

TRADE AND TRANSPORT FACILITATION IN SOUTH ASIA

1. INTRODUCTION

1.1 Global Trade Trends

1. Over the past few decades, the world trading system has become increasingly more open. Tariff rates have been reduced and quantitative restrictions (quotas) have been progressively eliminated, e.g. the Multi-Fiber Agreement (MFA). Most countries have adopted more outward-looking economic policies, seeking to increase growth and employment through expanding exports. Such outward looking policies have even been adopted by countries which previously pursued policies based on import substitution as in South Asia. Protective trade restrictions still persist, but tend to be in terms of more subtle non-tariff barriers (such as sanitary or phyto-sanitary standards), though anti-dumping measures and temporary quantity restrictions are still used by many countries to shield domestic producers. Trade regulations no longer solely attempt to protect domestic producers; their scope has extended to cover the need for enhanced security and the desire for greater consumer protection through the traceability of the production chain for many agricultural products.

2. The rapid growth in world trade has been generated not only by the increased openness of the world economy, but also by the transformation of production patterns and processes. No longer is international trade a flow of primary products in one direction and manufactured and processed commodities in the other. Such traditional transactions have been supplemented by massive trading of parts, components, semi-manufactured goods and sub-assemblies moving between production units in different countries before final goods are produced and sold. This involves trade flows between developed countries, between developed and developing countries and even between developing countries. The pattern of production based on integrated manufacturing has essentially fragmented, with outsourcing of low-cost manufacturing to specialized companies becoming today's production paradigm. The role of large manufacturing companies is becoming increasingly restricted to research, design, and final assembly of components/sub-assemblies produced elsewhere. The changes might be summarized as the "disintegration of production".

3. With fragmented production processes, supply chains within and between firms provide the integration required. Efficient, reliable and low cost supply chains have become the key to the manufacturing process, and thereby the competitiveness of both firms and countries. Transport and other supply chain costs are progressively becoming the core determinants of where goods will be produced and inputs sourced. Moreover, as ocean freight rates fall with larger vessel sizes, the importance of total geographic distance declines and manufacturing firms will source inputs from more distant locations, larger retailers will contract from multiple countries and wholesalers will order goods from throughout the world. As the world shrinks, dimensions such as time and reliability, inland transport and other costs associated with trade-transport increase in importance.

4. To gain competitive advantage, greater attention has been given in the past two decades to reducing the costs of transport and logistics. This has led to substantial impacts at all levels. In Europe, for example, the proportion of total final product prices accounted for by logistics, and the transport cost component have more than halved in the last 20 years, Table 1.

Table 1 Logistics and Transport Costs in Europe
(% of final prices)

| | Total Logistics Costs | Transport Costs |
|------|------------------------------|------------------------|
| 1987 | 14.3 | 7.0 |
| 1993 | 10.1 | 4.6 |
| 1998 | 7.7 | 3.1 |
| 2003 | 6.8 | 3.1 |

Source: Global Prospects 2005

markets has been intensifying. Total logistics costs, including reliability and the length of order cycles, have become prime factors in the comparative advantage of businesses (and ultimately countries). Many studies have shown the high costs associated with poor trade logistics and facilitation; one recent study concluded

“On average, each additional day that a product is delayed prior to being shipped reduces trade by at least 1 percent”¹.

Failure to reduce such costs and streamline supply chains diminishes a country’s ability to maximize its potential in the global markets and thus its economic growth, employment and poverty reduction.

1.2 Trade Logistics And Facilitation

7. In this report, a more expansive definition of trade facilitation has been adopted than used elsewhere²; it includes all aspects of supply (logistics) chain performance. Trade procedures and customs and other regulatory structures/agencies remain a central concern but to these are added transport services and the increased use of information technology to monitor product flow and supply (logistics) chain integration. Trade logistics and facilitation are diverse and challenging but with potential benefits for both business and government at national, regional, and international levels. They involve political, economic, business, administrative, technical and technological, as well as financial issues, all of which must be taken into consideration. Efforts to reduce trade logistics costs and facilitate trade can be addressed by both the public and private sectors.

8. Public sector efforts address problems associated with technical and physical barriers to trade: for example, cumbersome licensing and clearance procedures, increasingly stringent sanitary and phytosanitary regulations, and restrictions on trade finance, as well as inadequate public infrastructure and its inefficient management. Private sector initiatives address problems of complex transactions, excessive numbers of participants in the supply chain, poor quality or limited scope of logistics services, and lack of coordination among logistics service providers in the supply chains.

