

TA6090: Private Sector Cooperation  
in SASEC Subregion

# **PROMOTING TRADE IN SASEC**

**A REPORT ON  
NON-TARIFF AND  
NON-TRADE BARRIERS**

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## Acronyms

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated Systems for Customs Data
BACCS	Bhutan Automated Customs Clearance System
BIMP-EAGA	Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area
CIF	Cost-Insurance-Freight
DDA	Doha Development Agenda
ESCAP	Economic and Social Commission for Asia and Pacific
FICCI	Federation of Indian Chambers of Commerce and Industry
FTA	Free-Trade Area
GMS	Greater Mekong Sub-region
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
ISO	International Standards Organization
JETRO	Japan External Trade Organization
LDC	Less Developed Countries
NACCS	Nippon Automated Customs Clearance System
NTB/NTM	Non-Tariff Barriers/Non-Tariff Measures
SAARC	South Asia Association for Regional Cooperation
SABF	South Asia Business Forum
SAD	Single Administrative Document
SAGQ	South Asia Growth Quadrangle
SAPTA	South Asia Preferential Trading Agreement
SASEC	South Asia Sub-regional Economic Cooperation
SIJORI	Singapore-Johore-Riau Growth Area
SMTQ	Standards, Metrology, Testing and Quality
SPS	Sanitary and PhytoSanitary Measures
TBT	Technical Barriers to Trade
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VAT	Value-Added Tax
WCO	World Customs Organization
WTO	World Trade Organization

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## Executive Summary

This report finds that there is significant regional trade going on in SASEC though confined to certain geographic boundaries implying that greater border opening would expand trade among them. Existing informal trade patterns along the borders, historical roots of economic relationships, and current transactions including the keen interest in pursuing a Bangladesh-India Free Trade Agreement bode well for increasing trade.

While substantial tariff cuts have been carried out, it would seem that non-tariff barriers have emerged especially among those products that seem to have succeeded in penetrating neighboring markets. The NTBs in SASEC are principally confined to the Bangladesh-India trade since there is *de facto* free-trade arrangements among Bhutan, India, and Nepal. The character of these NTBs between the two countries are analogous to the character of NTBs the larger South Asia Association for Regional Cooperation (SAARC) i.e., they are mostly of the type belonging to sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT) and other related measures. In addition NTBs in SASEC include restricted ports of entry, customs valuation, and South Asia Preferential Trading Arrangements (SAPTA) certifications. It is pointed out that there is scope for regional cooperation in addressing NTB. But there is little scope for *resolving* these barriers. Their resolution is a matter for *negotiation* among concerned governments. It is however useful to look at the rationale behind the imposition of non-tariff barriers - basically to continue protection in the guise of safeguarding standards, quality, health and sanitary conditions, and labeling, among others. This suggests that if cooperation can be carried out to ensure convergence of standards, mutual recognition of procedures, common labeling and others, these would reduce the likelihood of escalating NTBs.

It would appear from the character of the NTBs that a direction towards addressing non-trade barriers as a way to promote trade in the region would also address the underlying cause of the NTB imposition. Thus several of these non-trade barriers are discussed in the context of trade promotion. These include basic infrastructure in the form of corridors connecting countries, border infrastructure, logistics in terms of ports and customs facilities, standards and testing facilities for health, calibration, and environment, supporting systems like banking services, documentation requirements, and customs procedures.

Several cooperation modalities are detailed including systematic classification of NTBs, policy changes and projects, procedural changes in trade transactions, investment promotion, affirmative action for land-locked countries, advocacy, and further studies. These cooperation modalities address the larger non-trade barriers as well as the manifest non-tariff barriers confronting the region.

## Promoting Trade in SASEC

### *A Report on Non-Tariff and Non-Trade Barriers\**

#### I. Introduction

1. The collapse of the World Trade Organization's (WTO) Fifth Ministerial Meeting in Cancun, Mexico signaled a newfound collective strength among developing countries in matters of trade negotiations. It did not change the fact, however, that despite a victory their cause remains unresolved. Agricultural subsidies have not been eliminated and distortions continue to prevail in world markets (to the welfare detriment of the developing countries). The United States, while expressing disappointment over the failure of the Ministerial Meeting, declared a more vigorous pursuit of bilateral free-trade-arrangements among many of its trading partners. How beneficial this strategy would be to the developing trading partners is yet to be seen although without support from a multilateral institution and foundation they are likely to get fewer concessions than otherwise.

2. The failure of the Doha Development Agenda (DDA) to move forward rekindles regional groupings as vehicles for invigorating trade amidst the uncertainty of a multilateral agreement. Indeed the spurt of these groupings (as reported to the WTO) took place in the shadows of the protracted Uruguay Round Agreements and continued even thereafter. These have effectively been viewed as "security blankets" in case global approaches fail. The Cancun episode, certainly not the first one, triggers the call to these groupings.

3. A subtle aspect to the formation of these regional groupings is the evolution of sub-regional areas, which appear to have had more success than the wider groupings themselves. In Asia these have manifested within the Association of Southeast Asian Nations (ASEAN) and in other combinations among regional groups. For example, the SIJORI area (Singapore, Johore in Malaysia, and Riau in Indonesia) has been a dynamic hub of manufacturing in ASEAN for some time while the GMS (Greater Mekong Sub-region of Cambodia, China's Yunnan Province, Laos, Myanmar, Thailand, and Vietnam) as a combination of some ASEAN countries and China (itself a member of the Asia-Pacific Economic Cooperation APEC) is promising to be a vehicle for the development of the surrounding economies of the Mekong river. There are still others. The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) and the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) focus on developments in the southern and eastern parts of ASEAN. These sub-groupings are not only pervasive in Southeast Asia but in other parts of the developing world as well.

4. The minimalist sub-group is of course a bilateral Free-Trade-Area (FTA), which is seen with greater frequency than they used to. There have been a number of these not only among developing countries, among the developed ones, but also between them. These cross different groupings and appear to be extracted from larger areas and evolve as their hybrids.

5. These sub-groups within the umbrella of a larger area or grouping seem to serve distinct purposes. They are consistent with the thrust of the mother group e.g., they maintain the same degree of tariff preferences defined for all. The emphasis on a smaller sub-set is bound by contiguous borders, which either serve as gateways or have historical bonds. Development

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cooperation is pursued at the field within the boundaries of the sub-groups. These sub-groups are viewed as stepping stones to wider efforts at further opening borders.

6. Alongside the increased attention and focus on sub-regional groupings has been a shift in issues and concerns to border conditions, entry and exit barriers, related infrastructures, and formalities associated with goods and people movement. These jibe with what the DDA has highlighted as “behind the border” wedges requiring trade facilitation heretofore neglected in much of the discussion on trade liberalization. In fact, there is now growing literature suggesting that “behind the border” issues are more binding than tariff reduction (which can be implemented with the “stroke of a pen”), the capacity requirements more demanding, and the bureaucratic apparatus requiring overhaul and modernization. This is all the more critical as negotiations for trade disciplines revolve around non-tariff questions e.g., sanitary and phytosanitary measures, technical barriers to trade, safeguards, licensing procedures, subsidies and countervailing duties.

7. Quantitative results of the few studies reveal their significance. Improvements of port logistics have the most stimulating effects on trade (and in manufactured goods relative to agricultural products), followed by standards harmonization, administrative transparency, and electronic commerce (Krumm 2002). Although limited to a one-country case, it has been shown that trade liberalization without attention to customs clearance and administrative procedures can be welfare worsening as queuing costs rise (Cudmore and Whalley 2003). The World Bank’s *Global Economic Prospects* report on the eve of the Cancun meetings quantitatively argues the significance of trade facilitation in increasing trade and growth expansion that follows (World Bank 2003a).<sup>1</sup>

### **Study Objectives**

8. This report describes the array of non-tariff and non-trade barriers confronting the South Asia Sub-regional Economic Cooperation (SASEC) countries of Bangladesh, Bhutan, India, and Nepal or the South Asia Growth Quadrangle (SAGQ) and how these get in the way of promoting trade in the sub-region. These are laid out more as a catalogue than an empirically based classification. The underlying purpose of the report is to move towards some actionable cooperation directions that can be considered by the policy makers and the private sector as well as external assistance. Given a more friendly trade environment in the sub-region (as these non-trade barriers are broken down), not only will there be expansion in the movement of goods internally but with the rest of the world as well.

