAFTA) has not improved intra-regional trade, which is a mere 5 per cent their total of trade.

A large number of studies have been carried out to understand the factors responsible for the slow growth of intra-regional trade in South Asia. A study conducted by the World Bank shows that South Asian countries are poor performers on various trade facilitation indicators. In 2013, India’s overall rank for ‘Trading Across Borders’ was 132 out of 189 countries, while in case of Bangladesh, Nepal, Pakistan and Sri Lanka it was 130, 177, 99 and 51, respectively.

Given the current state of trade facilitation in South Asia, the present study makes an attempt to investigate the specific set of issues that hinder the movement of goods across borders. The central focus of the study is on three major land routes of South Asia. They are: Islamabad-Lahore-Wagab/Attari-Ludhiana-Delhi, Kathmandu-Hetadua-Birgunj/Raxaul-Kolkata and Kathmandu-Kakarvitta/Panitanki-Phulbari/Banglabandha-Hatikumrul-Dhaka.

The study comprises three chapters. The first chapter analyses the current state of India’s trade relations with other South Asian nations in view of the changing dynamics in the region. The second chapter consists of a comprehensive analysis of perception surveys of various stakeholders such as exporters, importers, customs officials, freight forwarders, trade associations, clearing agents and other government agencies to understand key bottlenecks which affect the smooth movement of consignments from the point of origin to destinations on these routes and the amount of cost involved in each trade-related transaction. The last chapter delineates a specific set of recommendations for these three major land routes in order to improve regional connectivity.

I hope that this study will be read widely and, given its timeliness, will help policymakers to take appropriate policy measures to improve the current state of trade facilitation in South Asia.

Finally, I would like to acknowledge the support received from the India office of The Asia Foundation for sponsoring this study. I thank them for their comments and suggestions, which have enriched our work.

Bipul Chatterjee
Deputy Executive Director, CUTS International
Executive Summary

Introduction

Trade facilitation has emerged as a vital issue in the trade and development agenda of South Asian countries. Cross-border intra-regional trade through land routes (road and rail transport) still faces a lot of infrastructural and procedural obstacles. However, rail and road are the most appropriate, cheapest mode for trade-related transport in mainland South Asia (that is, excluding island nations). Shortcomings in trade facilitation through land routes connecting major commercial centres, especially in Bangladesh, India, Nepal and Pakistan, have undermined other trade liberalisation policies such as tariff reduction that are adopted to boost trade between these countries.

It is well known that higher intra-regional trade cannot be achieved unless adequate physical infrastructure, appropriate customs clearance procedures and other facilitation measures, including multi-modal transport operations and integrated trade-related services, are in place. From the perspective of regional trade in South Asia, the development and upgrading of land transport infrastructure is of utmost importance as they will result in substantial reduction in trade costs.\(^1\)

Though South Asian countries have initiated a number of projects at various levels to increase the efficiency of regional transport and transit systems, they still face a number of policy-related as well as procedural barriers. There is lack of coordination among various projects such as the installation of Integrated Check Posts at various important border crossings and the upgradation of approach roads for reducing traffic congestion. As a result, inefficiencies abound in some of South Asia’s most important cargo transport corridors.

Background and Context

Rich literature is available which reports inefficiencies in cross-border trade within the South Asia region including poor port, rail, and road transport infrastructure, inadequate customs management, administrative and licensing restrictions, non-transparent trade rules, etc., as some of the common problems faced by the developing regions. However, literature specific to South Asia finds significantly higher levels of incidence of these common trade facilitation bottlenecks and many more areas in which the region uniquely falls short compared to other regions.

A series of studies done by CUTS under various projects have explored trade facilitation needs in South Asia and found widespread wastefulness in activities, practices and formalities for cross-border movement of commodities, including bottlenecks in transport, payments and insurance facilities.\(^2\)

One of the key observations from past studies is that friction in the trading systems of South Asian countries is more prevalent for intra-regional trade than that for trade with countries outside the region. This has been noticed in the following way:
• Testing, certification, clearance and processing are particularly costly and time-consuming for consignments bound for export destinations within the region.

• Transport infrastructure and facilities at land custom stations which are predominantly used for cross-border trade within the region have significantly lower standards than for trade with the countries outside the region.

Keeping these points in mind, tracking trade consignments along the major cross-border trade corridors with the objective of identifying and mapping trade facilitation issues was a necessary first step behind this project. Therefore, this micro-level study (consignment mapping exercise) has been done by CUTS to identify key bottlenecks in existing cross-border trade corridors which, in turn, generated important policy lessons for removing those bottlenecks and also for the development of other regional trade corridors that are being proposed.

Therefore, this project has studied three important trade corridors pertaining to India-Pakistan, India-Nepal and Bangladesh-Nepal (via India) cross-border trade. Trade consignment mapping has been undertaken to collect first-hand information on cross-border trade and transit conditions and costs therein. These three routes see heavy traffic and together account for about one-third of total trade among Bangladesh, India, Nepal and Pakistan. They are as follows:

Islamabad-Lahore-Wagah/Attari-Ludhiana-Delhi
This is the most used corridor for cross-border trade between India and Pakistan, having huge potential to serve trade consignments originating from Pakistan and bound for Bangladesh, Bhutan and Nepal. It can also serve as a potential supply chain network linking producers from these countries with producers in Pakistan and India.

Traders have shared that since India and Pakistan do not have transit agreement trucks are not allowed to go beyond the land port on either side. Therefore, massive storage facility is required, where goods can be unloaded and stored until they can be loaded onto a different truck.

Traders have also shared that the absence of banks of both countries creates lot of complexities for financial transaction and they need to approach foreign banks for financial settlements. This increases the cost of trade transaction and causes unnecessary delays. Lack of harmonisation of general rules and regulations for facilitating cross-border trade also cause delays in the movement of consignments.

Kathmandu-Hetadua-Birgunj/Raxaul-Kolkata
This corridor is the most important trade route connecting Nepal and India originating from Kathmandu to the Inland Container Depot at Birgunj in Nepal, followed by rail transport connectivity to Kolkata via Raxaul in India. It connects Hetadua, one of the largest industrial towns in Nepal, thus providing links to some of the most important commercial centres in both countries.

Traders and logistic operators expressed their concern over poor trade-related infrastructure as well as general infrastructure along the Kathmandu-Birgunj portion of this j route. On both sides of the border, there are high incidences of unauthorised toll collection. Along the entire route from Kolkata to Kathmandu, a minimum of Indian ₹50 is being collected at least 12 times.
Birgunj-Raxual border handles almost 60 per cent of trade between India and Nepal. However, inadequate parking facilities on both sides of the border is causing congestion and hindering the movement of trucks. Traders also remarked that the Raxual Land Customs Station is situated next to a railway station and frequent movement of is causing delay in the movement of trucks. On an average, the railway crossing gate is closed 25 times in a day.

Traders have also expressed that the process of custom clearance is very cumbersome on both sides. They remarked that high number of procedures and documentation required and duplication of signature on both sides of the border is causing considerable amount of delays and costs. There are cases when consignments are stopped due to minor issues related to documentation. Likewise, inspection and laboratory facilities for testing sanitary and phyto-sanitary standards are not very effective and the process of such inspection usually takes four days and sometimes more.

Kathmandu-Kakarvitta/Panitanki-Phulbari/Banglabandha-Hatikumrul-Dhaka

This corridor connects Nepal with Bangladesh via India. It starts from Kathmandu and uses the Prithbi Highway and East-West Highway to reach the border between Nepal and India at Kakarvitta and crosses over to Bangladesh from India at Phulbari. As Nepal is a landlocked country, this corridor is not only important for trade between Nepal and Bangladesh but is also heavily relied upon by Nepal for its overall trade, as, other than Dhaka, Kathmandu to Hatikumrul sector further extends to Mongla and Chittagong ports in Bangladesh.

It was found that there are severe infrastructure related constraints on both sides. Due to poor road system and conditions, traffic congestion is hampering the movement of trucks.

One of the procedural issues pointed out by traders is that a Customs Transit Declaration is to be provided for transit of goods through the Indian territory. A typical export or import from Nepal consists of around 11-12 documents and a typical export from Bangladesh consists of seven documents, while imports consist of nine documents.

While India and Nepal has transit agreement, there is no such agreement between Bangladesh and Nepal and Bangladesh and India. At the border, cargo is required to be trans-shipped from Bangladeshi/Nepali registered vehicles to Indian registered vehicles. This activity adds to costs and causes delay. Another important constraint is when Bangladeshi customs officers are required to clear cargo, they must be summoned from Panchagarh, which is 50 kilometres away from the border.

Traders from Nepal and Bangladesh pointed out that there are limited payment options for trade transaction as both the countries do not have their banks in each other’s territory, which is increasing the cost of transaction and more often they have to use other channels for their financial settlements.

Key Recommendations

- A proper ‘cargo containerisation’ process in order to reduce different procedural barriers will cut down the time consumed and cost incurred by trading agencies.
- A single-window system for clearance of goods can be introduced with online documentation.
- A nodal officer (preferably a senior officer from the Central Government) should be appointed for an entire Land Custom Station.
- Existing infrastructure at the Integrated Check Posts should be put to optimal use. Vehicle scanners could be introduced for speedy clearance.
Better and proper coordination between central and state agencies would prevent unnecessary repetition of formalities decelerating the entire process.

Rent-seeking along trade routes is a serious issue, with vehicles being stopped umpteen times for collecting unauthorised tolls. There should be strict administration in place to stop illegal activities like extortion.

A comprehensive multi-modal (road and rail) motor vehicle agreement should address issues like excessive traffic congestion on the border, need for substantial storage and parking facilities, trans-shipment time and cost, etc.

There should be a financial agreement among these countries for allowing more number of banks to operate across borders and set-up branches in each other’s territory.

Endnotes

1 CUTS (2013) presents evidence from primary and secondary research substantiating that trade costs in South Asia through land routes far exceed ideal benchmarks and, thus, render trade in many potential products infeasible. In some cases, the loss to traders because of such inefficiencies is as high as 25 per cent of the total landing costs of consignments in the case of intra-regional trade in South Asia.