9. The report focuses on the performance at the international borders and gateways as well as on the corridors connecting them with the major domestic markets. The report does not examine in detail firms’ in-house firm logistics³ which, in some instances, may be as inhibiting to overall cost reduction and competitiveness as external trade facilitation.

¹ Trading on Time: Djankar, Freund and Pham WB Policy Research Working Paper WPS3909, 2006

² Such as UN/ECE definition of trade facilitation (as adopted in some recent publications): “The simplification and harmonization of international trade procedures and the information flows associated with them”.

³ In-house logistics would cover such aspects as order processing, procurement, inventory management, documentation and communications with buyers and suppliers, etc.

1.3 The South Asian Context

10. This report concentrates on the larger economies in continental South Asia, Bangladesh, India, and Pakistan, although Afghanistan, Bhutan, and Nepal are also discussed. Until relatively recently, the region was inward-looking in terms of economic policy; dominated by the public sector, with policies designed for domestic production/import substitution/self sufficiency. International trade was largely confined to those sectors where domestic production was either impossible (due to lack of basic resources), or prohibitively expensive. Trade regimes were characterized by high external trade tariffs, quantitative restrictions, strict licensing and multiple layers of regulation and bureaucracy. Customs and trade procedures were extensive and cumbersome, enforcing the restrictive, inward-looking economic and trade policies. Ports and other major transport infrastructure were owned and managed by the public sector and external trade/transport links and efficiencies were accorded relatively low priority by governments.

11. From the early 1990s, South Asian countries have shifted to more outward looking policies, reducing regulations and restrictions on private sector involvement and freeing up the economy. Export promotion has replaced import substitution as the central theme for most governments; although there may still be echoes of more mercantilist attitudes – increasing exports, while still attempting to restrict imports. Such shifts towards market liberalization do not take place instantaneously, but are rather a process over a number of years. While important changes have been made to support more open economies, remnants from the previous economic philosophies may still remain, often described as “the legacy problem”.

12. With liberalization, South Asian exports have been growing rapidly, although, as will be seen in the next chapter, trade has the least importance, as a proportion of GDP, of almost any region. Trade facilitation appears to be a key area where policies, systems and infrastructure have still to adjust fully to the new economic approach. There is a general perception that port services are very inefficient and that, in many ways, trade facilitation remains in the previous era, restraining rather than promoting trade, and thus a serious constraint upon unlocking the region’s full potential.

13. The situation may have improved from the incredibly cumbersome processes reported, in 2004 by Jayantra Roy, for Indian exports, Table 2.

Table 2 Documents for Export Clearance: India

| | Documents | Copies | Signatures |
|----------------------|------------------|---------------|-------------------|
| Commercial documents | 3 | 13 | 24 |
| Shipper’s documents | 12 | 46 | 101 |
| Clearing Agent | 8 | 31 | 105 |
| Carrier | 5 | 27 | 27 |
| Bank | 1 | 1 | 1 |
| Total | 29 | 118 | 258 |

But, several surveys suggest that South Asia has much higher trade-transport costs and more complex trade procedures than either developed countries or, perhaps more importantly, its major competitors in international trade. More firms in South Asia (almost 60 percent) report that customs and trade regulations are a major or moderate constraint than in other regions, substantially higher than firms in East Asia (36 percent). The World Bank’s “Doing Business 2007” assessed the cost, time and complications of countries participating in international trade. The results showed South Asia at a marked disadvantage, Table 3.

