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TRADE IN SOUTH ASIA IN THE NAME OF SUB-REGIONAL TRADE CORRIDOR

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Abstract:

The development of the corridor for the Bangladesh, Bhutan, India, and Nepal (sub-regional) Motor Vehicle Agreement is rooted in the formation of the South Asian Growth Quadrangle (SAGQ), a collective organization established by the four South Asian nations. To meet its goal, SAGQ was tasked with improving cross-border connectivity, boosting trade among member countries, and strengthening sub-regional economic integration. The strategic location of North East India implies that the sub-regional corridor will significantly impact the development of the region. over the past 20 years, despite dedicated programs and attempts from multiple stakeholders within the SAGQ to promote development within sub-regional, not enough has happened to facilitate regional trade, transport, and the movement of goods and people across the region. Consider the existing state of affairs: intraregional trade among South Asian countries accounted for only 5 percent of their trade in 2015. This low level of regional integration in South Asia is manifested in poor intraregional investment. Higher levels of integration to ensure smooth access to regional and international markets is even more important for smaller, less developed, and landlocked nations such as Nepal and Bhutan.

Key Words:

*Trade, South Asia, Sub-Regional
Trade Corridor.*

1. Introduction

There are many reasons for this poor performance, ranging from lack of adequate connectivity in the region to more complex political barriers. Within India, keeping the North East Region (NER) in focus, there is much to be desired in terms of infrastructure development and growth of trade. This has led to NER contributing only 3 percent to India's gross domestic product while commanding 9 percent of the country's geographical area.

However, given its natural resources and strategic location, the region has the potential to be an important player in India's trade and investment. The above suggests that a targeted approach is needed to develop the sub-regional corridor both for the development of trade and for passenger movement within the sub-regional nations and around the NER. Ensuring improved connectivity within and beyond the region will be the first step. Connectivity, in turn, will involve identifying key freight routes and land ports, which will be crucial in setting up adequate communication channels. Procedural, regulatory, and documentation requirements, along with bilateral and multilateral agreements, form the foundation of physical connectivity and will need to be assessed in order to develop well-rounded recommendations that will eventually lead to the creation of a smooth-functioning sub-regional corridor. The development of the corridor will also need to be complemented with initiatives to increase passenger movement within the region.

These would include:

2. Background of Sub-Regional Grouping

As the Sub-Regional grouping has identified 30 transport corridors and these are expected to be transformed into economic corridors, dreaming of a single market within the sub-region is not so unlikely. It will help link the supply and demand sides of the market and importantly increase inter- and intra- regional trade. It is expected that trade within South Asia would be almost 60 percent and with the rest of the world, it would be almost 30 percent. sub-regional trade is now just about US\$10 billion that is only 3.4 percent of the sub-regional's global trade.

On the other hand, movement of people and facilitation of business travels are important for intra-regional trade that is likely to boost trade in various services as well, generate demand for supporting services (e.g., logistics, shipping, banking, financing and express delivery) and increase e-commerce services through an integrated market. Globally there is an increased trend for participation in production networks or value chains where a number of spatially separated but linked firms engage in the production of different components of the same

product. At a regional level, e. g., within Sub-Regional, a group of firms engaged in such production networks can utilise country-specific comparative advantages to lower the production costs and increase market access. However, participation in such regional value chains requires closer regional integration through logistics, information network and connectivity improvement. This would increase virtual size of an economy as trade with neighbouring countries goes up. Participation in regional production networks will allow the sub-regional countries to benefit from scale, network, coordination and agglomeration of economies.

3. Trade and Transshipment: And the Impact on Passenger Movement

Following the 18th Summit of the South Asian Association for Regional Cooperation (SAARC) held in Kathmandu, Nepal in November 2014, a renewed focus was initiated to promote sub-regional connectivity “through SAARC or outside it, among all of us or some of us.” So, on June 15, 2015, the Bangladesh-Bhutan-India-Nepal Motor Vehicle Agreement (sub-regional MVA) was signed in Thimphu, Bhutan by the Transport Ministers of the four South Asian countries.