2 Most notably, CUTS (2004) research report on trade facilitation under the International Working Group on the Doha Agenda (IWOGDA) project, which looked at trade facilitation needs in South Asia from the point of view of South Asian countries participation in the WTO Doha Round of negotiations on Trade Facilitation. Though the studies covered in CUTS (2004) are based on observations for the period 1995-2003, recent assessment studies done by CUTS have suggested that most of the identified trade facilitation gaps still persist – see George (2011).
Chapter 1
Introduction

South Asia is one of the least integrated regions in the world despite notable initiatives for greater economic integration, including implementation of preferential trade agreements by member countries of the South Asian Association for Regional Cooperation (SAARC) followed by the Agreement on South Asian Free Trade Area (SAFTA), under which customs duties on nearly all goods traded between countries in the region were to be phased out. Yet South Asia has low intra-regional trade compared with other such regions in the world, amounting to just five per cent of world trade. In contrast, EU intra-regional trade is 55 per cent of world trade, NAFTA 52 per cent, Asia Pacific region 32 per cent and ASEAN 22 per cent. In fact, exports from all eight countries in South Asia make up just two per cent of global exports.

Trade facilitation is an important element of current trade and development agendas. Its role in increasing benefits and minimising losses has been widely acknowledged in past studies. Good trade facilitation measures can contribute to a reliable, transparent and predictable environment for the movement of goods and services across borders. These measures include everything from institutional and regulatory reform to customs and port efficiency. Trade facilitation will ultimately benefit all the entities associated with trade, i.e. businesses, consumers and government. By definition, trade facilitation means “the procedures/controls governing the movement of goods across national boundaries, to reduce the associated cost burdens and to merchandise trade and liberalisation of foreign exchange markets”.

The importance of trade facilitation for international trade and the global economy was the major highlight of the Bali Ministerial Conference in December 2013 where WTO member countries adopted the Trade Facilitation Agreement. The agreement aids implementation of selected trade facilitation measures by providing a global framework for WTO member countries. This agreement also underscores the importance given to advancing trade facilitation and making international trade procedures more transparent and efficient as it received the support of a wide range of countries, from the least developed to the most advanced.
As South Asian countries are largely dependent on trade to achieve inclusiveness and sustainable economic and social development, trade facilitation is an important component of trade policy in order to promote trade and investment in the region. Trade facilitation is very necessary and will act as a catalyst to regional cooperation. Situation of trade facilitation can be better estimated from trade indicators, as indicated in the table 1.

The Global Competitiveness Report uses over 100 indicators to measure competitiveness and develop a Global Competitiveness Index (GCI), which is a comprehensive tool to assess the foundation of national competitiveness. Infrastructure, one of the sub-indices of Table 1, gives a clear indication of trade liberalisation in these countries. Under Quality of Overall Infrastructure, Bangladesh is ranked worst among South Asian countries, i.e. 134th rank out of 148. Among India, Bangladesh Nepal and Pakistan, India ranks highest at 85 out of 148. The average value for South Asia is calculated as 3.5 on a scale of 7, indicating that a lot of improvement in infrastructure is required in South Asia.

Quality of roads, rail routes, air infrastructure and port infrastructure too stand low in the scale. Compared with other parts of the world, especially Singapore, China and the United States, South Asian countries’ infrastructure leaves much to be

| Table 1: Select Indicators of Trade Facilitation in South Asia |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Indicators                    | Bangladesh | India | Nepal | Pakistan | Sri Lanka | South Asia (Calculated) |
| Quality of overall infrastructure | Value       | 2.8    | 3.9   | 2.9     | 3.3     | 4.8       | 3.5    |
| Rank                          | 134         | 85     | 132   | 119     | 54      |           |
| Quality of roads              | Value       | 2.8    | 3.6   | 2.7     | 4       | 4.7       | 3.6    |
| Rank                          | 118         | 84     | 126   | 72      | 49      |           |
| Quality of railroad infrastructure | Value    | 2.4     | 4.8   | 1.1     | 2.5     | 3.6       | 2.9    |
| Rank                          | 78          | 19     | 121   | 75      | 40      |           |
| Quality of port infrastructure | Value       | 3.5    | 4.2   | 2.7     | 4.5     | 4.2       | 3.8    |
| Rank                          | 104         | 71     | 134   | 55      | 73      |           |
| Quality of air transport infrastructure | Value       | 3.2    | 4.8   | 3       | 4.1     | 4.8       | 4.0    |
| Rank                          | 125         | 61     | 131   | 88      | 60      |           |
| Prevalence of trade barriers  | Value       | 4.4    | 4.4   | 4       | 4.2     | 4         | 4.2    |
| Rank                          | 62          | 61     | 110   | 92      | 105     |           |
| Trade tariff (% duty)*        | Value       | 13.5   | 11.7  | 16.3    | 16.7    | 11.1      | 13.9   |
| Rank                          | 132         | 128    | 141   | 142     | 125     |           |
| Burden of customs procedures  | Value       | 3.4    | 3.8   | 3.3     | 3.7     | 4.1       | 3.7    |
| Rank                          | 113         | 88     | 125   | 91      | 70      |           |
| Transparency of government policymaking | Value       | 3.9    | 4.2   | 3.7     | 3.7     | 4.1       | 3.9    |
| Rank                          | 95          | 61     | 110   | 116     | 71      |           |

NOTE: Indicators not derived from the Survey are identified by an asterisk (*)
If we compare infrastructure of China and South Asia, China’s overall infrastructure is 18.6 per cent better than that of South Asia, whereas the same for Singapore is 45.3 per cent.

The slow growth of trade in South Asia can be explained by the inadequate attention given to trade facilitation issues, especially regarding land routes. A corridor focus is apparent, with most trade concentrated along relatively few land corridors that connect commercial centres in South Asia.

According to studies conducted by CUTS (2004, 2013) the literature on trade facilitation reports inefficiencies including poor port, rail, and road transport infrastructure, poor customs management, administrative and licensing restrictions and non-transparent trade rules as some of the common problems faced by developing regions. Past studies have suggested that friction is more prevalent for intra-regional trade than in trade with countries outside the region.

Trade costs contribute to a very high percentage of product costs in South Asia. In India, logistics costs are 20 per cent of product cost, which is 4-5 times more than in developed countries.

Trade costs contribute to a very high percentage of product costs in South Asia. In India, logistics costs are 20 per cent of product cost, which is 4-5 times more than in developed countries (Deloitte 2012). Trade costs as defined by Anderson and van Wincoop (2004) include all costs incurred in getting a good to a final user other than the cost of producing the good itself: transportation costs (both freight costs and time costs), policy barriers (tariffs and non-tariff barriers), information costs, contract enforcement costs, costs associated with the use of different currencies, legal and regulatory costs, and local distribution costs (wholesale and retail). Ultimately, these costs make goods more expensive for the consumer and compromise the competitiveness of the domestic economy.
Reducing international trade cost is an important policy measure for developing countries. Many studies have emphasised the need for reducing Non-Tariff Barriers (NTBs) more than tariff reform. According to Duval and Utoktham (2010), tariffs contribute to less than 10 per cent of the trade cost in the Asian sub-regions whereas the rest are NTBs.

In order to improve the operational efficiency of trade corridors, land customs stations (LCSs) should be the main focus of trade and transport facilitation measures. At the border, goods are unnecessarily subjected to multiple handling. Operating days of the LCSs differ between India and Bangladesh, although the operation timings are the same. Physical and non-physical facilities vary across the LCSs apart from essentials like immigration, customs and security.

For example, Birganj in Nepal is the only LCS that has an exclusive container-handling yard at the border, while Petrapole in India is the only one to offer fast-track cargo clearance systems. The Electronic Data Interchange (EDI) faces several constraints that only add to transaction costs and, despite its existence, many LCSs still handle custom formalities manually. The composition and direction of trade in South Asia is affected by the excessive documentation required in hard copy by customs, especially for imports. Limited warehouse capacity, lack of banking and foreign exchange facilities are the other shortcomings of the LCSs. Banks are located a few kilometres away from the border (e.g., Panitanki and Karkabitta). Some LCSs do not have foreign exchange facility, such as Burimari and Banglabandh in Bangladesh, Karkabitta in Nepal, and Phulbari and Panitanki in India.

Excessive delays, high costs and uncertainties hamper cross-border and transit transport. Existence of multiple technical standards, inconsistent and complex border-crossing procedures and excessive documentation are a few examples of non-physical barriers. Rather than goods being inspected at loading and unloading points, they are often inspected on both sides of the border by different authorities and even during transit.

According to the Asian Development Bank Report, in order to achieve more integration in the region in terms of trade and investment, governments should not only reduce restrictive tariffs and duties, but should also minimise import restraints, protracted customs requirements and documentation, and develop cross-border infrastructure. Recent studies have established that with the declining importance of tariffs, the quality of trade facilitation has a significant impact on determining the pattern of trade flows in the world today. Trade facilitation reforms can have significant trade and welfare gains, particularly for developing countries suffering from large non-tariff border costs.
The different stakeholders and agencies, such as transport, customs, immigration and quarantine authorities need to develop coordination amongst themselves. To make the networks effective and beneficial for all stakeholders, there is a need to develop a cross-border transport network on the basis of a uniform or compatible standard (preferably an international standard). To achieve single-stop and single-window customs through improved regional connectivity, there is an urgent need to establish an efficient management system along with the associated capacity building that will bring about harmonisation of standards.

India’s Trade with Pakistan

The two countries enjoy close geographical proximity and similar value systems, yet bilateral trade between them has been abysmally low after independence. Even after liberalising trade policies and restrictions under SAFTA, the two countries still maintain an extensive range of tariff and non-tariff barriers on products and services. Despite WTO regional agreement norms which require members to accord MFN status to each other, Pakistan denied the same to India even after ratification of SAFTA in 2006. Recognising the importance of the land route, India opened an Integrated Check Post (ICP) at Attari in April 2012.

Pakistan still maintains a large general negative list and allows only 137 tradeable goods through this route. This list mainly comprises of livestock, meat, vegetables/fruits, sugar, cotton yarn, flat-rolled stainless steel products, cement/clinker, chemicals and newsprint. Given this, the present trade through land is far below potential. SAFTA has thus failed to normalise trade relations between India and Pakistan.

