

Connecting South Asia

The Centrality of Trade Facilitation for Regional Economic Integration

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1. INTRODUCTION

According to the World Trade Organization (WTO), trade facilitation is the process of “simplification and harmonization of international trade procedures” covering the “activities, practices, and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.”¹ It relates to a wide range of activities at the border, such as import and export procedures (for example, procedures relating to customs, licensing, and quarantine); transport formalities; and payments, insurance, and other financial requirements. However, the concept of trade facilitation also is intrinsically linked to several factors behind the border. The quality of a country’s domestic transport and logistics infrastructure and regulatory policies that affect the flow of goods and services within its boundaries are a vital part of the overall transaction costs of trade. Table 5.1 lists the key trade facilitation issues under two heads: (a) gateway issues related to

trade facilitation at the border and (b) behind-the-border issues related to transaction costs imposed on trade within the border.

TABLE 5.1 Key Trade Facilitation Concerns

<i>Gateway issues</i>	<i>Behind-the-border issues</i>
<ul style="list-style-type: none"> ● Customs and other border formalities like nontariff barriers ● Transparency of regulations ● Efficacy of regulatory agencies ● Efficacy and logistical capability of ports, airports, and land border crossings ● Cost and quality of international transport linkages ● Quality of international institutional linkages such as Mutual Recognition Agreements (MRA) and Preshipment Inspection (PSI) Agreements 	<ul style="list-style-type: none"> ● Quality and costs of transport infrastructure ● Availability of multimodal transport ● Quality of logistical support in the hinterland such as warehousing facilities ● Efficacy and transparency of regulations of within-country border crossings (that is, crossing across provincial or municipal lines)

Source Authors' compilation from various sources.

The importance of reducing the transaction costs of trade through better trade facilitation is underlined by the fact that for 168 out of 215 U.S. trading partners, transport cost barriers outweigh tariff barriers (World Bank 2002, 100). Trade facilitation assumes even greater importance now in the arena of international trade given recent trends in the structure of goods (and services) traded and the sophistication of such products. Modern supply chain management techniques and the rapid spread of information technologies and e-commerce have progressively increased the use of just-in-time techniques by manufacturing industries and have encouraged the growth of integrated global supply, production, and distribution systems. In this environment, where manufacturers rely on the uninterrupted reception of the necessary components to meet production contingencies, businesses cannot afford to have imported or exported goods tied up for long periods because of unnecessary or overcomplicated trade procedures and requirements.

The spatial distribution of global production system is no longer simply driven by labor cost arbitrage. The competitiveness of an operation within the global production system is a combined function of cost, time, and reliability. Differences in cost of production, especially those related to labor, are increasingly being overcome through the introduction of

automated systems and greater productivity. As the opportunities of differentiation in terms of price diminish, competition within the global production system will be in terms of reliability and time. Thus, countries that ignore the issue of trade facilitation will do so at the cost of compromising their global competitiveness in the long run.

As emerging market economies, including those in South Asia, seek to stimulate growth in trade, it is important for policymakers to understand that trade facilitation plays the pivotal role in this effort. The three crucial trade expansion strategies—diversification, moving up the value chain, and encouraging export-oriented entrepreneurship—all depend to a large degree on the efficacy of trade facilitation measures (Arnold 2007, 191–92). Diversification requires the introduction of new supply chains and complementary improvements in logistic services. Moving up the value chain to more sophisticated products would require participating in and managing a more complex supply chain and undertaking an increasing number of transactions, which by definition would require better logistical infrastructure. Encouraging export-driven entrepreneurship in emerging countries would require that the costs of trading for small and medium enterprises (SMEs) be kept low. Such SMEs are typically involved in niche product segments or work as subcontractors within the global supply chain. However, niche markets and small-scale shipments have more challenging international logistics, while subcontracting requires better domestic logistics, making trade facilitation crucial for such activities (Arnold 2007, 191–92).

Intraregional trade in South Asia, especially through formal channels, remains abysmally low at about 2 percent of total trade. Although a large part of the problem is related to a high level of formal trade barriers and the political unwillingness to liberalize interregional trade, the poor state of trade facilitation, as well as both gateway and behind-the-border issues, also play a critical role in keeping inter-South Asian trade low. The following sections of this chapter present the broad issue of trade facilitation in the South Asian context. Section 1 introduces the current scenario in terms of trade facilitation and transaction costs in the South Asian region in comparison with other parts of the developing world. Section 2 provides a brief overview of some of main trade facilitation issues and policies in a country-by-country basis for the six major South Asian economies. Section 3 discusses the trade facilitation content of the two major regional trade integration initiatives in the region—SAFTA and BIMSTEC. Section 4 provides some concrete policy recommendations and the way forward. Section 5 concludes the chapter.

2. TRADE FACILITATION AND TRANSACTION COSTS IN SOUTH ASIA: AN OVERVIEW

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

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

The centrality of the two above themes to regional integration is highlighted by Table 5.2, which provides Wilson and Otsuki's (2007) estimates on the gains for South Asian intraregional trade accruing from improvements in regulatory and logistical issues.

