

## TRADE AND TRANSPORT FACILITATION IN SOUTH ASIA

### 6. INTRA-REGIONAL TRADE

#### 6.1 Background

187. Significant improvements to trade-transport facilitation have been made but they largely benefited inter-regional trade. Productivity at the gateway ports has risen and streamlined procedures introduced; investment in transport infrastructure is increasing but the priorities are the main corridors, such as the Golden Quadrilateral in India or the National Trade Corridor in Pakistan. The emphasis given to facilities and facilitation serving inter-regional trade reflects the economic importance of such trade. The economic importance of intra-regional trade is large for the smaller economies, but small for the larger economies, especially for India.

188. In some cases, such as between Afghanistan and Pakistan, intra-regional trade uses the main corridor and elsewhere some intra-regional and transit trade will benefit from the improvements in the port sector. However, much of the region's intra-regional and transit trade do not use these corridors. Some investment has been made, for example, the upgrading of the N34, SH1 and SH10 highways under the West Bengal Corridor Development Project which will raise the road standards for Bangladesh - India trade. The Nepal ICDs may help facilitate Nepal's trade with India as well as its transit trade. Nepal may also benefit from India's East-West Highway. But, in general, intra-regional trade receives much lower priority as well as lower levels of service.

189. Intra-regional and transit trade often uses unimproved highways and truck speeds are very slow. Prior to the ongoing investment, trucks took 6 – 10 hours to make the trip from Kolkata to Petrapole, the main border crossing with Bangladesh, a distance of 100 kms. Truck transit between Nepal and Kolkata takes four days, for a distance of under 700 kms. Excessive loads are part of the explanation, but they are compounded by poor pavement condition and inadequate capacity. Nepal has to use the roads in Uttar Pradesh and Bihar to reach the main corridor routes, and truck speeds in these states may be less than 20 kph, especially in Bihar.

190. Progress has been made in computerizing customs and streamlining procedures. These advances have been mainly confined to the gateways for inter-regional trade. In India, the systems have been rolled out to two of the most important land customs stations but they may not be applied to all trade (e.g. ICEGATE at Raxaul, the main border station with Nepal, only handles Indian exports) or may not always function because of inadequate communications or power (such as at Petrapole). Most intra-regional trade and all transit traffic continue to be handled by manual systems which require considerable personal interface between the trader and customs. Risk management and green channels have expedited clearance at major gateways but are not available at the land border crossings.

191. Land based trade requires consecutive clearance through two sets of officials. Governments can decide that their customs will clear cargo 24/7 at ports/airports but customs' hours at land border are the lowest denominator of two administrations. Land border crossings are not open at night, and some customs authorities do not work a seven day week. The time window for processing customs clearance and other formalities, at a land border crossing, may be reduced to a few hours/day, and not even on every day. Land borders face not only the issue of customs control but also border security. Security concerns are important along most borders in South Asia, reflecting the legacy of fraught political and security relations. Even along the traditionally open India-Nepal border, security is becoming an issue. However, even where such concerns are high and security is tight, informal trade still seems to flourish.

## 6.2 Constraints to Intra-Regional Trade

### 6.2.1 *Restrictions on Trade*

192. Some countries have regulations which reduce, complicate or shift formal trade into informal channels:

- *Bangladesh*: Certain commodities, such as yarn and textile, are not allowed to be imported across the land border with India and have to be shipped through Chittagong. The measure is designed to protect local producers as it increases the import time and cost, especially when containers had to be routed via a hub port. Direct container shipping services have started and these may reduce the time and cost penalties but the land route would offer the quickest and lowest cost routing for much of this traffic. The trade barrier remains, though it may have been somewhat lowered.
- *Pakistan*: The positive list approach to trade with India results in a significant level of misreported trade. Indian exports, which are not on the list, are routed to Dubai where they are relabeled and then shipped to Pakistan under a different certificate of origin. For a forty foot container, the total cost may be US\$ 4,300 (compared with direct shipping cost of US\$1,100/FEU). Sometimes, the bill of lading may be switched once the goods are loaded and they are then shipped directly to Pakistan. Such 'switch' bills of lading are said to be obtainable at a relatively modest cost (total cost US\$1,300/FEU). The misreported trade enters Pakistan as legal trade. There are also Indian exports which are routed via Dubai, Iran and Afghanistan and eventually cross into Pakistan by camel or donkey. This routing is designed to avoid high import related taxes. Importers are prepared to pay high transport costs (US\$ 6,300/FEU) and Afghan customs duties (US\$1,800/FEU) to evade Pakistan's taxation. While considerable, the flow of informal trade from India is reported to have fallen recently, with a corresponding rise in informal trade from China.
- *India*: The 1996 Indo-Nepal Trade Treaty gave duty-free access to goods manufactured in Nepal and removed the value addition norms of the previous treaty. Nepalese exports grew rapidly but India claimed that some were effectively re-exports from third countries. The revised treaty, signed in 2002, re-imposed eligibility criteria and established quotas for four products; exports beyond the quota are subject to MFN customs duties. The Federation of Nepalese Chambers of Commerce and Industry will not issue certificates of origin for exports under MFN status, apparently fearing that such trade would endanger the duty-free access of other products.

