As SAFTA Gains New Momentum, Trade Facilitation Should Remain Key Priority

Over the past several months, major policy changes have taken shape that could dramatically alter the economic landscape of South Asia. With the recent commencement of normalized direct trade between India and Pakistan-administered Kashmir, the accession of Afghanistan to the South Asian Free Trade Area (SAFTA), and recently initiated negotiations to expand SAFTA to include trade in services, there is the potential for a dramatic increase in South Asian economic integration. To this end, it is vital that policymakers make trade facilitation reform a top priority in order to reap the maximum benefits possible from these trade policy developments.

Need for Economic Integration

South Asia is among the least economically integrated regions in the world. As of 2006, intraregional South Asian trade was less than 2 percent of regional GDP. By comparison, intraregional trade in the East Asia and Pacific region for the same year was equivalent to more than 20 percent of regional GDP. The difference is due, in large part, to logistics challenges in South Asia that have kept trade transactions costs high despite major tariff reductions in recent years. As a result, trade between India and Pakistan, which by some estimates could be as great as US$9 billion, is currently closer to US$2 billion, the majority of which is routed through Dubai (World Bank 2007b).

It is estimated that if South Asian countries were to collectively attain trade performance measures equivalent to half the East Asian average, in terms of the World Bank’s trade facilitation indicators, South Asian intraregional trade would expand by US$2.6 billion. India, the largest beneficiary, would see trade flows increase by US$1.1 billion (World Bank 2007b).

Logistics Bottlenecks

On average, it takes more than 33 days to export from or import into South Asia. By comparison, average export and import times for East Asian and Pacific countries are 23 days and 24 days, respectively. According to Doing Business 2009 survey data, South Asia is the slowest region in the world outside Sub-
Saharan Africa in terms of the number of days it takes to complete a cross-border trade transaction. As a result of long delivery cycle times, South Asia has been confined to the lower value end of most of the goods sectors in which it trades, including the important garment sector spectrum. Bangladesh, for example, is restricted entirely to the very low value mass market (World Bank 2008b).

Interestingly, Doing Business 2008 notes that India, unlike many of its regional neighbors, can attribute its poor trade performance times almost entirely to its cumbersome customs and documentation procedures, rather than the state of its infrastructure. Although the amount of paperwork varies depending on the port, the average number of documents needed for importing and exporting goods has remained more or less constant since 2006, at about eight to nine documents (World Bank 2008).

Unlike other regions where trade facilitation challenges may vary considerably by economy or sub-region, the economies of South Asia all face common logistics-related challenges. The majority of these are related to transport infrastructure and customs procedures. Several surveys, including the World Bank’s Doing Business survey and Logistics Perception Index, indicate that South Asia has much higher transport costs and more complex trade procedures than either developed countries or its major competitors.

**Customs Procedures**

South Asia has lagged behind other regions, including East Asia, in implementing technology systems in customs administration procedures. Until the 1990s, customs functions in South Asia were primarily focused on revenue collection and trade protection; there was not a strong drive for increased efficiency and transparency. Although the region has made progress in streamlining and harmonizing customs procedures, including the approval of the SAFTA customs action plan, South Asia retains the distinction of being the region that requires, on average, the most documentation to complete a cross-border transaction (World Bank 2008).

Going forward, South Asia needs to prioritize the streamlining of procedures and to do so consistently across the region. Currently, streamlining and harmonization initiatives focus on the main trade gateways; these types of reform programs have often excluded secondary customs stations. This has implications for intraregional trade, which is often routed along less traveled corridors (World Bank 2008b).

If South Asia were able to bring just its customs administration performance to half the East Asian average, in terms of the World Bank’s trade facilitation indicators, estimated intraregional trade would increase by US$429 million (Wilson, Otsuki 2007).

**Infrastructure Investment**

In South Asia, trade logistics costs are estimated to be equivalent to about 14 percent of GDP, compared with about 8 percent of GDP in the United States (World Bank 2008).
Therefore, although some South Asian economies, including India and Pakistan, now offer transport services on par with international standards in some sectors (e.g. maritime port services), there is room for both more investment in modern infrastructure and more competition in providing transport services.

With respect to intraregional trade priorities, road transport services provide a prime example of an infrastructure sector that is in vital need of reform. South Asia is only now beginning to provide high quality roads that can facilitate reliable trucking services. Furthermore, the four-lane highways being completed in some of the main trade corridors generally fall below expressway standards, and the mix of motorized and non-motorized traffic limits capacity and service standards. On average, it takes four days to complete the 700 kilometer journey from Kolkata to Nepal (World Bank 2008b). Road quality issues need to be addressed in conjunction with cross-border services agreements that eliminate the need for transshipment. Only by addressing these issues will intraregional land transport be more competitive than the current circuitous maritime routes.

If South Asia were able to bring just its port efficiency performance to half the East Asian average, in terms of the World Bank’s trade facilitation indicators, estimated intraregional trade would increase by US$712 million (Wilson, Otsuki 2007).

**The South Asian Regional Trade Facilitation Agenda**

A recent analysis of the various free trade agreements (FTAs) in the South Asian region notes that the vast majority of bilateral FTAs, to date, do not contain any specific trade facilitation measures. Some aspects of SAFTA do provide for regional trade facilitation measures, including requirements concerning the publication of rules and regulations, and the identification of enquiry points for exchange of information. However, SAFTA ignores many of the most pressing trade facilitation challenges facing the region: chiefly, infrastructure development and increased transparency in customs administration (Chaturvedi 2007).

What is lacking in South Asia, compared with East Asia and other developing regions, is in part derived from limited cooperative action that is focused on setting and collectively attaining specific trade facilitation targets (Wilson, Otsuki 2007). Unlike East Asia, which through APEC has set goals for paperless trading and increased transparency in customs administration, the majority of SAFTA’s trade facilitation components, including agreements on customs and standards, encourage harmonization and reform, but do little to set benchmarks for measuring progress (SAFTA 2004).

**Further Reading**


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1 The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent.

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