Table 3 Trading Across Borders: Procedures, Delays and Costs*

| | -----EXPORTS----- | | | | -----IMPORTS----- | | | |
|-------------------|-------------------|-------------|-------------|------------|-------------------|-------------|-------------|-------------|
| | Documents | Signatures | Days | US\$ | Documents | Signatures | Days | US\$ |
| South Asia | | | | | | | | |
| Bangladesh | 7 | 15 | 35 | 902 | 16 | 38 | 57 | 1287 |
| India | 10 | 22 | 27 | 864 | 15 | 27 | 41 | 1244 |
| Nepal | 7 | 12 | 44 | 1599 | 10 | 24 | 37 | 1800 |
| Pakistan | 8 | 10 | 24 | 996 | 12 | 15 | 19 | 1005 |
| Sri Lanka | 8 | 10 | 25 | 797 | 13 | 15 | 27 | 789 |
| <i>Average**</i> | <i>9.4</i> | <i>19.1</i> | <i>27.3</i> | <i>886</i> | <i>14.5</i> | <i>25.6</i> | <i>38.6</i> | <i>1197</i> |
| East Asia | | | | | | | | |
| Cambodia | 8 | 10 | 36 | 736 | 12 | 18 | 45 | 816 |
| China | 6 | 7 | 20 | 335 | 12 | 8 | 22 | 375 |
| Malaysia | 6 | 3 | 20 | 481 | 12 | 5 | 22 | 428 |
| Thailand | 9 | 10 | 23 | 848 | 10 | 10 | 22 | 1042 |
| Vietnam | 6 | 12 | 35 | 701 | 15 | 15 | 36 | 887 |
| <i>Average**</i> | <i>6.3</i> | <i>8.0</i> | <i>23.9</i> | <i>488</i> | <i>11.9</i> | <i>8.2</i> | <i>22.6</i> | <i>484</i> |
| G8 | | | | | | | | |
| Germany | 4 | 1 | 6 | 731 | 4 | 1 | 6 | 750 |
| Japan | 5 | 3 | 11 | 789 | 7 | 3 | 11 | 847 |
| UK | 5 | 5 | 12 | 676 | 4 | 5 | 12 | 756 |
| USA | 6 | 5 | 9 | 625 | 5 | 4 | 9 | 625 |
| <i>Average**</i> | <i>5</i> | <i>3.2</i> | <i>8.8</i> | <i>703</i> | <i>4.9</i> | <i>3.3</i> | <i>9</i> | <i>704</i> |

* Transport and transaction costs within the country for a 20 ft container

** Weighted average by value of trade

Source: Doing Business, 2007.

South Asia performs poorly on all ‘trading across border’ measures; the comparisons with China are particularly stark⁴. Other indicators show broadly the same picture though, in some, the differences between East Asian and South Asian countries are rather less marked, for example, Table 4.

Table 4 Trade Facilitation Indicator World Rankings⁵

| | Port Efficiency | Customs Environment | Regulatory Environment | Service Sector Infrastructure | Average Rank |
|------------|-----------------|---------------------|------------------------|-------------------------------|--------------|
| China | 60 | 53 | 53 | 62 | 57 |
| Malaysia | 19 | 41 | 40 | 39 | 35 |
| Thailand | 31 | 56 | 59 | 34 | 45 |
| Vietnam | 76 | 78 | 60 | 69 | 71 |
| Bangladesh | 78 | 76 | 55 | 71 | 70 |
| India | 55 | 57 | 67 | 58 | 59 |
| Sri Lanka | 57 | 65 | 9 | 47 | 45 |

The trade facilitation rankings show relatively little difference between China and India, nor between those of Bangladesh and Vietnam.

14. The importance of streamlining trade facilitation and reducing overall logistics costs is endorsed by studies that have attempted to estimate their economic impact. Several studies show that South Asia has the most to gain from improved trade facilitation of any region. One simulation of the impact of

⁴ China’s transport cost advantage reflects industries being established specifically for exporting and located close to the coast. In South Asia, most industries were established for the domestic economy and mainly located inland.

⁵ Wilson, Mann and Otsuki database: World Bank Working Paper No. 3224

raising South Asia's trade facilitation performance toward international levels shows large gains for both intra and inter-regional trade, Table 5.

Table 5 Trade Gains from Improved Trade Facilitation⁶
(US\$ millions)

| | Port Efficiency | Customs Environment | Regulatory Environment | Service Sector Infrastructure | Total Gains |
|----------------|------------------------|----------------------------|-------------------------------|--------------------------------------|--------------------|
| Intra-regional | 712 | 429 | 278 | 1,224 | 2,644 |
| Inter-regional | 8,421 | 3,881 | 3,809 | 15,452 | 27,560 |

If the projected levels of trade facilitation efficiency were attained, intra-regional trade within South Asia would increase by almost 60 percent, though from an extremely low base, and trade with the rest of the world would increase by over 30 percent.

15. None of these comparisons are conclusive as they are often the result of dated information, collected before the impact of recent reforms. Nevertheless, it is clear that the efficiency of their external trade and transport systems has become a major concern for several governments in South Asia. The Government of India established an Inter-Ministerial Group in 2005 with the following remit:

“Recognising the urgency of reducing the dwell time for cargo, the Committee on Infrastructure, chaired by the Prime Minister, constituted an Inter Ministerial Group.....to make recommendations for streamlining customs procedures and the functioning of Container Freight Stations.....The goal is to match international benchmarks.....to enable Indian ports to attain world class standards”.