9. The next section portrays the SASEC trade environment and suggests several factors that seem to indicate a foundation for increased trade among the SASEC countries. In the third section non-tariff and non-trade barriers are further specified. In contrast to non-tariff barriers (NTB) which are measures within the confines of trade (i.e., export or import) transactions, non-trade barriers are effectively constraints that tend to inhibit these transactions from taking place and are barriers that ascribe properties to not only the products with trade potentials (e.g., the Standards, Metrology, Testing, and Quality or SMTQ advocated by UNIDO [UNIDO 2002]) but the wider environment for trade. For the latter, several are identified including basic infrastructure; logistics in terms of ports and customs facilities; supporting system especially banking facilities; documentation requirements, procedures for movement and release of

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<sup>1</sup> The Japan External Trade Organization (JETRO) study on “Single Window Systems for Trade and Port Related Procedures” (July 2002) surveys port and harbor procedures among several countries. Hummels (2001) argues the importance of time as a trade barrier.



cargoes and shipments; and affirmative action for the land-locked members of SASEC. The fourth section spells out some directions that SASEC consider taking in promoting trade through attention to non-trade barriers. The last section ventures on what the possible next steps might be to take in addressing these non-trade barriers.

## **II. SASEC Trade Environment**

### **A. Formal Intra-SASEC Trade**

10. There is a fair amount of studies and statistics depicting trade in SASEC. While the aggregation level of data used varies across the countries composing it and dependent on their purposes, there is enough to give a picture of what is going on. For example one estimate puts existing exports among the SASEC countries that range from 0.8 percent to 64.6 percent of their individual country total exports (Khanna 2002) between 1999 and 2002<sup>2</sup>. As expected the land-locked countries of Bhutan and Nepal have the largest share of their exports within SASEC (and dominantly to India). Not surprisingly, these are the most open of the four economies. On the other hand Bangladesh and India have the lowest share of exports within SASEC (although India has a higher share at 3 percent almost twice that of Bangladesh). Overall, intra-SASEC trade as a percentage of their global trade remains low (Sobhan 1999). Appendix 1 reports some statistics.

### **B. Informal (Unofficial) Intra-SASEC Trade**

11. But beyond this trade picture is a region that has actually been interacting without boundaries or being counted as transacting business as separate entities. With vast and porous borders much informal trade has been happening throughout its history. While these may have initially been confined within short distances, nearby and surrounding communities, they have expanded and enveloped the region. Survey results even put the magnitude of informal trade at more than 100 percent of official trade as in the case of Bangladesh exports to India (Bakht and Sen 2002). The share of intra-SASEC formal trade to total SAARC trade is a little less than 50 percent indicating the importance of the sub-region to the larger grouping. But when the official and unofficial numbers are added up, the share of SASEC sub-region trade to SAARC trade ranges between 66 percent for exports and 64 percent for imports (Sobhan 1999). Detailed commodity-based surveys show that a significant share of household consumption of goods in Bangladesh comes from informal imports (Bakht and Sen 2002).<sup>3</sup>

12. This is the existing trade environment of the South Asia Growth Quadrangle. Both official and informal trade going on among the SASEC countries suggests some integration though its degree varies by actual location. Borders are the prime candidates for the seamless movement of goods as well as of people. Special locations such as those in the Northeast Indian states are closer to Bangladesh than to the Eastern part of India and therefore have existing if not potential trade relations. And there are those geographic areas connected through bodies of water which also become vehicles for trade relations in the region. In sum, both trade relations and pre-conditions in the region define the environment for SASEC.

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<sup>2</sup> The figure for Bangladesh has been updated for Fiscal Year 2002.

<sup>3</sup> Household surveys comparing consumption with production and imports show a gap attributed to informal imports. For example 15 percent of cereal consumption come from informal trade. The ratio ranges from 61 percent for vegetables to 19 percent for rice. All of these were for the period 1995.

### C. SASEC Trade Preferences

13. There are of course more factors that add to this environment occasioned by developments not only within SASEC but elsewhere in Asia and the rest of the world. First, there are existing trade preferences among the four countries composing the sub-region. India has duty-free trade arrangements with both Bhutan and Nepal meaning that with given exceptions, goods are free to move between these countries and India, a *de facto* FTA among them. India has also transit agreements with these same countries for their trade with third countries. Bangladesh also has trade agreement and transit agreement with Nepal. This does not mean that there are absolutely no restrictions among the countries with duty-free trade arrangements (noted below).

### D. Bangladesh-India Free Trade Agreement

14. Second, there is growing interest in a Bangladesh-India Free Trade Agreement for a freer movement of goods between the two countries. This interest has been driven by the apparent success in the India-Sri Lanka Free Trade Agreement especially in terms of the economic growth and trade of Sri Lanka. The recent collapse of the Cancun meeting of the WTO has helped this interest even further. In fact the proposed FTA has gone beyond interest with actual drafts formulated and positions from interested parties declared. But more than this is the greater prospect that with a Bangladesh-India FTA it will only be a short step in moving the entire sub-region as an FTA giving meaning to earlier proposals from the South Asia Business Forum (SABF) for an intra-SASEC FTA.<sup>4</sup>

### E. Subregional Trade Agreement Experiences

15. The actual implementation of cooperation in some sub-regional arrangements also serves as a push to a more responsive environment in South Asia. One particular sub-regional group is the Greater Mekong Sub-region (GMS), which has some analogy with SASEC and holds useful lessons. GMS also includes small countries as in SASEC and an even larger country member (People's Republic of China) as in SASEC (India). But only a small part of China is involved in the sub-region (the southern province of Yunan) as in India (the Northeast Indian States). How the direct and active participation of Yunan (and the kind of autonomy it acquired in the process of sub-regional cooperation) into GMS can be illustrative for SASEC although one must admit the initial length of time for the routine to take hold. Whether this can shorten the path of SASEC remains to be seen. The range of GMS sub-regional activities holds significant guidance for SASEC especially those intended to promote trade. On the other hand there are other sub-groupings, which also hold illustration for SASEC. In the IMT-GT, customs cooperation found at the *Padang Besar Customs House* which predates sub-groups would be useful for customs cooperation in SASEC. The point here is that an environment for sub-regional trade is enhanced with the actual experience elsewhere denoting possible directions and clues about pitfalls in implementation. More importantly, these experiences enrich the principles and procedures through which new sub-regional cooperation evolves.

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<sup>4</sup> In meetings with them, the Federation of Nepalese Chambers of Commerce and Industry officials declared that SABF floated this proposal in 2001.

## **F. Automation of Trade Transactions**

16. Most of the SASEC countries are still far from the computerization of their trade transactions be they cargo declarations, license and permit acquisition, and payments of duties and charges, among others, let alone end-to-end automation for particular transactions. One of the more important computerization tasks involves customs clearance and cargo release. Whether the standards followed would be ASYCUDA++ or some variant, what is critical is compatibility across the countries comprising the sub-region. The system being put up in Bhutan, the Bhutan Automated Customs Clearance System (BACCS), is similar to the Nippon Automated Customs Clearance System (NACCS) of Japan. What is followed or expected to be followed in the other countries however is the UN system.<sup>5</sup> Still they are amenable to close compatibility.

17. One advantage to subregional trade of systems that are still building up is the design, through cooperation, of routines to share information that would help in facilitating the flow of goods. As the SASEC countries adhere to the Kyoto Convention of the World Customs Organization (WCO), to which they are members, common (if not shared) information is essential to effectively use risk management to facilitate trade. To the extent that the creation and maintenance of a database for this results from cooperation, the trade environment is further improved. Without an information structure that allows a risk management system to become operational, customs clearance becomes subject to more not less congestion, as cargoes are flagged red more often than not.

## **G. Growing Integration Commitment**

18. Finally, and perhaps the most important part of a trade environment in SASEC seems to be a growing perception of benefits the region would derive from more integrated economies and wider trade in which the “whole would be greater than the sum of its parts”. There is an expanding knowledge at the individual country levels about the effects of more open economies and the pursuit of regional trade and the implications for development policies and regional cooperation. Although there are also some studies on regional trade and integration such as those carried under the auspices of SAARC, it has been these country-level results, which have been driving an appreciation of benefits from an analytical and historical perspective. This is validated in the manner in which informal trade has thrived within the four countries (Bakht and Sen 2002). This is shown by way neighboring communities across borders exchange goods that satisfy price and quality preferences (Khanna 2002). This is reflected in the growing number of intellectuals in the region who understand and advocate closer integration.

19. A momentum for realizing benefits from regional trade and development needs to fully jell. This involves not just the positive aspects of the exchange but the associated adjustments required. In particular, a constituency for regional integration should have an understanding of the initial displacements and adjustments firms and industries undertake before settling in a new environment. Since trade results in more dispersed benefits (to widespread consumers and downstream industries) but more concentrated costs (the affected industries), a broad-based constituency is an essential part of translating this sub-regional trade. SASEC still has to effectively move in this direction although various elements are there in the form of studies and research into the impact of trade policies. Not only will a perceived benefit from trade be a

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<sup>5</sup> The UN recommends (and most developing countries use) the Automated Systems for Customs Data (ASYCUDA) in newer versions for customs declarations which is generally compatible with other systems used in other countries.

necessary part of SASEC trade environment, but the lingering vestiges of mutual mistrust and suspicion give way to collective desire for closer integration.

20. Each of the four SASEC countries has a coterie of *ad hoc* trade restrictions they claim are imposed on their products which are not conducive to a regional environment. What seems to be common among them is that these impositions coincide when products have started to gain some foothold in trade. In addition while the magnitude of impositions varies, they take place regardless of country size.

