

Chapter 16

Tariff and Non-tariff Barriers to Trade in South Asia: An Indian Perspective

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16.1 Introduction

India is the largest economy in the South Asian region accounting for more than 80 per cent of South Asia's GDP. More than 90 per cent of the regional trade of Bangladesh, Nepal and Sri Lanka as well as a major part of their global trade is with India. Trade among the remaining South Asian countries is much smaller than India's trade with any of its South Asian partners. Owing to its central geographical location in the region, India is also at the helm of all regional trade facilitation and transit issues. The pace and direction of economic integration in South Asia, therefore, is largely a function of India's relations with the other economies of the region.

India strengthened its bilateral links with its neighbours by signing free trade agreements (FTAs) with Nepal, Bhutan and Sri Lanka and a preferential trade agreement with Afghanistan. In 2006, India, along with Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka, signed the South Asian Free Trade Area (SAFTA) agreement under the aegis of the South Asian Association for Regional Cooperation (SAARC) (Afghanistan was included as a member in 2007). The main element of the agreement was a reduction in tariffs by all members under a Trade Liberalization programme (TLP), except on items that are included in the members' sensitive lists. Members also agreed to the elimination of para-tariffs and non-tariff barriers and the adoption of trade facilitation measures to remove barriers to the cross-border movement of goods.

India has taken several measures, both bilaterally and under the ambit of SAFTA, to facilitate trade in the region. A number of initiatives have been implemented to liberalise the tariff regimes facing imports from South Asia and to address non-tariff barriers and transport impediments. However, intra-SAARC trade continues to be very low (at about 5% of the region's total trade) and India's imports from the rest of South Asia are less than 1 per cent of its total imports. This is largely due to the high transaction costs incurred while moving goods across the borders in the region. The strained relations between India and Pakistan, the two largest economies in the region, have also prevented fruitful implementation of major trade facilitating measures in the region. In 2011, however, Pakistan took the decision to grant most favoured nation (MFN) status to India (GoI 2011a). Until then, Pakistan permitted imports from India only in a limited number of items referred to as the 'positive list'. In March 2012, Pakistan shifted to a small 'negative' list of 1,209 items that were not permitted into India, giving a new lease of life to India-Pakistan trade relations and

to the SAFTA process (Tuteja 2012). In this changed scenario, further efforts by India would benefit the regional trade integration process more than before. South Asian trade integration needs to be pursued with a greater degree of conviction as trade complementarities exist in both trade in goods and services (Das 2009).

This chapter examines India's trade trends with its major trading partners in SAARC, its role in the South Asian trade integration, the ground covered so far and the challenges that remain in the areas of tariff liberalisation, non-tariff barriers, transport and connectivity, and inter-country transit. Based on the analysis, the chapter draws a roadmap to prioritise India's agenda for future regional integration.

16.2 Trends in trade

India's trade with its major South Asia partners – Pakistan, Bangladesh, Nepal and Sri Lanka – increased sixfold during 2000–01 and 2011–12 (Table 16.1). In 2000–01, Bangladesh was India's largest trading partner accounting for 43 per cent of India's total trade with its South Asia partners. In 2011–12, Sri Lanka became the largest trading partner accounting for 35 per cent. India has had a trade surplus with all its partners except with Nepal in 2000–01. However, the trade balance ratio has improved in favour of Sri Lanka and Bangladesh and worsened for Pakistan and Nepal.

Data at the two-digit level of classification of the Harmonized System (HS) shows that vehicles and their parts constitute India's top five export items for Bangladesh, Nepal and Sri Lanka (Table 16.2). Also, cotton is an important export item to Pakistan, Bangladesh and Sri Lanka. Residues and waste from the food industries, largely in the form of animal fodder, is a common top export item to both Pakistan and Bangladesh.

However, the product composition for imports shows that only mineral fuels and oils, fruits and nuts are common top items that India imports from Pakistan and Bangladesh as against other SAARC partners (Table 16.3). In the category of beverages etc. sweetened flavour waters have been imported from both Nepal and Sri Lanka.

16.3 Liberalisation of tariffs under SAFTA and India's bilateral FTAs

In line with SAFTA provisions, India offered tariff concessions separately to least developed countries (LDCs) and non-LDCs (NLDCs). India also maintained separate rules of origin and sensitive lists for these two groups of countries. However, concessions offered to NLDCs are applicable only to Pakistan, since India has an FTA with Sri Lanka, and any concessions applicable to LDCs are applicable only to Bangladesh, since it is the only LDC member under SAFTA with which India does not have an FTA. (Maldives is too small and accounts for only 0.1 per cent of the GDP of SAARC member countries.)