### 6.2.2 *The Limitations of Cross-Border Rail Transport*

193. Rail transport often provides much easier and faster border crossing than road transport. This may be due, in part, to the lower unit value of rail cargo, and the low import taxes normally attached to such commodities. It may also be partly due to public ownership of the railways; cargo can be considered as under government control. These advantages are most manifest with respect to transit traffic, for which bonds and other restrictions are often not required if the goods are moved by rail. Given the inadequacies of much of the region's road network, rail should have great potential for intra-regional trade, especially over longer distances. Unfortunately, the realization of this potential is limited by the deficiencies in the asset base of BR and PR, and the freight priorities of IR.

#### *Afghanistan – Pakistan*

194. There is no rail link from Pakistan into Afghanistan though there are plans to extend the Quetta-Chaman line across the border. The Afghan Transit Trade Agreement (ATTA) required that commercial trade transit by rail but this has been somewhat relaxed and the National Logistics Cell is now authorized to carry commercial cargo by road and to sub-contract it to other truckers. Pakistan

exports to Afghanistan, which originate in the Karachi area, should find rail an attractive alternative, given the very long haul, but PR's low capacity and poor service means that almost all bilateral trade is carried by truck.

#### *Bangladesh – India*

195. A considerable flow of very low value cargo, like building aggregates, is railed from India to Bangladesh. The traffic can only be carried in IR wagons as BR wagons do not meet the technical standards (brake systems and wagon running speeds) required by IR. BR locomotives haul the wagons inside Bangladesh but as IR trains are longer and heavier, the trains have to be reconfigured at the border.

196. Intra-regional rail traffic cannot directly reach the main markets in Bangladesh. IR wagons cannot cross the Jamuna Bridge, despite the availability of a broad gauge track, as the bridge does not have the capacity to handle fully laden IR wagons. One study reported that container wagons would meet the weight restrictions but containers are presently not allowed to cross the land border. In any case, the broad gauge does not extend to Dhaka and Chittagong. Rail cargo has to be transhipped to trucks, barges or BR wagons for final delivery, significantly reducing the rail advantage.

#### *Bhutan – India*

197. Bhutan is not connected to the IR network although there are lines relatively close to the border. Bhutan's level of merchandise trade is limited and its trade with countries other than India even smaller (possibly 6 – 8 TEU/day). IR is only interested in train-load traffic and such demand from Bhutan would be very limited and the economics of extending rail across the border poor. However, there are reports that feasibility studies are underway to assess the potential for direct links.

#### *India – Nepal*

198. Raxual, the main crossing into Nepal is connected by broad gauge and the line was extended across the border to a rail-based ICD at Birgunj; the spur and ICD opened in 2004. The ICD was constructed for transit traffic and Concor operates about three unit container trains/week from Kolkata, a market share of about 55 percent. The traffic is only about half the forecast level and the ICD is under-utilized and its revenue seriously below the concessionaire's expectations. Transit exports continue to use road transport as Concor does not provide a scheduled service. This does not give the reliability that exporters need to meet shipping dates and delivery deadlines.

199. To increase utilization, it was agreed to open the ICD to both non-containerized traffic and bilateral trade. Raxual is reported to receive about 13 train loads for Nepal each month, but little has yet been attracted to the ICD. Partly, this may be the result of GOI's refusal to allow open wagons to cross the border (on the grounds of security), so traffic is restricted to flats, covered wagons and tanker wagons. Truck operators in Kolkata have also resisted the transfer of edible oils to rail.