21. While many of these appear to be legitimate, others are quite arbitrary. In all cases, they partake of non-tariff restrictions (the next section discusses them). These restrictions are not uncommon but in terms of being imposed on immediate neighbors these can generally be avoided by seeking a platform for consultations. They merely invite mutual suspicion among neighbors.

22. Despite these tendencies and their likelihood in dampening a regional trading environment, both the internal and external factors (noted above) have sufficiently gained strength to create an impetus for regional cooperation and the promotion of sub-regional trade. What is needed is to reduce these tendencies and other forms of barriers to the freer movement of goods among them.

### III. Non-Tariff and Non-Trade Barriers in SASEC

23. Traditionally, non-tariff barriers or measures (NTB/NTM) are restrictions to imports or exports that are not in the form of duty payments. Products for imports are banned, restricted, or regulated and the manner in which these are imposed is defined in the appropriate tariff and customs code or similar document<sup>6</sup>. This would range from quotas, license requirement, to import certifications and other requirements. On the other hand, exports face similar restrictions at destination countries in addition to local export requirements (apart from export taxes). WTO members are required to issue notification of these NTBs.

24. In SASEC, there are also “para-tariffs” that are imposed in the form of surcharges. For example, there are infrastructure development surcharges, special fee charged on imports depending on the duty rates, special duties, and development fees. Table 1 below illustrates these NTBs and Para-tariffs. The table however lists only those reported by governments and may be incomplete. The private sector for example reports a number of non-tariff barriers imposed by Bhutan and Nepal to export products from Bangladesh.<sup>7</sup> Similarly there are para-tariffs reported by the private sector of other countries for exports to India which means that even with duty-free arrangements there are still subtle non-tariff measures. By definition, a *de facto* free trade or duty-free access between Bhutan and India and between India and Nepal immediately becomes discriminatory against Bangladesh for similar product exports to either Bhutan or Nepal.

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<sup>6</sup> A list of goods banned for imports, restricted for imports along with their conditions for imports and those for which no customs duties are charged for Bangladesh can be found in Haider and de Wilde (forthcoming).

<sup>7</sup> This information was provided by the Pran Group of Companies in Bangladesh.

**Table 1: NTBs and Para-tariffs in SASEC**

	<b>NTB</b>	<b>Para-tariff</b>
Bangladesh	Health, religious, environmental and BOP purposes. Commitment to the WTO to withdraw NTB by 2005 except 4 products (eggs, chicks, carton, salt)	Infrastructure Development Surcharge or 3.5% Regulatory duties imposed on a limited number of products.
Bhutan	Do not impose NTB	Do not impose para-tariffs
India	QRs imposed: restricted, prohibited and canalized	Do not impose para-tariffs
Nepal	Do not impose NTB	Special Fee: 0.5% imports charge which customs duty up to 2.5%. For customs duty above 2.5% rate of special fee is 1.5% of total import value. 5% special fee on vehicles which have customs duty over 12.5%. Nepali Rs 0.5 per liter charged on imports of petrol, diesel, and kerosene. 0.75% Local Development Fee charged on all imported items with some exceptions.

Source: SAARC Secretariat (as submitted by relevant government authorities), 2002. Nepal updated 2003.

25. Following the usual way (i.e., number of cases of products subjected to a specific measure) in which NTBs are measured, the SAARC Chamber of Commerce and Industry (Bhattacharya and Mukhopadhyay 2002) recently came out with a catalogue of these. The cumulative number of non-tariff measures saw a spurt in the late nineties across the different country destinations of SAARC exports. This is consistent with the common observation that while tariff measures have gone down across global trading countries (in terms of average tariff rates, dispersion, maximum rates), non-tariff measures have increased in turn.

26. It is interesting to find out which form of NTBs has the greatest weight in the trade transactions of SAARC countries. By far the non-tariff barrier most often imposed relates to sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT) and related measures. This is followed by tariff quotas, anti-dumping measures, license requirements, and countervailing measures. Table 2 shows the percentage share of specific NTBs to the total number of NTBs.

**Table 2: Percentage Share of Non-tariff Barriers (NTB) to All NTB Faced By SAARC Countries**

Non-Tariff Barrier	Percent Share
SPS, TBT, and Other Related Measures	86.3
Tariff Quota	9.8
Anti-Dumping Measures	7.4
License Requirement	5.3
Countervailing Measures	1.2

Percentage shares exceed 100 percent since number of cases varies.  
Source: Bhattacharya and Mukhopadhyay 2002 Table A-10 Part B.

27. Table 2 supplements the general information revealed in Table 1. Indeed the number of NTBs that can be imposed is only limited by the creativity of the countries to impose them. The United Nations Conference on Trade and Development (UNCTAD) coding system for trade control measures is not exhaustive. What is clear from the counting of NTB incidence as quantified by the SAARC Chamber of Commerce and Industry (Battacharya and Mukhopadhyay 2002) for the South Asian countries is that they generally increase as liberalization proceeds. But it would miss an important component of trade which is not found in these measures involving major third country destinations. This is the informal or border trade. Indeed cross-border trade beyond the confines of surrounding communities mirrors the constraints from non-tariff measures imposed on formal trade. And if the magnitudes of these transactions are any indication their behavior cannot be ignored.

28. With the spate of tariff liberalization pursued by the SASEC countries, one would have seen increases in formal trade and sharp drop in informal transactions as price differentials narrowed. However this did not seem to take place as other forms of NTBs *emerged* in the region. In the face of preferences extended under SAARC, this would also have helped in the expansion of trade in the main gateways of the region. Table 3 reports emerging NTBs from information collected during visits to Bangladesh and India.

**Table 3: Emerging Non-tariff Barriers**

Restricted Ports of Entry
Anti-Dumping and Countervailing Duties
Health and Sanitary Regulations /Certification
Customs Valuation
SAPTA Certification

Source: See Text

29. These are not new in the trading world. Some commodities are assigned specific ports of entry and all other ports would not accept them. For example, all kinds of yarn, paper, spices, radio-TV parts, formica sheets, and marble slabs and tiles are to be accepted at only 4 Bangladesh customs ports (Sonamasjid, Hilli, Burimari, Bhomra). This is reminiscent of the *Poitier* effect of French trade where electronics products could only be exported through the port of Poitier which had limited customs facilities and substantial distance from the main cities. New Bangladesh exports of batteries face anti-dumping and countervailing duties despite insignificant share in Indian markets (Khanna 2002). Even with a WTO agreement on customs valuation, many customs authorities rely on *their* own price assessment (tariff values) rather than actual declared prices. SAARC Preferential Trading Arrangements (SAPTA) Certificates are sometimes misinterpreted (e.g., “A must show in column 8 to avail of duty-free status...”) leading to problems in assessment of duties and taxes. Contingent protection is now commonly practiced and pervasive after the Uruguay Round. Most of these products subjected to the emerging NTBs are new exports or those for which surges of market entry have been observed.

30. The consequence of these emerging forms of NTBs is that they effectively thwart the liberalizing effects of tariff reductions. What is interesting though is that even if these were removed, movement of goods through informal channels would remain. Although confined to the more detailed border trade between Bangladesh and India, the continued preference for informal trade reflects more of the binding transactions costs, meaning the gamut of formalities and procedures that go with official trade many of which can probably be reduced if not simplified (Bakht and Sen 2002). On the one hand this includes time consuming tasks, high-cost documentation, complicated systems (e.g., banking transactions, licensing requirements, etc.), and other procedures. On the other hand is the lack of infrastructure that would guarantee the conditions of the goods as they move from border to border. Put differently, if these transactions costs were reduced, organized and simplified, trade would shift towards more official channels and formal processes. In a sense the way to promoting sub-regional trade is to encourage the use of formal if not modern systems that exhibit economies of scale.

31. The bottlenecks implied above are non-tariff non-trade barriers, which stand in the way not only of formal transactions but trade in general. Many of these are really “behind the border” items taken for granted in the past, which now loom heavy in trade movement especially in developing countries and even more in SASEC countries. The most obvious of these is the infrastructure that connects contiguous countries. The connectivity hosting the traffic across borders effectively becomes the trade corridors as well as regular in-country traffic. Within SASEC some of these turn out to be “choke points” in the chain and therefore requires infrastructural improvements either through upgrading or construction of bypasses.<sup>8</sup>

32. Independent of the connectivity infrastructure is the condition of the borders including physical approaches and the associated facilities. These constitute the logistics ranging from port facilities to banking services. But the more important condition here is really the provision of an overall umbrella for the single-stop processing of goods upon arrival and for their release to eventual consignees. This therefore involves (a) unloading area and facilities for handling bulk cargoes and containers, (b) warehouse and storage, (c) inspection areas for efficient customs services, and (d) banking services that can link customers and government revenue offices, among others.