Thus, from India's standpoint, all tariff liberalisation efforts with SAARC members are done bilaterally. The negotiations with Sri Lanka, Nepal and Afghanistan take place under the respective bilateral trade agreements. With Pakistan, the tariff negotiations

Table 16.1 India's trade with SAARC members in 2000-01 and 2011-12 (US\$ million)

	Pakistan		Bangladesh		Nepal		Sri Lanka	
	2000-01	2011-12	2000-01	2011-12	2000-01	2011-12	2000-01	2011-12
Exports(X)	186.8	1,541.6	935.0	3,789.2	140.8	2,721.6	640.1	4,378.8
Imports(M)	64.0	401.2	80.5	584.6	255.1	550.0	45.0	720.9
Trade balance (X-M)	122.8	1,140.4	854.5	3,204.6	-114.2	2,171.6	595.1	3,657.9
Total trade (X+M)	250.9	1,942.7	1,015.6	4,373.8	395.9	3,271.5	685.2	5,099.7
Trade balance ratio (X-M)/(X+M)*100	49.0%	58.7%	84.1%	73.3%	-28.9%	66.4%	86.9%	71.7%

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

Table 16.2 India's top five exports to SAARC members in 2011–12 (US\$ million)

Product code	Product description	Pakistan	Bangladesh	Nepal	Sri Lanka
89	Ships, boats and floating structure				269.4
87	Vehicles and parts, and accessories		320.7	133.0	1,015.4
72	Iron and steel			305.5	
52	Cotton	87.1	1,076.7		238.3
30	Pharmaceutical products			108.0	
29	Organic chemicals	290.2			
27	Mineral fuels and oils			1,009.4	566.3
25	Salt, sulphur, lime, cement, etc.			75.6	
23	Residues and waste from the food industries	197.2	208.3		
17	Sugars and sugar confectionery		171.5		302.4
10	Cereals		267.0		
9	Coffee, tea, matt and spices	103.7			
7	Edible vegetables and certain roots	146.4			

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

are done under SAFTA for NLDCs, and with Bangladesh these take place under SAFTA for LDCs. The following sections examine the tariffs and sensitive lists that govern India's trade with each of its major trading partners in SAARC: Pakistan, Sri Lanka, Bangladesh and Nepal.

16.3.1 India–Pakistan

Under the TLP in SAFTA, India had committed to reduce tariffs to 20 per cent in the first two years and further to the 0–5 per cent range by 2013. LDC members are required to bring their tariffs down to the comparable level (0–5%) by 2016. However, India's sensitive list for NLDCs continues to be quite large (even though it was reduced to 614 items in 2012 from 868 items in 2006), especially when compared to that maintained by India for LDCs under SAFTA and under a bilateral trade agreement with Sri Lanka. Taneja et al. (2011a, b, c) suggest a methodology to prune India's sensitive list. Several items on the sensitive list are not exported by Pakistan and are unlikely to be exported to India in the near future. These, therefore, should be eliminated. India also has several items on the sensitive list, which are no longer reserved for the small-scale sector and can now be manufactured by large firms. Hence, there is no rationale for keeping these items on the sensitive list. The items on the sensitive list should include only those items in which Pakistan is competitive in the international market and India is not, as these are items where India is likely to

Table 16.3 India's top five imports from SAARC members in 2011–12 (US\$ million)

Product code	Product description	Pakistan	Bangladesh	Nepal	Sri Lanka
89	Ships, boats and floating structure				54.9
85	Electrical machinery and equipment				47.9
84	Machinery and mechanical appliances and parts thereof				42.1
72	Iron and steel			101.9	
71	Natural or cultured pearls, precious or semiprecious stones	34.6			
63	Made up textile articles		68.4		
55	Synthetic staple fibres			62.0	
53	Other vegetable textile fibres		145.3		
52	Cotton	58.2			
39	Plastics and articles thereof			61.7	
27	Mineral fuels and oils	23.1	17.3		
26	Ores, slag and ash				75.9
25	Salt, sulphur, lime, cement, etc.	55.0			
22	Beverages, spirits and vinegar			29.5	46.0
9	Coffee, tea, matt and spices			50.3	
8	Edible fruit and nuts	81.3	41.6		
3	Fish and crustaceans		75.2		

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

face competition. Taneja et al. (2011a, b, c) paired revealed comparative advantage (RCA) for items on India's sensitive list and identified those items where India's RCA is less than unity and Pakistan's is greater than unity for inclusion in the sensitive list. It indicated that India could prune its sensitive list to just 67 items. Of these items, 20 are textile products and ready-made garments. India has allowed duty-free access to all other South Asian countries in the region. India, therefore, should remove products in the textiles sector from the sensitive list. The remaining items on the list include vegetable products, fish and natural honey, metal and mineral products, and footwear items.

Another measure regarding specific duties imposed by India has drawn criticism from the other SAARC members. India is the only country in SAARC that imposes specific duties. Specific duties are a sum assessed on an article without reference to its value. Tariffs on the other hand are levied on an *ad valorem* (value) basis. Since the higher of the amount calculated using the *ad valorem* rate or specific amount is levied, in most cases the specific sum levied far exceeds the duty assessed as a

proportion of the value of the product. Most of the specific duties are levied on textile products and imports of these items, therefore, become unduly expensive. In July 2008, India removed specific duties on 144 items for NLDCs.¹ Thus, specific duties remain only on items on the sensitive list as these items are subjected to MFN tariffs.² In the sensitive list of 614 items, 182 are in the textiles category. Of these, 62 items continue to face specific duties. Removal of specific duties is an exclusive privilege that India has offered only to SAARC countries to improve their market access into India.

Bilaterally, India and Pakistan did not have normal trade relations for several years. As Pakistan is in the process of granting MFN status to India, key issues that remain to be addressed include phasing out the negative list of 1,209 items and removing the current restriction on road-based trade whereby only 137 items are permitted to be imported into Pakistan from India. In the roadmap for the future laid down in the 7th Round of Talks between Commerce Secretaries of the two countries, it was decided that following phasing out of the negative list and removal of restrictions on items traded by road, India would bring down its SAFTA sensitive list to 100 tariff lines by April 2013 and Pakistan would simultaneously announce transition dates to bring down its SAFTA sensitive list to 100 tariff lines (from an existing 936 items) within the next five years (Sidhartha and Deshpande 2012).