The significance of India-Pakistan bilateral trade has been diminishing in recent years; the share of India’s exports to Pakistan in India’s total exports to the world has declined to 0.56 per cent during 2012 from 1.01 per cent reported during 2010. Share of
Table 2: Indo-Pak Trade Statistics (2006-2012)

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>India exports to Pakistan (value in US$mn)</td>
<td>1,235.04</td>
<td>1,584.29</td>
<td>1,772.78</td>
<td>1,455.77</td>
<td>2,235.79</td>
<td>1,678.13</td>
<td>1,633.35</td>
</tr>
<tr>
<td>Growth in India’s exports to Pakistan (in %)</td>
<td>28.28</td>
<td>11.90</td>
<td>-17.88</td>
<td>53.58</td>
<td>-24.94</td>
<td>-2.67</td>
<td>-2.67</td>
</tr>
<tr>
<td>Share of India’s exports to Pakistan in India’s total exports to RoW</td>
<td>1.02</td>
<td>1.09</td>
<td>0.97</td>
<td>0.82</td>
<td>1.01</td>
<td>0.56</td>
<td>0.56</td>
</tr>
<tr>
<td>Pakistan exports to India (value in US$mn)</td>
<td>326.70</td>
<td>291.70</td>
<td>354.64</td>
<td>235.32</td>
<td>274.98</td>
<td>272.86</td>
<td>347.99</td>
</tr>
<tr>
<td>Growth in Pakistan’s exports to India (in %)</td>
<td>-10.72</td>
<td>21.58</td>
<td>-33.64</td>
<td>16.85</td>
<td>-0.77</td>
<td>27.53</td>
<td></td>
</tr>
<tr>
<td>% share of Pakistan’s exports to India in Pakistan’s total exports to RoW</td>
<td>1.93</td>
<td>1.64</td>
<td>1.75</td>
<td>1.34</td>
<td>1.28</td>
<td>1.08</td>
<td>1.41</td>
</tr>
<tr>
<td>Total trade (value in US$mn)</td>
<td>1,561.74</td>
<td>1,875.99</td>
<td>2,127.41</td>
<td>1,691.10</td>
<td>2,510.77</td>
<td>1,951.00</td>
<td>1,981.34</td>
</tr>
<tr>
<td>Growth in total trade (in %)</td>
<td>20.12</td>
<td>13.40</td>
<td>-20.51</td>
<td>48.47</td>
<td>-22.29</td>
<td>1.56</td>
<td></td>
</tr>
</tbody>
</table>

Source: ITC Trade Map (2014)
Author’s Calculations

Pakistan’s exports to India increased from 16.85 per cent in 2010 to 27.53 per cent in 2012. Table 2 shows that there was a drastic growth in exports from India to Pakistan in the year 2010, with 53.58 per cent rise. But it doesn’t show consistency in the figures as the very next year, the value of exports dropped by 25 per cent.

At present, the only operational Integrated Check Post (ICP between India and Pakistan is at Attari-Wagah. Lahore-Patti road (Barki road) and Kasur-Firozpur roads are two other routes that can be opened for trade. Sahiwal/Pakpattan road link with Fazilka is the third possible land route that connects south of Indian Punjab with population centres of Pakistani Punjab. But these land routes are not operational. The existing customs infrastructure at the Attari-Wagah border is inadequate for handling trade between the two countries, even for the limited number of goods allowed to be traded through the land route.

The reason behind the low bilateral trade is a long negative list extended by Pakistan towards India, as well as mistrust of Indian traders. At the same time, India has high tariff rates, especially for goods of particular interest to Pakistan, such as textiles and leather. Moreover, NTBs are substantial. Constraints on visas, bureaucratic inertia, direct political opposition, cumbersome payments, excessive red tape and customs procedures further limit the scope of trade. Poor transportation linkages make trade costly, with inadequate railways (Wagah-Attari rail route and Munabao-Khokhrapar rail route), just one road connection (Wagah-Attari ICP) and sea ports (Mumbai and Karachi).

Goods from Kolkata are shipped to Karachi via Singapore. India is not allowed to export cotton by the rail route through Attari as per Pakistan’s Plant Quarantine Rules, 1967. For the large number of textile mills located around Lahore, cotton has to be first
Indian goods are denied market access to the Afghanistan market through the shortest route. On a similar note, India does not allow Pakistan transit facilities through its territory to Bangladesh and Nepal.

Empirical evidence and studies show that congestion at ports, procedural complexities, excessive documentation, insufficient use of information technology and poor infrastructure not only increases transaction cost but also changes the composition and direction of trade to informal channels. Such empirical evidence can be found in Wilson, Mann & Otsuki, 2005; Wilson, Mann & Otsuki, 2003; Butt & Bandara, 2008.

Due to various barriers, indirect trade through third countries – mainly Dubai, UAE – is estimated to be very high. The indirect trade volume is estimated to be around US$2bn to US$3bn (Khan, 2009). The estimated indirect trade volume is higher than the direct trade volume, which confirms the barriers in current bilateral trade. Non-price barriers such as cost of documentation and transportation surpass the price barriers to trade between India and Pakistan and thus most of the trade is channelled through Dubai (Raihan & De, 2013; Ahmed & Samad, 2011).

There are number of studies available which highlight the documentation issue for India-Pakistan trade and their impact on trade. A study conducted by De et al (2013) shows that there is dire need for trade liberalisation by introducing online banking and acceptance of digital signatures on cross-border trade documents. This study also shows that improved trade facilitation measures would increase the volume of trade between India and Pakistan.

Another study by PILDAT (2012) mentions that documentation requirement by customs on both sides of the border inhibits free flow of goods. The delays are caused due to complex tariff structure and multiple exemptions. There are eight documents required to export in South Asia, whereas OECD countries require only four documents. It takes around 21 days to export and 18 days to import goods in OECD countries, whereas for South Asia the number of days is 33 and 34 respectively.

While explaining the potential economic benefits from SAFTA, a study by De (2009) elaborates the importance of investment required for improving infrastructure at border crossings as bigger countries in South Asia would stand to benefit more from the continuation of policies of unilateral liberalisation.
Existence of one rail route through Wagah-Attari, poor quality of rolling stock, and hindrances on border crossings are the major issues faced by traders across the borders (Taneja, 2006). Traders in eastern parts of India find it difficult to trade through Wagah-Attari border due to lack of information and poor infrastructure (Taneja, 2007).

Under the international trading regime, letters of credit are considered the best payment guarantee method. By making use of documentary letter of credit, the buyer and sellers sub-contract their risks to banking and financial institutions. But some Indian banks don’t recognise letter of credit from Pakistani banks and vice versa. Trade cannot flourish without smooth flow of financial transactions and opening of letters of credit. A recent study by the Pakistan Business Council (2014) reiterated this. Their analysis shows that non-availability of banks makes procedures cumbersome and at times payments are delayed by 30 days. Clearance by Asian Clearing Union (ACU) is time consuming and increases transaction cost. A study by De (2009) concludes that 10 per cent rise in transaction cost at the border has the effect of decreasing the country’s exports by 3 per cent.

Kugelman and Hathaway (2013) highlighted the importance of opening branches of Indian and Pakistani banks across borders. After an agreement between State Bank of Pakistan (SBP) and Reserve Bank of India (RBI), both allowed two banks of either country to open branches in the other. In this regard, National Bank of Pakistan (NBP) and United Bank Limited (UBL) were allowed by SBP to open branches in India. Similarly from India, State Bank of India (SBI) and Punjab National Bank (PNB) are seeking to open branches in Pakistan. However, the modalities of branch opening have not been finalised yet (PBIT, 2012).

Till the agreement on movement of trucks across borders in 2007, 80 per cent of firms were forced to trade through the Karachi-Mumbai sea route despite being located in the border station of Amritsar, as per a study in 2006. However, this arrangement permitted only 100 trucks per day and even that arrangement is not being properly implemented. Easing truck movement and streamlining customs procedures to allow clearance either at port of origin or destination would greatly facilitate trade (The Hindu, 2013). A 10-hour window is given to Indian importers for unloading/loading, customs clearance and reloading, but this is rarely possible. Warehousing facilities on both sides of the border are inadequate (Raihan, 2013).

The most frequently used formal trade route between India and Pakistan is Karachi-Mumbai sea route. However, trade through this route is uneconomical due the long distances from the port
Amritsar and Lahore are the two major cities on either side of the border, separated by a distance of only 54 km. Hence, the transport costs for goods moved via land route between Pakistan and India could be substantially lower than the sea route (Nisha Taneja, 2013).

Despite granting MFN status to Pakistan, exports to India remain low because Pakistani industries fail to gain access to Indian markets due to NTBs imposed by India. Also Pakistani companies are required to go through a long approval process by the Reserve Bank of India before they can open a branch/liaison office in India. Moreover, India prohibits Foreign Direct Investment (FDI) from Pakistan and Indian investment into Pakistan. This also precludes any joint venture arrangements between companies based on either side of the border.

India’s Trade with Bangladesh

India shares cultural, linguistic and historic links with Bangladesh but economic ties between the two countries are far below potential. Among India’s neighbours, Bangladesh occupies a special position, because geographically India surrounds Bangladesh from three sides and has a 4,096-km land border with it, which is the longest that India has with any of its neighbours. Enhancing trade ties between the two countries is important for economic growth and development of both countries.

Bilateral economic relations between India and Bangladesh have grown since the latter got independence in 1971, albeit at a slow pace. Ups and downs in political relations between the two countries have had a strong bearing on development of economic ties. In recent years, both countries registered good growth rates and have made significant progress in social development. Bilateral trade has also grown as a result of open economic policy outlook of both countries. Bangladesh is the largest trading partner of India within SAARC and India is the only Asian country listed among top 10 trading partners of Bangladesh in the year 2012. The annual average growth rate from 2002 to 2012 has been about 4.7 per cent per annum. Bilateral trade between these two countries grew from around US$1.08bn in 2002 to about US$5.5bn in 2012. Top six markets for Bangladesh exports were the US, Germany, UK, France, Italy and India, with the US share at 25.7 per cent, German share at 15.2 per cent, UK share at 10 per cent and Indian share at 4 per cent in 2012. Market share of India’s imports from Bangladesh in the year 2003 was 0.6 per cent, which increased to
1.9 per cent in 2005 and to 4 per cent in 2012 (ITC Trade Maps database). This growth in market share shows that Bangladesh’s total exports to India are likely to increase in future and are expected to be around 12.4 per cent in the year 2015.

Since 2005, bilateral trade has grown at 6 per cent per annum. Tariff liberalisation under SAFTA has not resulted in expected gains as NTBs have almost nullified the effect of tariff reduction. Trade with Bangladesh is important from India’s point of view since it is essential for socio-economic development of the northeastern region of India. For Bangladesh, it is important as it will widen the area of cooperation, investment and help in overall development of the country.

Local markets called border haats have been opened to facilitate trade between small-scale industries and farmers, with a view to generating market opportunities for them. Cost of doing trade is high between India and Bangladesh mainly due to lack of trade facilitation. Almost all border crossings lack modern skilful infrastructure. Other NTBs like regulatory measures and lack of trade services have also resulted in hindering the bilateral trade.