TABLE 5.2 Gain in Intraregional Trade from Capacity Development in Trade Facilitation (US\$ millions)

	<i>Customs modernization</i>	<i>Regulatory reforms</i>	<i>Port efficiency (air and marine)</i>	<i>Services infrastructure</i>	<i>Total gain</i>
Bangladesh	144	71	228	339	782
India	193	123	314	519	1,149
Pakistan	29	42	74	191	336
Sri Lanka	63	41	97	175	376
South Asia	429	278	712	1224	2,643

Source Wilson and Otsuki 2007.

While the overall gain is a substantive US\$2.6 billion in intraregional trade, an increase of more than half of current levels of trade, two important messages need to be drawn from Table 5.2. First, the maximum gains come from improvements in port efficiency and logistical infrastructure, the poor quality of which remains a critical impediment for trade in South Asia. Second, this table does not include the gains to intraregional trade that can accrue from improvements in behind-the-border factors such as quality of roads, railways, and investment in multimodal transport. Given the high incidence of transaction costs from behind-the-border logistics and transport in South Asia, gains from improvements in these factors can be expected to be greater than combined gains of all the four factors

in Table 5.2. Keeping these lessons in mind, the following paragraphs of this section will provide an overview of the current state of regulatory and logistical issues related to trade in South Asia. This section provides the regional overview on the main themes, and the following section will take up the country-specific issues related to different aspects of trade facilitation. Section 4, which follows the discussion of regional initiatives on trade facilitation, will address the policy issues and recommendations related to the major trade facilitation themes discussed in this section.

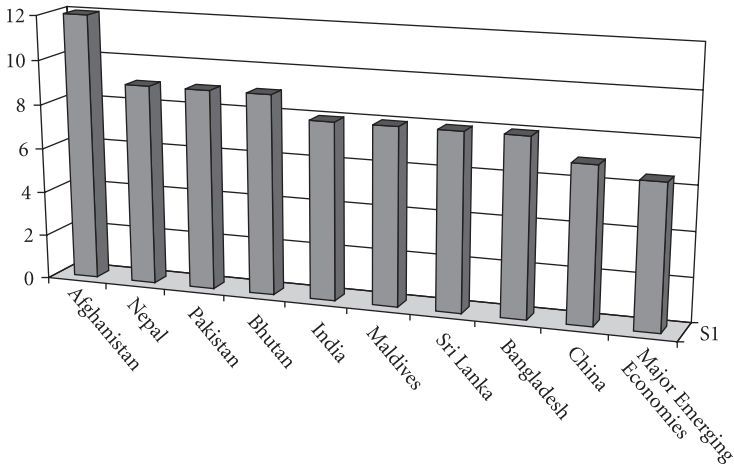
2.1 Regulatory Issues

2.1.1 Documentation Requirements and the Use of Information Technology

Keeping with the global trend of reforms of customs administrations, South Asian countries too have seen improvements in the overall quality of their customs-related bureaucracy. With the exception of Afghanistan and Bhutan, the widespread use of electronic data interchange (EDI) and the increasing use of paperless transactions has become the norm in South Asia's customs administration (Domus 2005, 13). However, the scope of EDI and the use of information technology (IT) are still limited, and there is ample room for improving the level of procedural simplicity and documentation requirements. In all countries, many agencies, apart from customs, involved with the clearance of goods are not yet up to the mark in automation, and hence paper trails remain. It is not so much the absence of an IT infrastructure, which increasingly is less of a concern, but rather the lack of movement in procedural reforms that is holding up further efficiency gains at South Asia's customs gateways. Figure 5.1 presents the average documentation requirements to export, and Figure 5.2 provides the average number of days required for customs clearance.

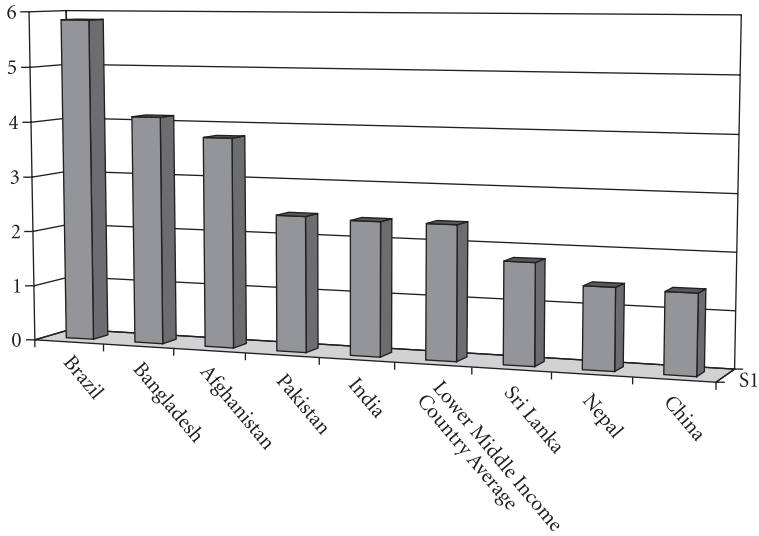
Figure 5.1 illustrates that South Asian countries have much higher documentation requirements than other emerging market economies and countries such as China. Figure 5.2 shows that major South Asian economies of Bangladesh, India, and Pakistan are below the average for lower-middle-income economies and much below the Chinese average in terms of number of days required for customs clearance. This means that despite the use of EDI, South Asian countries require further reforms in to reduce documentation requirements and to streamline procedures with the use of IT if the region is to reach global standards.