16.3.2 India–Bangladesh

Under SAFTA, India committed to reduce its tariffs to 20 per cent for LDCs in two years after the commencement of SAFTA and, in the second phase, reduce further to 0–5 per cent in the next five years. India removed all duties for LDCs in December 2007, ahead of the time stipulated under the tariff liberalisation programme for NLDCs (Sawhney and Taneja 2007). Another significant measure taken by India was the removal of specific duties in 2007 ahead of the removal of these duties for NLDCs.

Tremendous progress has been made on tariff concessions offered to LDCs by India under SAFTA to allow them increased market access to the Indian market. Bangladesh has been the biggest beneficiary of the reduction in India's sensitive list from 744 items in 2006 to 25 items from 2012. The original sensitive list had included 158 apparel products, which form the major part of Bangladesh's global exports. To give greater benefits to Bangladesh's textile exports, in 2008, India introduced a provision allowing 164 textile items from Bangladesh to enter its market at zero duty up to a maximum of 8 million pieces per year. This was done ahead of concessions that India offered to all LDCs in October 2008, and meant that the operational LDC sensitive list for Bangladesh excluded all textile products making it much smaller than the official number of 480 items. The limit was increased further to 10 million pieces in April 2011. The agreement required the garment products to be exported by 31 December every year to meet the target. Bangladesh further benefitted when, following Prime Minister Manmohan Singh's visit to Dhaka, 61 items on India's sensitive list for LDCs were allowed duty-free access without any quota restrictions, including 46 items from the textiles category (Taneja and Kaushal 2011). This effectively meant that India removed all 46 lines, which were of interest to Bangladesh, from India's negative list

for LDCs, reducing the applicable duty rate to zero without any quota restrictions. In November 2011, India reduced the sensitive list for LDC countries to just 25 items (tobacco and alcohol), with zero tariffs on all remaining items (GoI 2011b).

16.3.3 India–Nepal

Indo–Nepal economic relations have been governed by the bilateral treaties of Trade and Transit and Agreement for Co-operation to Control Unauthorised Trade signed in 1971, 1978, 1996, 2002 and 2009. The rules of origin criteria have played an important role in determining the course of Indo–Nepal trade. The 1971 treaty allowed duty-free access to items manufactured in Nepal, provided they used 90 per cent Nepalese/Indian material content for export to India. This requirement was subsequently reduced to 50 per cent in 1993. The Indo–Nepal trade treaty of 1996 was a landmark in Indo–Nepal bilateral trade, as India provided duty-free access to all products manufactured in Nepal on the basis of a certificate of origin issued by the Nepali authorities with no minimum requirement of domestic value addition (Mukherjee 2010). Only three products were on the sensitive list – alcoholic liqueurs; perfumes and cosmetics; and cigarettes and tobacco. The 2002 treaty re-introduced the value addition norm of 30 per cent with an additional requirement of a change in classification at the four-digit level of the Harmonized Commodities Description and Coding System (HS) to qualify for preferential access to the Indian market. A tariff rate quota was imposed on four items (vegetable ghee, acrylic yarn, copper products and zinc oxide), under which duty-free access was allowed only up to a specified limit. In the 2009 treaty, the tariff rate quota for copper products was increased by 2,500 metric tons.

The most liberal trade agreement between the two countries was agreed upon in 1996, when no value-added criteria were required for Nepalese products to qualify for tariff concessions on entry into the Indian market. During 1995–96 and 2001–02 there was a surge in imports from Nepal which was accounted for by four major products: vegetable ghee, copper products, acrylic yarn and zinc oxide. The main raw materials required for these products were palm oil for vegetable ghee, copper scrap for copper products, acrylic fibre for acrylic yarn, and zinc ingots for zinc oxide. Nepal's trade with India in these products thrived because it was able to benefit from: (i) the low duties that Nepal imposed on raw material import compared to the prevailing tariffs on raw materials in India; and (ii) zero tariffs offered on all products imported from Nepal by India under the Indo–Nepal FTA. However, India reduced duties steadily on these imports from all countries as part of its reform process. As a result, the gains for Nepal from tariff arbitrage diminished over time and exports of these items also declined. In fact, Nepal's utilisation of the quotas on these products remained largely unutilised (Taneja et al. 2011a, b, c).

16.3.4 India–Sri Lanka

India and Sri Lanka signed an FTA in 2000, six years ahead of the signing of SAFTA. The India–Sri Lanka FTA stipulated that India reduced tariffs to zero in a period of three years and Sri Lanka in eight years. India, however, imposed a tariff quota on garments (8 million pieces) and tea (15 million kg) and specified ports of entry for

these items to qualify for preferential tariffs. India also added the condition that Sri Lanka would have to source fabric for 6 of the 8 million pieces of apparel articles from India to qualify for the preferential tariff (Sarvananthan et al. 2003).