A broadly similar committee has been established in Pakistan, under the direct chairmanship of the Prime Minister, with an even wider remit, namely, to raise the operating performance of the National Trade Corridor, linking Karachi with northern Pakistan, to world class standards. This comprehensive approach brings together the ports, trade facilitation, railways, roads and the road transport industry to introduce world class infrastructure, up-to-date procedures and modern transport and logistics management.

16. The increased attention given by some of the governments in the region to trade facilitation and the streamlining of customs procedures appears to be producing substantive results, Table 6.

Table 6 Trade Documentation and Time Requirement

| | -----No. of Documents----- | | | | -----No. of Days----- | | | |
|-------------|----------------------------|------|----------------|------|-----------------------|------|----------------|------|
| | Exports | | Imports | | Exports | | Imports | |
| | 2005 | 2007 | 2005 | 2007 | 2005 | 2007 | 2005 | 2007 |
| Afghanistan | n.a. | 12 | 10 | 11 | n.a. | 67 | 97 | 71 |
| Bangladesh | 7 | 7 | 16 | 9 | 35 | 28 | 57 | 32 |
| Bhutan | 10 | 8 | 14 | 11 | 39 | 38 | 42 | 38 |
| India | 10 | 8 | 15 | 9 | 36 | 18 | 43 | 21 |
| Nepal | 7 | 9 | 10 | 10 | 44 | 43 | 38 | 35 |
| Pakistan | 8 | 9 | 12 | 8 | 33 | 24 | 39 | 19 |
| Sri Lanka | 8 | 8 | 13 | 6 | 25 | 21 | 27 | 21 |
| China | 6 | 7 | 11 | 6 | 20 | 21 | 24 | 24 |

Source: Doing Business 2006 and Doing Business 2008

According to the Doing Business surveys, there has been a marked reduction in the number of documents required for importing in most South Asian countries and, in several countries, significant reductions in the time required for both exports and imports. According to Doing Business 2008, it is

⁶ For example: Trade Facilitation and Regional Integration in South Asia: Accelerating the Gains to Trade with Capacity Building, Wilson and Otsuki, World Bank, 2004

now faster to export a container consignment from India (to vessel loading) than from China, and faster to import into India, Pakistan and Sri Lanka. Bangladesh still has significantly longer trade times than the other coastal countries but times have fallen, especially for import consignments. The landlocked countries remain at a significant disadvantage with regard to trade times, especially Afghanistan.

1.4 Objectives Of The Report

17. The main objective of the report is to provide a comprehensive regional audit of the present state of trade and transport facilitation in South Asia with regard to both inter-regional and intra-regional trade. On the basis of the regional audit, the report:

- assesses the broad trade-transport competitiveness of the region, especially in comparison with East Asia, its major competitor in several key areas, especially the textile and garment sector;
- identifies the major issues and constraints faced by each component of the trade-transport systems; and
- proposes agenda of potential changes to the systems (including, investment, policies and procedures) which would enhance the region's competitiveness.

The report is structured in five sections:

- Overview of South Asia Trade
- Inter-Regional Trade: The Transport Sector
- Inter-Regional Trade: The Customs Sector
- Inter-Regional Trade: The Logistics Industry
- Intra-Regional Trade

The emphasis on inter-regional trade reflects its predominant place in the region's total trade and the priorities of the governments in the region, which give much higher emphasis to such trade.

18. The report has deliberately been kept short and, in some respects, general. Greater detail and discussion is given in the accompanying annexes. In addition, to providing the detail on each of the sectors, the annexes also include:

- A review of the transit issues faced by the landlocked countries in the region. These issues, which somewhere differ to those of intra-regional trade, exacerbate the problems that the landlocked countries face in inter-regional trade.
- An examination of a number of supply chains in South Asia (fruit and vegetables, textiles and garments, and the automotive industry) to illustrate the actual impact of trade-transport facilitation and the limitations that it can impose.

19. The report brings together previous trade and transport facilitation audits undertaken by the World Bank in the South Asian region (Bangladesh and Pakistan), additional studies in India and Nepal undertaken specifically for this report, information from on-going Bank financed customs reform/trade facilitation activities being undertaken in Afghanistan and Pakistan, as well as Bank activities in the transport sector throughout the region. One of the findings of the audit is the speed with which trade and transport facilitation is changing in South Asia. The report presents essentially a snapshot of the position in 2005 – 2006; an attempt has been made to incorporate recent changes, but in some respects the information and observations may already have been overtaken by events, hopefully in a positive fashion.