#### *India – Pakistan*

200. Both IR and PR are essentially broad gauge railways<sup>47</sup> with the same permissible axle-loads and maximum speeds; there should be little infrastructural constraint to large freight flows. There are two rail links but the link through Sindh carries only a passenger service, the Thar Express. The freight link is Wagah - Attari. PR locomotives haul trains within Pakistan and IR locomotives within India. Wagons are interchanged on a balance system; the balances have to be cleared every 10 days. This interchange system can give rise to wagon shortages and traders have to wait until wagon balances are re-established. Railways, elsewhere, operate more flexible interchange arrangements which minimize

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<sup>47</sup> IR has an extensive network of meter gauge lines but these carry very little freight traffic.

shortages and delays. It is assumed that the wagon balance approach is designed to minimize the costs to each railway, in the event that the border closes and wagons are stranded on the foreign network.

201. While the infrastructure standards are similar, there are major differences in the type/quality of the wagon fleets. PR has few modern bogie wagons and they are concentrated exclusively on the Karachi to Lahore mainline. PR's wagons for trade with India are largely confined, therefore, to the four-wheeler stock. These types of wagon have been almost entirely scrapped by IR and IR would not want to operate long distance freight trains with such stock. Cargo is thus reloaded to modern wagons or transhipped to road. There are few reports of major customs clearance or other formality problems with the rail movement, though cargo is inspected.

202. Wagon availability was not a major issue when trade volumes were low but, with the recent increases in trade, capacity has become a constraint, leading to long delays (especially for non-perishable goods), informal payments for wagon allocation, and the diversion of trade to the sea route via Mumbai. The cost differences between the routes are very large, Table 32.

**Table 32 India – Pakistan: Transport Costs**  
(Costs for 40ft container)

Route	Mode	US\$	Route	Mode	US\$
Delhi - Mumbai	Rail	920	Delhi - Attari	Rail	650
Mumbai - Karachi	Sea	850	Attari - Lahore	Rail	140
Karachi port		230	Unloading		50
Karachi - Lahore	Road	415			
Total cost		2415	Total Cost		840

Source: Taneja and study estimates

Trade between the two Punjab may travel 3,000+ kms rather than a land route of less than 300 kms. Indian exporters recently complained about the lack of wagons to move substantial quantities of sugar.

203. Even if PR had many more modern wagons, it is not clear whether trade with India would receive high priority. The main production/consumption centres in Pakistan's Punjab are close to the border crossing. Consequently, the haul distance and revenue generated for PR would be small; IR with a much longer haul would receive most of the revenue. It is thus in PR's financial interests to concentrate its operating assets on the long haul route between Punjab and Karachi, rather than on the short haul to the Indian border, even though rail would result in large savings for the Pakistan producer/consumer.

### 6.2.3 Constraints to Cross-Border Truck Transport

204. Truck transport dominates intra-regional trade throughout continental South Asia, India – Pakistan is the exception. With few exceptions, trucks are not allowed to cross the borders to pick up or deliver cargo. Rather, the goods have to be transhipped from the truck of one country to the truck of the other country at either at the border itself or at a transshipment center close to the border. The exceptions to the prohibition on cross- border truck movement are:

- *Afghanistan – Pakistan*: Some Pakistani trucks are allowed to cross on the Torkham route and deliver cargo direct to Kabul. On the southern, Spin Boldak route, all cargo has to be off-loaded and reloaded in no-man's land between the border posts.
- *India – Nepal*: Indian trucks are allowed into Nepal for 72 hours. This enables trucks to drive to Kathmandu, unload and return to the border. Nepalese trucks cross into India but generally only to the nearest railhead<sup>48</sup>; partly because return trips would take longer than 72 hours, but more because of the problems truckers encounter from State officials and agencies. Nepalese closed body trucks and container tractor-trailers move on designated routes to/from the ports of

<sup>48</sup> Bhutanese trucks can travel in India as far as the commercial center of Silghuri.

Haldia and Kolkata with transit traffic. Nepalese trucks to Bangladesh move through India by escorted convoy; they are not allowed to operate within Bangladesh.

205. On other routes, goods are transhipped from one truck to another, or may be put into temporary storage at the border. When TV showed the opening of the India - Pakistan border to road-based trade, it showed laborers carrying sacks of onions across the border; the goods could cross but not the trucks. Cargo had to be unloaded about 800 metres from the zero line and carried by porters to the border. Such economic interchange is not the basis for mega-trade flows though it created work for 1,300 Indian porters and several hundred Pakistanis. In October, 2007, the India-Pakistan border was opened to truck transport, allowing trucks to cross the border and then tranship cargo from one truck to another but not to transport cargo to its final destination. However, Pakistan only allows five items to be imported by road and only cement to be exported by this route.