FIGURE 5.1 Number of Documents Required to Export



Sources World Bank 2008a and authors' calculations.

FIGURE 5.2 Average Days Taken for Customs Clearance

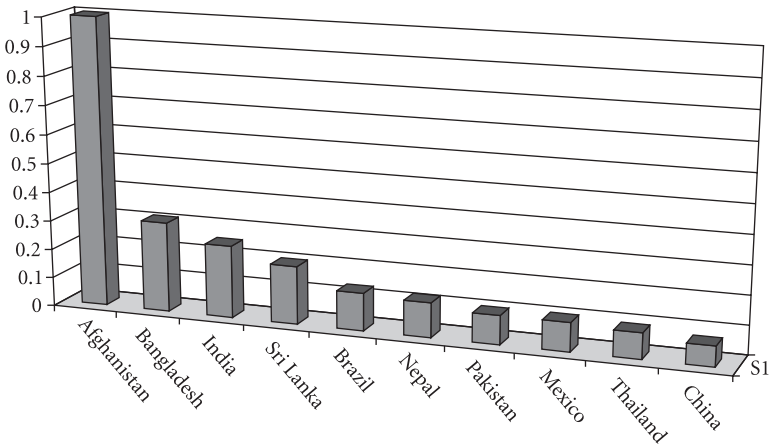


Sources World Bank 2008a and authors' calculations.

2.1.2 Security Requirements: Protecting Citizens and Consumers

Gateways have important security concerns related to protecting the nation's consumers from harm by using stringent quality controls, including sanitary and phytosanitary standards (SPS) that are applicable to food and agricultural products. Given the sensitivity of issues related to cross-border terrorism and narcotics, gateways also need to implement proper policing requirements to protect their citizens from drugs and terror. However, current procedures in the implementation of health and safety certification at the borders of South Asia remain far from efficient. Coordination is lacking between agencies are involved in this process, and the use of IT is limited. Procedural reforms to streamline the verification and certification process and modern risk-management techniques are also lacking. Figure 5.3 compares the average rates of physical inspection in South Asian and some other emerging economies.

FIGURE 5.3 Rate of Physical Inspection of Cargo



Sources World Bank 2008a and author's calculations.

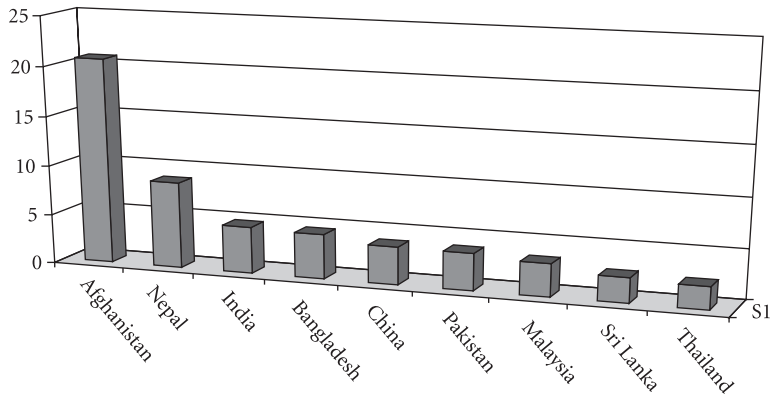
Figure 5.3 clearly shows that South Asian countries have far higher rates of physical inspection than their counterparts in the developing world, especially those in Southeast and East Asia. This rate of inspection reflects the poor risk management techniques and efficient sampling methods that cut back on the need for physical inspection of goods.

2.2 Logistics and Transport Issues

2.2.1 Efficacy of Ports

Efficient ports (sea and land based) and airports that can handle large volumes of container traffic and that are linked to an efficient network of multimodal transport systems are essential features of a successful modern economy. However, most of the important South Asian seaports are inefficient and face severe congestion and delays. Some ports such as Karachi, Colombo, and the Jawaharlal Nehru Port Trust near Mumbai have seen some improvements in recent years, but their performance remains poor relative to ports in other parts of Asia, not just in comparison with leading hubs like Dubai, Singapore, and Shanghai, but also in comparison with even smaller, less important shipping hubs like Laem Chabang in Thailand and Port Klang in Malaysia (UNESCAP 2002, 2004). Figure 5.4 compares the median lead time to import goods, which is a good proxy for port efficacy.

FIGURE 5.4 Lead Time to Import Lead Time to Import (median days)



Sources World Bank 2008a and author's calculations.

Figure 5.4 shows that South Asian economies, except Sri Lanka and Pakistan, are behind their leading Asian counterparts in the time taken to import goods, and this relative inefficiency of South Asian ports plays an important role in delaying the movement of goods across borders. The average container dwell time in Chittagong (Bangladesh) is between 18 and 20 days, whereas it is between 10 and 12 days in comparable ports in

Southeast Asia (Domus 2005, 29). The average turnaround time for Indian ports is 4.7 days compared with averages of 1.5 to 2 days in Southeast Asia, while the pre-berth waiting time is almost one whole day. In many Indian ports, the equipment utilization rate is a poor 30 percent as a result of inefficient management (Domus 2005, 45).