In some cases, Sri Lankan exporters found it difficult to meet the rules of origin criteria. The rules of origin (RoO) requirement of a 35 per cent local value addition for blended tea and a 25 per cent local value addition for blended tea with Indian tea were very restrictive. As a result, less than 1 per cent of Ceylon tea entered the Indian market, amounting to a mere 2.7 per cent utilisation of Sri Lanka's quota limit under the FTA (Deshal de Mel 2010). Tea exports also suffered because of port restrictions. The removal of sourcing requirement in 2008 and the removal of port restrictions in 2007 have played a vital role in increasing exports of ready-made garments to India.

One of the most contentious issues raised by Sri Lanka has been the large sensitive lists maintained by India (Weerakoon and Thennakoon 2008). India's sensitive list under the India–Sri Lanka FTA consists of 431 items. In 2008, India allowed duty-free import of 216 garment items up to a limit of 8 million pieces in the bilateral sensitive list, thereby reducing the operational sensitive list to 215 items.

Even though the India–Sri Lanka FTA does not have any provision for reducing the sensitive lists, given India's asymmetric size in the region it should consider rationalising its sensitive list. Taneja et al. (2011a, b, c) suggest that only those items in which Sri Lanka is competitive in the international market and India is not should be on the sensitive list, as these are items where India is likely to face competition. Based on these criteria, only nine items should be retained on the sensitive list.³ These include coconut, paper and seven items made of rubber.

16.4 Non-tariff barriers

In addition to tariffs, the SAFTA agreement contains provisions to address non-tariff, para-tariff and direct trade measures. Under the aegis of SAFTA, a committee of experts (COE) was formed to monitor, review and facilitate implementation of the agreement. Under the COE, a sub-group looked into problems related to non-tariff measures (NTMs) and para-tariff measures (PTMs) faced by member countries while entering into each other's territory. Pakistan, Bangladesh and Nepal notified to this committee 50 NTMs/PTMs that they faced in accessing the Indian market. Pakistan notified the maximum number of NTMs/PTMs (31), while Bangladesh and Nepal notified 14 each (Taneja et al. 2009). The notified NTMs relate to technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures, cumbersome procedures, licences and quotas, para-tariff measures, infrastructure constraints, interstate movement of goods and other NTMs (related to valuation, trading through state enterprises and anti-dumping measures).

An analysis of the NTMs notified against India shows that some of these NTMs did not pose any barrier to entry, as they are applicable to both imports and to domestically manufactured goods and hence in accordance with the principle of national treatment. There are also some other measures where India has already initiated corrective

action but where information on such action had not yet been made available to other countries. For instance, Pakistan and Bangladesh notified that a labelling requirement under the Jute and Jute Textiles Control Order of 2000, which stipulated that each and every imported jute bag must show the 'country of origin', discouraged imports as bags carrying such labelling could not be used for packing goods made in India since the label would appear to suggest that the goods contained in the bag were made in Bangladesh. The marking requirement was amended in 2002 to direct that every jute bag must be marked 'bag made in – country of origin'. However, despite this amendment, Pakistan and Bangladesh had notified that the control order of 2000 was a barrier for exporters (Taneja et al. 2011c). Similarly, amendments of clauses in the Indian Customs Act relating to valuation that were inconsistent with GATT Article VII were made in 2007, yet Pakistan notified this measure as a barrier to the COE indicating a lack of awareness about the amended act.

Only 19 of the 50 notified NTMs were found to impose trade barriers. These included some TBT and SPS measures whose implementation involves cumbersome procedures, either because of involvement of multiple agencies or due to excessive formalities that increase the time and cost of trading considerably. Some TBT and SPS requirements pose as barriers due to inadequate testing facilities at ports that often lead to delays and additional costs because samples have to be sent to distant locations for testing. The absence of testing facilities at the Indian border results in consignments being held up for several days at the borders. It has also often been observed that different customs locations apply different rules to Nepalese exports to India, thereby creating uncertainty. Customs authorities reportedly create unnecessary hassles for exporters and importers while clearing goods at the Kolkata port or at the land customs station.

In other cases, Indian authorities do not accept pre-shipment test certificates from the exporting country, which again leads to delays and additional costs. For instance, India does not recognise/accept test reports from Nepalese-certifying authorities in the case of agricultural and animal-related products and pharmaceutical products. Obtaining quarantine certification for agricultural items is cumbersome. Exporters of medicinal and herbal products also face similar problems, since in the case of pharmaceutical products a certificate of analysis (CoA) is required to be produced for every consignment, product and batch. This adds to the time and cost of transactions. It is for this reason that no pharmaceutical products are exported by Nepal to India, despite the trade potential.

Some labelling requirements have also been notified as barriers. Pakistan and Bangladesh notified that in the case of pre-packaged products such as processed foods, cosmetics, toiletries, spices, etc., Rule 32 of the Prevention for Food Adulteration (PFA) Act pertaining to labelling requirements is complex and detailed. A labelling measure requiring processed food items to have a shelf life of at least 60 per cent of original shelf life at the time of import qualifies as a barrier since it violates the principle of national treatment. This is because there is no such stipulation for domestic goods, which only require the date of expiry to be mentioned on the processed food items.