33. Without the benefit of systematic stocktaking of border conditions and simply based on ocular surveillance and declarations by traders, one can appreciate the degree to which these

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<sup>8</sup> Many of these infrastructural impediments have been identified in a separate ADB-assisted report (Arnold, 2002).

non-trade barriers impinge on the movement of goods in the SASEC countries. In most land borders, there is really no unloading area much more facilities for handling cargoes and containers. Too often busy streets serve as holding areas congesting traffic.<sup>9</sup> Traders complain of lack of facilities damaging cargoes (forklifts are rare, gantry cranes non-existent) as these are unloaded and re-loaded to other transport. Warehouses are often filled to capacity overflowing goods outside and exposed to the elements.<sup>10</sup> The (no) unloading areas serve as inspection areas as well. Finally, banking services can rarely be located within border areas nor are these networked either with the government revenue agencies or with other banks.

34. There are not too many estimates of the magnitude of these non-trade barriers in the form of connectivity and approaches infrastructure. In part this is because these costs are privately captured not borne by governments even if these raise the landed prices of products. One estimate puts the saving in terms of transport cost from road to rail (Kolkata to Kathmandu) at 22-33 percent of road cost (World Bank 2003b). Another puts transit charges at 0.45 percent of CIF value for private cargo (ESCAP 2003).

35. Documentation requirements constitute another formidable non-tariff non-trade barrier to sub-regional trade. First of all, declaration forms traders submit vary by country even if most information is common. Where these are electronically stored there are not enough work stations (and personal computers) to adequately serve traders and clearing agents. Next the documents required (including number of copies) vary considerably by country and within country by stage in the trading process (whether export or import). For example documents required differ among for import (or export): registration certificate, letter of credit opening, pre-shipment inspection (where applicable), and those attached to the declaration before customs authorities. Where license or permits are necessary these would be additional set of documents for submission to the issuing government agencies.

36. There is no systematic and comparative rundown of all documents required for regional trade transactions (export and import). Nor is there a comparison of these according to the stages of the transactions. For example there is a step-by-step procedure for Bangladesh trade with North East India along with the documents required for some steps. There is no comparison across them to see what is common (Haider and de Wilde forthcoming). Trade is still considered document intensive in Nepal with "...around 15 documents ...for imports and around 11 for export, depending on the goods. Three forms are required for Business, Income Tax and VAT registration for import and export." (World Bank 2003b: 57). Documentation requirements are indeed daunting and may have precluded those trading in the informal sector to switch to the formal trading system.

37. In terms of actual procedures in clearing goods these also vary according to the countries involved, the kinds of goods traded, the destination of the goods, the location of the port, and other factors. Although the locus of these procedures may be the customs authorities, others would be involved depending on the trade circumstances. Where the procedures are not automated there is a wide room for manual processing and thus discretion. Goods in transit and goods for final destination are treated differently although the former may be examined if needed. The goods traded may be classified differently during the actual procedures than in the documents. On the other hand the goods can be subjected to prior certification, test results, and standards setting.

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<sup>9</sup> This is evident in the location of the customs house in Phuentsholing, Bhutan bordering India.

<sup>10</sup> Customs warehouses in Benapole Bangladesh are filled to capacity in part because of the low demurrages.



38. The way in which procedures create a bottleneck to the movement of goods within SASEC is difficult to foresee. Much depends on the actual tracking of the goods as they enter a country. For example there are an array of products for which standards have been required necessitating the goods to further delay as samples of products are sent for standards tests in authorized laboratories and testing centers. Some products have been reclassified to bring them to higher duty levels or in non-exempt duty status. Others have been subjected to para-tariffs i.e., surcharges. Implied in these changes of the characterization of goods is really conflict between the trader and the customs authorities and the interpretation they have of the traded products<sup>11</sup>. Without a venue for consultation, mediation, and dispute settlement, delays become unavoidable or the firms suffer unanticipated losses.

39. In summary, NTBs in the traditional sense they are measured can be identified, classified, and decomposed as to their rationale, oversight government agency, and kind of barrier. NTBs in SASEC are no different in purpose than other NTBs, i.e., they have been erected to protect local industries from being eroded by competing imported products. Thus relatively new products with potentials to penetrate markets are the ones facing NTBs. Non-trade barrier however appears to be more binding and often have absolute effects (e.g., the absence of refrigerated storage absolutely destroys perishable products within a given time period). In general, *non-trade barriers* are not direct-trade restrictions like tariffs but would have the same if not worse effects on trade. For the SASEC region and for many developing countries these “behind the border” constraints are far more pervasive barriers to expanded trade especially among contiguous countries and even with the rest of the world. It is therefore essential that any cooperation schemes among them consider breaking down these barriers given existing tariff and non-tariff restrictions.

#### **IV. Directions for Addressing Non-Tariff and Non-Trade Barriers**

40. The effects of the combined non-tariff and non-trade barriers have really been to stifle the potential to expand sub-regional trade in the SASEC countries. And if one were to include informal (unofficial) transactions in trade measures the potential may be larger both from the increase in formal trade and the shift from informal channels (which are difficult to quantify). Breaking down traditional non-tariff barriers have to address the specific purposes in which they were erected and these would require requests to the imposing trade partner to eliminate them. With regard to the non-trade barriers that have been identified, a number of them can be addressed through active cooperation among the countries involved in sub-regional trading.

##### **A. Addressing Non-Tariff Barriers: Cooperation and Negotiation**

41. As shown in Table 1 both Bhutan and Nepal do not impose non-tariff barriers. Moreover since there is a *de facto* free-trade agreement among Bhutan, India, and Nepal, it is not likely that NTBs are particularly constricting trade. Recall that Table 1 lists only those *reported* by government. This does not mean there are no such NTBs imposed by Bhutan and Nepal (see footnote 7 above). The NTBs that matter to SASEC therefore are dominated by those imposed between Bangladesh and India. If the proposed Bangladesh-India FTA moves forward, part of the provisions will obviously include the removal of all NTBs within a given time frame. Yet there is a whole array of NTBs that currently affect trade and as noted earlier these affect products

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<sup>11</sup> Reclassification of goods from one category to another can either be construed as a form of disguised protection or technical smuggling.

that are emerging exports or are finding new markets. Table 4 is an illustrative list of NTBs imposed by Bangladesh and India.

42. Given that there are already identified NTBs facing exporters of Bangladesh and India, it is important to find ways in which cooperation can address the constricting effects of these. Table 5 identifies approaches to NTB removal and the role of the public and private sectors in these. First of all, the product group and industry/sector in which an NTB is imposed has to be identified along with the country/market concerned, the port in which the imposition has been made, and the nature of the NTB.

43. The NTBs have to be categorized into groups of measures in order to determine the extent of the barrier (i.e., whether the product or industry is subject to multiple NTBs) using standard codes and classification schemes.

44. The NTBs (and their details) have to be reported to the appropriate government authorities, which can act on the matter, refer the issues to the concerned agencies, and give feedback on the actions taken. While it may be useful for example to formally report these to the High Commissioner in the country where the NTB is imposed, effectiveness and efficiency may require a separate body to refer.

45. The resolution of the NTBs (whether permanent withdrawal or scaling down in terms and conditions) will ultimately rely on the government imposing them through the creation of a panel for consultations and arbitration. And when different agencies of government are involved in the NTB imposition, they will similarly be drawn into the manner in which the NTBs will be resolved.

46. In short, the removal of NTBs will be matter for *negotiation* between the government imposing them and the affected country(ies). The interests of the affected sectors or products are represented by the government authorities, which in turn would seek consultations and request for action on the NTB imposition through other possible request and offer procedures.

**Table 4: Illustrative List of Non-Tariff Barriers  
Bangladesh and India**

<b>Import NTB</b>	<b>Imposing Country</b>	<b>Products Affected</b>
Restricted Ports of Entry	Bangladesh	All kinds of yarn, paper, paper products (newspaper, kraft paper, cigarette paper, paper board), all kinds of juice, all kinds of spices, all kinds of tobacco, radio-TV parts, cycle parts, motor parts, all kinds of wine and alcoholic items, formica sheets, ceramic items, stainless steel utensils, marble slabs/tiles, mixed fabrics, rice, all types of fish
Anti-Dumping and Countervailing Duties	India	Batteries, fruit juices, processed food, toiletries
Health and Sanitary Regulations	India	Drugs and pharmaceutical products, fruit juices and processed food
Customs Valuation	India	Batteries, toiletries
SAPTA Certification (Rules of Origin)	India	Carbon Rod

Source: Information collected from visits to Bangladesh and India, 2003

**Table 5: Approaches to NTB Removal**

<b>Cooperation Modalities</b>	<b>Public Sector</b>	<b>Private Sector</b>	<b>External Agency</b>
Identification of Product Groups /Industry / Sector Affected by NTB, the SASEC Market, Specific Port		x	
Classification of NTB According to UNCTAD Codes or Other Types and Categories ( <i>Consider adopting common classes of NTBs that different Chambers can use in identification and classification</i> )		x	x
Reporting of NTBs to Government Authorities Concerned Directly or Through Ministry of Foreign Affairs ( <i>Consider creating a coordinating mechanism to funnel all identified NTBs for forwarding to the relevant Government Authorities</i> )		x	x
Formation of SASEC NTB Panel ( <i>Consider creating a joint NTB Panel from the countries where NTBs imposed to assist official resolution</i> )		x	
Resolution of NTB	x		

Source: See Text

47. While there is wide scope for cooperation in addressing non-tariff barriers (e.g., through a more systematic identification of them, a more effective classification procedure, a coordinating mechanism for the reporting of NTBs, and active advocacy for actions, see Table 5 where these are noted in parentheses), there is limited scope for resolution. It is *negotiation* that will eventually resolve and remove NTBs including their prioritization.