The development of South Asian overland points of entry, such as Benapole between India and Bangladesh and Birgunj between India and Nepal, is even more critical to regional integration than seaports. These overland crossings are among the most inefficient in the world, and little effort has been made to improve their conditions. Behind-the-border issues, such as the poor quality of national road and rail infrastructure, are major causes of inefficiency of overland routes. Inadequate infrastructures at the land ports at the border are also to blame. For example, at the Benapole border, lines of 1,500 trucks or more often have to wait for up to five days to get clearance (Subramanian and Arnold 2001, 42). Not just infrastructure, but national policies play an important role in causing such inefficiencies. Bangladesh's policy of not allowing foreign trucks to operate in its territory necessitates transshipment from Indian and Nepali trucks into Bangladeshi trucks, causing huge delays at the border. Some of the key problems common to all South Asian border crossings and land ports are as follows:

- Limited number of designated overland routes between countries and poor ICT and modern infrastructure.
- Congestion.
- Trucks of one country often not allowed into the other, or are allowed only under strict conditions that limit operability.
- Lack of warehousing and proper storage facilities as cargoes await transshipment into trucks from one side to the other.
- Rent-seeking by officials.
- Poor quality of transport connectivity with the hinterland and lack of multimodal transport linkages.

2.2.2 Overland Road and Rail Linkages Connecting South Asian Economies

Despite an integrated road and rail network that connected most of South Asia during the colonial era, overland connectivity between South Asian countries today is suffering and is hostage to the political climate prevailing

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

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

- Lack of efficient railway dry ports with logistical support.
- Rent-seeking and theft of cargo while in transit.
- Lack of multimodal linkages with railways.
- Lack of efficient and cheap transshipment facilities between rail hubs and seaports (in some cases).

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

Table 5.3 outlines the importance of behind-the-border overland routes to South Asia's trade integration within and outside the region.

TABLE 5.3 Transport Time via Transshipment Hubs

	<i>From Kolkata</i>	<i>From Colombo</i>
North Europe	25–32 days	13–20 days
U.S. East Coast	36–41 days	26–29 days
Mediterranean	24–29 days	12–17 days

Source Arnold 2007.

The high monetary and time-related costs of overland routes, a result of inefficient infrastructure behind the border, do not allow a rationalization of transport hubs, especially container-related hubs. As Table 2.3 illustrates, certain hubs such as Colombo have a marked advantage in terms of time (and by association cost) over Kolkata and other ports. Similarly, exports from Nepal headed to Europe or North America would benefit if they could effectively access Mumbai port rather than using Kolkata/Haldia. For example, the cost of exporting a carpet from Nepal to Europe using Mumbai instead of Kolkata would save US\$1,300 (Subramanian and Arnold 2001, 58), a substantial amount equaling 30 to 40 percent of the total value of export and would save 7–10 days in terms of time.

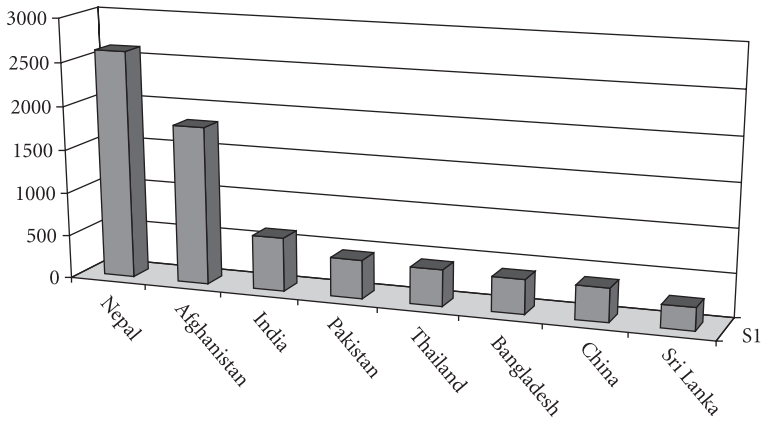
An efficient overland infrastructure would have allowed goods to move smoothly across South Asia, reaching out to the most efficient hub using multimodal means. The resultant competition would have led to the emergence of efficient hub and feeder route combinations using rail, road, and regional shipping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

2.2.3 Cost of Freight

The cost of freight traveling from or into South Asian sea- and airports is relatively high. Figure 5.5 compares the relative cost of a 40-foot container for import to South Asia's major economies and some selected Asian countries.

Figure 5.5, while underlying the relatively higher costs for containers destined for major South Asian economies (exceptions being Bangladesh and Sri Lanka), also highlights the point about poor behind-the-border logistics made earlier. Landlocked countries (Afghanistan, Nepal) and countries with relatively large hinterlands (India, Pakistan) have to depend more on behind-the-border logistical support as the goods move across the hinterland into the ports, increasing costs of trade.

FIGURE 5.5 Typical Charge for a 40-ft Container for Imports (USD)



Sources World Bank 2008a and author's calculations.