Trade is also restricted due to regulations that lack transparency. Regulations related to woollen and other textiles and jute products have not been notified to the WTO, thus creating information asymmetries for trading partners. In the case of woollen textiles, the regulation lacks clarity on the requirement of a 'brand owner' certificate which can be applied arbitrarily as it is open to interpretation. Import permits required for poultry, dairy products and meat were reported to be very time consuming. Pakistan and Bangladesh notified that the process of pest-risk analysis (PRA) required for exporting agricultural products to India was complex and non-transparent. A detailed examination of the PRA process revealed that the process of obtaining a PRA is clearly laid down in the Plant Quarantine Order 2003, and is available on the Ministry of Agriculture website. However, it is conducted only when a request for a PRA is made either by an importer in India or an exporter in the exporting country to the Plant Protection Quarantine Department in India. The problems may have arisen due to lack of information on the process or due to its time-consuming nature.

16.5 Transport

Transaction costs of trading in South Asia continue to be high primarily because of poor connectivity across borders by land, which is the cheapest mode of transporting goods. As Nepal is a land-locked country, trade between India and Nepal takes place only by road and rail. Sri Lanka is an island country and, therefore, trade takes place only by air and sea modes. India trades with Bangladesh and Pakistan through all modes of transport, i.e. air, sea, road and rail. India's trade with Nepal is largely by road as this mode accounts for 98 per cent of trade. Road and sea are the most important modes of transporting cargo between India and Bangladesh. While trade by the sea route accounts for 46 per cent, that by road accounts for 47 per cent. In the case of India–Pakistan trade, 60 per cent of the trade takes place by sea, 17 per cent by road and 15 per cent by rail. Rail-based trade is most important for Pakistan, and almost negligible for trade with Nepal and Bangladesh (Table 16.4).

Table 16.4 India's mode wise share of trade with SAARC members in 2011–12

	Pakistan	Bangladesh	Nepal
Road	17	47.3	98.8
Rail	14.8	0.6	0.2
Air	8.2	6.4	1.0
Sea	59.9	45.8	0

Note: a) Shares relate to data for non-export processing zones;
b) Entire data for trade via the inland container depots are grouped under the sea route even though it is possible that some may be going via the road route

Source: Government of India, Directorate General of Commercial Intelligence and Statistics (DGCI&S), Ministry of Commerce and Industry

Given that Bangladesh, Nepal, India and Pakistan share a common land border, surface transport should be the predominant mode of transport, but this is not the case. Land transport networks in South Asia continue to remain fragmented even though the basic infrastructure and facilities to establish mutually beneficial intra- and inter-regional transport linkages already exist in many countries. Land connectivity by road and rail is poor, imposing significant barriers to trade in terms of added time and cost. These problems are accentuated by poor sea connectivity for intra-SAARC trade.

16.5.1 Road transport

Road transport is the most dominant mode of transport for India–Nepal and India–Bangladesh trade and is growing in importance for India–Pakistan trade as this road route was opened to bilateral trade only in 2005. Despite the importance of this mode of transport, it continues to be underdeveloped due to impediments related to infrastructure and ineffective protocols. Basic infrastructure such as warehousing, parking, scanners, weighbridges, testing laboratories and other border facilities are inadequate and in poor condition. This leads to considerable damage to goods due to long delays in queues, exposure to extreme weather, pilferage, etc. There are multiple agencies involved with no single agency responsible to ensure the co-ordinated functioning of various government authorities/service providers. The access roads leading to the border points are also poorly maintained, narrow and below the capacity needed to handle international traffic (World Bank 2008; ADB 2006; Taneja 2006, 2007; Sikri 2009; Prakash and Taneja 2010).

The numbers of road routes that have been opened up for trade are also limited. For instance, there is only one road route through Attari/Wagah for India–Pakistan trade (Customs Notification No. 63/94-Cus. (NT)). Further, only a limited number of goods are allowed to be traded between India and Pakistan. Pakistan permitted only 14 items to be imported from India by the road route. By 2012 this had increased to 137 items (GoP 2012). At all the road borders, the border gates are common for trucks carrying both exported and imported goods as well as passenger cars and pedestrian movement, causing major congestion at the gates.

A major concern for the region is that customs procedures at land ports remain far less efficient than at sea ports. An electronic data interchange (EDI) system has been installed only at Petrapole at the India–Bangladesh border and at Raxaul at the Indo–Nepal border; however, it does not function properly and manual processing is still required. Congestion also occurs as every truck is physically checked due to security concerns at India's sensitive land borders, especially at the India–Bangladesh and India–Pakistan border.

Another limitation is the necessary transshipment of goods at the borders since Indian trucks cannot move into the neighbouring country's territory and vice-versa. This is mainly due to the absence of road transport agreements for through-movement of goods across borders and restrictions on the size of trucks that move in neighbouring countries. This not only adds to time and cost, but also leads to a higher incidence of pilferage. India–Nepal is the only border where trucks of one country are allowed to cross the border and operate in the other as per the bilateral treaty. However, it has

been observed that trucks still do not cross the border, and in fact goods continue to be transshipped at the border (Pohit 2011). At the Bangladesh border, Indian goods have to be transshipped twice. The goods coming from states outside West Bengal are offloaded and loaded onto local trucks at Bongaon which is 5 km from the border (Pal 2011). The second transshipment occurs across the border when one country's trucks offload goods and load them on to the other country's trucks.

Further, no containerised trucks are allowed to move across the borders, posing a major limitation to cost-efficient movement of goods across borders. There is no container movement by land, so all commodities requiring containerised shipment have to move by sea. Since there is no direct sailing between Kolkata and Chittagong, containerised cargo has to be shipped via Colombo to Indian ports. This significantly adds to transaction costs. Thus, there is a very strong case for opening up land routes for container movement to reduce transaction costs and delivery times.