206. Even where road transport trade is more established and more substantial, such as the Petrapole – Benapole crossing, the unnecessary costs are large:

- Additional infrastructure, in terms of parking areas, loading platforms, warehousing;
- Delays to trucks, in terms of waiting to cross the border, waiting to unload, etc;
- Delays to cargo, waiting at the border, waiting to be unloaded and then waiting to be re-loaded;
- Additional operating costs, in running the facility as well as in the loading and unloading;
- Damage and loss, from the multiple handling as well as additional packaging costs to try and minimize such damage.

207. Petrapole – Benapole is a logistics sector horror story; there are normally 1,000 – 1,500 trucks waiting to cross into Bangladesh; a truck takes about six days to deliver cargo from Kolkata to Benapole, for a total distance of 100 km; and, the cargo may then be delayed for a further four days or more before loading on a Bangladesh truck<sup>49</sup>. The delivery charge is about US\$22/ton; transport accounts for only 30 percent of the cost, the rests are associated with the border crossing. Other border crossings impose large costs; often the unloading and loading takes place in the open without any facilities. This may reduce warehousing but very probably increases damage.

208. The lack of through trucking is possibly the greatest transport impediment to intra-regional trade. It is an issue that other regions have faced and overcome<sup>50</sup>.

#### **6.2.4 The Landport Philosophy**

209. Sea and airports are necessary misfortunes, they provide the interface between ocean or air transport and land transport. Nothing can be done other than minimize the cost, time and disruption. Land frontiers are very different; the same modes of transport normally operate on both sides of the border. While a political interface exists, there is no necessary need for a transport interface. If one exists, it is a political creation.

210. Unfortunately, there is a growing trend in South Asia to treat land borders as the equivalent of sea coasts and create the land equivalent of sea ports. Bangladesh has moved down this path with the establishment of a Landport Authority. This is seeking public private partnerships to develop extensive facilities at the frontiers: cargo handling, storage, and ancillary infrastructure and services. India has recently announced that it was going to establish a similar authority with a plan to construct 13

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<sup>49</sup> This may be compared with the Pakistan – Afghanistan crossing, via Torkham, where truck drivers report that it takes 3 – 5 hours to complete Pakistan exit formalities and surveys indicate less than one hour (on average) to clear Afghan entry procedures. However, in a limited survey at the border, trucks were found to wait on the Pakistan side of the border for 1 – 2 days.

<sup>50</sup> Cross-border movement of trucks is almost universal in Africa, Europe and Central Asia but there are still some important borders where it is not allowed: even under NAFTA, Mexican trucks were not allowed into the US; China presently does not allow foreign trucks to travel beyond designated border towns/cities.

Integrated Check Posts (ICP) along its borders at a cost of Rs. 853 crore (US\$190 million). These ICPs would house all the regulatory agencies like immigration, customs, and border security together with support facilities like parking, warehousing, banking and hotels in a single complex.

211. More efficient border facilities are very welcome, especially if they include reliable power supply and telecommunications. The need for border crossing formalities, covering people, vehicles and cargo, will remain for the foreseeable future and modern efficient facilities will help to reduce the time and cost. The danger is that the investment in cargo handling and storage facilities will create major impediments to the future streamlining of freight movement across the borders. They will create vested interests in maintaining existing processes and procedures and the revenues that result.

212. Customs and other border control officials already have the incentive to maintain slow and cumbersome procedures as they provide rent-seeking opportunities for “speeding” up the system. A Transparency International survey at Benapole identified 30 separate points in the cargo clearance process where informal payments had to be made, with payments going to both customs and landport officials. Private investors in transshipment and storage facilities, and their laborers, will have no interest in the uninterrupted movement of cargo and vehicles through borders, very much the contrary.

213. Once built, there is the danger that landports will become permanent fixtures. But, the present freight arrangements/facilities at many of the crossings are so poor that improved handling and storage facilities could undoubtedly provide significant benefits. Certainly, organized truck-to-truck transfers are much more efficient than portage across borders. But, such short term benefits could well, unfortunately, result in continuing long term costs. It becomes an issue of whether there is any reasonable prospect of introducing the types of cargo and vehicle arrangement that exist elsewhere in the world which remove the need for cargo transshipment.

### 6.3 Streamlining Intra-Regional Trade

214. South Asia has the lowest level of intra-regional trade of any region, even lower than Sub-Saharan Africa. There are economic factors which help explain this very low trade, such as India’s economic size and the similar production/export patterns, but the importance of the difficulties attached to trade within the region and its time and cost should not be under-estimated. For many enterprises, inter-regional trade may well be easier than trading within the region.