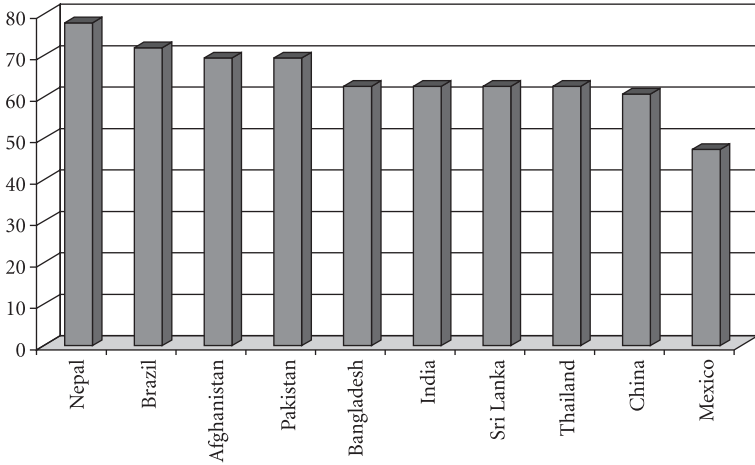
Both China and Thailand also have significantly large hinterlands, and yet have much lower costs (although the economic centers that do most of the trade in both these countries tend to be near their major seaports). In the case of Bangladesh, however, the Logistics Performance Indicators reports a low figure for import (US\$4,396, as reported in Figure 5.5) and exports (US\$210). Another source (Domus 2005, 29) reports that the average cost of a container for export exceeds US\$600 and that total transport costs for textiles from Bangladesh (its most important export) account for more than 15 percent of total costs and are more than twice (in percentage terms) than those of its competitors such as India, Sri Lanka, and Taiwan, China.

Figure 5.6 shows that the cost of airfreight from South Asia to the United States (a good proxy for airfreight costs in general²) is relatively high compared with some selected Asian countries.

Cheap airfreight is important for time-sensitive exports such as high-end agro products and high-end textiles. Given South Asia's great distances, airfreight is bound to play a part in the expansion of interregional trade over the years, and the poor condition of the regions' airports and related freight-handling services do not bode well for the region's exporters and importers (Domus 2005).

The next section will provide a brief overview of some of the country-specific trade facilitation issues, policies, and recent developments.

FIGURE 5.6 Average Cost of Air Freight to the United States (USD per lbs)



Sources World Bank 2008a and authors’ calculations.

3. TRADE FACILITATION ISSUES AND POLICIES IN SOUTH ASIAN COUNTRIES: A BRIEF OVERVIEW

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

3.1 Afghanistan

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

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

3.2 Bangladesh

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

- Inadequate development of a multimodal system that combines roads with railways, and even more important, inland waterways, the proper development of which can go a long way toward increasing connectivity in a riverine geography like Bangladesh.
- Congestion and inefficiency at major ports, especially Chittagong (sea) and Benapole (land).
- A limited role for the private sector in transport and trade facilitation.
- Inefficient coordination and institutional deficit across three major ministries dealing with transport, commerce, and customs administration.
- Limited IT support for basic customs functions.
- Severely constrained customs administration resources (both physical and human resources).

Since 1992, Bangladesh has undertaken substantive reforms in customs administration and has implemented ASYCUDA (Automated Systems for Customs Data) in five ports (Dhaka Customs House, Dhaka Inland

Container Depot, Chittagong, Mongla, and Benapole). In 1999, as part of the reforms process and implementation of ASYCUDA, a customs modernization initiative called Customs Administration Modernization (CAM) funded by the World Bank was put in place. Under the aegis of the CAM initiative, import clearance procedures were simplified by reducing the number of signatures required, and the frequency of physical inspection of cargo was substantially reduced (Khan 2004, 98). Bangladesh still needs to implement substantive reforms in the transport sector, invest in physical infrastructure, and broaden the scope of the customs modernization project. A bilateral understanding with India that allows India overland routes (to north-east India as well as Southeast Asia) has the potential to make Bangladesh a regional trade and transit hub.

3.3 India

India still has several problem areas in trade facilitation, and substantive transaction costs are involved in trading with the nation. While some impressive gains have been made over the last decade in terms of eradicating transaction costs, a lot of work needs to be done to bring India up to the global standards in this area. In India, like some of the other South Asian economies, it was felt that IT-led modernization and automation would lead to huge improvements in trade facilitation. Although introduction of automated processes and EDI did enhance trade facilitation, work done by two specialized policy entities (the Task Force on Indirect Taxes of 2002 and the Working Group on Trade Facilitation [WGTF] of 2004), chaired by one of the authors of this chapter, clearly has shown that, without accompanying institutional and procedural changes, effective trade facilitation cannot take place (Roy and Banerjee 2007, 310–11).

The WGTF study, which focused on the problems of Indian exporters,³ found the average dwell time is between one and two hours. An estimated 85 percent to 95 percent of the exports are cleared at sea formations within four hours, whereas in the case of air customs formations, this figure is in excess 98 percent. However, the report also considered the fact that dwell time figures for exports may be understated because they do not take into account the clearances required from several other agencies before goods arrive at customs. Furthermore, work done in 2002 by the Task Force on Indirect Taxes had pointed out that the process of prior clearances involves up to 257 signatures from 30 different agencies that may even take a couple of days to punch in the data. Clearance of goods also is delayed on account of withdrawal of samples or the verification of price of goods

falling under various exports incentive schemes (Roy 2002). Progress has been slow since 2005 on several of these fronts.

