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Session on Experiences on enhancing cross border cooperation

Views from South Asia

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Here are some experiences and viewpoints from South Asia.

Three of the eight South Asian countries are LLDCs (Afghanistan, Bhutan and Nepal). They are also LDCs. The eight countries are members of South Asian Association for Regional Cooperation (SAARC).

Transit arrangements are governed by bilateral treaties/agreements. Conditions and quality of transit are a function of overall bilateral relations. A region where blockades and cooperation go hand in hand.

Intraregional trade costs are higher than extraregional trade costs. Intraregional transport connectivity is poor. Connectivity has regressed if the benchmark is the movement of goods and people on the Grand Trunk Road that brought the famed Kabuliwallah to Bengal. There are clear benefits of a regional arrangement for coastal countries as well as LLDCs in the region. SAARC commissioned a Regional Multimodal Transport Study (SRMTS 2006). It is yet to be implemented.

Subregional cooperation; motor vehicles agreement

From regional initiative to subregional initiative: The 2014 draft SAARC Motor Vehicles Agreement (MVA)—which aimed to ensure smooth movement of cargo and passenger motor vehicles across South Asia without loading/unloading at the borders—could not secure unanimity among member states, and hence could not take off. It then took a subregional avatar under the Bhutan, Bangladesh, India, Nepal (BBIN) subregional cooperation initiative. The BBIN MVA was signed in 2015 but only Bangladesh, India and Nepal have ratified it, with Bhutan consenting to allow the rest to move forward. Protocol to operationalize it is under negotiation. Some issues:

- Underlying driver: India's interest to ensure more efficient connectivity between its northeastern states and the rest of India requires transit via Bangladesh. MVA could partly address that, besides facilitating Bangladesh-India overland trade. India is also developing its internal waterways and, under BBIN, advancing the agenda of subregional cooperation on the use of inland waterways to facilitate its intracountry trade as well as intraregional and extraregional trade.
- LLDCs' interest lies in ensuring the realization of MVA's potential to reduce the cost of their extraregional trade—including through the possible use of alternative ports (in Bangladesh)—besides facilitating their intraregional trade.
- Important to effectively disseminate to the public what MVA is not: it does not allow cabotage; it is not free-for-all (states can determine the number of licenses to authorized operators and the routes).
- Political economy: Need to balance the interests of different stakeholders. An adjustment mechanism (a la trade adjustment mechanism) required to help those who might be displaced by the new arrangement.

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- Environmental concerns, inter alia, have prompted Bhutan to abstain from ratifying MVA.
- Therefore, a calibrated, gradualist approach may be needed for stakeholders' buy-in.
- Provision of auxiliary services such as permits for trucks and vehicle operators in a predictable and time-bound manner will be a key test.
- To have bite, MVA should be backed by harmonization of rules and regulations on motor vehicles, harmonization of road standards, and harmonization customs procedures in the subregion.
- Speed of movement is not only a function of loading/unloading at the border. Infrastructural bottlenecks (e.g., road conditions, customs processes) are also responsible for the average speed of 10 km/hr in corridors in the subregion.
- Investments in transport infrastructure such as roads are critical for effective MVA implementation. By 2015, BBIN countries had identified 30 transport connectivity projects worth US\$8 billion.
- Building capacity to effectively implement MVA can have synergy with Trade Facilitation Agreement.
- LLDC perspective: A comprehensive regional transit agreement, beginning with eastern South Asian subregion, should be the target. After all if SRMTS corridors were to be implemented, some sort of regional transit regime would be essential. If one rationale for subregional cooperation is to achieve what SAARC could not or quicker than SAARC, efforts must be made to secure a subregional transit agreement. That would also make transit less vulnerable to the vagaries of bilateral relationship.
- Tariffs, para-tariffs and non-tariff barriers (standards and technical regulations related) need to be brought down along with trade facilitation measures.
- What can be learned from initiatives in Central Asia and Africa? A comparative research would be useful.

Transshipment and electronic cargo tracking

In August 2018 and February 2019, an electronic cargo tracking system along with a direct transshipment facility were introduced for Nepal-bound cargoes that arrive at the two ports in India that Nepal is allowed to use for its overseas trade. The new arrangement ended the practice of dual customs clearance, at the sea port as well as at the Indian customs at the Nepal-India border, with customs clearance now taking place only at the border. It is applicable to containerized cargo transported via rail from the ports to the Nepal-India border.

Several studies had recommended allowing transshipment under which the shipping company can directly deliver to the land customs after finding that the existing practice of dual customs clearance was significantly increasing trade time and costs.

Since the implementation of the new system, it has come to light that, rather puzzlingly, the cost of bringing consignments from sea ports has actually increased. The media has reported that the cost per container has gone up by as much as 25 percent, prompting the government to look into the matter. SMEs are likely to be disproportionately hurt by the increase in trade costs. Shipping lines now take the entire responsibility for delivering cargo to the land border. Only they are allowed to do that. While it is natural that the cost and the risk associated with performing the extra activities have to be factored into the prices shipping lines charge, the rise in the *net* trade costs for importers is

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disconcerting and deserves further investigation. The investigation should analyse the experiences with similar arrangements in other regions (e.g., east and southern Africa).

This demonstrates the need for constant monitoring and evaluation.

Aid/international support

Besides support for bridging infrastructure gaps, the following could be other areas of support by the international community:

- Business process analysis/time to release study/time, cost and distance analysis/corridor performance measurement and monitoring have been helpful. They help in uncovering the situation on the ground that other standardized trade facilitation indicators cannot do on their own.
 - More such analyses needed, covering more products and routes.
 - Could be used to evaluate policy changes such as the introduction of electronic cargo tracking system and direct transshipment facility for Nepal's overseas imports via Indian sea ports, or various BBIN connectivity initiatives.
 - Cooperation from neighbours when conducting such analyses.
- Technical support for operationalizing Nepal-China transit agreement, signed in 2016, would be useful. A protocol to the transit agreement was signed in 2019. The deal is important for Nepal as it now has, in principle, a second transit partner for its third-country trade. It has exclusively relied on India for its transit needs. Remember that the transit agreement with China was signed in the immediate aftermath of a blockade along the Nepal-India border in 2015-16. Which land ports and sea ports in China are feasible to be used in the short-, medium-, and long-term for Nepal's overseas trade with which parts of the world needs to be answered with technical analysis in order to realize the potential offered by the agreement. This could form the basis for pilot runs.
- Monitoring implementation of TFA by transit countries with a focus on the needs of their landlocked neighbours would be useful.