The Sub-Regional groups of countries have a key factor which can support as well as undermine South Asian trade land connectivity. The four countries have significant overlapping interests in terms of geography too, since they are part of the Trimurti River Indus, Ganges and Brahmaputra river basins, hence the key livelihood options revolve around agriculture and water. Therefore, the success of seamless trade connectivity among Sub-Regional countries would also contribute to local economic development. The majority of commodities used as raw materials for agriculture and industrial purposes in the Sub-Regional countries are transacted through land and water transport services. In the table number one enumerates the transport services across land, water and air for sub-regional countries from 2010-2013. Other than Nepal, which recorded a negative balance of trade in all the relevant transport services, all the other countries in sub-regional have recorded a positive balance of trade in some transport services. The data also reveals that all the sections of BPM6 classification showed evidence of transaction across land and water (UN, 2010).

A closer look at the products commercialized by sub-regional reveal that cereals have the highest positive balance of trade after textiles and pharmaceuticals and mineral fuels, oils, distillation products, etc. have the highest negative balance of trade.

Table 1. BPM6 Code & Service label of transport services with positive balance of trade in sub-regional averaged from 2010-2013

Bangladesh	Bhutan	India	Nepal
3a.3-Other transport (other than passenger and freight), All models (alternative breakdown)	<ul style="list-style-type: none"> 3a.1-Passenger transport, All models (alternative breakdown) 3.2-Air transport 3.4-Postal and courier services 	<ul style="list-style-type: none"> 3a.2-Freight transport, All models (alternative breakdown) 3.3-Other modes of transport (other than sea and air) 	-None

Source: Trade Map, International Trade Centre, Geneva

Table 2 shows the product categories within cereals and mineral oils and allied products which have shown a positive balance of trade. This indicates that key products like rice and electrical energy show potential in being transacted within the sub-regional group of countries. The results indicate the low transaction for these commodities in the two countries as compared to other SAARC countries. A reflection of the different data discussed above can be seen at the field level, too. In absolute terms, data shows that India has a 76 per cent export value and Bangladesh has 60 percent import value for cereal seeds (Mathew, 2015). For example, there is a high rate of informal trade in cereals seeds and grains across the Indo-Bangla border which also indirectly contributes towards ensuring food security for these countries (USAID/ EAT Project, 2014).

Table 2. HS Code & Service label of key products with positive balance of trade in sub-regional averaged from 2010- 2013

Product:10-Cereals	Product:27-Mineral fuels, oils, distillation products, etc.
<ul style="list-style-type: none"> '1006-Rice '1005-Maize (corn) '1001-Wheat and meslin '1003-Barley '1008-Buckwheat, millet and canary seed 	<ul style="list-style-type: none"> '2710-Petroleum oils, not crude '2707-Oils & other products of the distillation of high temp coal tar etc. '2716-Electrical energy '2703-Peat (including peat litter), w/n agglomerated '2702-Lignite w/n agglomerated, excluding jet

Source: ITC Trade Map, Accessed on 22nd April 2014

4. Scaling Up of The Policy Environment

The sub-regional grouping was not only a timely intervention given the present political buy-in for sub-regional economic integration, but it also brought renewed focus on the necessity to ease the process of harmonizing procedures and regulations among the four South Asian countries (Banerjee, 2015). The pact solved multiple issues, one of which is that the same vehicle could now go directly to the final destination in both the countries and then carry back segments when travelling back. This reduced much of the time and cost involved in unloading and reloading of vehicles in the Land Customs Stations (LCSs) and also helped in streamlining the transportation bottlenecks at all the LCSs (CUTS International, 2014).