It is well known that NTBs have increased the cost of doing trade between both countries, affecting the feasibility of trade in many high potential products. Some of the key constraints are inadequate infrastructure, lack of trade facilitation measures, absence of regional transit arrangements, inappropriate application of standards, poor institutions and governance. The types of non-physical barriers which hamper trade relations are restrictive visa requirements, difficult border crossing formalities and procedures (for goods, vehicles and drivers), restrictions on cross-border entry of motor vehicles, etc., which are important from the point of view of bilateral trade and should be addressed soon.

**Bangladesh is the largest trading partner of India within SAARC and India is the only Asian country listed among top 10 trading partners of Bangladesh in the year 2012**
A large amount of trade between India and Bangladesh is carried out by road. There are officially 35 LCSs through which trade between India and Bangladesh is carried out. Petrapole (in West Bengal, India) and Benapole (in Bangladesh) are the busiest LCSs between India and Bangladesh. The most important of the customs posts with comprehensive customs clearance powers is at Benapole, which borders Petrapole on the Indian side and is on main roads linking Kolkata with Jessore and Dhaka. It handles around 80 per cent of India’s exports to Bangladesh and close to 100 per cent of Bangladesh’s exports, according to India’s Ministry of Commerce and Industry. According to Pohit and Taneja (2000) Petrapole/Benapole was handling about 60 per cent of India’s export to Bangladesh and Petrapole accounted for about two-thirds of the total official trade between India and Bangladesh.

All LCSs are reported to have infrastructure problems that hinder smooth flow of traffic between the two countries. Narrow and poorly maintained roads coupled with administrative bottlenecks cause delays in transit. The existing literature gives a fair idea of the problems at the border and LCSs. Some of the general infrastructure problems that have been identified are poor quality of approach roads and poor standard of trade services at the LCSs (Gilbert and Banik 2006, Dutta 2010, Hossain and Rahman 2011).

The roads leading to the LCSs pass through very congested towns. Traders have reported problems such as security risks, lack of government warehouses, frequent worker strikes, common gate for imports, exports and passengers, poor power connectivity, frequent power cuts and untrained operators for Electronic Data Interchange (Hossain 2009, Rahman 2005). Another common problem identified is that of speed money (unlawful payments) present throughout the border crossings. This issue partly arises

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
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<th>2009</th>
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<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian exports to Bangladesh (value in US$mn)</td>
<td>1667.81</td>
<td>2063.79</td>
<td>3243.38</td>
<td>2177.38</td>
<td>3016.58</td>
<td>3405.52</td>
<td>4936.67</td>
</tr>
<tr>
<td>Growth in India’s exports to Bangladesh (in %)</td>
<td>23.74</td>
<td>57.16</td>
<td>-32.87</td>
<td>38.54</td>
<td>12.89</td>
<td>44.96</td>
<td></td>
</tr>
<tr>
<td>India’s exports to Bangladesh as a percentage of India’s exports to RoW</td>
<td>13.76</td>
<td>14.15</td>
<td>17.83</td>
<td>12.32</td>
<td>13.69</td>
<td>11.30</td>
<td>17.05</td>
</tr>
<tr>
<td>Bangladesh’s exports to India (value in US$mn)</td>
<td>223.81</td>
<td>233.31</td>
<td>329.78</td>
<td>234.42</td>
<td>357.90</td>
<td>579.13</td>
<td>567.31</td>
</tr>
<tr>
<td>Growth in Bangladesh’s Exports to India (in %)</td>
<td>4.24</td>
<td>41.35</td>
<td>-28.92</td>
<td>32.67</td>
<td>61.81</td>
<td>-2.04</td>
<td></td>
</tr>
<tr>
<td>Bangladesh’s exports to India as a percentage of Bangladesh’s exports to RoW</td>
<td>1.91</td>
<td>1.78</td>
<td>1.96</td>
<td>1.36</td>
<td>1.75</td>
<td>2.17</td>
<td>2.10</td>
</tr>
<tr>
<td>Total trade (value in US$mn)</td>
<td>1891.62</td>
<td>2297.10</td>
<td>3573.16</td>
<td>2411.80</td>
<td>3374.47</td>
<td>3984.64</td>
<td>5503.98</td>
</tr>
<tr>
<td>Growth in total trade (in %)</td>
<td>21.44</td>
<td>55.55</td>
<td>-32.50</td>
<td>39.92</td>
<td>18.08</td>
<td>38.13</td>
<td></td>
</tr>
</tbody>
</table>

Source: ITC Trade Map (2014)
Author’s Calculations

The types of non-physical barriers which hamper trade relations are restrictive visa requirements, difficult border crossing formalities and procedures, restrictions on cross-border entry of motor vehicles, etc., which are important from the point of view of bilateral trade and should be addressed soon.
due to outdated systems of documentation, customs clearance and other forms of red tape.

Within Nepal, along the corridor from Kathmandu to Kakarvitta, the 36-km section from Mugling to Narayanghat faces frequent landslides. This cause unnecessary delays in the movement of trucks. Moreover, highway authorities are not active in the process of clearing rubble for the smooth movement of goods. Moreover, a number of bridges along the Hetauda-Pathaiya section are only single lane. Within India, the border post Phulbari lacks permanent offices. Foreign exchange facilities do not exist at Panitanki and Phulbari. Within Bangladesh, the border post at Banglabandha lacks permanent facilities covering immigration, customs, post office and telephones. There is a problem associated with customs inflexibility regarding the timing of arrival of goods. If cargo arrives after 15:00 hours, it is not processed on the same day because the customs office closes at 17:00 hours.

Within Nepal, there is an absence of through bills-of-lading provided by shipping lines. This means that the importer has to separately arrange for the land transportation and this increases the overall door-to-door costs. The reason for the lack of through bills is due to lack of suitable legal frameworks, traffic imbalances, reliability of transport services and the availability of container transport resources.

Goods manufactured in Nepal have free access to the Indian market but not foodstuffs, which are required to pass through Indian regulations of quarantine. This leads to delays at the borders, sometimes up to 10-12 days, as samples have to be sent to Kolkata for testing. The Indian Standards Institute does not readily accept standards set by the counterpart Nepali Standards Bureau, causing problems in relation to many cargoes.

Within Bangladesh there is lack of transparency in customs inspection and procedures. At the border, cargo is required to be transhipped between Bangladesh-registered vehicles and Nepal-registered vehicles. This activity adds to costs and causes delay. Another important constraint is that when Bangladesh customs officers are required to clear cargo, they must be summoned from Panchagarh, 50 km away.

India’s Trade with Nepal

India is Nepal’s largest trading partner, both in terms of export as well as imports. India absorbs 67.5 per cent of total trade, consisting 66.9 per cent of total exports and 67.6 per cent of total imports (WTO Report, 2012). Volume of bilateral trade between the two countries amounted to US$4.21bn in 2010-11. In the same year, Nepal’s exports to India accounted to US$599.7mn, while...
its imports from India accounted to US$3.62bn (Jha, H.B.). India exports mainly petroleum products, machinery, medicines, high tech products, automobiles, electronic and electrical products and chemicals to Nepal while it imports mainly medicinal herbs, agricultural products, garments, galvanised iron (GI) sheet and polyester yarn from Nepal (Taneja & Chowdhury, 2010).

Also India is a biggest source of FDI for Nepal as it accounts for about 44 per cent of the total approved FDI and 25.2 per cent of the approved ventures with foreign investment in Nepal (ICC 2012). Trade statistics show an increasing trend of trade in both exports and imports. However, it is notable that the trade balance is unfavourable for Nepal.

The trade deficit of Nepal with India is increasing continuously. It accounts for 58.6 per cent of Nepal’s total trade deficit during 2007-08 to 2009-10 and has created serious problems in the balance of trade of Nepal (Adhikari and Kharel 2011). The dependency of Nepal on India is growing, indicating the urgency of trade diversification and the need for strengthening its competitiveness towards this end. However, Nepal has signed three separate agreements on trade, transport and control of illegal trade between the two countries to promote bilateral trade with India. Nepal faces several problems in its foreign trade with third countries mainly due to long transit route, long and complex administrative procedures, Sanitary and Phyto-Sanitary (SPS) and TBT related issues.

The importance of trade corridor with India is of paramount importance to a landlocked country like Nepal. There are 22 official trade routes between Nepal and India, out of which 15 routes are specified for Nepal’s third-country imports/exports (Pohit, 2009).

<table>
<thead>
<tr>
<th>Figure 4: Trade between India and Nepal (2005-2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>![Graph showing trade between India and Nepal from 2005 to 2012](source: ITC Trademap, Values in USD million)</td>
</tr>
</tbody>
</table>

*India is a biggest source of FDI for Nepal as it accounts for about 44 per cent of the total approved FDI and 25.2 per cent of the approved ventures with foreign investment in Nepal. Trade statistics show an increasing trend of trade in both exports and imports.*
Most of Nepal’s foreign trade with third countries has to use transit routes that pass through Indian territory. Port facilities nearest to Nepal are at Haldia, Kolkata and Chittagong as well as Mangola in Bangladesh. The Treaty of Transit between India and Nepal allows Nepali goods to transit the ports of Kolkata/Haldia serving as gateway ports for the movement of third country trade cargo by road or by rail. Nepal has also been offered access to the ports of Mumbai, Nhava Sheva and Kandla port located on the west coast of India. These are deep sea ports that can accommodate large ships.

About 60 per cent of third country trade passes through the Birgunj border post; hence the Kathmandu-Hetadua-Birgunj/Raxaul LCS-Kolkata is the main transit corridor for Nepal’s foreign trade. It originates from Kathmandu to the Inland Container Depot at Birgunj, followed by rail transport connectivity to Kolkata via Raxaul in India. It also connects Hetadua, one of the largest industrial towns in Nepal. The Rail Service agreement between Nepal and India allows movement of transit traffic from Kolkata/Haldia to Birjung ICD in Nepal via Raxaul in India on Indian Railways.

The Indian government has provided financial assistance to Nepal for the development of cross-border trade infrastructure, including the upgradation of four major custom checkpoints at Birgunj-Raxaul, Biratnagar-Jogbani, Bhairahawa-Sunauli and Nepalgunj-Rupediya to international standards; laying of an oil pipeline from Raxaul to Amlekhgunj, through a joint venture between Indian Oil Corporation and Nepal Oil Corporation; upgradation of the approach highways to the border on the Indian side; upgradation and expansion of the road network in the Terai region of Nepal; and broad gauging and extension of railway links to Nepal.
A bilateral agreement was signed between India and Nepal to open the Kakarvitta-Panitanki point to Phulbari-Banglabandh point which is the shortest route (44 km) from Nepal border to Bangladesh border and Mongla port. Nepal is still using Birol and Banglabandh points. In addition, as rail connection is possible, Rohanpur-Singhabad has been recommended. Necessary study on the feasibility of the route has also been conducted but the government is yet to make necessary arrangement/amendments to make this route fully operational. There are problems of transport connectivity, infrastructure and management of borders, customs, and transit traffic to and from Bangladesh.