48. What is clear is that the evolution and imposition of NTB is really a form of protection other than through a tariff. This means the underlying reasons given for the NTB would be numerous (from health and sanitary to labeling and packaging requirements), and if they are in multiple forms it would be difficult to remove them. On the other hand, this gives a clue that if trade cooperation focuses on these underlying reasons they can help remove the NTBs and reduce the likelihood of new NTBs.

49. For all of SASEC, NTBs may only be constricting mostly trade between Bangladesh and India. There are also barriers in trade among Bhutan, India and Nepal but less constricting given duty-free arrangements among them. Yet for the non-trade barriers discussed in the previous section, they remain trade-constricting even without NTBs. Consequently, it appears that paying attention to non-trade barriers and defining cooperation among the countries to address them may not only be trade-promoting but also reducing NTBs.

## **B. Addressing Non-Trade Barriers: Cooperation Modalities**

50. Promoting trade by paying attention to non-trade barriers seems to be more appealing in the sense that the underlying reasons for the emergence of NTBs are addressed as well. There are several modalities of cooperation to address non-trade barriers that are elaborated on here. These are (a) policy changes and projects, (b) procedural changes, (c) investment promotion, (d) affirmative action, (e) advocacy, and (f) further studies/information.

## 1. Policy Changes and Projects

51. **(i) “Intra-SASEC” Free-Trade Area may have been far-fetched before but given the contemporary global and regional conditions it may be useful to seriously consider this.** The most important element to this is a Bangladesh-India FTA, which is bruited about in both government and private sectors. It is the missing link to a SASEC-wide liberal trade regime. With an existing *de facto* free trade between India and Bhutan and India and Nepal, a Bangladesh-India FTA completes the circle. The federations of commerce and industry of both countries are in favor of the FTA, which draws important constituencies (Federation of Indian Chambers of Commerce and Industry (FICCI) 2003).

52. But it is critical that such an FTA and a SASEC-wide FTA will actually have teeth, able to reallocate regional resources where comparative advantages lie, and encourage production and business linkages. The Bangladesh-India FTA, which effectively becomes the flagship instrument for sub-regional trade, has to be reviewed in terms of inclusion and exclusion list (or else adopt a short negative list), rules of origin<sup>12</sup>, and timetable. There is no doubt the FTA explicitly provides for the elimination of tariffs but must equally be forthcoming about the elimination of NTBs, avoid the tendency to identify a product list rather than an exclusion list (the FTA envisages a negative list for both countries), and create effective dispute settlement mechanisms.

53. **(ii) A second area for policy cooperation is a review and modification of the transit agreements e.g., covering India-Nepal, India-Bhutan, and India-Bangladesh (Rail Transport Equipment Exchange Agreement).** One rationale behind this is an examination of expanded trade opportunities by allowing more routes and ports of entries, further simplification of procedures, and seamless interconnection of modal transport at the borders by adopting common technical standards (e.g., unified railway gauges).

54. **(iii) Improvement and upgrading of physical approaches to the borders and their facilities for handling continuous cargo traffic.** The Federation of Indian Chambers of Commerce and Industry called attention to these in a spot survey of the *Petropole/Benapole* and *Gede/Darshana* border points in 1998 and reiterates these in the context of its endorsement of the India-Bangladesh FTA (FICCI 2003). The infrastructure components essential for border approaches include roadways and ramps on the borders, warehousing and storage areas, inspection areas, cargo equipment, and road/railway crossings. In part because of the spot survey, the Government of India formed a High Level Committee on Development of Petrapole.

55. **(iv) Beyond the border approaches and ramps are land, rail (and water) connectivity across contiguous countries satisfied by all-weather roads and bridges, safety posts, and associated services.** These corridors of cross-country trade have identified routes and are embodied in existing trade agreements among the SASEC countries. For example, the Transit Agreement between Nepal and Bangladesh specifies entry and exit for movement of traffic in-transit ranging from *Chitagong port* and *Benapole* to *Banglabandh* and *Chilhata*. On the other hand the Nepal and India Transit Agreement specifies only one entry point (Kolkata) although new routes may be added by mutual agreement. The task is either to scale down the corridors to their frequency of use, dovetail with internal infrastructure programs,

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<sup>12</sup> Rules of origin are always contentious in regional groupings besides lack of common standards to use in measuring local content. In SAARC this was originally set at value added of 50 percent for non-LDC member and 40 percent for LDC member. This was subsequently pared down to 40 percent and 30 percent respectively.

or tie with the development of border facilities. In addition this may involve ensuring consistency of these corridors with those identified by external aid agencies (e.g., ADB identification of corridors and choke points).<sup>13</sup> The development and prioritization of infrastructure must be within the country's overall plan. Infrastructure that enhances connectivity has merits on its own without necessarily being tied to transit agreements.

56. **(v) An integral part of formal trade is the use of banking facilities to effect payment of transactions among traders, receive revenues for the border authorities, and offer other trade services.** But within given banking services is a need for standards that trading countries mutually accept from documents for opening and accepting letters of credit to clearing payments. Moreover as border trade accelerates the location of banking services within the confines of the border areas becomes more important. Conversely the absence of these banking facilities limits the trade potentials.

57. **(vi) Business hours on both sides of the border have to be synchronized so as to provide maximum services to the movement of goods and transport minus unnecessary queues that traders, clearance agents, forwarders and others face with different hours of operations.** Such synchronization may require cooperation and coordination not only between two countries at the border but also within countries as other relevant government agencies with border responsibilities are brought into the synchronization as well. For both business operations and banking services at the border their business hours have to coincide since government operations work hand-in-hand with banking services in terms of payments of duties and taxes. Synchronization (especially where there are time differences) will allow continuous services.

58. **(vii) The SASEC countries are moving towards automating trade transactions in accordance with international standards (e.g., ASYCUDA) with some (e.g., India) ahead of others. What is important is that computerization of customs and related operations open up avenues for cooperation that would facilitate trade, reduce congestion, increase trade volumes, and enhance revenues.** At present most of the borders (with some exception to a number of sea and airports) transact business manually i.e., declarations are manually filed and recorded, assessments and payments are separately but manually undertaken, and clearances manually given as well. Consequently, records at these offices are often difficult to retrieve since they are not systematically archived. One direction is information sharing regarding profiles of traders, transporters, clearing agencies, and forwarders to institute an effective risk management system. Indeed this cooperation will involve not just customs agencies in the sub-region but associations of exporters, among others, that would feed information essential to the risk management system and eventually to a selectivity methodology.

59. **(viii) Some delegation of authority to local governments in the immediate borders to work with the neighboring country within a policy framework (e.g., local officials in Bangladesh with North East Indian states as was with the Yunnan province of China with the other GMS countries) may help develop hubs of economic activities where industrial production takes place in mutually reinforcing ways because of the proximity of goods movement.** Indeed some borders are hosts to industrial parks and processing zones<sup>14</sup>. These

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<sup>13</sup> The ADB's "Technical Assistance for the Sub-regional Corridor Operational Efficiency Study in the South Asia Sub-region" would identify measures to enhance the efficiency of corridors with emphasis on solving choke points in key land-based and sea-based gateways.

<sup>14</sup> At Bhutan's Phuentsholing border is the *Pasakha Industrial Estate*.

have developed in part because of cooperation among local governments in the border areas in terms of providing incentives, zoning ordinances, and local support infrastructure. Providing these often require clearance if not permission from central authorities which have their own institutional setup if not bureaucratic web.

## 2. Procedural Changes

60. A whole array of procedures and associated requirements stand in the way of increasing sub-regional trade in SASEC. It is essential not only to identify them but also to mount mutual cooperation to reduce these without diminishing their underlying rationale. These encompass the traditional notion of technical barriers to trade (TBT) to sanitary and phytosanitary requirements (SPS) which are in the agenda of global discussions in the WTO.