215. While each of the important intra-regional trading links has particular characteristics and issues (see Annex 4), there are some broad common features which need to be addressed, if intra-regional trade is to grow toward the levels achieved in other regions. The key actions should be:

- Allowing cross-border movement of road transport
- Improving the capacity of regional rail links
- Upgrading the standards of customs/trade facilitation to those at the gateway ports
- Allowing container movements and customs clearance away from the border

Successful implementation of these would provide the trade-transport facilitation basis for substantially increased trade. The extent to which trade then develops would depend upon changes in the trade regimes (Pakistan), or attitudes toward trade (Bangladesh).

#### 6.3.1 *Cross-Border Trucking*

216. With limited exceptions, trucks cannot cross borders in South Asia. But, it cannot be an intractable problem; most neighboring countries, in other parts of the world, have developed procedures and safeguards to allow cross-border truck movements and the direct delivery of freight,

while ensuring that foreign vehicles do not provide domestic transport services. There are various potential ways that such a desirable outcome might be achieved:

- *Limited time entry for cargo delivery:* This is the existing practice between India and Nepal; extending the approach to the rest of South Asia, even with a 72 hour limit, would encompass major potential trade links, such as between Northern India and Pakistan's Punjab Province. It would be better, however, to adjust the time allowed, within the neighboring country, to reflect the transport reality. It might, for example, take 96 or 118 hours for trucks to cross the border, reach Dhaka, unload, and then return to the border and back into India.
- *Route licensing for foreign trucks:* A broader solution would be the provision of specific route licenses for foreign truckers without the time restriction. This would solve the problem of the lack of effective reciprocity that may exist with the fixed time approach, i.e. major cargo destinations in only one of the trading countries being reached within the allowable time, as is possibly the case between India – Nepal.

An important issue in providing limited time entry for trucks, in the case of highly imbalanced trade flows, is that the trucking industry of the exporting country may very probably dominate the business. Customers in the importing country would benefit from reduced costs and faster delivery, but the truckers would raise objections, and trucking lobbies/cartels can be very strong, especially in some of the border areas. It may well be necessary that truckers in both countries perceive potential financial gain. Route licenses could be issued, or auctioned, on a quota basis to ensure an equal or equitable distribution of opportunities for the trucking industries of both countries.

- *Dual country vehicle registration:* Vehicles would be registered in both countries, obtaining the relevant licenses, paying the applicable taxes and having the necessary insurances. To an extent, this already happens in the case of Afghanistan and Pakistan. To protect national interests and sensibilities, a first step might be to have the number of trucks with such dual registration limited by quota allocated between the truckers of the different countries.
- *Joint venture trucking companies:* This would be a more restrictive form of the dual vehicle registration. It would reduce the flexibility and possibly the capacity of the system, but it could be a major improvement upon the present transshipment of cargo. In effect, the formal requirement of a domestic only trucking system would be preserved. Unfortunately, the drawback of the approach is the possibility that governments would see an opportunity for the creation of public sector trucking enterprises to operate such services, and public sector trucking enterprises have an almost universal record of poor service and financial failure.
- *Trailer interchange:* Security concerns might be raised about foreign trucks driving in the country (though it is quite acceptable elsewhere in the world). This could be addressed by the dual registration of semi-trailers. The semi-trailer would be delivered to the border by one tractor unit and then hauled by a tractor unit of the other country. Similar arrangements often take place at sea crossings to avoid shipping the tractor unit. Such a system would require contracts and trust between trucking enterprises which may presently not exist. It is also a solution more applicable to the organized, formal sector which forms a small part of the South Asian trucking industry. But, as the region's logistics become more sophisticated, the potential should increase.
- *Containerization/swap bodies:* An alternative to the trailer interchange or through movement of trucks would be containers or some form of swap body which can be shifted quickly and cheaply from one vehicle to another. It is not a solution to the problem but would help reduce the costs of the present arrangements. More generally, containerization has many advantages in trade logistics and their use on intra-regional routes would help avoid several of the unnecessary costs imposed by the present system. Containers from India are already used in

bilateral trade with Nepal and specific customs procedures have been developed. It would require the investment in a pool of regional containers and modest container yards and equipment at the main border crossings.

- *TIR or similar*: The possible solutions, outlined above, have not mentioned the TIR system which is now such a feature of cross-border transport in Europe and Central Asia. TIR or a similar, regionally based system would be very desirable but they address more a customs rather than transport issue. TIR would allow cargo clearance away from the border, providing a guarantee for customs duties if goods are diverted to the domestic economy prior to clearance. Certainly, some such system would be needed, if the full benefits of cross-border trucking are to be achieved. Much of the benefit would be lost if the trucks have to be off-loaded, even partially, for customs inspection at the border. Similarly, containers would be little improvement if they had to be stripped at the border for customs examination.