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

India faces the following logistical issues:

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

3.4 Nepal

Nepal's mountainous terrain and associated difficulty of connectivity has been a major impediment for effective trade facilitation. Nepal faces an acute shortage of trade facilitation-related equipments such as weigh-bridges, X-ray machines, and even enough computers and faxes (Dahal 2004, 124). Nepal's customs administration also lacks personnel with

adequate training and experience to implement modern trade facilitation procedures (Dahal 2004).

The country has implemented ASYCUDA and has introduced a new single custom declaration form (Single Administrative Document or SAD), but the rate of physical inspection remains high,⁴ even though it has come down in recent years. Despite the implementation of SAD, documentation requirements also remain relatively high, as do the number of bureaucratic procedures. An important development for trade facilitation in Nepal has been the implementation of the Advanced Cargo Information System (ACIS). The ACIS allows traders to track their shipments and also get advance notice of cargo arrival, which allows for better logistical coordination.

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

This is very much within the realm of possibility, because the relationship between the two Asian giants, China and India, normalizes, and Chinese investment in its western provinces leads to increasing demand for imports (Roy and Banerjee 2005).

3.5 Pakistan

Like other South Asian countries, Pakistan suffers from the lack of an integrated transport network and absence of institutional convergence between the various ministries and departments that regulate, plan, or control its road, rail, air, and maritime transport systems. Pakistan's ports have seen substantive improvements in the recent past, however, especially in the container terminals at Karachi and Port Qasim. Pakistan on average has better roads than other parts of South Asia and one of the lowest road-transport tariffs in the world (Bashir 2007, 4).

Trade facilitation activity commenced in Pakistan in August 2001 with the establishment of a National Trade and Transport Facilitation Committee (NTTFC) and initiation of work on a World Bank–funded Trade and Transport Facilitation Project (TTFP) with technical assistance of the United Nations Conference on Trade and Development (UNCTAD). NTTFC is chaired by the secretary of the Ministry of Commerce, and its membership includes the ministries related to trade transport and finance; public sector organizations dealing with customs, trade, and transport; and private sector bodies representing the industry, trading community, and service providers like insurance companies (Ministry of Commerce, Government of Pakistan 2007, 23–25). The NTTFC’s institutional structure should be followed in other South Asian countries. However, the success of the NTTFC has been modest and mostly related, like the trade facilitation efforts across the border in India, to customs reform.

The three major projects achievements under the aegis of the NTTFC are as follows:

- Introduction of a SAD as the standard for the Pakistan Goods Declaration (GD).
- Introduction of an automated customs clearance system based on the Risk Management System (RMS).
- Development of a comprehensive single window for all customs clearance operations called the Pakistan Customs Computerized System (PACCS), a completely paperless, Web-based online system.

Much needs to be done in terms of developing a logistical infrastructure in Pakistan. The country’s railways, underfunded and underutilized, need attention. Special attention also needs to be given to the proper development of inland water transport. Overland routes from Afghanistan should be given priority development status and made more secure. Given Pakistan’s geography, it can emerge (as the region historically has been) as the center of a trading network connecting Central Asia, Persian Gulf countries, and South Asia. The two prerequisites for that to happen are infrastructure and political understanding with its neighbors.

3.6 Sri Lanka

Sri Lanka is the pioneer of trade facilitation in South Asia. The country set up an umbrella body of private and public stakeholders called the Sri Lanka Trade Facilities Committee (SRILPRO) as early as 1980. The mandate for

SRILPRO was to help the government eliminate superfluous regulatory and procedural mechanisms and make the customs administration more transparent. By the late 1990s, however, lack of proper funding, inability to retain the right kind of interest, and lack of interest on the part of certain important stakeholders led to its demise (Shanta and De Silva 2006).

The country's next major initiative has been the Sri Lanka Automated Cargo Clearance System implemented since 2002, which allows electronic processing of documentation related to imports, exports, transshipments, and e-banking (Dissanayake 2005, 13). However, the assumption that automated electronic processing would necessarily lead to efficiency seems not to have been fully borne out, and recent evidence suggests that the total time requirement for dealing with administrative formalities have not come down significantly (Shanta and De Silva 2007).