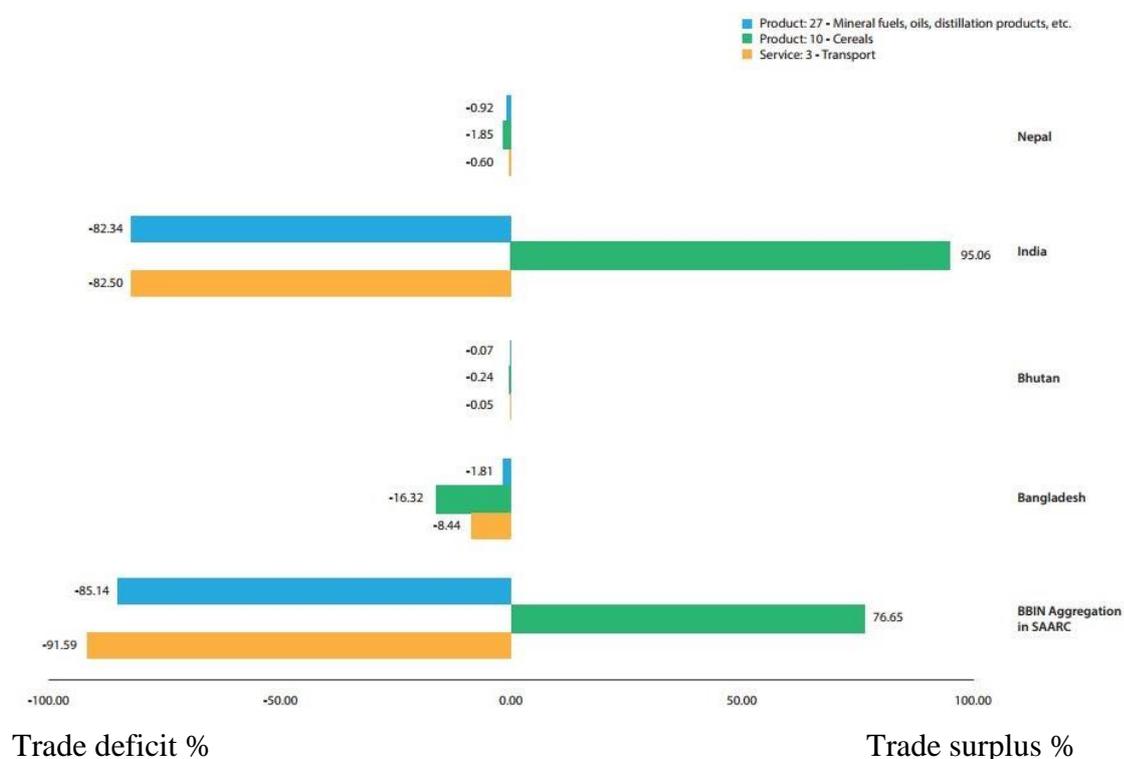


Figure 1. Balance of trade for 3 categories of products/services in sub-regional averaged from 2010 to 2013

Interestingly, the success of sub-regional pact has also facilitated a silent progress on a connectivity pact called the sub-regional Railway Agreement since India is expanding railway links with its neighbours through the Northeast part with the help of the Ministry of Development of North Eastern Region (DoNER), North East India. The land connectivity discussions are bound to spill over to water at some point in the sub-regional trade facilitation dialogues. The end result will be a robust emphasis on the sub-regional countries

to create an inland waterway (IWWs) system as alternate routes for connectivity. These developments should be seen in the view of the existing transportation of fly-ash on Indo-Bangladesh Protocol Routes. Pilot movement of fertilisers on the NW-18 by Indian Farmers Fertiliser Cooperative Limited (IFFCO) and TATA Chemicals is an example to depict that irrespective of the cargo contents IWWs can stimulate a considerable amount of economic activity. The Food Corporation of India (FCI), one of the largest food distributors in the world, has also finalized protocol routes for the pilot movement of food grains exclusively to the North-east through national IWWs (CUTS International, 2015).

5. Baseline the Flow of Cargo and Passengers

A detailed baseline of India's trade with Bangladesh and Bhutan has been developed to examine trade within the sub-regional corridor with respect to the NER. Moreover, the flow of domestic freight within the region has also been baselined using the origin-destination freight study. In addition, existing passenger movement from tourism within the NER has been detailed to understand the current state of tourism across various categories. Baselining current freight flows India's collective trade, including exports and imports, with the sub-regional nations in the fiscal year 2016 was \$9.8 billion (see figure 1). The flow of trade shows a heavy skew, with exports from India amounting to \$8.6 billion (87 percent) and imports to India adding up to \$1.2 billion (13 percent). Among the three nations, Bangladesh emerges as the largest trading partner with \$5.6 billion of total trade. Exports from India accounted for about 88 percent and imports about 12 percent. India-Bhutan trade was the smallest in the group, adding up to only \$0.5 billion. However, the split of exports (75 percent) and imports (25 percent) was slightly more balanced when compared with India-Bangladesh and India-Nepal trade. An assessment of the current trade profile with two countries, Bangladesh and Bhutan, which are of strategic importance to the NER, is detailed in this section.