India-Nepal bilateral trade is fraught with problems like frequent revision in trade treaties, duties and rules, administrative and procedural complications and delays, poor access to market, tariff and non-tariff barriers from the Indian side. There are many cases of imports of certain products from Nepal being banned unilaterally on and off. Garlic exports are a case in point: imports of garlic from Nepal are banned from time to time with the allegation that Chinese garlic is finding its way into India although the local certificate of origin attests to their Nepali origin (Adhikari & Kharel, 2011).

There are several tariff and non-tariff barriers for Nepalese products in the Indian market. A provision of quarantine check on Nepali agro-products and livestock, non-acceptability of ‘Nepal standard’ in India, quantitative restrictions and other seen and unseen barriers from the Indian side are major hindrances for smooth export to India. For instance, only 16 herbal products out of 84 have received prevention of food adulteration (PFA) test certificate from Indian labs. Furthermore, while exporting other products, border customs officials create hassles, citing lack of PFA certificates and quarantine issues on the Indian side. Only three land border points between India and Nepal have quarantine facilities and two have food testing facilities.3

Application of SPS measures and technical standards constitutes another critical impediment to Nepali exports to India. India does not recognise pharmaceuticals approved by Nepal’s Department of Drug Administration. A sample from the export consignment has to be taken to the central authority in New Delhi for testing and it takes 6-12 months for the results to be out, by which time the medicines in the consignment waiting at the border may well have crossed the expiry date. This is a major reason why Nepali pharmaceuticals, despite possessing export potential, have not made inroads in the Indian market.
Para-tariff barriers are another important constraint to India-Nepal bilateral trade. One is imposition of Special Additional Duty (SAD) in 2009 on Nepali Readymade Garment (RMG), for which India has emerged as a major market. It happened after the expiry of the Agreement on Textiles and Clothing (ATC) of the WTO when Nepal lost a substantial market share in the US, traditionally the largest market for its RMG exports. Furthermore, Countervailing Duty (CVD), levied on imports to balance the excise duty imposed on similar domestic products, was imposed on the maximum retail price of RMG instead of the border price, as is the standard international practice (Adhikari and Kharel 2011).

While these market access barriers hurt Nepal’s export performance, it must be noted that supply-side constraints within Nepal like inadequate infrastructure for efficient production and transportation of goods; lack of human capital endowed with education and skills to process exportable goods; limited access to credit due to conventional/conservative banking practices that rely more on collateral than on the feasibility of business ventures; limited use of technology in the production processes, impeding future prospects and virtual absence of trade facilitation measures which causes delay in the shipment of goods also crucially affect its export performance.

Trade Insight SAWTEE (2012) mentioned some major reasons that hamper India-Nepal trade: supply-side constraints in terms of low productivity, poor infrastructure and inadequate support services; relatively high transit/transportation costs that reduce the competitiveness of Nepalese products. The report gives two type of approaches to deal with NTBs: first, compliance with the statutory measures taken by the importing countries for protecting their legitimate interests in safety and health; and second, identifying and tackling the issues of disguised protection and trade restrictive practices adopted by such countries. Nepalese products are facing increasing difficulties in getting access to Indian markets on account of quarantine, food safety regulations and imposition of local taxes.

On average, it takes one to two days to clear goods at the Raxaul-Birgunj border posts, but this process can take up to four days or more if SPS inspections and laboratory testing are required or other issues emerge. Private sector traders complain of the high number of procedures and documentation required, including 19 signatures on the typical Indian Customs Transit Document (CTD), and duplication of procedures on both sides of the border.

The agencies in charge of the clearance processes like those performing SPS inspections and certifications (Department of Agriculture, Department of Livestock Services, Department of Food Technology and Quality Control) do not have coordination
Indian trucks are permitted to stay in Nepal for 72 hours to deliver cargo which under normal circumstances is sufficient time to unload and return to the border.

Endnotes

2 India and Pakistan signed the Agreement on South Asian Free Trade Area (SAFTA) in 2004 as members of the South Asian Association for Regional Cooperation (SAARC). SAFTA includes four least developed countries (LDCs) – Nepal, Bhutan, the Maldives and Bangladesh and three non-least developed countries (NLDCs) – India, Pakistan and Sri Lanka.
Chapter 2
Survey Results

There are a number of studies on trade costs in South Asia as evident from the literature reviewed above. Most of these studies have focussed mainly on the non-physical barriers (non-tariff barriers) in South Asia and not on the physical infrastructure issues that bedevil the routes, adding to trade costs. Although, border administration and trade procedures have improved in recent times, general infrastructure along the way has remained poor. The local governments that govern the districts and states in the region are not trade friendly and impose numerous tolls and taxes that increase costs of transport. This study has emphasised on all such issues that if eliminated would help in increasing trade as well as overall integration of the region.

To achieve the goal of identifying these issues, extensive surveys throughout these selected corridors were carried out. The purpose of this survey was to understand the ground realities of trade along these corridors. The survey also gave insights into the productivity of some of the existing infrastructure and brought out solutions to many unsolved issues. Since the survey included traders and government officials, the results obtained were more holistic.

Through field surveys and interviews of transporters, exporters, importers, freight forwarders and border administration departments, the major issues that traders face along these routes were identified. The survey team visited important nodal points in each country to take in the perspective from each side of the border.
Overview

Route 1, which connects Islamabad to Delhi through Lahore-Wagah/Attari-Ludhiana is part of a larger route called the Asian highway network which connects Istanbul and Tokyo. In this respect, smooth traffic flow on this section is not only important for India and Pakistan but the entire continent. India expects to connect to Central Asia and West Asia through this route. More
Importantly, for South Asia it is the only land route that connects Afghanistan to the rest of South Asia. Moreover, along the route there are large industrial cities like Ludhiana, Amritsar and Lahore, other than the end-points Delhi and Islamabad, which are important destinations. The route is also part of the historical Grand Trunk Road that connects Kabul and Chittagong.

Although both India and Pakistan are aware of advantages the route holds, trust deficit and political disruptions on the Pakistan side have stalled any improvement on traffic flow between the countries. Unlike many other roads in South Asia, this road is also one of the most developed and has been historically widely used for international trade. It is also well equipped to handle much higher traffic than it handles at present. Pakistan has constructed an elevated highway from the Indian border to their capital. On the Indian side the entire route falls on National Highway-1, which is well maintained.

As earlier suggested, this route was widely used for trade historically, but after partition of India, traffic became negligible. Trade between the two countries was stopped entirely in 1971 due to war and it recommenced only in the year 1976 through the sea route. The land route was opened only in 2005. Cross-border movement of trucks started as a result of the Pakistan-India Joint Statement in August 2007. Pakistan started its exports to India by trucks in October 2010.

Given that this route operates as a transit route for Afghanistan’s trade with India, its importance in integration of SAARC increases. Even though there is a transit agreement between Afghanistan and Pakistan, frequent disruptions arising due to tension between Washington and Islamabad have blocked smooth flow of goods from Afghanistan to India. When such incidents happen, trucks from Afghanistan are blocked at the Pakistan-Afghanistan border.

Perception Survey Findings

Due to the restrictions in tradeable products through the land route, many of the traders used the sea route rather than the land route. Traders along the route were well aware of the potential market that Pakistan has, and expressed a desire to trade more if restrictions were lifted. Traders and logistics providers felt that even though they incurred high cost by using the sea route, they have gained significant market share in Pakistan. Given this scenario, if trade restrictions through the land route were lifted, transportation costs could be more than halved and the landed cost of goods reduced. At present, most trade between India and Pakistan takes place through Dubai or Colombo.
Traders that use the NH-1 to transport their products from Delhi to Attari pointed out that road conditions throughout the stretch were good and that other than certain minor issues along the way, there was nothing that increased the cost of transport. The transporters said that it took about 10 hours to reach Attari from the outskirts of Delhi without stopping for long along the way.

Information collected along the route on the Indian side from transporters revealed that other than on-going construction work, there were no restrictions on flow of traffic. Unlike other trade routes in India, transporters did not face any unauthorised toll collection on this route. Transporters also pointed out that entering and exiting Delhi was the most time-consuming part of the whole journey. Entry of trucks into the city is allowed only from 10 pm to 7 am. Although this decreases congestion, trucks end up waiting the whole day on the outskirts of the city. Likewise, some of the main towns and cities along the way were congested earlier but these congestions have been dealt with by constructing elevated highways or overbridges. NH-1 is four-lane at its narrowest stretch between Attari and Jalandhar. From Jalandhar up to the border between Haryana’s Sonipat and the national capital Delhi, it is six-lane. Its entire stretch in Delhi is eight-lane. NH-1 terminates in one of Delhi’s arterial roads.

Similarly, Pakistani traders were content with the infrastructure on their side of the route. An elevated highway has been constructed connecting Islamabad to Lahore, which is 22 km from Wagah. Motorway-2 which connects these two important cities in Pakistan covers a distance of 367 km and has six lanes. The distance from Islamabad to Wagah is around 390 km and can be covered in six hours. Transporters did not report any unauthorised tolls along this route.

Although no unauthorised tolls were collected from the transporters, transporters end up paying fines to city traffic police while entering city limits due to overloading of trucks. This is because load limit inside the city is much lower than highway limit. Estimates of fines vary from six to 10 tickets worth PKR 800 for each truck while covering the entire stretch. In some cases, driver ID cards are confiscated by the police which does not allow the driver to cross the border at the land port.

By interacting with traders and officials who have been associated with trade on this route for over 10 years, a comparison of trade before and after the infrastructural development was done. Traders gave an account of past issues they had to deal with during the early 2000s. Before the ICP was built, goods were mostly unloaded and loaded in open areas along the road.
India and Pakistan do not have a transit agreement, hence trucks are not allowed to go beyond the land port on either side. This arrangement requires massive storage facility, where goods can be unloaded and stored until they can be loaded onto a different truck. Indian trucks unload the goods at the Wagah Land Freight Unit and the goods are then loaded onto a Pakistani truck; the same happens to Pakistani trucks on the Indian side.

Recent infrastructure developments on both sides like building of the ICP on the Indian side and the Land Freight Unit on the Pakistan side have improved trade. However, some issues still remain at the border, mainly due to lack of motor vehicle agreement.