A number of measures have been initiated by all countries to address the situation of inadequate infrastructure for cross-border movement of persons, vehicles and goods. One major step has been taken in synchronising working hours at both sides on the India–Bangladesh, India–Nepal and India–Pakistan borders. The Indian government initiated setting up 13 Integrated Check Posts (ICPs) at identified entry points on international land borders to provide integrated services for road transport with dedicated passenger and cargo terminals and other facilities in a single complex (GoI 2011c). The ICP at Attari/Wagah on the India–Pakistan border became operational in April 2012 (GoI 2011d). However, a field visit to the facility showed that it is already running at full capacity since the expansion in trade by the road route to such an extent was not envisaged.

16.5.2 Rail transport

Among surface transport modes, the railway has great potential as a mode of surface transport for long-distance freight and passenger traffic movement across South Asia. However, it is not the preferred mode of transporting goods across borders in the region due to a number of barriers that override its cost-effectiveness. Rail movement is constrained by technical problems and the absence of a regional agreement for direct intra-regional movement.

Only limited rail routes are currently operational for cross-border trade, and preference is given to passenger train movement (Arnold 2010), especially on the India–Pakistan and India–Bangladesh routes. This is largely because of the differences in track gauges and braking systems on the two sides of the border and restrictions on the types of wagons that can be used. For instance, Indian Railways wagons are longer and heavier than Bangladesh Railways wagons and, therefore, the trains have to be reconfigured at the border (World Bank 2008). On the other hand, Indian Railways and Pakistan Railways have the same broad gauge railways, but due to problems in the wagon balancing systems, and inadequate infrastructure facilities at the rail cargo station, only Pakistan Railways carries cargo between Amritsar and Lahore. Restrictions on the types of wagon create further restrictions on the types

of commodities that can move by rail along bilateral routes. The quality of rolling stock used for cross-border trade is poor, as wagons, locomotives, coaches, etc. are antiquated and poorly maintained. As in the case of road transportation, there is no containerised rail movement of goods, except between Birgunj and Kolkata where regularised containerised rail traffic is operational but caters mostly to third country trade.

There are also differences in operating standards between Indian railways and railways of other countries. Timings for rail movement are limited as night navigation is not allowed across borders.

Rail cargo movement is constrained by the lack of multimodal linkages of road with railways, and the lack of efficient and cheap transshipment facilities between rail hubs and sea ports in some cases (Roy and Banerjee 2010).

India and Bangladesh have taken steps to improve rail connectivity. In the January 2010 India–Bangladesh Joint Communiqué, both countries agreed to allow for containerised cargo movement by rail to encourage bilateral trade. However, almost three years after the signing of the agreement this facility is still not available.

16.5.3 Sea transport

Even though India, Bangladesh, Pakistan and Sri Lanka have major sea ports connecting them to the world, India's sea connectivity with Bangladesh and Pakistan is not adequate. Even though Chittagong and Kolkata ports are located very close to each other, sea transport accounts for only 1 per cent of total trade between India and Bangladesh. On the other hand, the Jawaharlal Nehru Port Trust port in Mumbai accounts for 13 per cent. Trade between Chittagong and Mumbai takes place through Sri Lanka. Cargo is transhipped in feeder vessels from Chittagong to Sri Lanka where it is transhipped on to larger vessels for onward movement to Mumbai. The cargo traffic between Kolkata and Chittagong is not enough; hence there is not much movement of vessels between these two ports. Sea-based trade between India and Pakistan took place under a very restrictive maritime protocol until 2005 (Taneja and Kalita 2011b). The revised protocol amended the one that had been in operation since 1975, and allowed third country vessels to transport cargo originating from India or Pakistan for other countries. This amendment also allowed Indian and Pakistan vessels to transport cargo destined for a third country from the ports of either country, bringing it on a par with global maritime arrangements (Taneja and Kalita 2011c).

Sea transport is considered the most well developed mode of transporting goods from India and maximum reforms have taken place at sea ports. However, there continue to be a number of inefficiencies in using the sea route for trade within South Asia. There are capacity constraints at many of the ports, together with heavy siltation at channels where depths fluctuate with tides. Physical barriers include old and poorly maintained cargo and ship-handling equipment, old floating craft, poor road and rail connectivity and a lack of roll-on/roll-off (RORO) ferry vessels and passenger handling facilities at Cochin and Tuticorin (ADB 2006).

Draught constraints limit the accessibility of large ships at Indian ports, due to which main line and deep-sea container ships currently call only at Colombo, which serves as the transshipment hub. Chittagong port is the major sea port in Bangladesh. But there are no direct vessels between Haldia and Chittagong. As a result, most sea trade between India and Bangladesh also takes place through Colombo. This circuitous route increases costs considerably.

Customs clearance at sea ports is much more efficient and automated than at land ports, with EDI available at all ports. However, operational efficiency and intermodal connectivity need to be improved.