6. India-Bangladesh trade

In the fiscal year 2016, exports from India to Bangladesh totalled \$5.0 billion with a share of 88 percent in total trade (see figure 2). The split of exports based on modes of transport showed 55 per cent land, 39 per cent sea, and 6 percent air. Major commodities exported from India included cotton, iron and steel, onions, wheat, rice, coal, and vehicles (motorcycles and three-wheelers) and their spare parts. Imports to India from Bangladesh accounted for \$0.65 billion (12 percent) in the fiscal year 2016.

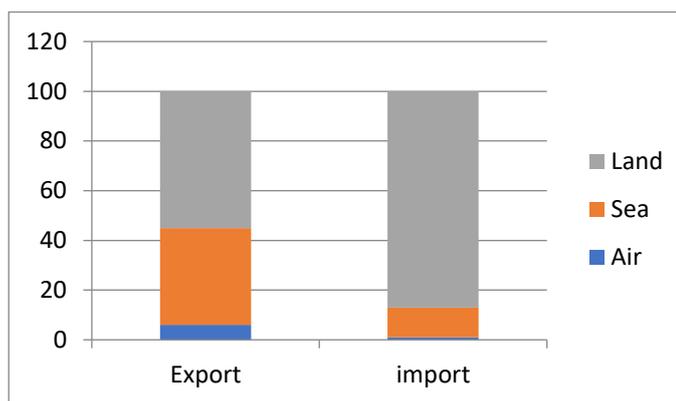


Figure 2: Split of trade between India and Bangladesh

7. India–Bangladesh trade and transshipment via road

Trade with Bangladesh, using the road, is facilitated through designated land ports or land customs stations (LCS) dispersed on the India–Bangladesh border. More than 40 stations have been established over the years; however, many are either not functional or have a minimal trade. Figure 3 shows major LCSs for India–Bangladesh trade.



Figure 3: Land custom stations at the India–Bangladesh border

The Petrapole–Beanpole border dominates trade volumes. The LCS handled 68 percent exports and 76 per cent imports that happened via land-based transport modes in the fiscal year 2016. Mahadipur and Hili are important points on the western Bangladesh border, cumulatively handling about 10 percent land exports and 5 per cent land imports.

Changrabandha on the North Bangladesh border is a strategic point from the perspective of sub regional connectivity of Bangladesh–India–Bhutan. On the eastern border of Bangladesh, Agartala is a significant import location, accounting for about 6 percent of land imports.

8. India–Bhutan trade

India’s trade with Bhutan in the fiscal year 2016 was smaller than with Bangladesh. Exports from India to Bhutan added up to \$0.37 billion, with a share of 75 percent in total trade (see figure 4). Since Bhutan is landlocked, trade is dominated by land transport. Major commodities exported from India include high-speed diesel, chemicals, machinery, motor cars, aviation turbine fuel, iron and steel, coal, and food products. Imports to India from Bhutan were \$0.125 billion, with land transport accounting for almost all import. Major commodities imported include chemicals, especially silicon-related. In addition, electrical energy contributed \$0.15 billion to total imports.