Indian traders pointed out that unloading goods at Wagah Land Freight Unit and returning takes time due to lack of space at the port. Although it is well equipped with modern facilities, it needs more capacity to handle the present volume of trade. The Wagah Land Freight Unit is well equipped with vehicle scanner, forklifts, reach stackers, three weigh bridges and seven warehouses.

Although there are sheds for storage of goods, there are no covered areas for unloading and loading. This exposes the goods to bad weather. All vehicles and goods are physically inspected on the Indian side since vehicle scanners are not installed, causing delay at the Indian side. Although one vehicle scanner has been installed at the border by Pakistan, it is inadequate to handle the traffic. It was observed that even though all goods are unloaded and inspected, about 10 per cent of the goods are further inspected at random by customs.

Perishable goods are given priority for unloading and loading at the port due to the time-bound nature of the product. This would indirectly mean that non-perishable goods need to wait longer to enter and exit the port due to the lack of adequate storage facilities. Pakistani exporters face delays at the border because some products need additional certificates from Indian laboratories before entering the country. As these tests are taken in different cities of India, results come after a good number of days.

Thus, additional certificates and clearance requirements add to freight and handling charges. In some cases, they were reported to be 20 per cent of the cost of goods. Exporters from Pakistan also said that due to inadequate labour at the Attari ICP, trucks with perishable goods are allowed before other goods. This becomes a major issue for large trucks because they are not allowed to stay in Indian territory for more than 24 hours. If the unloading does not get over on the same day, the trucks will have to return half empty and start again the next day.
In addition to the many infrastructure concerns, traders want better options for financial transactions. Traders feel the need for banks of both countries to operate in each other’s territories so that financial transactions become easier. There have been instances where payments were much delayed and letters of credit were dishonoured. This has caused trust deficit. Due to such instances, traders use agents in India to sell their products. Due to high commission levied by Indian agents for this service, cost of trade becomes higher.

One of the major issues pointed out by traders on both sides was the high wages demanded by labourers at the ports. Labourers at the border point are well paid as compared to other labourers in the area, earning around ₹400 for every truck they unload. On most days, they unload or load 10 trucks and earn around ₹4,000. Even then, strikes demanding higher wages are a frequent occurrence on the Indian side. Freight charges increase manifold during strike days and also increase the days a truck has to spend on the border. Mechanisation of loading and unloading would decrease dependence of labour and increase speed of trade flow.

As far as documentation needed for trading through this route is concerned, traders need about 6-7 documents for entering India from Pakistan and vice versa. They said if the procedures at the border were uniform on both sides, it would help trade. Electronic Data Interchange (EDI), a system where all documents related to customs can be submitted online, has been enabled on both Indian and Pakistani sides. This decreases the time taken to submit documents to customs but since other agencies that are operational at the border do not have such facilities, documentation is still not completely paperless yet.

Due to certain differences in procedures and documents required by both countries, there is a lack of transparency in the whole process. Many of the issues that existed earlier, like harmonisation of office hours and holidays across the border have been resolved by regular meetings of customs officials from both sides. Some of the initiatives that have been taken up by both of the countries to increase coordination between the border administrations are establishment of a hotline between customs administrations of the two countries, trade timings from 7:00 am to 6:00 pm, seven-days working in a week, and a customs liaison border committee set up to resolve issues at the field level.

**Measures to Reduce Trade Costs and Ensure Smooth Flow of Trade**

From information gathered through field surveys, it was found this route to be comparatively well equipped as far as infrastructure is concerned. But some medium- to long-term measures can address the remaining infrastructural bottlenecks adequately.
However, it was noted that more than infrastructural issues, it was the political situation between the countries that impeded growth in trade. Some of the specific measures that can help trade on this route are as follows:

- To realise the immense potential of this route, it is imperative that Pakistan gives India MFN status.
- All modern techniques for movement of goods should be introduced immediately at Attari ICP so that not only costs come down, the movement of goods shall also be faster. Vehicle scanners shall be introduced for speedy clearance.
- Containerised traffic should be introduced. This would ensure safer transport and also bring down costs. Both countries should honour sealing procedures used by customs.
- A comprehensive motor vehicle agreement should be drawn up, which should consider including passenger vehicles.
- A single-window system for clearance of goods can be introduced with online documentation.
- Accreditation of banks of both countries should be fast tracked. This would significantly decrease the transaction cost.
- Smooth transit of goods from India to Afghanistan and vice versa be permitted and ensured by Pakistan.
Route 2: Kathmandu-Hetadua-Birgunj/Raxaul-Kolkata

Overview

This route connects Nepal to Haldia port near Kolkata, which is the designated port for Nepal transit. The route partially falls on Asian Highway 1 (NH-2) and partially falls on Asian Highway 42 that connects China, Nepal and India. The stretch from Bodhgaya to Patna falls under the NH-83 and the stretch from Patna to Muzaffarpur falls under NH-77. The Nepal part of this route falls under Asian Highway 42 as well as Asian Highway 2. The entire route is 927 km long, it also takes another 100 km to Haldia from Kolkata.

In Nepal, the route connects the capital to two of the largest industrial towns, Hetauda and Birgunj. Hetauda has many industries and also houses an industrial zone which has many factories within it. It is also one of the industrial towns where many small and medium enterprises are situated.

This route is important for Nepal because it connects the country to its nearest port at Haldia. In this respect, the route gains significance not only as a route for bilateral trade between India and Nepal but also as route that connects Nepal to the rest of the world. This route handles more than 60 per cent of trade with Nepal; mainly due to movement of petroleum products.
Findings from Perception Survey

On an average 500-600 trucks cross from India to Nepal through the LCS at Raxaul and around 50 trucks cross from Nepal to India. Out of the 500 trucks that go from India, about 200 trucks carry petroleum products. Exports from India include automobiles, motorcycles, milk powder, electronic products, plywood, mustard seeds and steel sheets. Imports to India through this route include ginger, Dabur herbal products, steel pipes and chemical products.

Trade between India and Nepal is smooth as compared to trade between India and Bangladesh or Pakistan. This is primarily due to the Motor Vehicle Agreement between Nepal and India. Traders are content with the documentation procedures and payment options between the countries. Traders say most trade happens through online transfer payments, demand draft and letter of credit. Payments are faster and easier because Indian banks are present in Nepal. Small volumes of trade also happen through cash as both currencies are accepted in both countries at a fixed exchange rate of 1.6 NPR for ₹1.

During the survey, traders and transporters felt that trade infrastructure and general infrastructure along the Kathmandu-Birgunj route was poor. Transporters said that it takes about five hours to reach Kathmandu from Hetauda, mainly due to the hilly terrain. In Nepal, respondents to the survey informed a tunnel is being constructed to connect Hetauda to Kathmandu and this will decrease travel time by about three hours. Trucks take about an hour and a half to reach Birgunj from Hetauda, which is 55 km away. The stretch from Birgunj to Kathmandu is 224 km long at present, and takes about seven hours to complete. To reduce the time the time taken to commute between Birgunj and Kathmandu, a fast-track highway is being constructed. Once the construction of this highway is completed, the distance between these two destinations will being reduced to about 120 km and the travel time would also be reduced by about 75 per cent. Another issue that was pointed out during our survey along this route was the existence of many one-lane bridges that caused traffic congestion.

On both sides of the border, traders and transporters informed that there is unauthorised toll collection by villagers. Nepal trucks in India are stopped more frequently by local people and forced to pay money. This happens to Indian trucks on the Nepal side of the border too. Along the entire stretch from Kolkata to Kathmandu, a toll of minimum ₹50 each is being collected at least 12 times. Some of them collect money by giving fake receipts.

A major bottleneck for traffic movement on this route is the LCS at Raxaul/ Birgunj. This route handles about 60 per cent of traffic between India and Nepal but the facilities at the border on both sides are inadequate. Parking space on the Indian as well as the
Nepal side is limited and usually a long line of trucks forms at the border. The Raxaul LCS is situated next to the railway station and the highway crosses the railway line. Since there is heavy train traffic at this station, the railway gate closes around 25 times on some days. This is one of the major issues pointed out by traders at Raxaul. A proposal to construct a bridge over the railway line was dropped due to protests by locals fearing loss of business to vendors. The existing bridge that connects Raxaul to Birgunj is very narrow and can only take one truck at a time.

The LCS at Raxaul is EDI-enabled, but awareness among traders about the facility is low. Traders said that trade usually happens through manual documentation and that the EDI is not being used to full potential due to frequent link failures and lack of awareness among traders. Manual documentation at most government agencies at the border has made crossing the border a time-consuming process. Due to the slow process of clearance at this border, trucks stay overnight on many occasions.

On average, it takes one or two days to clear goods at the Raxaul-Birgunj border posts, but this process can take up to four days or more if SPS inspections and laboratory testing are required or other issues emerge. Private sector traders complain of the high number of procedures and documentation required, including 19 signatures on the typical Indian Customs Transit Document (CTD) and duplication of procedures on both sides of the border.

An ICP has been constructed at Raxaul which is yet to be operationalised. The progress has been stalled due to issues related to acquisition of land to build an approach road. Similar infrastructure has been built on the Nepal side. The travel time for cargo trucks can be reduced by a day if these ICPs are operationalised.

Another issue that was pointed out by traders from Nepal was that it took more time for goods destined for Nepal to get clearance from Haldia port. Documentation and procedures were also cumbersome at that point. Once the trucks were cleared at the port, entering and exiting the city of Kolkata was time consuming.

Some of the non-physical barriers that were pointed out included state-wise taxes that are levied on Nepalese exports en route to final destination, Nepalese quarantine and testing certificates are sometimes not recognised by the Indian side, port hassles, delay in border clearances, congestion, unavailability of railway wagons and many procedural documents are other major NTBs for import and export of goods through this route.
Measures to Reduce Trade Costs and Ensure Smooth Flow of Trade

Along this route, traders and transporters were more concerned about infrastructure deficiencies than procedural issues that were crippling trade on other routes. Although there were some procedural issues that were pointed out, they were not as severe as the infrastructure ones. However, many of the infrastructure issues that were noted during the survey were being dealt with by the respective government departments. Some of the specific measures that can help trade on this route are as follows:

• Optimal use of the existing infrastructure at the ICP. Vehicle scanners should be introduced for speedy clearance.
• Online documentation should be introduced at all the offices at the border. There is poor coordination among departments (especially at State government level). If a single-window system is introduced, it would ensure timely clearance of goods.
• A nodal officer (preferably a senior officer from the State/ Central Government) should be appointed for entire LCS.
• Modalities should be worked out to honour certificates issued by various Nepal authorities.
• State governments should sensitise enforcement officials that goods on way to Nepal or a third country are not taxed.
Route 3: Kathmandu-Kakarvitta/Panitanki-Phulbari/Banglabandha-Hatikumrul-Dhaka

Distance 1444 km
Overview

This corridor establishes a link between Nepal and Bangladesh through India. For Nepal, this route also gives access to Chittagong and Mongla port. Substantial trade between Nepal and Bangladesh take place through this route. It starts at Kathmandu and uses the Prithvi Highway and East-West Highway to reach the border at Kakarvitta (Nepal)/Panitanki (India) and then follows NH-31 and SH-12A to reach Phulbari (India)/Banglabandha (Bangladesh). From Banglabandha, the corridor follows the N-5 up to Hatikumrul and then it follows N-405, N-4 and N-3 to reach Dhaka. The total length of this corridor is 1152 km (Kathmandu to Dhaka). In Nepal, the road from Kathmandu to Kakarvitta is 600 km. In India, the road from Panitanki to Phulbari is 54 km. In Bangladesh, the road from Banglabandha to Dhaka is 498 km.