61. **(i) A program for mutual recognition of production runs and quality processes among the countries would go a long way to reducing mutual suspicion about the traded products.** As country apex chambers exchange production visits not only will there be increasing assurance but even business and production linkages could open up. Standardized testing procedures and labeling can enhance the acceptability of products across borders. And where producers subscribe to international norms such as those set by the International Standards Organization (ISO) for different sectors or industries, sub-regional traded goods follow a common bar. While there is appeal to a history of trade with the rest of the world (including those with developed countries) as an indication of quality and product credibility, international certification and accreditation by producers has a clear edge. Cooperation can begin in certain sectors and industries (where there is significant intra-SASEC trade) through mutual factory visits (by country chambers) and joint determination of standards and testing procedures and acceptable seals and labeling. A relevant regional project of UNIDO *Market Access and Trade Facilitation Support for South Asian LDCs through Strengthening Institutional and National Capacities Related to Standards, Metrology, Testing and Quality (SMTQ)* (UNIDO 2002) can be an important vehicle for promoting standards practices. Specific programs of cooperation among private sector in production processes would be a complement to the UNIDO emphasis on institutional development of country authorities in standards.

62. **(ii) In situations where (samples of) products have to be tested and examined for composition and properties, there is no reason why each country should have its own testing facilities in shared borders.** The SASEC countries for example can cooperate in constructing common facilities (from weighing stations to calibration laboratories) that would serve both sides of the border. This would be in addition to designated test sites accredited by the sub-region. While common facilities can serve the cooperating countries in the sub-region they would benefit the entry of goods from third (non-SASEC) countries. But common facilities can actually go beyond product testing into warehousing and storage and even commercial services. Indeed among the provisions of the WCO Kyoto Convention is the designation of common customs house in juxtaposed customs territories. The notion of *sharing* facilities would have to be considered in standards and processes which are high-cost for small countries. Cooperation in sharing facilities would help develop regional and global standards along the lines of the UNIDO program.

63. **(iii) The goal of any procedural changes is to simplify them (e.g., reducing steps).** This could be achieved within a country procedural system. But even more attractive is a simplification across countries in a sub-regional setting where this is applicable as in the case of customs cooperation. For example some core procedures can be agreed upon by the sub-regional customs authorities towards a single-stop inspection system and eventually a single-

window system. The movement of transit goods can be subject of cooperation for procedural simplification especially for containerized cargoes but in a limited sense even for non-containerized cargoes.

64. **(iv) Integral to procedures is the documents associated with them.** To the extent that each step requires a document, procedures become lengthy, cumbersome, and discourage trade. More than this, procedures in destination countries may require different associated documents even if the information contained in these documents may be similar. The SASEC countries can consider ways of harmonizing documents so that they can be commonly understood and have similar meanings across several countries. One candidate for harmonization is the declaration forms for incoming cargoes. Not only do these differ across countries even if they contain the same information, they obviously are in different languages. The suggested Single Administrative Document (SAD) and the adoption of ASYCUDA still gives countries the flexibility in creating their own forms so that the information elements do not have the same location in the input space. The cooperation in the sub-region can work towards core information in the declaration form with the same indices and numbering (but in different languages) which can then be accepted in different territories. Another document harmonization is in commodity classification to prevent extract that countries can define on its own even at a common digit level that is standard among trading nations. Document harmonization within the framework of international standards is a critical ingredient to sub-regional cooperation that would promote trade as information and declarations are commonly understood among countries.

### 3. Investment Promotion

65. The promotion of investments is generally under the purview of investment boards in developing countries. It should be but the narrow interest drawing out of the constraints from non-trade barriers examined here directs attention to specific cooperation required to stimulate intra-sub-regional trade. Two of these are of particular importance to the efficient movement of goods. One is in the area of freight and transport business in the region. Much of the goods moving within the region are carried on cargo wagons and little is containerized. Although in land transport, goods are “de-stuffed” at the borders and then “stuffed” after formalities, there appears to be business opportunities to link transport services between countries. With joint ventures among transport services firms, cargo transfers at the borders in the same vehicle types with the same fittings are likely to encounter less damage, greater efficiency, and more reliance. Cross-border investments, to the extent allowed by individual country laws and regulations, can go into cargo consolidation, freight forwarding, and transport services. In fact pioneer ventures into containerization can systematize border activities and extend services in anticipation of more liberal transit arrangements.

66. The other is in the area of production complementarities, intra-firm specialization, and joint production. As trade expands among countries with similar factor endowments cross-firm investments will allow greater exploitation of production complementarities. Similarly with diminishing vertical integration as contemporary characteristics of manufacturing firms, joint ventures among them can help identify intra-firm specialization depending on the processing stages of production. Or else cross-firm investments can lead to some joint production. In all, joint ventures through investments can help identify the resulting comparative advantages. In the course of time these investments can also lead to the evolution of sub-regional collaboration towards competition in world markets.

67. For both of these illustrative trade-related businesses there needs to be cooperation among the SASEC countries to gear policies and programs so that investments are generated. And since they involve at least two countries cooperation is essential. Cooperation in terms of giving investment incentives, access to capital resources, and technical assistance may have to be coordinated so that business ventures in the two specific areas of cross-country transport services and cross-firm investments materialize. Finally the private sector, given the circumscribed nature of the investment promotion, may propose alternative arrangements to respond to the prospects, itemize what is requested of the sub-regional governments, specify the nature and conditions of the services that would be provided, and present a perspective of trade impacts and contribution to the development of the region. Thus with a wider swath of involvement in investment the cooperation agenda is even further expanded.

#### **4. Affirmative Action for Land-locked Countries**

68. The test of sub-regional cooperation is not just in increasing trade but in collectively addressing handicaps faced by its members. Bhutan and Nepal are land-locked countries with no immediate trade access to the rest of the world, have to contend with higher-priced goods, and necessitate more infrastructure support for their mobility. Sub-regional cooperation can take at least 3 directions: (i) liberalize transit cargo into the land-locked countries from all potential ports of entry (to and from the rest of the world) and allow their unhampered movement subject to safeguards, (ii) encourage partner capital and foreign direct investment inflows in general, and (iii) increase and sustain technical assistance and broker wider official development assistance into the countries that would in the end expand trade.

#### **5. Advocacy for Sub-regional Development**

69. Many of the cooperation modalities suggested in this report are *trade promoting*. As long as the existing trade impediments are broken down and no new impediments are erected in the form of non-tariff measures (which are, as pointed out earlier are in general disguised forms of protection), these modalities will expand interaction among the SASEC countries. It is therefore important to build a constituency for sub-regional and international relations that would have merit for their own sake but at the same time increase trade and exchange. It may be useful for the sub-region to support champions of freer movement of goods and people as a whole and the development benefits derived from them. But more than this a cooperation in advocacy will involve (i) working with those committed to regional development (research and academic institutions, non-government organizations, cause-oriented groups, opinion makers, etc.), (ii) translating into understandable language and format government initiatives and programs aimed at promoting sub-regional trade, and (iii) disseminating (through various modes of information) the gamut of issues surrounding sub-regional development and encouraging debate and eventual convergence of perspectives.

#### **6. Further Studies and Information Generation**

70. There are not too many studies looking into the effects of the array of non-trade barriers identified in this report. It is vital to increase them as they offer a strong foundation for sub-regional trade expansion. While the series of empirical work on informal trade in Bangladesh is critical to an understanding of the trade promoting impact of addressing non-trade barriers, there is dearth of parallel empirical work in the other countries of SASEC. The more is there a dearth of collaborative multi-country research work. Empirical analysis of sub-regional trade behavior is fundamental to any program to promote trade. Joint studies of two trading countries can give mirror patterns of exchange for which mutual validation can be carried out. All these



further studies contribute substantively to a momentum for regional development based on local economic understanding and analysis. More specifically, the importance of non-trade barriers in stimulating trade becomes more compelling if there are quantitative measures for example of transactions costs involved in moving products across borders that would not otherwise be incurred without them. In addition with measurement of release times (for cargoes) from ports, insights can be gained on the relative importance of different stages in the procedures. Finally, the monitoring of cooperation modalities also generates information useful to follow, analyze and feed into the policy-making bodies of the sub-region.

71. The trade cooperation modalities spelled out here have to be seen as *addition* to the need to remove or scale down the non-tariff measures being imposed on intra-sub-regional trade. Those NTBs have to be dismantled through negotiation among the SASEC countries. Yet where an FTA will be implemented (in particular the flagship FTA between Bangladesh and India) their phase out becomes an integral part of the agreement. However, as has been noted, even with their removal the non-trade barriers will become the binding constraint to trade. It is for this reason that the focus is principally non-tariff non-trade barriers. The cooperation modalities that have been enumerated above vary in terms of the manner in which they are to be implemented (whether by government, by the private sector, their collaboration), the role of external agencies (whether multilateral, bilateral or private aid institution), the necessity, if ever, of timing and sequencing them, their implications on national policies each of the SASEC countries pursue (whether they require altering national laws), and on the existing commitments of the four countries to larger regional entities (e.g., membership by all to SAARC).