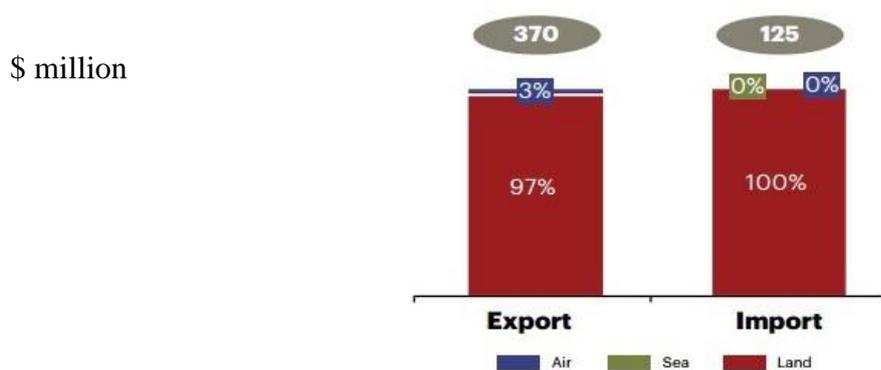


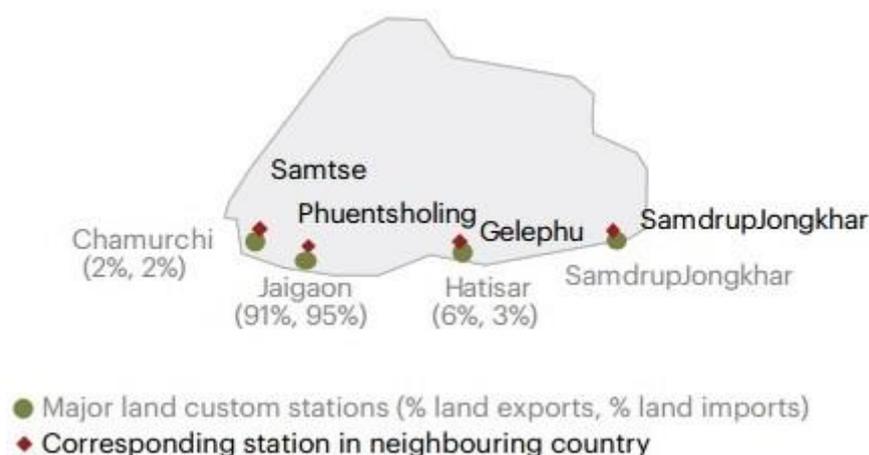
Figure 4: Split of trade between India and Bhutan

9. India–Bhutan trade and transshipment via road

India–Bhutan trade based on land transport added up to \$0.36 billion in exports (97 percent of total exports) and \$0.125 billion in imports (100 percent of total imports). Land transport with Bhutan is facilitated through 6-8 LCSs. Figure 5 shows the major points of India–Bhutan trade.

Figure 5:

Land custom stations at the India–Bhutan border



The Jaigon–Phuentsholing border is the most crucial site for India–Bhutan trade, accounting for more than 90 per cent of total imports and exports. Other important LCSs include Hatarisar, Chamurchi, and Samdrup Jongkhar.

10. Developments So Far

There are some significant developments for enhancing intra-sub-regional trade since signing of the sub-regional -MVA. These include

- (a) Expert groups are being formed on specifics of sub-regional trade (also for the trading of power and energy).
- (b) A bilateral cooperation agreement is signed between Bangladesh Standards and Testing Institution (BSTI) and Bureau of Indian Standards (BIS).
- (c) Works going on the setting up of the sub-regional economic zone; Panchagarh district, a bordering area of the sub-regional countries could be a place to set up such economic zone, as Panchagarh is thought of its closeness to Biratnagar in Nepal, Phuntsholing in Bhutan and Shiliguri in India.
- (d) Countries are planning to accept each other's local entrepreneurs and to have mega investment to increase mutual trade and investment relations. For example, Nepal has already proposed Bangladesh to allow local entrepreneurs to set up garment factories in Nepal under the sub-regional framework. Again, Bangladesh is willing to invest US\$1 billion in the 1125-MW Dorjilung hydropower project under the trilateral cooperation with India and Bhutan.

- (e) Another development is the trading of energy (e.g. electricity) and internet bandwidth. For example, Tripura has already supplied 100 megawatts of electricity to Bangladesh and the state is also ready to provide another 100-megawatt power to the letter. Again, Bangladesh is recently going to sign with Nepal an agreement on buying hydropower within earliest possible time. On the other hand, Bangladesh has exported internet bandwidth to Tripura.
- (f) Besides, recently a Bangladeshi truck with a banner “Made in Bangladesh” has reached Nepal. This is to familiarise Bangladeshi brand in Nepal.

11. Intra sub-regional Trade: Opportunities and challenges

Although countries of South Asia are tied by shared history and culture, they are still not well connected with each other and integration remains one of the poorest in the world. The Bangladesh, Bhutan, India, Nepal sub-regional initiative is envisioned to improve economic cooperation and connectivity among these four South Asian countries.