Although this route is mostly known as a corridor that connects Bangladesh to Nepal, India also uses this route for bilateral trade. The route runs through Siliguri, an important town that links the north-eastern states to other states of India. Siliguri also houses many traders who deal with Bangladesh and Nepal. Nepal’s exports to Bangladesh constitute mainly yellow lentils, oilcake, cardamom (large), wheat, vegetable seeds and handicrafts, pashmina. Imports from Bangladesh include industrial raw materials, chemicals, fabrics and textile materials, jute products, electric and electronic items.

Perception Survey Findings

The Perception Survey reveals interesting findings about the current state of condition of the corridor and other related issues which create obstacles in the smooth movement of goods. It was found that about 15-20 consignments are handled on daily basis on this route between Bangladesh and Nepal and the share of containerised and non-containerised cargo is about 50:50 for both inward and outward freight. Containerised cargo is unloaded and loaded on to an open truck at the Phulbari LCS for further transport.

During the survey on the Bangladesh side, it was found that severe infrastructure challenges are faced by transporters and truck drivers on either side of the border. Due to poor road systems, traffic congestion hampers travel. Foreign exchange facilities do not exist at Panitanki and Phulbari. Phulbari LCS has been constructed and will be upgraded to an ICP in future. The LCS is well equipped with warehouse, parking space, and a weighbridge but is yet to be EDI-enabled. The LCS at Kakarvitta port is very well equipped for present as well as future traffic, except that it lacks testing laboratories. The road from Kakarvitta to Hetauda is well maintained.
On the Indian side, however, the Panitanki LCS is not adequately equipped to handle the traffic. Due to lack of parking space as well as covered warehouses, trucks are usually stopped and checked on the road itself. No officials are permanently posted to look into the working of the LCS, as an officer comes only three days a week. The bridge that connects Panitanki and Kakarvitta is narrow and congested. No wonder, traders from Nepal as well as India expressed their dissatisfaction with the LCS. Although a plant quarantine is available at the LCS, it is not equipped to conduct tests.

On the Bangladesh side, road conditions are satisfactory but the route lacks warehouses and parking spaces where trucks could be parked overnight. If traffic on this route increases, the existing road might not be enough. Facilities at the border in Banglabandha are not modernised and lacking in many ways.

One of the procedural issues pointed out by traders was that a Customs Transit Declaration has to be provided for transit of goods through Indian territory. A typical export or import from Nepal consists of around 11-12 documents and a typical export from Bangladesh consists of seven documents, while imports consist of nine documents. Although customs on both sides of the border at Phulbari and Banglabandha have harmonised their holidays, working hours are not suitable for trucks transiting to Nepal. If trucks do not cross the Phulbari LCS on time, they are forced to halt at Siliguri because the Panitanki LCS closes at 5 pm.

Under the agreement between India and Nepal, products will be determined as produce of Nepal only when there is at least 40 per cent domestic value-add in them. All products that come under this section are allowed to enter the Indian market free of duties except for food products that need additional certification. This leads to delays at the borders, sometimes up to 10-12 days, as samples have to be sent to Kolkata for testing. The Indian Standards Institute does not readily accept standards set by the counterpart Nepali Standards Bureau and this causes problems in relation to many categories of cargo.

Although India and Nepal have a transit agreement between them, no such agreement exists between Bangladesh and India. At the border, cargo is required to be transhipped between Bangladeshi registered vehicles and Nepali registered vehicles or Indian registered vehicles. This activity adds to costs and causes delay. Another important constraint is that when Bangladeshi customs officers are required to clear cargo, they must be summoned from Panchagarh, 50 km away. Additionally, as far as passenger traffic is concerned, there is no trilateral agreement, though a bilateral agreement exists between India and Nepal.
A number of relevant stakeholders involved both at Dhaka and at Banglabandha LCS were consulted to assess the nature of prevailing trade barriers between India and Bangladesh. To facilitate better trade, customs procedures require significant improvement. It was noted that operational efficiency at the customs station is poor and carrying & forwarding (C&F) agents have greater involvement with customs authorities. Traders lack the awareness needed to directly interact with the customs authority and documentation procedures, necessitating reliance on C&F agents.

Bangladesh follows a centralised system for its customs department. If all customs officers are present at the duty station, clearance takes one day. However, for non-containerised/loose container items, it is much higher. Also, in case documents do not reach a responsible authority in the specified time and customs officials are absent, then the stipulated time can be exceeded. It takes much more time if the goods need to be tested.

Traders informed that there are not many payment options available for transactions between Nepal and Bangladesh. As the two countries do not have their banks in each other’s country, transaction costs increase. It is also fairly challenging to obtain relevant information necessary for transactions as the knowledge base is not good enough. Although Export Promotion Bureau of Bangladesh, customs authority, and port authority do gather some data, the statistical base needs to be improved.

In Bangladesh, EDI facilities have seen much improvement over the previous provisions and are being widely used for data matching as are internet and e-mail as communication tools. Most large ports in Bangladesh are EDI-enabled. However, due to internet link failure, trade often takes place through manual documentation.

Although as per rules, 100 per cent inspection of consignments is mandated, there is no specific practice and the same depends entirely on customs officials. Most of the time, consignments are subjected to random checks. All trucks are checked by the customs authority at the border but only 5 per cent of the goods in the trucks are checked.

During the survey it was learnt that the main export items to Nepal and India from Bangladesh using this route are juices and drinks (60 per cent), confectionary including candy, chocolate, chewing gum, lollipops, edible jelly, fruit bars (30 per cent) and snacks like biscuits (10 per cent). The main import item is pulses,
One of the largest fast moving consumer goods (FMCG) producers in Bangladesh, Pran group, has monthly export value of approximately US$1mn, with an overall annual export value is about US$12mn. Most of these exports are concentrated in the SAARC region. This producer used this route to export to Nepal. In all, there are about 600 products under Pran Group which are locally marketed and also exported. The group, however, does not trade directly and employs C&C agents to deal with the customs officials for document approvals and border crossing issues.

Yet it was reported that the overall export process is not user-friendly with pre-shipment requirements, documentation, regulations and infrastructure not geared to ease the process for the trader. Every day, Pran despatches four trucks on this route. Loading, unloading and border crossing caused major delays. Wages for loading/unloading vary from ₹600-₹1,250, depending on the nature of the goods.

Moreover, it was felt that in the case of exports to Nepal, Indian exporting trucks and covered vans get priority over their Bangladeshi counterparts. The group at times faces unavoidable delays of up to 3-5 days to complete customs formalities. It was also learnt that the customs systems are not as smooth as they are required to be under law. Furthermore, Banglabadha LCS and its officials and workers are not efficient and it was felt there is a need to keep the LCS operating 24 hours.

By and large, adherence to destination country standards was not seen as a problem, especially in Nepal and India as SAARC regional standards are similar, although occasionally some issues are faced in getting consignments ready to standards. It was also gathered during the survey in Bangladesh that export to SAARC nations is favourable as compared to non-SAARC nations. The main reasons for this were found to be ease in documentation required (time and signatures), no requirement of third-party inspections and also easy accessibility of market-related information and communication with SAARC nations.

There is no bilateral trade arrangement between Nepal and Bangladesh. Trade facilitation benefits from SAFTA practices are not utilised. Transit facilities are not given by any of the countries, only trans-shipment facilities are used to export to Nepal via India.
Kakarvitta LCS are closed on Friday, Sunday and Saturday respectively. Ultimately, the importers and exporters get only four days for releasing products from those LCSs. Increased efficiency of customs can generate greater volumes of trade and revenue for the respective governments, given that trade between Nepal and Bangladesh does not happen on Friday, Saturday and Sunday.

On the question of delays in presenting bills of lading by importers, it was found that there are no serious problems regarding such documentation. The cost of transporting goods from origin to destination was found to be Tk 18,000-20,000 for 10-12 tonnes of cargo. Losses and damages incurred as a consequence of poor infrastructure are on a downward trend. While truck operators do not use EDI, email, and internet or satellite communications, these facilities are being utilised by importers, exporters and freight forwarders. It was also reported that the requisite information on customs and other procedures was available easily from C&F agents.

Border point passages are normally cleared in 3-4 hours. However, it may take 6-12 days during festival holidays (e.g. Eid). On the issue of foreign trucks operating inside the borders, it was learnt that they are permitted within half a kilometre inside the border and while Nepalese trucks can easily unload goods inside the Bangladesh border, Bangladeshi trucks cannot unload goods in Nepal border directly. It was also learnt that there are no restrictions on the number of trucks allowed per day nor on the quantity of goods being imported or exported.

Truck drivers pointed to the lack of complementary facilities like service station, restaurants and hotels along the route. They said if a truck does not get cleared on Thursday at the Bangladesh border, they won’t be able to move towards Nepal for another three days due to holidays.

The cost of a truck/covered van from Dhaka to Banglabandha was found to be Tk 13,664 as reported by Pran; others reported transport costs as Tk 15,000-18,000. The roads are reportedly good and as far non-perishable cargo is concerned, they experience no loss or damage. Recently, GPS tracking systems have been introduced to location identification while other facilities such as EDI, email, internet and satellite communications are not being used. Border point crossing usually takes 30 minutes to an hour if C&F agents prepare the documentation while in general cases it may take upto six hours. However, if Nepalese trucks are not available on the other side of the border, this time can stretch upto two days.
There is no restriction on the number of trucks operating in a day and while there is no quantitative restriction on goods, the Bangladesh government permits transport goods weighing up to 20 tonnes (including truck weight) on all bridges. Most Indian trucks exceed this limit and their cargo needs to be shifted to smaller trucks in Bangladesh.