217. Cross-border trucking raises the issue of appropriate/acceptable vehicle standards. In theory, Afghan trucks can operate into and through Iran but, in practice, they do not meet the vehicle standards required and enforced in Iran. Such standards might seem of little consequence in region where there is such little enforcement of any vehicle or trucking regulation. However, unless vehicle standards are established and trucks certified, vehicle safety/standards can always be used as a barrier to cross-border movement (as is the case between Mexico and the US).

218. The real issue for liberalizing truck movements across borders is whether governments view trucking and trade as areas in which both countries can simultaneously benefit. If trucks in East Africa can cross three borders to make a single delivery, using the same basic documentation, the development of mechanisms to allow trucks to cross single borders in South Asia should not be an insuperable problem. The trucking industries should be brought into the decision making process in order to build their support. It is perhaps inevitable that substantial change will create both winners and losers in the sector and the losers may possibly protest any change. Given the importance of streamlining cargo delivery, government should face down such opposition.

### **6.3.2 Regional Rail Links and Services**

219. Rail has the advantages of lower costs, easier border formalities and often, in South Asia, faster transit times. Some intra-regional trade moves by rail but the flows are limited by critical capacity and infrastructure constraints.

#### *Bangladesh, India and Pakistan*

220. The potential benefits for intra-regional trade from direct rail transport are very considerable:

- To move a 40 ft container from Delhi to Lahore, via JNPT and Karachi, presently costs in the region of US\$2,400: direct rail would cost less than US\$1,000.
- To move a 20 ft container from Ludhiana to Dhaka via JNPT costs about US\$2,200 and takes 30 – 40 days: direct rail would cost about US\$1,400 and take 9 – 10 days.

The issue is how to realize the potential. Both BR and PR require modern wagon fleets; their present four-wheeler fleets are incompatible with the modern rail operations. BR has also to address infrastructure constraints. In view of the fact that the Jamuna Bridge can probably already accommodate container trains, the initial priorities for intra-regional linkages may be: (a) agreement on the cross-border movement of containers; and (b) completion of the broad gauge connection to Dhaka.

221. The physical infrastructure and operating assets must be accompanied by efficient and cost-effective interchange agreements which allow the wagons of one country to move on the network of the neighboring railway. Such agreements need to provide both flexibility and compensation for wagon use; they need to offset the financial disincentives with respect to cross border movement, i.e. that the

revenue is shared by two railways. The present wagon balance system, between IR and PR, is too restrictive but no railway wants to see their wagons accumulate within the system of a neighboring railway. A wagon rental system is necessary, perhaps at an escalating price, depending upon the length of wagon detention. It is also possible that some form of payment guarantee system is needed to build confidence in the initial stages of such interchange systems. But, no system will survive when either wagons are detained for extended periods or payments are delayed. Cross-border wagon tracking systems will also be desirable both commercially, so that shippers know where their consignments have reached, and operationally so the railways know where their wagons are.

222. The first priority should be to raise the level of capacity and efficiency of cross-border rail freight movement. The second priority would be to improve rail's competitive position. Initially, each railway would levy their own freight bills and shippers are faced with two freight bills for short/medium distances; the total shipper costs would be higher than for one long distance movement, given the taper on rail freight charges. In the longer term, a more commercial and competitive approach would be a through freight bill, with the revenue shared between the railways. Joint marketing and pricing, however, it may be beyond the present levels of cooperation.

223. There is, however, the need to resolve commercial/operational aspects of joint rail operations; for example:

- Whether the services would be operated as fixed separate trains from each railway or in a wagon pool arrangement, which would add flexibility.
- How to market the potential of rail for less than train loads on which Indian railways now concentrates its activities.
- Whether there should be an intermediary between the shipper and the railway to market and consolidate individual shipments into train loads for the railways to haul.

Unfortunately, the railways may not see intra-regional trade as a priority in their freight business. IR faces a growing domestic market which it finds hard to satisfy and may view cross-border traffic as a difficult and complicated market, not worth the management time. PR has a major potential long distance freight market along the National Trade Corridor, while cross-border freight involves short hauls. Domestic freight may thus be more much profitable<sup>51</sup>. BR has substantial unmet container demand on the Dhaka – Chittagong route which may have higher priority than traffic with India.