The lack of regional integration hurts the region's smaller countries more. Countries such as Nepal and Bhutan are least developed, landlocked countries, and access to regional and international markets are crucial for their development. Their very lack of economic and physical connectivity leaves them with little opportunity to create productive ties with the rest of the world, rendering them highly disadvantaged in a global economy where such relations help achieve development goals.

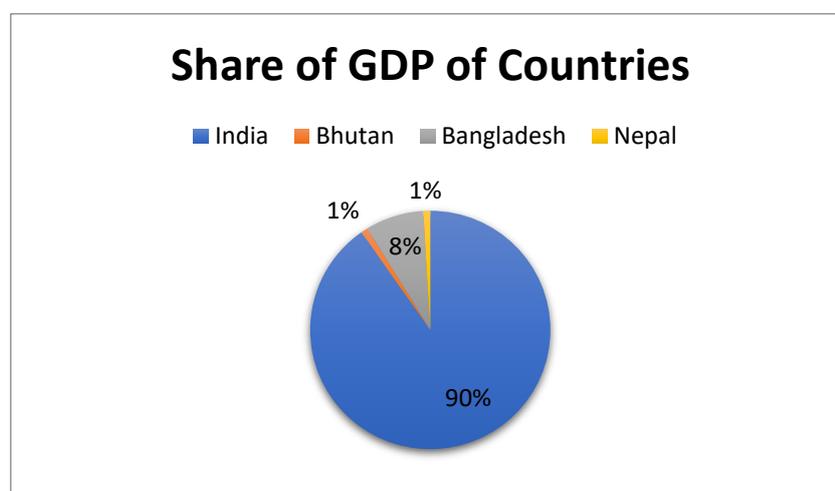
A number of initiatives have been taken to improve regional integration in South Asia. In 1985 SAARC was formed, which later paved the way for the South Asian Preferential Trade Agreement (SAPTA) signed in 1995, and eventually the SAFTA in 2004. However, intra-regional economic integration continues to be low among these countries, for a number of reasons.

The first and most obvious reason is the high level of political tension and mistrust between India and Pakistan, the two biggest economies of SAARC and as such, whose relationship tends to dictate the overall tenor of the association. Historically, the two countries have not cooperated well on international platforms; the same has been true for SAARC. This has led to repeated stalling of negotiations in SAARC summits.

Second, India is a major economic power in South Asia and its GDP is about 79 percent of the total GDP of the region (See Figure 1). Therefore, there exists some scepticism about India's possible dominance of SAARC.

Figure 1.

Share of GDP of Countries in Total GDP of sub-regional (%) (GDP numbers are taken at current prices for 2016) India 90% Bhutan 1% Bangladesh 8% Nepal 1%



Source: International Monetary Fund, World Economic Outlook Database, October 2015

Table 1. Trade between India and other sub-regional Countries (in \$million) (India's total trade, both exports and imports, with the partner country for that year.) Rank Country Exports Imports Total Trade Balance.

Country	Exports	Imports	Total Trade	Trade Balance
Bangladesh	6,451.47	621.37	7,072.84	5,830.10
Nepal	4,558.77	639.91	5,198.68	3,918.86
Bhutan	333.94	149.87	483.81	184.08
India's total	6,784.41	1411.15	12755.33	-9,933.04

Source: Export-Import Database, Ministry of Commerce, India

The first achievement of the sub-regional initiative has been the Motor Vehicles Agreement (MVA), signed on 15 June 2015 in Thimpu, Bhutan. The MVA looks at easing passenger, personal and cargo movement among the sub-regional countries. It has been developed with the support of the ADB under its South Asia Subregional Economic Cooperation programme.

12. Sub-Regional Trade Cooperation

The establishment of the sub-regional initiative is important for trade for various reasons. As discussed earlier, market access barriers like tariffs and non-tariff measures have been discussed in SAFTA for many years now and will continue to be negotiated under the same

framework. sub-regional will retain all these works that are going on under the SAFTA umbrella.

However, the new literature on trade within South Asia indicates that trade facilitation issues have emerged as key issues blocking the rapid expansion of intra-regional trade. Various travel restrictions at the border Land Customs Stations (LCSs), delays due to transshipment issues, poor and sometimes non-existent infrastructure at some LCSs, and other customs documentation and clearance-related problems are significantly adding up to the time and financial costs of conducting trade among these nations.