16.6 Transit

Trading goods across borders is also severely restricted by the lack of transit agreements that would allow seamless movement of goods across the region. Transit is a major issue between Bangladesh, Nepal, Bhutan and India's northeast states. India does not have access to its northeast states through Bangladesh. While transit protocols exist to permit movement of goods between Bangladesh and Nepal, for goods to move between the Kakarvita–Panitanki border point at the Nepal–India border and the Phulbari–Banglabandh border point at the India–Bangladesh border, transshipment of trucks has to be done twice (Rahmatullah 2011). There is some volume of bilateral cargo traffic through the inland water transport (IWT) route. There is an Inland Water Transit and Trade Protocol between India and Bangladesh, under which inland vessels of one country can transit on specified routes through the other country. The protocol was first signed in 1972 and is renewed every two years. For inter-country trade, four ports of call have been designated in each country - Haldia, Kolkata, Pandu and Karimganj in India and Narayanganj, Khulna, Mongla and Sirajganj in Bangladesh.

In the January 2010 India–Bangladesh Joint Communiqué, both countries agreed that trucks carrying goods from Bhutan and Nepal would be allowed to enter about 200 meters into Zero Point at Banglabandh at Banglabandh–Phulbari land customs station. To facilitate development of regional connectivity, Bangladesh and India agreed to allow the use of Mongla and Chittagong sea ports by Nepal, Bhutan and India. The two countries also agreed that the Rohanpur/Singabad–Kathihar–Rauxal–Brigunj broad gauge rail link would be available for transit traffic between Nepal and Mongla Port and that the Akhaura–Agartala rail link would be reconstructed. Ashuganj was also designated as a new 'port of call' and transshipment port for onward movement of container/cargo to Agartala by road. Besides, the two countries agreed to allow bilateral trade to be carried in containers through rail and water transport (WT) routes (Taneja and Kalita 2011a).

India and Nepal on the other hand, have a transit treaty in place since 1950. For a land-locked country like Nepal, India is of crucial importance as the nearest sea port is through India. Accordingly, after the first treaty was signed in 1950, it has been renewed periodically. The transit signed in 2009 increased the number of transit points to 27. Efforts have been made to simplify procedures for the transit of Nepalese

import and export cargo and to expand the number of transit points to facilitate Nepal's trade with India and third countries through Indian territory.

Along with the transit treaties, India and Nepal have signed agreements to control unauthorised trade. India's concern has always been about the possible diversion of transit goods into the Indian market. During the 1980s and early 1990s, transit goods were deflected into the Indian market. Tariff differentials between Nepal and India were high, making it profitable to sell third-country goods in India. Sensitive goods have been subject to special provisions to control the unauthorised trade of transit goods. Several transit procedures were designed to check the smuggling of transit goods into India. Currently, the import of sensitive items into India is permitted only through the land customs stations at Kakarbhitta/Naxalbari, Biratnagar/Jogbani, Birganj/Raxaul, Bhairahawa/Nautanwa, Nepalgunj/Nepalgunj Road and Mahendranagar/Banbasa.

Despite various transit treaties being in place, there is no free flow of goods from Nepal. Cumbersome custom procedures as well as poor transit routes from Nepal to Bangladesh through Indian territory have hindered the free movement of goods. The density of traffic at the 'Kakarvita (Nepal)–Panitanki (India)–Fulbari (India)–Banglabandha (Bangladesh)' corridor is very low. Appropriate steps need to be taken so that Nepalese trucks and Bangladesh trucks can move through Indian territory without transshipment.

Pakistan has not given any transit rights to India to access the Afghanistan market for its exports. India has used the road route through Wagah for importing goods from Afghanistan since 1948, but not for exports. Pakistan has signed a transit treaty with Afghanistan, which is a landlocked country. Until recently, Afghan transit goods in Pakistan were transferred under the Afghan Transit Trade Agreement (ATTA) signed by the two countries in 1965. In July 2010, Afghanistan and Pakistan signed an amended transit trade agreement, the Afghanistan–Pakistan Transit Trade Agreement (APTTA), which improves the joint transit system to reflect current economic conditions, infrastructure, technology and transport practices. The new transit regime provides for an increased number of transport routes available to trucks from Pakistan and Afghanistan, lowering the cost of imports and making exports more competitive in the global market. However, the APTTA does not allow India's exports to Afghanistan through Pakistan via the land route.

16.7 Prioritising India's agenda for future regional trade integration

India has taken a series of trade integration measures since 2007 and can take further steps to enhance the pace of regional trade integration in South Asia.

The progress on tariff reduction by India has been ahead of what had been envisaged under SAFTA. Going forward, India should offer deeper tariff concessions to NLDCs so that Pakistan gets the same tariff concessions as Sri Lanka. In addition, India's sensitive lists for NLDCs should be pruned so that Pakistan gets greater duty-free

concessions. India allowed duty-free access to Sri Lanka in 2005 to all items except those on the sensitive list, under the Indo–Sri Lankan bilateral FTA. In 2008, India pruned its sensitive list from 431 items to 215 items and reduced it further to 100 items in 2013, thereby liberalising its trade with both Sri Lanka and Pakistan. However, while Sri Lanka would enjoy duty-free access to India for all other items because of the bilateral agreement, a maximum peak tariff of 5 per cent would still be applicable for Pakistan under SAFTA.

To address the various non-tariff barriers, it is important to ensure that regulatory regimes are transparent. One way of doing this would be for all member countries to notify non-tariff measures to the WTO. Making trade-related information available online is another measure that could reduce information asymmetries. India and Pakistan have adopted a unique and simple method to create awareness among Pakistan government officials and businesspersons about their regulatory regimes. The two countries have arranged business-to-business and government-to-business interactions to address information gaps on regulatory regimes. This has served as a powerful confidence-building measure and also an effective way to facilitate further trade. Such an initiative could be adopted for other countries as well.