72. A number of the modalities mentioned above are not new being either in process of being considered for implementation or is actually working. There are numerous FTAs that have been signed and their provisions can guide SASEC. Procedural changes are being worked out in the APEC countries especially mutual recognition and accreditation. The pilot testing of document harmonization and customs simplification are being pursued in the GMS. Although each cooperation scheme may be unique to geography and circumstances some lessons indeed may be forthcoming from them. They can either shorten the process or reduce the pitfalls that can arise from implementation.

73. Table 6 below summarizes in tabular form the trade cooperation modalities explained above. Also included in the table is a heuristic indication of the role of governments (i.e., the SASEC members), the private sectors (principally the chambers represented in the trade policy discussions), and external agencies (more generally those providing capital investment resources and technical assistance). These indications are only indicative not definitive. They are meant to consider the way in which the cooperation process might proceed. On the other hand, the matter of indication for external agencies can be considered as either in the form of technical assistance resources or capital investments that may have to be country specific. The table also appears comprehensive in the sense that a number of these modalities may in fact already in process (e.g., intra-SASEC free trade area, physical approaches to borders, physical connectivity, automation of transactions, local government initiative) and would be reflecting cooperation anyway. Indeed the profile of projects found in Appendix 3 to the report elaborates on some of these modalities, which have yet to evolve.

**Table 6: Addressing Non-Trade Barriers: Cooperation Modalities**

	<b>Public Sector</b>	<b>Private Sector</b>	<b>External Agency</b>
<b>I. Policy Changes and Projects</b>			
(i) Intra-SASEC Free Trade Area	x		
(ii) Review/Modification of Transit Agreements	x		
(iii) Public Investment in Approaches to Borders	x		x
(iv) Public Investment in Physical Connectivity	x		x
(v) Banking Facilities	x	x	
(vi) Synchronized Business Hours	x		
(vii) Automation and Information Sharing	x	x	x
(viii) Local Government Initiative	x		
<b>II. Procedural Changes</b>			
(i) Mutual Recognition		x	
Manufacturing Processes		x	
Testing Procedures		x	
Certification by/Accreditation to Global Standards		x	
(ii) Public Investment in Common Facilities	x		x
Laboratories	x		
Designated Test Sites	x	x	
(iii) Simplification of Procedures	x	x	
Transit Requirements		x	
(iv) Document Harmonization	x		
Declaration Forms	x		
Goods Classification	x		
<b>III. Investment Promotion</b>			
(i) Joint Venture (Transport and Freight)	x	x	
(ii) Inter/intra-firm Cross Investment	x	x	
<b>IV. Affirmative Action for Land-Locked Countries</b>			
(i) Improvement of Transit Cargo Movement	x		
(ii) Foreign Direct Investment Flows	x	x	x
(iii) Official Development Assistance Support	x		x
<b>V. Advocacy for Sub-Regional Development</b>			
(i) Work with Institutions for Regional Development		x	
(ii) Translation of Government Initiatives	x	x	
(iii) Information Dissemination	x	x	
<b>VI. Further Studies and Information Generation</b>			
(i) Collaborative Multi-Country Studies		x	
(ii) Studies on Transactions Costs/Goods Release Time		x	

x – Participation  
Source: See Text

## V. Next Steps

74. The cooperation modalities described previously and summarized in Table 6 imply that for a number of them both public and private sectors play a potential role in carrying them out. What needs to be done is to identify an appropriate sub-regional platform or forum at which these modalities can be further threshed out, their regional context in terms of implementation, and the resources required to implement them.

75. In SASEC the Trade, Investment and Private Sector Working Group (TIPWG) serves one such platform, regional in character and composed of public and private sectors. Its regional membership is wired directly into country government policy systems as well as private sector groups. It stands for collective views of sub-regional development.

76. It is thus inappropriate to lay out what next steps need to be taken to move the cooperation modalities to a sub-regional program complete with a program of work. That is within the realm of TIPWG. Yet there are common threads that may be useful to put together and constitute as guide posts in shepherding cooperation schemes with a clear objective of promoting sub-regional trade. These would include:

- (i) The deliberation by the Working Group of promoting trade in SASEC and the way non-tariff and non-trade barriers impinge on intra-SASEC trade. This report provides one starting point. Appendix 3 summarizes 11 cooperation projects in the areas of NTB and non-trade barriers. The others found in Table 6 have not been included since a number of them are already on-going.
- (ii) The creation or designation of a responsible TIPWG sub-committee or sub-group to move the deliberation into formulation of trade cooperation modalities.
- (iii) Prioritization of cooperation modalities and the associated tasks.
- (iv) Definition of timetables to carry out cooperation.
- (v) Translation of sub-regional view and perspective into country specific tasks and identifying the lead roles of government policy and the private sector.
- (vi) Allocation of resources and activities in support of the cooperation modalities.
- (vii) Determination of targets
- (viii) Specification of milestones to measure the progress in the achievement of the cooperation schemes.

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### Selected Trade Statistics for SASEC

#### Share of SASEC Exports to Total Exports (percent)

Bangladesh (2002) <sup>a</sup>	0.8
Bhutan (1999)	64.6
India (2000)	3.0
Nepal	21.3

Source: Khanna 2002

#### Share of SASEC Imports to Total Imports (percent)

Bangladesh (2002) <sup>a</sup>	11.9
Bhutan	na
India (1995)	0.3
Nepal (2000)	38.0

Source: Khanna 2002

#### Share of Intra-SASEC in Intra-SAARC Exports and Imports (1994: In percent)

Exports: Official Data	48.0
Exports: Official plus Unofficial	66.0
Imports: Official Data	44.0
Imports: Official plus Unofficial	64.0

Source: Sobhan 1999 Table v.16

#### Degree of Openness of SASEC Countries (share of trade to GDP)

Bangladesh	0.310 <sup>a</sup>
Bhutan	0.701
India	0.225
Nepal	0.580

Source: Sobhan 1999 Table v.2

<sup>a</sup>-updated from Bangladesh authorities

## Proposed Project Profiles

### Project Profile # 1

- i. **Project Name:**  
*Support to SASEC Apex Chambers (SABF) in Adopting Common NTB Classification Scheme*
- ii. **Rationale and Objective:**
  - Products and industries with NTBs identified
  - NTBs identified according to underlying reasons
  - NTBs classified suited to SASEC using existing codes
- iii. **Scope:**
  - Private sector chambers in SASEC
- iv. **Expected Impact/Benefit:**
  - Private sector articulate more concerns with organized NTB classification
  - Government agencies are able to assess the relative importance of the NTBs
- v. **Specific Activities:**
  - Examine existing codes for NTBs and adopt a SASEC NTB code
  - Collect information from chambers on reported NTBs according to the adopted code
  - Prepare a consolidated report on NTBs for review
  - Suggest recommendations on approaches to NTB removal (e.g., in terms of the importance of NTBs according to the code adopted)
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangement:**
  - SABF and Chambers carry out the activities.
- viii. **Status:**
  - Concept Stage
- ix. **Critical Success Factors:**
  - Active participation by the SASEC chambers
  - Functional and effective classification scheme



**Project Profile #2**

- i. **Project Name:**  
***Creating A SASEC Private Sector Coordinating Mechanism for NTB***
- ii. **Rationale and Objective:**
  - Current reporting modalities on NTB scattered
  - Consolidated mechanism with targeted bureaucracy more effective
  - Combined with systematic reporting scheme most likely be heard
- iii. **Scope:**
  - Private Sector chambers in SASEC
- iv. **Expected Impact/Benefits:**
  - Coordinating mechanism reflects single voice and concern
  - Reported NTBs are assured of direct links to imposing sources
- v. **Specific Activities:**
  - Structure of coordinating mechanism is spelled out
  - Identify relevant SASEC government agencies responsible for NTBs
  - Develop system for consultations on NTB issues
  - Organize reporting system for NTBs with private sector
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangements:**
  - SABF and chambers carry out the activities
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Active participation by the SASEC chambers
  - Cooperation from the governments

**Project Profile #3**

- i. **Project Name:**  
***A Review and Modification of SASEC Transit Agreements***
- ii. **Rationale and Objective:**
  - Expand trade opportunities through more routes and seamless inter-connection
  - Review transit agreements (India-Bhutan, India-Nepal) and rail transport Equipment Exchange Agreement (India-Bangladesh) to allow more ports of entry
  - Explore adopting common technical standards (e.g., unified railway gauges)
- iii. **Scope:**
  - Existing transit routes, transit provisions, equipment exchange
- iv. **Expected Impact/Benefits:**
  - Through-cargo reduce transport and transaction costs
  - More ports of entry for transit goods increase efficiency in goods movement
- v. **Specific Activities:**
  - Identify the forum for the project
  - Review all existing transit agreements among SASEC countries
  - Examine ways that increase connectivity and number of ports
  - Propose modification of the agreements
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangements:**
  - SASEC governments
- viii. **Status:**
  - Concept Stage
- ix. **Critical Success Factors:**
  - Commitment to expand trade through better transit arrangements
  - Technical feasibility of railway interconnection