During the survey, it was found that pulse imports through the Bangla bandha LCS was roughly 1,597 MT in April 2014 and 442 MT in May 2014. While the quality of services varies among agencies, it was found that the internal relationships between the customs and other control agencies are generally cordial. Also, C&F agents on both sides of the border communicate with each other on customs clearance issues. However, the LCS on the Bangladesh side is not well equipped and full customs amenities are not established yet. Work is in progress at the Phulbari LCS for improving facilities.

As far as inspection of consignments is concerned, the border administration checks some vital documents such as pro-forma invoice, packing list/LCA, commercial invoice, L/C, authorisation letter, country of origin, quarantine certification, insurance cover note, VAT certification, and C&F authorisation letter. Average time for clearance of a consignment to pass through the LCS/ICP is 3-4 hours.

**Measures to reduce trade costs and ensure smooth flow of trade**

Traders and transporters along the route pointed out procedural as well as infrastructural shortcomings. This route has more procedural issues than on other routes due to the transit through India. Some of the specific measures that can help trade in this route are as follows:

- A comprehensive motor vehicle agreement between India and Bangladesh to allow Bangladeshi trucks to transit India to enter Nepal. This would reduce transport costs and Nepal would gain access to alternate sea route to Chittagong/Mongla.
- Improve conditions of bridges along the route.
- Nepal and Bangladesh should increase container traffic for better trade.
- Certificates issued by Bangladesh/Nepal authorities should be honoured. Modalities should be worked out to ensure accreditation of competent authorities by India.
- A single-window system for clearance of goods can be introduced with online documentation. Vehicle scanners should be introduced for speedy clearance.
- Improve facilities at LCS, especially Panitanki and Banglabandha.
Overland transport would be the cheapest mode of transport in most of South Asia if infrastructure as well as procedural impediments are eliminated. Most of the major routes used for intra-regional trade are out-dated as far as infrastructure is concerned, making land transport inefficient. Many previous studies give evidence of high transport costs in South Asia; this is also evident from the above survey results.

While there have been considerable improvements in sea and air transport, road transport seems to have been neglected by all countries in the region. A reason for this could be the orientation of trade towards the developed countries in the past, where neighbours were ignored. It is only recently that trade with neighbouring countries has been taken seriously. Although no significant improvement in intra-regional trade has been noted, the countries have recognised high potential for trade in most of the region.

In general, the road transport system in the region was found to be lacking modern infrastructure. Most traders considered trade through land route more cumbersome than air or sea. During the survey, we found that cost of trade increased not only due to issues at the international border but also at the state border, where taxes are collected and documents are checked. Traders were concerned about the various political uncertainties along the route; many times, trucks would be stopped by local political parties in protest against the government.

While many of the issues were similar on all three routes, the condition of roads and complementary infrastructure was found to be poor in poorer regions in India. In Nepal, parts of the route that passed through hills had markedly poor infrastructure due to landslides and other natural calamities. In Pakistan, although, route 1 passed through the hills, the road infrastructure was found to be generally good and well maintained.

Along the Delhi-Islamabad corridor, which is the only land route linking Pakistan and India, it was found that conditions of trade
infrastructure as well as complementary infrastructure were comparatively better. However, transporters complained about the need to mechanise loading and unloading at the Attari ICP due to high labour costs being incurred at present. Comparing the three routes, traders along the Kathmandu-Kolkata route faced highest costs of trade due to frequency of toll collection along the road, bad general infrastructure and poor infrastructure at the border.

In general, very few products need testing in this region. If such a requirement arises, infrastructure for conducting these tests is not available at the border. Many of the trucks carrying such products end up staying at the border for about three days more than normal. On average, it takes one to two days to clear goods at the border posts, but this process can take up to four days or more if SPS inspections and lab tests are required or other issues emerge. Private sector traders voiced discontent about duplication of procedures on both sides of the border.

A number of trade hurdles persist in the case of Indo-Nepal trade. State-wise taxes are levied on Nepalese exports en route to their final destination. Nepalese quarantine and testing certificates are sometimes not recognised by the Indian side. Likewise, port hassles, delay in border clearance, congestion, unavailability of railway wagons and too many procedural documents are other major NTBs for import and export of goods.

On the Kathmandu-Dhaka route, since Nepal has a motor vehicle agreement with India, exports from Nepal reach the Bangladesh border without many hurdles. The Indian authorities only check whether the customs seal has been tampered with or not. On the other hand, consignments from Bangladesh are stopped at Phulbari LCS and loaded on Indian or Nepal trucks for transit to Kathmandu. This causes a long queue of trucks headed to Indian cities as well as cities in Nepal. On this route, incidence of unauthorised toll collection was also high.

The study has observed that trade through land route in South Asia takes more than required time only due to lack of testing facilities at the border. Tests are usually done in major cities, which takes time to deliver results. Lack mutual recognition of the test certificates is also a major barrier to trade.

**Containerisation of Cargo**

A short-term solution for ease of transporting cargo is to increase containerisation of cargo. If containers once checked and sealed at the origin could be transported without stoppage or further checking until they reach the destination, it would save a lot of time and cost. The percentage of containerised cargo in South Asia is very low and needs to be increased. Containerisation also
decreases the need for elaborate physical security checks as they can be sent through vehicle scanners to examine the content. It would also reduce the dependence on manual labour, as loading and unloading if necessary can be done through cranes and forklifts. At present, the land ports lack modern infrastructure like cranes and other container handling facilities.

Cooperation between Local and Central Government

On some routes, like Kathmandu-Kolkata, the coordination between agencies of the state government seemed poor. Traders complained that it took more time for the trucks to cross state borders than usual on this route. Nepal traders complained about the need to pay tolls and taxes in some of the Indian states. They said that it was not that the tax levied was high but the time taken to process documents in order to pay tax took a lot of time. This was mainly pointed out by traders who entered the states of Bihar and Uttar Pradesh. Traders who dealt with herbal medicines from Nepal found this specific issue highly detrimental to their interests due to the short shelf life of these products. Local government need to be aware of the importance of regional trade and prioritise it. Free flow of goods through their jurisdiction should be a priority.

A nodal officer should be appointed for the entire LCS. An officer from the local government should be preferred, as generally problems faced would relate to state departments. The officer should be reasonably senior so that he can ensure that his instructions are complied with. It would be advisable that a local grievance redressal body is set up (headed by District Collector) to meet on a regular basis to address local issues. Such a body can be very useful when local labs are used to meet SPS requirements. Issues relating to collection of tolls, both authorised and unauthorised, can also be taken up in such meetings, with recommendations for competent authorities in the state.

In addition, cooperation between State and Central Government and agencies at the border points need to be improved. If there is better cooperation, the concerns of traders can be addressed better. All departments stationed at LCSs should be upgraded to use more Information Technology. At present, customs is the only department that uses online documentation through EDI system. Vehicle scanners should be installed at all LCSs to avoid long queues and to reduce physical inspection.

Reduction in Number of Toll Collection Points

Over and above the number of various authorised toll collection points, almost all the routes had a number of irregular and unauthorised toll collection points. The frequency of tolls increased as the trucks neared the border points. As many as five collection points were noted near the border. These tolls were usually
collected in the name of village road maintenance, parking, and even local festivals. Many of the collection points had receipts while others did not. Frequency of tolls was higher along the routes that pass through poorer states, a pattern observed during the survey.

The state and the local governments need to take note of this. Local communities should be dissuaded from interfering with transportation. The impression one gets is that toll collection is an effect of lack of organised employment in the region.

**Utilisation of the Existing Domestic Infrastructure**

The routes connecting Delhi to Wagah and Kathmandu to Kolkata are already connected with Container Freight Stations (CFS) and Inland Container Depots (ICD). CFS is merely an appendage to a parent customs station at a port, airport, LCS or ICD, whereas an ICD is a customs station in its own right, having independent existence on par with any customs station at a port, airport or LCS. A CFS is an extension of a port/airport/LCS/ICD customs station, set up with the main objective of decongesting the ports, where only a part of the customs process, mainly the examination of goods, is normally carried out by customs. This infrastructure could be utilised to make trade flow more efficient. As suggested earlier, containerisation by itself would make trade flow faster. Infrastructure like CFSs and ICDs can complement the containerisation process on this route. For this to happen, containerised cargo movement through ports need to take place.

**Comprehensive Motor Vehicle Agreement and Mutual Recognition of Standards**

Most of the issues pointed out during the survey are solvable by bringing out a regional comprehensive motor vehicle agreement which will ensure continuous flow of traffic. Problems pointed out by traders at the border point were usually related to loading, unloading and storage of goods. A Motor Vehicles Agreement that allows goods to pass freely through the border point would mean that need for unloading and loading as well as storage is reduced. As pointed in the previous chapter, labour charges at the border are very high and can add significantly towards the cost of trade. If vehicles can move from one country to another freely, the need for such labour at the border can be reduced.

Another important issue faced by traders is lack of mutual recognition of standards in the region. Due to this, procedures are duplicated on both sides of the border. Another important issue faced by traders is lack of mutual recognition of standards in the region. Due to this, procedures are duplicated on both sides of the border. If agreements are signed between countries of the region, free flow of trade between these countries can be a reality. Expediting the implementation of regional standards being developed by South Asia Regional Standards Organisation (SARSO) will also be helpful in the long run.
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With its headquarters in Jaipur, India; Regional Centres, in Lusaka, Nairobi, Accra and Hanoi; and an International Centre in Geneva, CUTS International has three verticals: Trade, Regulations and Governance. Through policy- and action-research, advocacy, networking and capacity building, it has established its relevance and impact in several policy-making areas and among the larger development community.

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About the Study

Though the crux of the trade and development agenda of South Asian countries lies in trade facilitation, it continues to face a lot of infrastructure and procedural obstacles in the cross-border intra-regional trade through land routes, that is through road and rail transport. Hence, hindrance in trade facilitation through land routes connecting major commercial centres, especially in Bangladesh, India, Nepal and Pakistan, have weakened the effectiveness of other trade liberalisation policies such as tariff reduction that were adopted to boost trade between these countries.

Nevertheless, the South Asian countries have initiated a number of projects at various levels to increase the efficiency of regional transport and transit systems but they still face a number of policy-related as well as procedural barriers. As a result, inefficiencies abound in some of South Asia’s most important cargo transport corridors. This study deals in identifying the bottlenecks present along three important trade corridors between Pakistan-India, Nepal-India and Nepal-Bangladesh and is expected to contribute to the enhancement of intra-regional trade by finding answers to some important questions vis-à-vis trade facilitation along these corridors.

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