In order to address TBT and SPS measures, India has actively engaged in capacity building with Nepal and Bangladesh. The measures include assessment of laboratories for export testing; supporting officials to develop certification systems; development of residue monitoring plans (RMP); and establishing a national accreditation system. It is essential that this process of capacity building should be completed within a stipulated timeframe. India should also simplify further its import procedures to help reduce transaction costs. In order to address the issue of non-acceptance of testing and certification, India should enter into equivalence arrangements and mutual recognition agreements with its trading partners. Further, testing facilities should be made available at land borders so that consignments do not have to be sent far away for testing. To reduce the complexity of procedures, India should review and simplify cumbersome procedures for all products, especially food and agricultural products; processed foods; and pharmaceutical products.

Providing transit to landlocked countries has remained a major concern for the region, although several steps have been initiated to address the issue since 2010. The revised Afghanistan–Pakistan transit treaty will open up several additional transit corridors in Afghanistan and Pakistan that will link Pakistan to the Central Asian countries. If Bhutan, India and Nepal are able to formulate and implement transit arrangements as effectively as Afghanistan and Pakistan, then Bhutan and Nepal's dependence on India alone would be greatly reduced and the ground would be laid for a transit arrangement at a regional level. The regional agreement will eventually connect Nepal and Bhutan to Pakistan through the Indian territory, and Afghanistan to Nepal and Bhutan through Pakistan and India.

Removing rigidities that have existed for decades at the borders to enable the movement of goods across at lower cost is part of the unfinished South Asia trade facilitation agenda. There are important lessons that can be learnt from recent

experiences. India has the most liberal road transport protocol with Nepal, whereby trucks are allowed to move in each other's territory. Yet studies have shown that transshipment at the India–Nepal land border continues to take place because of weak institutions that have inhibited the effective implementation of these protocols. On the other hand, the 2005 opening up of the India–Pakistan road route, after more than six decades being heavily-restricted and available for only a limited number of items, did not encounter any resistance, indicating that the institutional framework supporting trade between the two countries is strong enough to counter lobbyists and interest groups that may have opposed this change. It is, therefore, important for countries to strengthen border institutions so that trade facilitation measures can be adopted effectively. Apart from reforming bilateral trading arrangements, India also needs to address domestic issues, especially at the Bangladesh border where transshipment of goods is done twice.

Modernising land borders is an important step that could make borders more efficient. The setting up of ICPs is a positive step in this direction. Use of information technology in all trade procedures is perhaps the first step that countries should make. An inherent weakness of land borders is that the official charges are almost negligible. In comparison, sea port charges are several times higher than those at land ports. But the services provided at sea ports are also commensurate with these charges. South Asian countries should collectively strive to make land ports as efficient as sea ports. The modernisation of land ports should be completed within a targeted period of three to five years.

Trade through all modes should be opened up so that there are enough options available to traders in both countries. However, to begin with, one major multimodal route can be planned so that at least one major sea port in each of country is connected through the land route. For instance, a containerised rail service could be made available between the Jawaharlal Nehru Port Trust port in Mumbai and the sea port at Chittagong. This would not only link the two countries with each other but would also ensure seamless multimodal transportation of goods between the two countries and the rest of the world.

Customs is one area where the most progress has been made in all South Asian countries. However, customs efficiency is still far below potential and addressing this should be accorded high priority. A fair amount of automation has taken place in India with the introduction of the EDI system. However, automation in India and other neighbouring countries has not resulted in streamlining bilateral trade. A significant step that can be taken to increase the efficiency of customs inspection at the land borders would be increased co-operation between customs authorities on both sides of borders and the establishment of one-stop, joint inspection facilities that would eliminate duplication of processes.

16.8 Concluding remarks

Progress in implementing trade-enhancing measures, particularly with respect to India's trade with Pakistan and Bangladesh, is unprecedented. It is unlikely that this

process will be reversed. India's trade with Pakistan has been on a different footing since 2004. Despite politically sensitive events such as the Samjhauta Express bombings in 2007 and the Mumbai terror attacks in 2008, the two countries adopted a series of trade facilitation measures including expanding the positive list, revising the maritime protocol and opening a road route. Similarly, a series of measures were implemented successfully to enhance trade with Bangladesh. With these developments, the risks of failed integration in South Asia have been greatly minimised.

Improved connectivity holds the key to successful integration of trade in goods; however, this will require large investments. While it was extremely important for governments to agree to change the transport and transit protocols, building infrastructure would require financial resources. Member countries would need to think collectively to raise these resources. Otherwise, connectivity in the region may have a setback.

Other challenges include institutional reform at the borders. Since land borders have been rigid for several decades, parties with vested interests are likely to resist change. It is important to identify and adopt strategies to deal with such resisting forces.

Notes

- 1 Specific duty reduced on 144 tariff lines vide Notification No. 83/2008-Customs. Specific duties remain only on almonds for NLDCs.
- 2 Four of the items on the list of these 144 items continue to be on India's sensitive list of 614 items and are subject to specific duties.
- 3 Taneja et al. (2011a, b, c) used paired RCAs for items on India's sensitive list and identified those items where India's RCA is less than 1 and Sri Lanka's greater than 1 for inclusion in the sensitive list.

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