224. One possible approach, to overcome the potential lack of rail priority for intra-regional trade, might be some form of cross-border concessionaire, to market and manage the traffic, operating on hook and haul contracts with the neighboring railways. This would be an international version of the arrangement that was introduced on IR for the container market. Cross-border rail concessions have been introduced elsewhere but they cover both infrastructure and operations. Cross-border rail companies would be a radical departure for South Asia and would certainly not be viewed as risk-free. However, the benefits for intra-regional trade and shippers could be very considerable.

### *Afghanistan, Bhutan and Nepal*

225. Afghanistan and Nepal do not have domestic rail networks but they do have cross-border rail links. These links allow trains to be originated and terminated within domestic territory and this can provide some important benefits:

- Allows the country to develop the level of infrastructure appropriate to the traffic, possibly as the basis for logistics hubs ((storage, processing, repackaging etc). To an extent, this is

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<sup>51</sup> Intra-regional trade to/from Karachi would involve much longer hauls for PR but would face competition from sea transport.

happening at the Birgunj ICD. Such investment and activities could occur at railheads on the other side of the border but rarely does<sup>52</sup>.

- Allows cross-border movement by rail which often is less cumbersome and time consuming than movements by road.
- Allows, conceptually at least, the country to own and operated its own rail wagon fleet. This could be important, if wagon supply would otherwise be constrained.

Such links should make rail more attractive, especially if cargo transshipment between trucks is required at the border. The quality of service provided by the neighboring railway is crucial in determining whether rail is a commercial alternative.

226. IR provides efficient train load freight services but its potential for intra-regional trade may be diminished if there are restrictions on the type of wagon that can cross the borders; any such restrictions should be removed as quickly as possible. PR's freight capacity and service level is very much lower and the benefits of the proposed rail link into Afghanistan may be limited until the proposed restructuring of PR. When the enhancement of the freight business delivers results, Afghanistan could benefit as the hauls from Karachi to the Afghan border should make rail very competitive, especially if Pakistan begins to enforce truck axle-load and vehicle weight regulations.

227. Both Afghanistan and Nepal have levels of trade which may justify rail freight services. Bhutan, with much lower trade flows, is in a more difficult position. Low traffic would mean infrequent rail services and shipment delays, leaving truck transport with important service advantages.

### **6.3.3 Upgrading Customs and Trade Facilitation**

228. The basic priorities to enhance intra-regional trade facilitation are:

- *Afghanistan, Bangladesh and Nepal*: to complete the customs reforms that has been partially implemented. This will benefit inter-regional and intra-regional trade.
- *India and Pakistan*: to extend the reforms which have been or are being implemented at the major trade gateways to the land border crossings, replacing the manual systems for trade processing and customs clearance by computerized systems.
- *Transit traffic*: It would be extremely beneficial for the poorer countries of the region, if customs reform could be extended to transit traffic. Some improvements have been introduced for the rail transit of containers, Kolkata – Nepal, but it remains a completely manual system and the procedures for other transit traffic remain extremely cumbersome and time consuming.

The roll-out of computer systems to the land borders may require investment in more reliable power and data transmission and communication networks. The nature of the intra-regional trade may be rather different to inter-regional trade through the major gateways, possibly with smaller traders and smaller consignment sizes. This may necessitate a modified approach to risk assessment and perhaps also a higher level of examination. As customs reforms and streamlining proceed at the main trade gateways, so they should be applied to the intra-regional, land based trade flows. Reducing the complexity of the procedures and minimizing the personal interaction between the officials and traders would also help to reduce the corruption which is said to be prevalent at the border crossings.

229. Streamlining customs procedures and reducing the costs of formal trade should shift some informal trade to documented channels, as would the normalization of trade relations, most particularly between India and Pakistan. However, they are unlikely to eliminate informal trade where there is a conducive environment and large profits to be made by avoiding formal trade routes and import duties/taxes. Reducing the profits from informal trade by shifting the burden of government revenue

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<sup>52</sup> The World Food Programme does have storage facilities for bulk cargo in Peshawar from where it supplies Afghanistan.

away from import-related sources may be the ultimate solution but improved customs enforcement would assist by increasing the costs of informal trade. Such enforcement has to address the issue of border officials benefiting from such informal trade.

230. Greater cross-border cooperation and coordination between the customs authorities needs to be encouraged at both the national and border level. This is not to suggest one stop customs facilities or similar joint border processing of trade, although these are being tried elsewhere and may give significant benefits. They seem unlikely, any time soon in South Asia, given the very limited levels of cooperation that presently exist. Rather, closer working relations and the sharing of intelligence and data would facilitate the work of Customs and other authorities on both sides of the land borders. Even basic telecommunication links between customs offices at the borders would be a step forward. History and political/economic differences result in intra-regional relationships with particular characteristics, but customs authorities elsewhere manage good working relationships, despite governmental differences.