**Project Profile #4**

- i. **Project Name:**  
***Gearing Banking Facilities for Intra-SASEC Trade***
- ii. **Rationale and Objective:**
  - Banking services often distant from ports, not setup for trade transactions, no links to government revenue agencies
  - Increasing trade requires more financial intermediation
  - Gear banking facilities to respond to trade requirements
- iii. **Scope:**
  - Banking industries in SASEC region
- iv. **Expected Impact/Benefit:**
  - Banking standards (documents, clearance time, etc.) common to the region and geared to trade transactions
  - Government collection agencies use banks to accept payment of duties
  - Banks locate close to gateways and ports
- v. **Specific Activities:**
  - Determine institutional platform (e.g., SASEC bankers association, central bankers group)
  - Define context and actions to gear facilities for trade transactions
  - Itemize common facilities/standards (L/C documents, L/C confirmation, revenue acceptance and collection etc.), location of facilities
  - Pilot test agreements in defined ports/gateways
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangements:**
  - Banking community in the SASEC region
  - Central bankers in the SASEC region
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Commitment of the banking and financial community to support SASEC development
  - Banking community cooperation in agreeing to common standards for trade transactions

**Project Profile #5**

- i. **Project Name:**  
***Synchronizing Business Days/Hours in SASEC Borders***
- ii. **Rationale and Objective:**
  - Part of the delays and queues in SASEC borders is due to different business days/hours observed in adjoining countries
  - Common working days/hours to be observed in border ports in SASEC
  - The synchronization of business time will include other government agencies involved in trade transactions
- iii. **Scope:**
  - Port and related agencies operating in border ports
- iv. **Expected Impact/Benefit:**
  - With synchronized business time delays will be minimized
  - Lower transactions costs
  - Greater volume of trade
- v. **Specific Activities:**
  - Meeting of SASEC customs directors-generals
  - Lay out proposed synchronization of business time (e.g., 3 days lost from Bangladesh [Friday and Saturday holiday] and India [Sunday holiday])
  - Identify critical agencies to participate in synchronization
  - Agree on pilot-test of the synchronization (customs and other agencies)
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangements:**
  - Customs agencies of SASEC
  - Other government agencies in each country
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Cooperation among customs agencies

## Project Profile #6

- i. **Project Name:**  
***Mutual Recognition of Manufacturing Processes  
In SASEC***
- ii. **Rationale and Objective:**
  - One reason for NTB imposition is perceived unreliability of manufacturing processes/standards/testing procedures
  - Mutual factory visits by SASEC chambers increase exposure to processes/standards/testing and allow appreciation/recognition
  - Visits enhances search for common standards and international norms and procedures
- iii. **Scope:**
  - Selected industries/product groups subjected to NTBs
  - Chambers and manufacturers
  - Relevant government regulatory agencies
- iv. **Expected Impact/Benefit:**
  - Familiarity with processes/standards/testing reduces NTM imposition
  - Mutual acceptance of international standards
  - Opens up possibilities of intra-industry specialization
- v. **Specific Activities:**
  - Apex chambers agree on industry/product group for mutual factory visits to observe processes/standards/testing
  - Cooperate on defining common standards or agree to follow international norms
  - Encourage participation and cooperation of regulatory agencies
  - Consider possible seals of mutual acceptability in SASEC
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangements:**
  - Apex chambers
  - Concerned manufacturers/factories
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Commitment of chambers/manufacturers in SASEC to find common quality standards of manufacturing processes
  - Mutual adherence to agreed standards/testing procedures

## Project Profile #7

- i. **Project Name:**  
*Towards Shared Common Facilities in  
The SASEC Region*
- ii. **Rationale and Objective:**
  - The severity of NTB imposition is due to testing of product samples in distant facilities increasing transactions costs and delays
  - Public investments in laboratories in border posts can be shared by adjoining countries; as can existing laboratories
  - Increase the number of designated testing sites for product samples
- iii. **Scope:**
  - Identified processes and associated testing facilities
  - Regulatory agencies of SASEC countries
  - Joint border officials concerned with product samples testing
- iv. **Expected Impact/Benefit:**
  - Increased testing facilities reduce delays
  - Common facilities in borders benefits both countries
  - More designated/accredited test sites
- v. **Specific Activities:**
  - For public investments in facilities, determine needed facility (calibration laboratory for dimension, force, pressure, temperature; chemical analytical laboratory for environmental analysis; consumer product testing laboratory; etc.)
  - Determine in each SASEC country testing facilities that can be accredited/licensed to conduct sample tests
  - Disseminate the availability of facilities and test sites to traders
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangement:**
  - Apex chambers
  - Relevant regulatory bodies and agencies
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Commitment of each SASEC country to expand facilities and designated/accredited test sites
  - Mutual dissemination of facilities and sites to traders

**Project Profile #8**

- i. **Project Name:**  
*Simplification of Customs Procedures*
- ii. **Rationale and Objective:**
  - Although customs procedures are country-specific, many are common
  - Customs cooperation can agree on core procedures that are mutually recognized
  - Simplification of customs procedure can lead to single-stop customs inspection
- iii. **Scope:**
  - SASEC customs agencies
- iv. **Expected Impact/Benefit:**
  - Single-stop inspection combined with risk management can reduce delays at the border
  - Transit (depending on condition) and final destination cargo subjected to less scrutiny
- v. **Specific Activities:**
  - Joint customs meetings to appreciate each others' procedures
  - Determine common (core) procedures but allow country specific procedures where warranted
  - Pilot-test the simplified procedures in certain borders for monitoring
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangement:**
  - Customs agencies in SASEC
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Cooperation among SASEC customs authorities
  - Operational information system for risk management

**Project Profile #9**

- i. **Project Name:**  
*Towards Harmonization of Trade Documents*
- ii. **Rationale and Objective:**
  - SASEC countries require trade documents, which appear different but actually ask similar information
  - One way of facilitating trade is harmonizing documents so they can be commonly understood and have similar meanings
  - Documents can be harmonized with similar core information but allowing individual countries to add on unique requirements
  - Two documents can be tried for harmonization: customs declaration forms and commodity classification (including extracts)
- iii. **Scope:**
  - SASEC customs agencies
- iv. **Expected Impact/Benefit**
  - Common information will increase customs efficiency
  - Single-stop inspection will be enhanced with harmonized forms
  - Goods movement will be faster
- v. **Specific Activities:**
  - Joint customs meetings to share documents
  - Determine core information common to trade documents
  - Adopt the modified documents to pilot borders
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangement:**
  - Customs agencies in SASEC
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors**
  - Cooperation among SASEC customs authorities



**Project Profile #10**

- i. **Project Name:**  
*Investment Promotion to Enhance Intra-SASEC Trade*
- ii. **Rationale and Objective:**
  - Promote investment flows into specific intra-SASEC trade related business ventures i.e., linked freight and transport services and joint production ventures.
  - Seek incentives to investments in areas supporting intra-SASEC trade
  - Provision of technical assistance across SASEC borders to bring about business collaboration
- iii. **Scope:**
  - Business community in SASEC and foreign investors
  - Government investment agencies
- iv. **Expected Impact/Benefit**
  - With provision of freight, cargo, and transport services across borders reduces need to unload and load at borders or would be fitted to similar transport vehicles
  - Cross-border investments may reveal latent comparative advantages through specialization
- v. **Specific Activities:**
  - Apex chambers explore the feasibility of specific trade enhancing investments
  - Request member governments to provide incentives and legal basis for business ventures supporting intra-SASEC trade
  - Invite investments from within SASEC and outside the region
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangement:**
  - Apex chambers, business community
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Flexibility and commitment of SASEC governments to cross-border investments supportive of intra-SASEC trade.

**Project Profile #11**

- i. **Project Name:**  
*Affirmative Action for Land-locked Countries*
- ii. **Rationale and Objective:**
  - Regional cooperation to address handicap faced by land-locked SASEC members
  - Provide affirmative action to stimulate trade with the land-locked SASEC members
  - Concentrate on specific areas e.g., liberalized transit cargo from all potential ports of entry, capital and foreign direct investment flows, and increase technical assistance and broker official development assistance into these countries
- iii. **Scope:**
  - Governments of land-locked members
  - SASEC governments
- iv. **Expected Impact/Benefit**
  - More inflows of investments and greater trade in land-locked members stimulate further trade with the rest of SASEC countries
  - Higher Official Development Assistance to these countries brings in more growth-generating technical assistance
- v. **Specific Activities:**
  - SASEC declaration to undertake affirmative action
  - Review and modify transit agreements to favor affirmative action
  - Initiate representations with donor agencies to request affirmative action.
- vi. **Cost:** To be estimated
- vii. **Implementation Arrangement:**
  - SASEC governments
  - Donor agencies and governments
- viii. **Status:**
  - Concept stage
- ix. **Critical Success Factors:**
  - Commitment from SASEC government to collectively work for affirmative action for land-locked countries of the region
  - Responsive support from the donor communities

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