In this context, the sub-regional MVA is a welcome step. between and among them, enable the exchange of traffic rights and ease cross-border movement of goods, vehicles and people, thereby helping to expand people-to-people contact, trade and economic exchanges between them. The sub-regional MVA would make cross-border trade and transport in and through the Northeastern region of India too and from Bangladesh, Bhutan and Nepal more efficient. The agreement will allow vehicles to enter each other's territory and eliminate the need for transshipment of goods from one country's truck to another at the border, thereby eliminating a time-consuming and costly process. Estimates suggest that while formal intra-SAARC trade is around \$28-30 (Eight Countries) billion per year, informal trade among these countries can be as high as \$25 (four Countries) billion.

An added benefit of the MVA will be that it will promote support for containerized movement of cargo. Containerization of trade has lowered the cost of trade across the world significantly and it is likely that high trade costs among South Asian countries will be drastically reduced when containerization gains more popularity. One of the biggest advantages of containerized trade is that it is multi-modal and therefore, an integrated and seamless road and rail network will further facilitate containerization in South Asia and help reduce trade costs. Such initiatives will also give a boost to the landlocked LDCs such as Bhutan and Nepal, with small domestic markets. It is imperative for these countries to have access to global markets, both for exports and imports. These countries will benefit most due to easier cross-border movement of passenger and goods due to the sub-regional MVA and the expected sub-regional rail network agreement. These agreements will make it easier for the countries to access the ports of India and Bangladesh for intra-regional and extra-regional trade.

Besides easier flow of goods, the sub-regional initiative also promises to facilitate the movement of people across borders. This has huge implications for both business and trade as it can lead to improved people-to-people contact, encourage business travel and most importantly can give a huge boost to trade in various services. One major advantage of sub-

regional is that there is little that divides the citizens in terms of demographics and cultural traits--and this can be leveraged to promote trade in different types of services. For example, easier travel requirements can unleash enormous cross-border tourism in this region. Other expected benefits to the region will come from the possible development of regional value chains in South Asia.

From a wider perspective, the sub-regional MVA can be seen as the first step towards a broader integration process. The locational advantage of South Asia implies that it can serve as a gateway for connecting to Southeast and East Asia. The sub-regional MVA network has created the first step of this broader integration process. India is at present negotiating a similar agreement with Myanmar and Thailand. If the agreement is implemented, the sub-regional sub-region will be more seamlessly integrated with the ASEAN market. The biggest beneficiaries are likely to be the landlocked countries of Bhutan and Nepal, Bangladesh and Eastern and Northeastern parts of India. The ADB also has ambitious plans of trans-Asia road and rail networks and the sub-regional initiative coupled with the India-Myanmar-Thailand agreement can fit well into that plan.

There is also a strategic implication of the sub-regional initiative. China is investing heavily in developing road and rail networks to recreate the age-old Silk Route. Its massive One-Belt-One-Road (OBOR) initiative is planned to run through the continents of Asia, Europe and Africa. The OBOR initiative will connect the East Asian economic circle with the developed European economic circle. It plans to link China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia and connect China with Southeast Asia, South Asia and the Indian Ocean. In its largest definition, OBOR would include 65 countries, 4.4 billion people and about 40 percent of global GDP. Given such grandiose plans on the part of China and their possible ripple effect on South and Southeast Asia, initiatives like sub-regional may give India a toehold in the region in both economic and strategic terms.

13. What to Do?

Taking the challenges into consideration, identifying 'what to do' immediately and gradually is crucial. What to do immediately includes five steps

- Setting up of sub-regional trade facilitation body, increasing investment from India to the other sub-regional members to increase programmes on trade-capacity building
- Relaxing visa regimes, increasing automation of the sub-regional countries' customs clearance procedure and creating networks of customs institutions

- Promoting banking and financial linkages, creating networks of bankers and SMEs, and business to business interaction strengthening
- Increasing the role of border haats and their numbers in bordering areas
- Policy makers need to think of regional dimension in national-level planning and segregating political objectives and policy priorities.

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