#### ***6.3.4 Container Movement and Inland Customs Clearance***

231. Modern logistics for non-bulk international trade is founded on: (a) the use of containers; and, (b) the clearance of cargo at or near the importers' premises, rather than at the initial point of entry. Containerized inter-regional trade is commonplace throughout the region, although shipping lines may require deposits and insurance for containers going to Nepal and require even more special arrangements for containers going to Afghanistan. All the countries have procedures to allow customs clearance at an inland destination, away from the entry seaport, although inland transport by truck usually requires a customs bond. But, the use of containers for land-based intra-regional trade is very limited (some trade between India and Nepal) and cargo has to be cleared at the border rather than at the destination (Afghanistan is the exception).

232. The issue of cross-border container movement has to be resolved. It may be difficult at some borders as there may be security as well as customs concerns. However, if substantially larger flows of intra-regional trade are to develop and trade is to move up the value chain, some means of allowing cross-border container movement has to be devised. Stripping containers, at the borders, for customs examination cannot be the answer, some other solution is necessary. The issue of security and container traffic has had to be addressed at the ports, in the light of the increased concern over international terrorism, and ports have had to conform to ISPS standards. Similar security measures can be devised for land crossings even if this means the concentration of container movement to perhaps only one or two border crossings and the use of scanners to check containers for illicit or non-declared cargo.

233. There is also the need to introduce customs procedures which will allow customs clearance away from the border. Such systems already operate from most gateway ports, similar systems need to be introduced at the land customs stations, and especially if/when through movement of trucks and containers is allowed. Afghanistan has already moved in this direction and the other countries, which have adopted ASYCUDA, could also introduce the transit module. At the main Afghanistan border crossing with Pakistan (Torkham), 73 percent of trucks clear the Afghan Border Control Zone within one hour and 91 percent within 90 minutes. Such a system would allow countries to avoid the unnecessary investment, operating costs and delays associated with land port facilities and cargo clearance at the border. Customs bonding systems are in place for the movement of cargo from seaports to inland destinations and the same systems should be possible from land border to inland destination though a regional or an international duty guarantee/bond system, like TIR, would be preferable as often duty insurance is required in both the exporting and importing countries.

### 6.3.5 Regional Trade Corridors

234. The corridor approach to trade and transport facilitation may potentially be more effective than addressing problems and issues separately. The corridor approach can provide the focus to bring together all the stakeholders, both public and private, and achieve synergies from coordinated change. The corridor approach is applicable for the major trade-transport corridors, and Pakistan has already started with the NTCIP; India could make the proposed DFC the focus for a similar coordinated approach for the Delhi-Mumbai Corridor.

235. The approach is equally applicable to the regional trade corridors; indeed, it may provide even greater benefits for such corridors. Rather than discussing the general issues of trade between neighboring countries, which may result in vague generalities and little practical action, it may be more productive to focus upon resolving the particular problems along specific trade-transport routes between countries. Particular arrangements/solutions for these corridors may be easier to identify and implement than agreeing arrangements which cover all links, both major and minor. The corridor approach would allow the major cross-border issues to be addressed. In South Asia, these are crucial to streamline intra-regional trade:

- *Highway improvements may reduce transit time by hours, and cost many US\$ millions;*
- *Process changes at borders may reduce transit times by days, and cost very little.*

236. Establishing the corridor approach within one country is not easy; establishing the approach with two countries is even more difficult. But, other countries have demonstrated that it is possible, if there is the underlying belief that trade brings benefits and that efficient trade-transport generates greater trade. The Northern Corridor Transport Agreement, in East Africa, harmonizes the customs procedures and transport regulation of five countries and finances a secretariat to monitor performance and identify further improvements. The Trans-Kalahari Corridor has linked South Africa, Botswana and Namibia and the approach has substantially improved trade and transport performance through South Eastern Europe.

237. Establishing corridor based approaches to improving the trade-transport arrangements for intra-regional trade may offer a promising alternative to the present unilateral and departmental management of trade-transport. Certainly, there are key issues which require a common and coordinated approach if real advances are to be achieved; for example, the issue of customs procedures, through movement of trucks, and inland clearance of cargo almost demand an integrated approach. Developing corridor arrangements will certainly be a challenge in the South Asian environment, but the rewards could be very considerable and little else seems likely to provide the transformation in intra-regional trade-transport that is necessary.