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

4. TRADE FACILITATION MEASURES IN REGIONAL AGREEMENTS IN THE SOUTH ASIAN REGION

This section will briefly discuss trade facilitation measures SAFTA and BIMSTEC, the two trade-related regional agreements currently in place in South Asia.⁵ Both SAFTA and BIMSTEC disappoint in terms of their scope, ambition, and commitment to trade facilitation. The failure of both these agreements to proactively take up trade facilitation measures seems especially stark in comparison to initiatives like the Greater Mekong Sub-region (GMS), comprising Cambodia, China, Laos People's Democratic Republic, Myanmar, Thailand, and Vietnam. In 1992, with the Asian Development Bank's assistance, these six countries entered into a program of sub-regional economic cooperation specifically designed to enhance the development of infrastructure and promote the freer flow of goods and people.⁶

4.1 SAFTA

SAFTA, whose stated objective is to create a free trade area in South Asia (that includes all the member states of the South Asian Association for Regional Cooperation [SAARC]⁷) by 2016, also incorporates a few modest goals in terms of trade facilitation and trade facilitation cooperation on a regional basis. Some of the specific trade facilitation measures in SAFTA include the following (Chaturvedi 2007):

- A protocol ensuring regular publication of laws and regulations pertaining to trade-related measures by all member countries (transparency measure).
- Notification of any changes to mandatory requirements that affect trade (transparency measure).
- Right of appeal for disputes and disagreements related to eligibility for preferential treatment.
- Recognition of a certificate for rules of origin (ROO) issued by the exporting member by the importing member,⁸ and a consultation mechanism in case of disputes regarding ROO.⁹

In addition, Article 8 of SAFTA makes a vague “commitment” by members to “consider” the following trade facilitation measures:¹⁰

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

Although not explicitly mentioned in Article 8, customs cooperation entails the development of protocols to move toward mutual recognition of electronic signatures and digital certificates (Chaturvedi 2007).

Thus, SAFTA steers clear of making any specific, actionable, and time-bound commitments on the critical trade facilitation issues afflicting cross-border transactions in South Asia, such as overland transit facilities, poor

administrative quality of customs and other bureaucracies at the border, the lack of harmonization of rules and procedures, the lack of institutional trust between authorities in different countries, and any real movement toward convergence of the IT platforms so that data can move seamlessly between the operating systems of different countries. Furthermore, the agreement, unlike the GMS initiative, offers no mechanism to address the critical logistics and transportation bottlenecks, including the substantive behind-the-border issues, and makes no commitment to the development of efficient overland border crossings.

4.2 BIMSTEC

BIMSTEC is a sub-regional grouping formed with the explicit ambition of integrating the South and Southeast Asian regions. The group's members are Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand. BIMSTEC does not include any formal, explicit agenda on trade facilitation. The agreement identifies transport and communication as a priority subsector for "voluntary" cooperation and makes vague commitments to implement mutual recognition of standards, establish protocols for ROO, and engender institutional cooperation among customs administrations. It also proposes preparatory work on the following three transportation projects:¹¹

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

The relevance of BIMSTEC as a vehicle for trade facilitation in South and Southeast Asia has declined since the two main drivers (India and ASEAN and Thailand and Myanmar) are negotiating a comprehensive free trade agreement (FTA). India already has an FTA with Sri Lanka, has an economic protocol with Bhutan, and negotiating a comprehensive treaty on economic exchange and cooperation with newly elected government in Nepal. These FTAs and economic protocols all lack an ambitious trade facilitation agenda, however. The final section of this chapter deals with policy recommendations, starting with suggestions on how a reformed BIMSTEC could meet this deficit by becoming a treaty on comprehensive trade facilitation reform.

5. POLICY RECOMMENDATIONS

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

South Asian member countries of BIMSTEC, in conjunction with Thailand and Myanmar, should consider extending the membership of the group to Cambodia, Malaysia, Maldives, Laos People's Democratic Republic, Singapore, and Vietnam and reorient the focus of this group (again following GMS) as a nodal agreement on trade facilitation. The following paragraphs will outline the agenda for such a nodal agency toward comprehensive trade facilitation for the South and Southeast Asian regions. Such an agenda will have to meet three stringent conditions to have any chance of success: (a) it must have specific targets, (b) the targets must be mandatory for all member states, and (c) the parties must agree to achieve these targets within a specific time frame. These specific trade facilitation targets will have to cover institutional, technological, logistical, and transport-related issues.

5.1 Institutional and Technological Facilitation

5.1.1 Seamless Borders

The following steps should be taken to ensure seamless borders:

- Bilateral protocols on customs and other administrative processes and harmonization of standards and certifications, including reciprocal recognition of standards and laboratories.

- Harmonization of IT operating systems to allow digital transfer of all forms and signatures.
- Availability of adequate modern communication facilities and logistics support at the border.
- Preshipment Inspection protocols with private sector (industry chambers) participation.
- Adaptation of modern risk management techniques, including protocols for capacity building in such techniques for the less advanced member countries such as Bhutan, Laos People's Democratic Republic, Myanmar, and Nepal.
- Simple ROO with private sector (industry chambers) involvement in the ROO certification process.

5.1.2 Technology

The following steps should be taken to facilitate the use of technology:

- Use of standardized containers with a harmonized system of barcodes that provide a unique identification sequence for each container.
- Automated weighbridges at all border crossings.
- X-ray machines compatible for use for large containers.
- Electronic lock systems that prevent or allow detection of tampering with all containers while in transit.

5.1.3 Administrative Protocols

The following steps should be taken to establish administrative protocols:

- Member states must allow the use of their roads by commercial vehicles of other countries, which would eliminate the need for transshipment between trucks at borders and is a necessary condition for seamless border.
- All commercial vehicles that are allowed cross-border travel permit must be issued a special BIMSTEC registration number and must be assigned a unique barcode that allows their identification with all details of origin, cargo consignment, ownership, and point of entry.
- Customs administrations of member states will set the goal of completely harmonizing their product classification systems according to the HS coding system up to a six-digit level of disaggregation within five years of the agreement on trade facilitation coming into force.

5.2 Transport and Logistics Facilitation

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

5.2.1 Roadways

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

- Delhi–Siliguri–Guwahati–Imphal (all India)–Tamu (Myanmar) with feeder linkages from Nepal at Kakarbhitta and Birgunj, and from Bhutan through Phuentsholing.
- Varanasi–Mumbai (both India) with linkages from Nepal via the Nautanwa (India)–Sunali (Nepal) border.
- Birgunj (Nepal)–Kolkata/Haldia (India).
- Kolkata (India)–Dhaka–Chittagong (both Bangladesh)–Sittwe (Myanmar).
- The old “Stillwell Road” linking north-east India with northern Myanmar via Ledo (India).

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

5.2.2 Railways

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

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

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

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

The general planning of development of such cross-border railways has already been undertaken as a part of the Trans-Asian Railway projects southern corridor plan.¹²

5.2.3 Ports

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

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

5.3 Role of the Private Sector

The importance of private sector involvement has been underlined throughout the discussion on priority policies on trade facilitation. The private sector in all member countries, with the industry associations

taking the lead, should be encouraged to develop proposals for all aspects of the trade facilitation agenda. The nodal trade facilitation secretariat (as proposed, a reformed, reoriented BIMSTEC) should have a special private sector cell that will engender cross-border private sector cooperation and investment. The private sector will have to take the lead in the development of logistics facilities and ports as well as evolving protocols on ROO and Preshipment Inspection agreements. Private sector inputs and experience will be vital to the development of common IT platforms and cross-border digital information systems. The development of standardized containers and barcodes for trucks and containers will not be possible without the proactive support of private sector stakeholders.

To fully engage the private sector in the development of transport and logistics, some of the behind-the-border regulations on distribution services, transport services, and shipping would have to be revised in member states, allowing for investment and removing regulatory disincentives that prevent effective private sector participation in these sectors. The cross-border flow of capital needs to be allowed so that larger companies can develop integrated cross-border supply chains involving several modes of transport. The interests of small-scale service providers can be protected through in-built local content arrangements for these services, which would require larger companies to integrate the smaller players into their integrated logistics network.

6. CONCLUSION

Section 2 shows the relatively poor state of trade facilitation in South Asia and the high transaction costs associated with cross-border exchange in the region. Sections 3 and 4 highlight the lack of adequate initiatives, both unilaterally on the part individual South Asian countries, as well broader regional trade initiatives. Thus, the future agenda is clear: the need for proactive unilateral trade facilitation (with a focus on behind-the-border issues) that is buttressed by regional initiatives (focused on the border issues that require cooperation across countries). Given current geopolitical realities in South Asia, this chapter suggests that making any regional development agenda subject to the resolution of a long-standing bilateral political dispute is counterproductive. For this reason, the proposed Afghanistan–Pakistan–India–Bangladesh–Myanmar international corridor as a new silk route, although attractive, does not appear to be

feasible in the short to medium term. Instead, the policy target should be to use an existing agreement that includes all the South Asian countries willing to commit themselves fully toward a regional economic agenda, like BIMSTEC, as nodal agency for regional trade facilitation.

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

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

NOTES

1. From the World Trade Organization (WTO) definition on the scope of trade facilitation discussions under the aegis of WTO.
2. Readers are advised that specific countries might enjoy advantageous freight rates in certain routes because of better connectivity or bilateral efforts by governments. Pakistan enjoys relatively cheap air-freight rates to Saudi Arabia and the United Arab Emirates, while Bangladesh enjoys relatively cheaper rates to China.
3. Data are for June to September 2003 for four sea customs formations (Mumbai, Chennai, Cochin, and Kolkata) and two air customs formations (Chennai and Mumbai) reported by the Working Group on Trade Facilitation (WGTF).
4. Dahal (2004, 125) reports a high number of almost 100 percent for the rate of physical inspection; however, the recent Logistics Performance Index (LPI) data as reported in Section 1 show that Nepal has a low incidence rate of physical inspection of just 12 percent in 2006.

5. The section does not discuss bilateral agreements such as the India–Sri Lanka FTA.
6. Details of this regional initiative are available at <http://www.adb.org/GMS/default.asp> (accessed on 6 October 2009).
7. Pakistan has refused extend the provisions of the SAFTA to India until the Kashmir dispute is settled.
8. Annexure B of the SAFTA draft available at http://www.saarc-sec.org/data/agenda/economic/safta/OCPs%20_Anx-B%20of%20Annex-IV.pdf (accessed on 6 October 2009).
9. *Ibid.*, Article 21, p. 7.
10. SAFTA draft available at <http://www.saarc-sec.org/data/agenda/economic/safta/SAFTA%20AGREEMENT.pdf> (accessed on 6 October 2009).
11. Details available at the BIMSTEC Web site at http://www.bimstec.org/project_3.html (accessed on 6 October 2009).
12. For details, visit the UNESCAP Web site at <http://www.unescap.org/ttdw/common/TIS/TAR/scorridor.asp> (accessed on 6 October 2009).

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